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Center for Geopolitics | JPMorganChase

Helping Clients Navigate Global Challenges

An Era of Global Rearmament and the U.S. Defense Industrial Base

One of today's defining geopolitical trends is global rearmament—which is arguably the most consequential shift in military affairs since the end of the Cold War. **Accelerated by rapid technological advancement and an increasingly volatile geopolitical landscape, this transformation will have broad impacts to national economies and redefine the contours of great power competition.** Defense procurement and modernization are poised to become key engines of domestic growth, influencing investment patterns, industrial policy, and workforce dynamics across advanced economies for the next decade or more.

Three key dynamics are defining this era:

1. **Technology as kingmaker**
   Technological superiority has always been a military differentiator—but today, its pace and impact are revolutionary. Artificial intelligence, autonomous systems, and commercial off-the-shelf technologies are collapsing traditional kill chains ("see-assess-decide-act") and empowering more agile, distributed forms of warfare.
   - Ukraine has served as a proving ground: cheap drones and consumer-grade satellite imagery are being fused with Western-made precision weapons to challenge a larger adversary.
   - Meanwhile, asymmetric conflicts like the Houthi campaign in the Red Sea expose a troubling cost imbalance: the U.S. regularly spends millions per intercepting missile (the SM-6 costs up to $4.3 million each) to counter Houthi drones that only cost between $2,000 to $50,000.

   This innovation gap is shining a harsh light on the U.S. Department of Defense's (DoD) long-standing procurement challenges—rigid budgetary cycles, protracted production

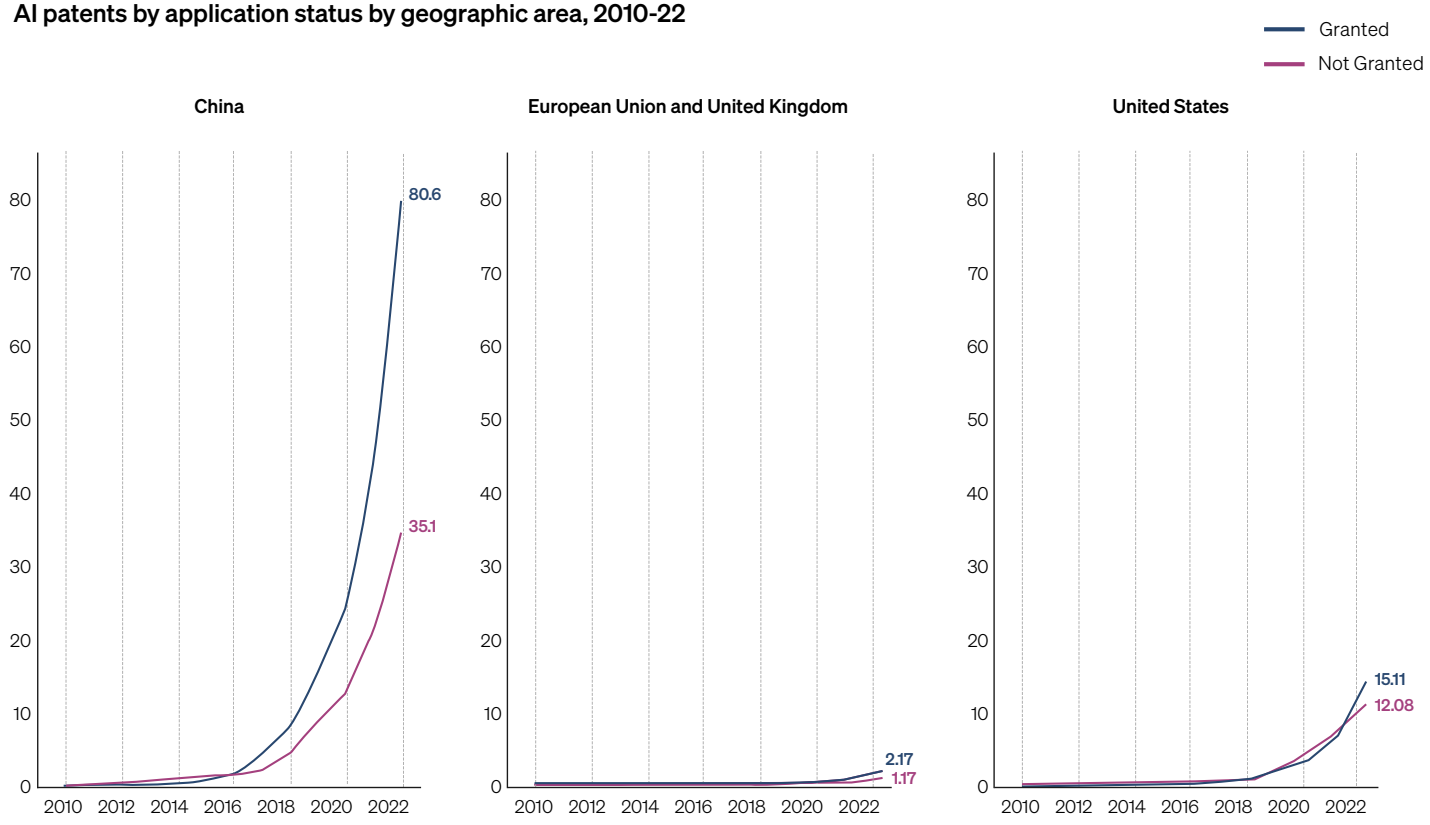
timelines, risk-averse contracting, and insufficient surge manufacturing capacity. The Pentagon's traditional acquisition model struggles to adapt to commercial technology cycles measured in months, not years. Companies like Anduril, Palantir, and SpaceX have shown that dual-use tech firms can deliver cutting-edge capabilities at speed, but integrating them at scale remains an uphill battle. In this environment, the ability to adapt—to field, iterate, and mass-produce emerging technologies—will be as decisive as raw military power.

2. **Great power competition**

Strategic rivalry is back at the center of defense planning, with the U.S.-China competition as the primary axis. Beijing's military modernization is not just about catching up—it is about leapfrogging the U.S. and neutralizing its long-held advantages. From hypersonic glide vehicles to anti-satellite capabilities and shipbuilding volume, China's state-directed defense ecosystem is operating at a tempo the U.S. struggles to match. According to the Pentagon's 2024 China Military Power Report, China now has the world's largest navy by ship count and is rapidly expanding its nuclear arsenal.

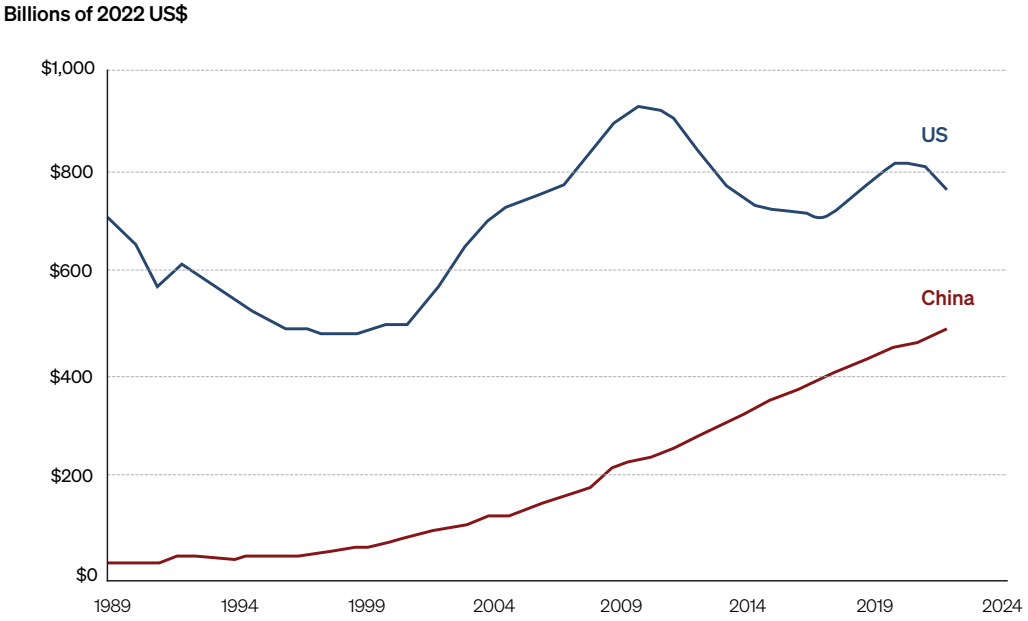
Compounding the challenge is the tightening alignment among China, Russia, Iran, and North Korea—sometimes referred to as the "CRINK" axis. This emerging bloc is exchanging technology, intelligence, and access to critical resources, allowing mutual circumvention of Western sanctions and export controls. **While U.S. regulatory tools like the CHIPS Act and ITAR restrictions can slow diffusion, they cannot prevent the strategic convergence of adversaries. For defense companies, this raises the stakes for secure supply chains, IP protection, and the geopolitical calculus of where—and with whom—they do business.**

AI patents by application status by geographic area, 2010-22



Source: Center for Security and emerging Technology, 2023

US-China Defense Spending, Inflation and PPP Adjusted



Source: OMB, FRED, SIPR, IMF, 2024

3. **Allied entropy**

For decades, the U.S. has been the anchor of global defense cooperation. But that gravitational pull is weakening. **Faced with the dual threats of Russian aggression and Chinese assertiveness, traditional allies are rearming at speed—Germany's €100 billion Sondervermögen (its "special fund" freed of a debt brake) and Japan's doubling of defense spending to 2% of GDP are just the beginning.** Yet, this rearmament is not necessarily a boost to American dependency. Increasingly, allies are seeking strategic autonomy: national production lines, domestic R&D pipelines, and decoupled supply chains. The implications for U.S. defense firms could be profound. Arms sales—which topped $300 billion in 2024—have long benefited from the "Buy American" halo-effect and interoperability advantages. **But if allies begin to view U.S. systems as expensive, slow to deliver, or politically unreliable, they may look elsewhere.**

Already, there is growing interest in allied alternatives, such as the Franco-German-Spanish Future Combat Air System (FCAS) and the British-Italian-Japanese Global Combat Air Programme (GCAP), or in homegrown solutions built with local content requirements. Certain products are already gaining traction, either because they are less exquisite (like Türkiye's Baykar UAVs) or because they can leverage a robust domestic industrial supply chain (like South Korea's Hanwha missiles). Japanese and South Korean defense firms are among the fastest growing in the world, with annual revenues rising by 25% since 2022 compared to American firms' 15%. **In this context, over time the U.S. defense industrial base risks losing market share—and with it, strategic influence.**

Moreover, as technology increases range and precision, the U.S. may opt for a smaller overseas presence and more reliance on stand-off, unmanned operations. A shrinking footprint could reduce forward-deployed deterrence and the demand for host-nation integration, further accelerating a shift away from U.S.-led architectures.

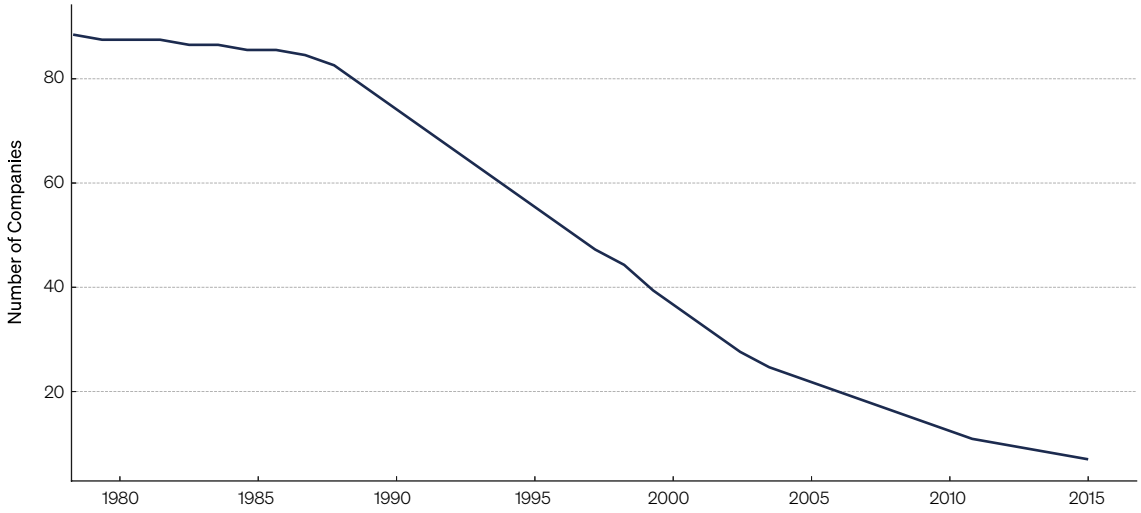
The U.S. Defense Industrial Base is not ready

The U.S. response to Ukraine exposed deep flaws. Dwindling weapons stockpiles (primarily the result of off-the-shelf U.S. support for Ukraine) are exacerbating underlying structural deficiencies in the U.S. defense industrial base and introducing an unacceptable level of risk to U.S. military readiness—undermining the country's long-term ability to deter aggression, equip partners, negotiate from a position of strength, and, ultimately, fight and win wars.

Post-Cold War atrophy

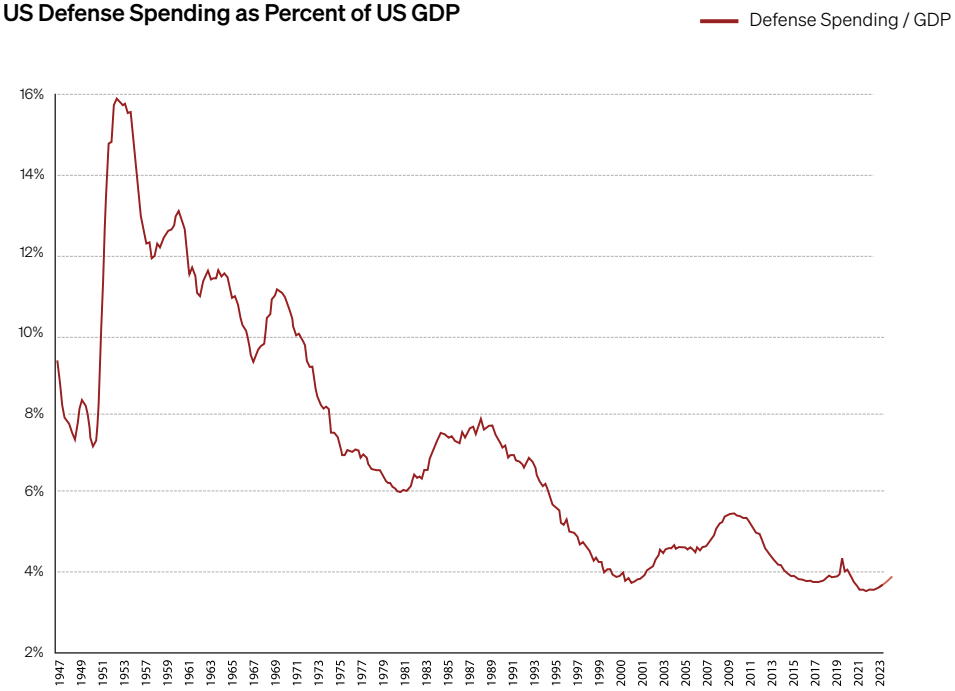
Decades of consolidation and uneven investment have left the U.S. defense industrial base woefully ill-equipped to sustain America's military dominance, a reflection of both demand- and supply-side failures. Following the Cold War, the U.S. drastically reduced its defense production capacity under the assumption that major-power war was unlikely. At the same time, a wave of mergers—encouraged by the 1993 "Last Supper" meeting between Pentagon officials and defense executives—shrunk the industrial base from dozens of prime contractors to just five dominant firms: Lockheed Martin, Raytheon, Boeing, Northrop Grumman, and General Dynamics. This consolidation was efficient on paper but brittle in practice. It created single points of failure across key supply chains and eroded the nation's surge capacity. Today, there is only one active production line for many critical systems, from large-diameter solid rocket motors to nuclear submarine propulsion components. **A 2023 DoD report found that over 50% of suppliers for precision munitions have exited the market in the past decade, largely due to inconsistent procurement cycles and lack of investment in modernization.**

Consolidation of defense contractors in the US



Source: "State competition within the defense industrial base", DoD, JPMAM, February 2022

US Defense Spending as Percent of US GDP



Source: Us Federal Reserve Bank of St. Louis (FRED): A824RE1Q156NBEA

Effects of Ukraine

The war in Ukraine has brought these deficiencies into sharp relief. Providing sustained support to Kyiv—while also fulfilling commitments to Israel and Taiwan, and planning for potential conflicts with near-peer adversaries—has stretched the industrial base thin. Stocks of Javelin anti-tank missiles, Stinger MANPADS, and 155mm artillery shells have been depleted to levels that would take years to replenish at current production rates. This is more than a military readiness issue—it's a strategic vulnerability and a market signal. **The warning lights are flashing red.**

Key challenges

The strongest military in the world, if you can keep it. Rebuilding, modernizing, and expanding the U.S. defense industrial base is not just a policy priority—it is a generational challenge. Meeting this moment will require sustained, bipartisan commitment and a reimagining of the traditional defense ecosystem. While increases in the defense topline are expected, money alone won't be enough.

Three interlocking challenges stand out:

- **Production, production, production**
  What lies beneath calls for accelerating and ramping up production—the most fundamental and visible measure of success or failure—is a tangle of complex and expensive problems. The U.S. lacks the physical infrastructure, skilled labor, and resilient supply chains necessary to produce at the scale and speed modern conflict demands. Expanding production isn't just about volume; it's about agility and strategic prioritization. The U.S. must focus early on scaling key capability areas: precision-guided munitions, long-range fires,

shipbuilding, air and missile defense, and attritable autonomous platforms. These areas have proven decisive in Ukraine and will be even more vital in a future Indo-Pacific contingency. But building this capacity will take years—and adversaries aren't waiting. Public-private partnerships must also become more proactive and flexible. Industry cannot be expected to make billion-dollar investments into new production lines without clear, sustained demand signals and risk-sharing mechanisms.

- **Funding and authorities**
  It's hard to overstate the damage inflicted by chronic budget dysfunction. Over the past 15 years, Congress has passed a full-year defense appropriation on time just once. It's no way to run any business, let alone the largest military in the world. The reliance on stop-gap funding to resource the U.S. military disincentivizes the very behaviors the defense industrial base most needs: upfront investment, workforce expansion, and long-lead material procurement and stockpiling. The lack of multiyear procurement authority for critical, high-demand munitions (like 155mm shells, HIMARS, and PAC-3 interceptors) is another lost opportunity to send a clear and confident demand signal. That said, industry also has a role to play. Leading firms must be willing to take calculated risks and shift from a reactive, contract-by-contract mindset toward more anticipatory planning and investment. The strategic environment demands it.

- **Innovation**
  As the race for technological dominance accelerates, the U.S. defense ecosystem must rethink how it adopts and scales emerging technologies. The current acquisition system—optimized for stability, not speed—is ill-suited to an era where breakthroughs in AI, quantum computing, and autonomy can reshape the battlefield in months. Reforms are needed to encourage experimentation, expand access to commercial technology firms, and offer greater budgetary flexibility in response to changing needs and newer solutions. Today, the Pentagon is allowed to reprogram just $6 billion per year across its massive budget—a figure that hampers its ability to adapt to fast-evolving threats or promising solutions. Encouragingly, the private sector is leaning in. Google has reversed its ban on military AI use, and other major players—OpenAI, Meta, Anthropic—are exploring defense applications. And companies like Shield AI, Rebellion Defense, and Epirus are delivering capabilities the Pentagon once struggled to imagine, let alone field. The opportunity is real, but so are the risks. Without faster pathways to adoption, these innovations risk dying on the vine.

"Sustaining America's position of power requires major changes in the funding and planning of our military. This includes major changes in trade, production capacity and supply chains to make our military as resilient and capable as possible."

—Jamie Dimon, April 2025

Taking action

The first step to recovery is acknowledging the problem, and there are finally meaningful efforts underway to address it. The Biden Administration's *Replicator* initiative —aimed at rapidly fielding thousands of low-cost, attritable drones—marked an important early step. But progress has been slow. It reportedly took nearly 40 Congressional briefings to secure just $500 million in funding for the program—roughly one-half of one percent of the total defense budget—highlighting how difficult even modest innovation can be in the current system.

The Trump Administration has now significantly raised the stakes. Through three executive orders issued in April 2025, President Trump has launched a far more ambitious overhaul of Pentagon acquisition, arms exports, and the maritime sector. The rushed downsizing of the defense establishment could, however, complicate essential public-private cooperation, planning, and advocacy in this space.

- The **acquisition order** will force a review of all major defense acquisition programs. Those that are "more than 15% behind schedule or 15% over cost" will be scrutinized for cancellation, including nine Navy ship programs that are between one and three years behind schedule. The Secretary of Defense will have 90 days to submit a plan for a new acquisition system that maximizes commercial solutions, speeds procurement timelines, and evaluates the acquisition workforce.

- The **arms export order** aims to increase the speed and efficiency of the defense sales system, long criticized for being too slow and opaque, by reducing regulation, expediting sales to priority partners, and increasing transparency. The Defense Secretary again has 90 days to submit a plan. For the U.S. defense industry, this could unlock faster market access and shorten deal timelines, allowing companies to better compete with foreign suppliers, especially in regions where China and Russia are aggressively offering weapons with fewer strings attached. This Executive Order is complemented by an **April 7 letter to Congress** co-signed by the Secretaries of State and Defense requesting an increase to the required Congressional notification thresholds for foreign arms sales from $25 million to $55 million.

- The third order seeks to "**restore America's maritime dominance**"—an area that has seen decades of neglect. The U.S. commercial shipbuilding sector has shrunk to a shadow of its former self, with just a handful of shipyards still able to support large-scale naval construction. By comparison, China's largest state-owned shipbuilder built more commercial vessels by tonnage in 2024 than the entire U.S. shipbuilding industry has built since the end of World War II, according to a recent CSIS report. In response, this executive order sets an aggressive timeline and expansive mandate. By November 5, a cross-section of the national security establishment, including the Secretaries of Defense, State, Commerce, Labor, Transportation, and others, must create an action plan that will boost maritime production, workforce, and competitiveness. It also establishes a trust fund to provide consistent funding for maritime programs and boost private investment, sets a 45-day deadline for recommendations to reduce cost-overruns and production delays, and directs U.S. Trade Representative Jamieson Greer to come up with ways to combat China's "anticompetitive actions within the shipbuilding industry," among other things.

Taken together, these orders represent a sweeping attempt to reorient the U.S. defense industrial base. Members of Congress, too—led by Senate Armed Services Chairman Roger Wicker (R-Miss)—are advocating significant shake-ups in defense budgeting and acquisition. The **FoRGED Act** (Fostering Reform and Government Efficiency in Defense Act), if passed, would modernize and streamline defense procurement to enhance innovation, increase competition, and accelerate the delivery of advanced capabilities. The challenge now is execution. The complexity of the reforms, the bureaucratic inertia within DoD, and the fragile state of many industrial supply chains will test whether this burst of political will can translate into lasting change.

What we're watching: Key things to look for in the weeks ahead

- **U.S. defense budget**
  The Administration's FY2026 budget request includes $892.6 billion for defense—nominally the same as last year but reduced once you factor in inflation. Reaching the stated $1 trillion target would require the remaining $119 billion be included in the proposed "grand bargain" reconciliation bill that addresses government-wide appropriations, the debt ceiling, and tax cuts. As drafted, the bill could increase DoD's investment budget by up to $150 billion but spread over the next ten years. Despite strong support for defense investment, fiscal hawks unhappy with deficit spending may seek reductions in federal spending, including on defense—and recall that House Republicans have only 3 votes to spare. Over the longer term, the U.S. will need to be on sustainable fiscal footing to support the type of investments required.

- **U.S. defense authorization**
  The "must pass" FY2026 National Defense Authorization Act (NDAA) is expected to include some bold reform proposals, possibly including elements of the FoRGED Act.

- **Buy European?**
  The EU's ReArm Europe proposal, if adopted, would include up to €150 billion in loans to European governments to spend on defense projects but could exclude or limit participation from U.S. firms, despite many small- to medium-sized European defense manufactures being dependent on U.S.-made component parts. While a relatively modest sum, the rules governing its use could signal broader fragmentation across defense industries. The Trump Administration, like the Biden Administration before it, is advocating for an open transatlantic arms market.

- **Overseas force posture changes**
  Orders to redeploy U.S. troops based overseas in places like Germany or South Korea could further undermine efforts toward greater allied integration across defense industrial bases.

- **Indo-Pacific industrial footprint**
  With rising tensions in the Taiwan Strait and China's military buildup accelerating, the U.S. is moving to expand its regional defense production and sustainment. New initiatives with Japan and Australia (e.g., hypersonic interceptors, munitions co-production) signal progress, but the region still lacks the capacity to support high-intensity conflict.

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About the Authors

Derek Chollet is Managing Director and Head of the JPMorganChase Center for Geopolitics. He has held senior positions at the U.S. State Department, Pentagon, White House, Congress, and numerous research institutions, and been a top adviser to multiple Secretaries of State and Defense.

Lisa Sawyer is Executive Director of the JPMorganChase Center for Geopolitics. She most recently served as the Deputy Assistant Secretary of Defense for European and NATO policy and, previously, as special advisor to the Vice President on all matters related to Europe, Russia, and defense.

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