

Defence Sector Market Analysis: Projections and Implications for High-Precision Manufacturing (2025-2055)

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Executive Summary

The global security landscape is undergoing a fundamental transformation, shifting from a post-Cold War era of relative stability to a new period of sustained strategic competition and heightened conflict risk [1, 2]. This paradigm shift, catalyzed by the war in Ukraine and amplified by rising geopolitical tensions, has triggered a historic surge in defence spending across NATO, European, and Norwegian markets [2, 50]. This report provides a comprehensive analysis of the market trends, drivers, and projections for the defence sector over the next three decades (2025-2055).

Our analysis indicates a profound and long-term structural change in defence procurement. The market is moving away from a primary focus on cost-efficiency towards a new set of priorities centered on **supply security, industrial capacity, and technological superiority** [26, 30]. This shift creates significant opportunities for specialized manufacturers capable of providing reliable, high-quality, and scalable production.

Key findings of this report include:

- **Sustained Geopolitical Drivers:** The war in Ukraine, strategic competition between major powers, and the formalization of new, ambitious defence spending targets by NATO have created a predictable, long-term demand signal that will persist for decades [1, 6, 21].
- **Unprecedented Spending Growth:** NATO's new 5% of GDP spending target by 2035 and Norway's 1,624 billion NOK twelve-year defence plan represent a massive capital injection into the defence industrial base, driving a "new defence supercycle" [16, 21, 50].
- **Value Chain Realignment:** European and NATO industrial policy is now explicitly focused on rebuilding domestic capacity, ensuring security of supply, and reducing reliance on external value chains [26, 33]. This places a premium on regional, reliable, and technologically advanced suppliers.
- **Intensifying Manufacturing Demands:** The increasing complexity of modern military systems—from hypersonic missiles to autonomous platforms—is driving demand for high-precision manufacturing, particularly in the High-Mix, Low-Volume (HMLV) segment, which is a critical bottleneck in the supply chain [36, 41, 45].

For Norwegian HMLV manufacturers such as Aurelian Manufacturing, this evolving landscape presents a generational opportunity. The company's focus on autonomous process control, delivery reliability, and quality traceability directly addresses the market's most pressing pain points: capacity constraints and delivery risk in critical supply chains. By positioning itself as a "capacity solver," Aurelian is strategically aligned with the core tenets of the new defence economy in Norway and across Europe. The coming decades will reward manufacturers who can provide controllable capacity within increasingly uncontrollable global supply chains.

Immediate Geopolitical Drivers: The End of the Peace Dividend (2025-2035)

The period beginning in the mid-2020s marks a definitive end to the “peace dividend” that characterized the post-Cold War era. A confluence of high-intensity conflicts and deepening strategic rivalries has fundamentally altered threat perceptions across the Western world, serving as the primary catalyst for a sustained increase in global military expenditure [1, 3]. These drivers are not fleeting but represent a structural shift in the international order that will shape defence policy and industrial strategy for the foreseeable future.

The most significant catalyst has been Russia’s full-scale invasion of Ukraine. This conflict has served as a stark wake-up call for NATO, exposing critical deficiencies in the Alliance’s industrial capacity and ammunition stockpiles [6]. The war’s high rate of materiel consumption revealed that Western defence industrial bases were not configured for a prolonged, high-intensity conventional conflict [6, 10]. This has prompted a strategic pivot within NATO from a posture of deterrence by assumption to one of **“deterrence by preparation”** [7]. This new doctrine recognizes that credible deterrence requires not just advanced military platforms, but also robust supply chains, sufficient stockpiles, and the industrial capacity to produce, replace, and sustain military power at scale [9, 10]. Consequently, support for Ukraine is increasingly viewed as a “forward defense” strategy for the Alliance, directly degrading a primary adversary’s military capabilities and buying time for NATO’s own industrial reconstitution [7, 8].

This European focus is compounded by broader global dynamics. The strategic competition between the United States and China is a long-term structural driver that is reshaping military modernization efforts worldwide [1, 2]. China’s consistent, decades-long increase in its defence budget, aimed at achieving a world-class military with advanced cyber and nuclear capabilities, has prompted a parallel response from the United States [2, 4]. The U.S. continues to be the world’s largest military spender, dedicating substantial resources to modernizing its own forces and nuclear arsenal to maintain a strategic advantage [2, 4, 5]. This great-power rivalry fuels re-armament efforts across the Indo-Pacific, with nations like Japan and India significantly increasing their investments in advanced military capabilities [2, 5].

Further complicating the security environment for Europe is the deepening strategic partnership between Russia and China [11, 15]. While not a formal military alliance, their cooperation is driven by a shared opposition to the Western-led international order [11, 15]. This partnership has tangible military implications, including an increase in the scale and complexity of joint military exercises, Russia’s supply of advanced weaponry to China, and the potential for coordinated actions in hybrid warfare and disinformation campaigns [12, 14]. This alignment forces European and NATO planners to consider a more complex strategic environment, challenging security interests on multiple fronts and reinforcing the need for a more self-reliant and capable European defence posture.

Defence Spending Trends: A New Supercycle of Investment

In response to the deteriorating security environment, governments across Norway, Europe, and NATO have committed to unprecedented, long-term increases in defence spending. These commitments are not merely cyclical adjustments but represent a fundamental policy shift, creating a predictable and durable demand signal for the defence industry that will extend for decades [1, 50]. This “new defence supercycle” is underpinned by formal government pledges and alliance-wide mandates.

A pivotal development is NATO's new spending target, agreed upon at the 2025 Hague Summit. Member states have committed to spending a minimum of **5% of GDP on defence and security by 2035** [21, 23]. This target is broken down into 3.5% for core military expenditures and an additional 1.5% for broader security-related areas such as critical infrastructure protection, civil preparedness, and industrial base resilience [21, 22, 24]. This more than doubles the previous 2% guideline and represents a massive financial mobilization. If met, this commitment could push NATO's collective annual spending to over \$4 trillion by 2035, serving as a powerful political signal of unity and resolve while driving enormous investment into the defence industrial base [22].

At the national level, Norway has emerged as a leader in this trend with its landmark **Long-Term Defence Plan (2025-2036)** [16, 17]. The Norwegian government has pledged to invest a total of **1,624 billion NOK** over the twelve-year period, an increase of 600 billion NOK over previous plans [16, 19]. This historic commitment will nearly double the annual defence budget by 2036 in real terms and is designed to address current deficiencies while substantially strengthening all branches of the Armed Forces [17, 20]. Key investment priorities include a comprehensive renewal of the maritime fleet with a minimum of five new frigates and five new submarines; the acquisition of long-range air defence systems and a doubling of existing NASAMS capabilities; and a significant expansion of the Army to three brigades and an increase in Home Guard personnel [19]. This plan provides a clear, long-term, and well-funded roadmap that emphasizes domestic capacity building and supply security.

Complementing these national and alliance-level commitments is the European Union's push for greater industrial integration and strategic autonomy [26, 27]. The **European Defence Industrial Strategy (EDIS)** and its financial arm, the **European Defence Industry Programme (EDIP)**, aim to strengthen the European Defence Technological and Industrial Base (EDTIB) [34, 35]. The strategy encourages member states to invest "more, better, together, and European." It sets ambitious targets to foster collaboration and bolster the regional value chain, including goals for at least 40% of defence equipment to be procured collaboratively and for the value of intra-EU defence trade to represent at least 35% of the market by 2030 [32]. Furthermore, it aims for member states to procure at least 50% of their defence investments from within the EU by 2030, rising to 60% by 2035 [26]. These policies are designed to create a more resilient, responsive, and integrated European defence market.

Regional Value Chain Trends: The Primacy of Capacity and Security

The surge in defence spending is occurring in parallel with a fundamental realignment of industrial value chains. The traditional procurement model, often prioritizing the lowest cost, is being supplanted by a new paradigm where **delivery risk management, supply security, and sovereign capacity** are the dominant criteria [26, 30]. The war in Ukraine starkly revealed the vulnerabilities of a fragmented and globally dispersed defence supply chain, prompting a strategic shift towards regionalization and industrial resilience.

Historically, the European defence industry has been characterized by fragmentation, with national interests and disparate regulatory frameworks inhibiting economies of scale and cross-border collaboration [27, 29]. This structure proved inadequate for the demands of high-intensity conflict, leading to critical shortages and an inability to rapidly scale production. In response, European and NATO industrial policy is now explicitly focused on overcoming this fragmentation. Initiatives like EDIS and the Act in Support of Ammunition Production (ASAP) are designed to incentivize joint procurement, foster industrial cooperation, and build "ever-warm" production capabilities that can be maintained even during periods of lower demand [26, 31].

A central pillar of this new industrial strategy is ensuring security of supply. The EU is actively working to map and strengthen key supply chains within the Union, establishing a “Security of Supply regime” to guarantee access to critical defence products and components during crises [31, 32]. This represents a concerted effort to reduce dependency on non-EU suppliers, particularly for critical technologies and materials [26, 29]. This mandate creates a powerful incentive for prime contractors and system integrators to favor suppliers located within the EU or closely aligned nations, who can offer greater transparency, regulatory alignment, and reliability. Production capacity itself is increasingly being treated as a form of strategic infrastructure, leading to a greater willingness to sign multi-year contracts and pay a premium for dependable, scalable manufacturing partners.

Despite this strategic push, significant challenges persist. The European defence sector still exhibits a high degree of reliance on external suppliers, especially from the United States, for certain high-end systems and components [26, 29]. Securing adequate long-term funding for ambitious EU-level initiatives remains a political hurdle, and the deep-seated preference for national champions can still impede genuine cross-border integration [26, 32]. Furthermore, the entire industrial base is grappling with persistent headwinds, including supply chain fragility for raw materials, shortages of skilled labor in advanced manufacturing, and complex, bureaucratic procurement cycles [51]. These challenges create the very bottlenecks that specialized manufacturers are positioned to solve.

High-Precision Manufacturing Requirements in an Evolving Market

The modernization of military forces and the development of next-generation weapon systems are intensifying the demand for high-precision manufacturing. The performance, reliability, and effectiveness of modern defence equipment—from aerospace components and guided missile systems to advanced surveillance and communication technologies—are directly dependent on the quality and accuracy of their underlying components [36, 37]. In this context, manufacturing is not a commodity but a critical enabler of military capability.

This demand is particularly acute in the **High-Mix, Low-Volume (HMLV) manufacturing segment** [41, 42]. Unlike mass production, which focuses on large quantities of standardized items, HMLV is characterized by the production of a wide variety of complex products in small, often customized batches. The defence and aerospace sectors are quintessential HMLV industries, requiring highly specialized components for platforms that are produced in dozens or hundreds, not millions [41, 44]. This production model is inherently challenging, marked by frequent machine setups, complex programming, stringent quality assurance, and extensive documentation requirements [43, 45]. These activities create significant “transactional friction costs” that can lead to production delays, capacity bottlenecks, and delivery uncertainty—the very risks that prime contractors and defence ministries are now desperate to mitigate.

The strategic relevance of HMLV manufacturing is growing as it represents a critical rate-limiter in the effort to ramp up defence production. A prime contractor’s ability to accelerate the delivery of a missile system or an aircraft is directly constrained by the capacity and reliability of its sub-tier suppliers of precision-machined components. This makes proficient HMLV manufacturers strategically valuable. The market is therefore shifting its evaluation of these suppliers away from a simple comparison of hourly machining rates and towards a more holistic assessment of their ability to reduce delivery risk. Key performance indicators such as On-Time Delivery (OTD), First Pass Yield (FPY), and Overall Equipment Effectiveness (OEE) are becoming the “truth criteria” for supplier performance.

To meet these demands, successful manufacturers are leveraging advanced technologies and process controls. The use of multi-axis CNC machining, Electrical Discharge Machining (EDM), and advanced

metrology is standard [38, 40]. However, competitive differentiation is increasingly found in the adoption of automation, robotics, and data-driven process management to streamline workflows and reduce human-dependent variability [39, 45]. This approach, exemplified by companies like Aurelian Manufacturing, focuses on building an autonomous, process-controlled production system that delivers not just a machined part, but a complete package of **guaranteed quality, full traceability, and predictable delivery**. This model directly addresses the core anxieties of the modern defence supply chain, transforming the HMLV supplier from a simple job shop into a strategic partner in capacity assurance.

Market Projections by Decade (2025-2055)

The defence market's trajectory over the next thirty years can be understood in three distinct, albeit overlapping, phases. Each decade will be characterized by different investment priorities and technological focuses as the market evolves from immediate rearmament to long-term strategic modernization.

Decade 1 (2025-2035): The Rearmament and Capacity Building Phase

This initial decade will be defined by an urgent drive to rebuild and expand conventional military forces [6, 10]. The primary market drivers will be the immediate lessons from the Ukraine war, the imperative to meet the new NATO 5% spending target, and the implementation of national rearmament plans like Norway's 12-year defence pledge [19, 21]. The market will be characterized by a focus on replenishing depleted stockpiles of ammunition and proven equipment, ramping up production of existing platforms, and making massive investments in the industrial base itself. Key investment areas will include land-based systems such as tanks and artillery, integrated air and missile defence systems, and the construction of new munitions production lines [50]. Procurement will favor mature, "off-the-shelf" systems that can fill capability gaps quickly. The global defence market is projected to grow at a compound annual rate of 5%, reaching approximately \$4.27 trillion by 2035, with European spending expected to grow even faster [46, 50]. For HMLV manufacturers, this phase will be marked by intense demand for components for existing, high-volume systems. The primary challenge will be scaling production, making reliable suppliers who can guarantee capacity and meet surge demand exceptionally valuable.

Decade 2 (2035-2045): The Modernization and Integration Phase

Having addressed the most urgent capacity shortfalls, the market will shift its focus towards the modernization and integration of next-generation capabilities [47, 49]. This phase will see the fielding of new platforms that were commissioned in the previous decade, such as Norway's new frigates and the next generation of European fighter aircraft. The dominant technological theme will be networked warfare. Investment will flow towards advanced Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR) systems, Joint All-Domain Command and Control (JADC2) architectures, and the large-scale integration of autonomous systems [48, 49]. Space will become an increasingly critical warfighting domain, with significant spending on resilient satellite constellations for communication and missile warning [48]. For HMLV manufacturers, the nature of demand will evolve. While the need for capacity remains, the complexity of components will increase significantly. The focus will be on manufacturing parts for new, highly advanced systems that require exotic materials, extremely tight tolerances, and sophisticated quality assurance [40]. Suppliers who invested in advanced technology and process control in the first decade will be best positioned to win contracts for these new programs.

Decade 3 (2045-2055): The Future-Force and Disruptive Technology Phase

The final decade of this projection period will be characterized by a focus on developing and fielding the “future force,” driven by disruptive technologies that are currently in the research and development stage [39, 51]. The market will prioritize capabilities that promise to change the character of warfare itself. Key investment areas will include hypersonic weapons and countermeasures, directed energy systems, advanced artificial intelligence for autonomous decision-making, and quantum technologies for sensing and computing [49, 51]. The distinction between defence and technology sectors will continue to blur, with software, data analytics, and AI becoming central to military power [39]. The operational environment will be defined by multi-domain operations conducted at machine speed. For HMLV manufacturers, this phase will demand the highest levels of technical sophistication. Production will involve novel materials and manufacturing processes, including advanced additive and hybrid manufacturing techniques [39, 40]. The ability to rapidly prototype, iterate, and produce highly complex, bespoke components for these revolutionary systems will be the key competitive differentiator. Success will depend on deep integration with customer R&D efforts and a mastery of cutting-edge manufacturing science.

Implications for Norwegian HMLV Manufacturers

The confluence of these geopolitical, economic, and technological trends creates a uniquely favorable environment for Norwegian High-Mix, Low-Volume (HMLV) manufacturers, particularly those with a strategic focus on process control and delivery reliability, such as Aurelian Manufacturing. The implications of this market shift are profound and present a clear pathway for strategic growth.

The most significant implication is the alignment of market demand with Aurelian’s core value proposition: **“Controllable capacity in uncontrollable supply chains.”** The primary pain point for defence prime contractors and Tier-1 suppliers is no longer just the per-unit cost of a component, but the risk of production delays and quality failures that can derail multi-billion-dollar programs [26, 30]. Aurelian’s emphasis on autonomous process control, quality traceability, and operational metrics like OEE and FPY directly addresses this delivery risk. By positioning itself as a “capacity solver” that reduces transactional friction, the company can command a premium and build long-term, strategic partnerships with customers who value predictability over the lowest possible hourly rate.

Norway’s 1,624 billion NOK defence investment provides a powerful and localized demand signal [19]. The plan’s emphasis on domestic capacity building and supply security, coupled with major procurements in the maritime, air defence, and land domains, creates a vast addressable market [16]. Norwegian manufacturers are ideally positioned to capture a significant share of this investment, both as direct suppliers and as sub-tier partners to international firms participating in Norwegian programs. Geographic proximity, regulatory alignment with European standards, and a shared strategic culture give Norwegian suppliers a distinct home-field advantage.

Furthermore, the broader European push for industrial resilience under EDIS and EDIP opens up significant export opportunities [33, 35]. As European prime contractors seek to de-risk their supply chains and comply with mandates to source more content from within the EU, they will actively seek out reliable, technologically advanced partners [26, 32]. A Norwegian manufacturer with a proven track record of delivery precision and audit-ready quality documentation—hallmarks of the Aurelian model—becomes a highly attractive supplier for pan-European defence programs. The company’s capabilities become a solution to the strategic challenges faced by the entire European defence industrial base.

To capitalize on this opportunity, the strategic focus must be on demonstrating and validating the operational model. Building a robust track record of On-Time Delivery and First Pass Yield is paramount.

Securing necessary certifications such as AS9100 and demonstrating compliance with stringent defence and aerospace standards will be critical to overcoming qualification barriers [40]. By proving that its process-controlled approach genuinely reduces friction and de-risks the supply chain for its customers, a company like Aurelian can move beyond the competitive fray of traditional job shops and establish itself as a new category of industrial partner—one that is indispensable to navigating the complex and demanding defence market of the coming decades.

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