

Out of Ammo

A Two-Year Sprint to Rebuild the American Arsenal and Deter China

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Executive Summary

The United States is increasingly ill-equipped to deter or defeat Chinese aggression in the Western Pacific, particularly a potential invasion or blockade of Taiwan. The U.S. military no longer possesses the requisite quantity of warfighting systems—nor the industrial capacity to produce them at scale—needed to counter the People’s Liberation Army’s burgeoning arsenal. To address this gap in the near term, the Department of Defense (DOD) and Congress must implement far-reaching reforms to enable the production, acquisition, and deployment of “precise mass” systems: an emerging class of military capabilities that includes drones, sensors, and enabling technologies. Precise mass systems can be manufactured cheaply, fielded rapidly, expended freely in combat, and sustained readily at scale in wartime.

Given the United States’ material constraints, adopting precise mass at scale is the most viable way to deter China from pursuing military conquest and coercion, or deny it success if it chooses such courses of action. The U.S.-Israeli war with Iran has severely depleted stocks of critical munitions, including air defense interceptors and precision-guided munitions. Although government and industry are working with newfound urgency to boost replenishment rates for these munitions—which are central to current U.S. warfighting strategy in the Indo-Pacific—their efforts will take years to bear fruit. To fill the gap amid China’s rapid military buildup, the U.S. military must acquire precise mass at scale.

Unlike traditional munitions, there is a concrete path to scaling precise mass. The Pentagon must spend appropriated funds and sign contracts to buy precise mass systems now, prioritizing speed, scale, and “good enough” capabilities over process and the usual “exquisite” capabilities—those that are technologically sophisticated, expensive, and hard to produce. If war with China comes in the next two years, victory could depend on spending already-appropriated funds more quickly, relaxing procurement rules, and using every available industrial policy tool to expand production rapidly.

Efforts to produce more high-end, legacy capabilities, such as submarines, fighter jets, and exquisite munitions, remain relevant for an invasion or blockade of Taiwan, particularly when fielded in a “high-low” mix with expendable capabilities. But regardless of the reforms implemented, legacy systems alone

cannot provide enough combat power within two years to defeat a Chinese attack on Taiwan. Long production timelines, material shortages, workforce constraints, and other bottlenecks prevent exquisite capabilities from being scaled quickly enough.

This report therefore focuses on ways to increase production and procurement of precise mass capabilities most relevant to defending Taiwan. It focuses especially on anti-ship and anti-air weapons, missile defense, and the systems that enable militaries to find, track, and strike enemy forces, and examines what investments and policy changes are needed to achieve adequate production of these systems. Given the urgency of a two-year window, it does not attempt to redesign the entire defense industrial base or propose sweeping structural reforms. Some recommendations are temporary departures from normal practices designed to rapidly scale precise mass to defend Taiwan; others are durable reforms. And all recommendations will strengthen U.S. military capabilities in theaters beyond the Indo-Pacific.

Washington needs to immediately put production of precise mass on a wartime footing. Waiting until conflict begins will be too late. To deter China—and defeat an attack if deterrence fails—the United States needs to build weapons faster, give manufacturers greater flexibility, align military goals with available resources, cut procurement red tape, and secure the supply chains required to sustain production.

Two-Year Window: Sprinting to Credible Denial

China is undertaking the most significant and rapid military modernization of any country in postwar history. Its leaders seek the capability to “reunify” with Taiwan by any means necessary and prevail against corresponding U.S. counteractions by 2027. Although the U.S. military retains a comparative advantage over China in certain high-end capabilities—particularly in the undersea domain—efforts by the first and second Trump administrations and the Biden administration to strengthen the defense industrial base will, in many cases, take years or even decades to fully materialize. The U.S. arsenal of survivable platforms and weapons is dominated by high-end, exquisite military capabilities that were not

designed to be mass-produced. Efforts to dramatically scale their production to fight a war with a large, technologically advanced military will prove a difficult endeavor, even if recent investments proceed. And the abundant low-cost munitions the United States does possess require survivable delivery platforms.

The risk of a Chinese military offensive is high enough—and the consequences of China’s conquest of Taiwan for U.S. interests grave enough—that the United States must make significant improvements to its industrial readiness for conflict within the next two years. To achieve this goal, the U.S. must:

Produce precise mass capabilities at scale. Effectively executing anti-ship and anti-air missions—as well as command, control, communications, computers, cyber, intelligence, surveillance, reconnaissance, and targeting (C5ISRT) missions—to deter or deny Chinese objectives in the Taiwan Strait requires legacy weapon systems and platforms. American stocks of both, with the exception of GPS-guided bombs, which may be difficult to employ due to electronic warfare in Taiwan contingency scenarios, are already under substantial stress, especially in the wake of Operation Epic Fury. Emerging capabilities and commercially available systems adaptable to wartime use, especially lower-cost, precise mass capabilities—including short- and long-range one-way attack systems (air and naval), low-cost containerized cruise missiles, and low-cost sensors and platforms—could scale in production fast enough to enhance American military readiness in a fight against China within two years. The Russia-Ukraine war shows that such scale in that time frame is achievable, though some capabilities required for the Indo-Pacific will differ given the theater’s distinct operational demands.

Prioritize schedule above cost and quality concerns. Entrenched financial and operational risk aversion is a central obstacle to rapidly expanding near-term industrial capacity within the defense sector, both for emerging systems and for improving the delivery of legacy capabilities within a two-year period and beyond. Overcoming risk aversion and a tendency to make the perfect the enemy of good will require a deliberate mindset and bureaucratic shift to prioritize speed and sufficiency over flawlessness and to accept manageable levels of financial, operational, and technical risk. Inside the executive branch, industry, and on Capitol Hill, risk calculations for procuring, building, and fielding critical capabilities

must reflect the materially heightened risk posed by China. Though that shift could introduce the risk of a slippery slope toward waste, fraud, abuse, and quality degradation, the risks of delay and loss far outweigh the downsides—particularly if the process is time-bound, contingency-bound, and system-bound.

Recent Steps Toward Precise Mass

Momentum is building inside and outside the Pentagon to scale precise mass capabilities for the U.S. military, but it is unclear if progress will be fast enough to meet the imminent risk of Chinese military intervention in the Taiwan Strait. The Biden administration launched the Replicator Initiative, which sought to field thousands of low-cost autonomous systems within an eighteen- to twenty-four-month window to counter China's advantages in mass. The Biden administration also used the Defense Production Act (DPA) to shore up supply chains for high-end capabilities, particularly hypersonic systems and solid rocket motors, by addressing long-lead industrial base bottlenecks. Replicator was rightly praised and helped establish a critical pathway for future investments in precise mass, but more initiatives will be needed to address the scope and scale of the Chinese threat.

To that end, the Trump administration has embraced aggressive deregulation and direct government investment to accelerate the speed and scale of domestic manufacturing, including in the defense sector. The One Big Beautiful Bill Act (OB3), the Trump administration's flagship budget reconciliation legislation, appropriated tens of billions of dollars to support the development and scaling of precise mass capabilities and includes additional provisions, such as the full and immediate deductibility of tax deductions for qualified heavy manufacturing capital expenditures. That nonrenewable funding must kickstart several precise mass efforts relevant to a two-year sprint. But it will demand continual maintenance and support for as long as the Pentagon keeps specific generations of emerging capabilities, as opposed to refreshing them frequently given their low cost. Beyond the two-year window, there are risks that temporary spending could disappear if Congress fails to act again, or that military services

could come to rely on it and fail to make enduring changes. To that end, such funding will eventually need to be integrated into the regular budget process.

Current efforts are accelerating progress. For example, the “Unleashing American Drone Dominance” executive order (signed June 2025 but operationalized with new directives in December 2025) prioritizes eliminating regulatory hurdles and undergirds the Pentagon’s Gauntlets program. Funded by \$1 billion from the OB3, Gauntlets targets three hundred thousand short-range units—utilizing short, high-volume production sprints with nontraditional vendors to flood the inventory quickly while driving unit costs down to \$2,300. And additional funding for precise mass capabilities appears to be available. Although the Pentagon’s fiscal year 2026 (FY26) spending plan may not explicitly mention the Gauntlets program, the \$16 billion in available funds for low-cost weapons, including \$1.4 billion for expansion of the unmanned aerial system (UAS) industrial base, could help initiate other useful programs.

Organizational reforms are also being implemented to streamline the development, acquisition, and fielding of precise mass systems. On June 29, 2026, Secretary of Defense Pete Hegseth signed a directive establishing a direct reporting portfolio manager for unmanned systems (DRPM-UxS), reporting directly to the deputy secretary of defense, to serve as the single joint integrator for nearly all of the Pentagon’s drone and autonomy efforts. The office’s authorities are broad and robust: it will serve as milestone decision authority for programs in its portfolio, can direct the services to reallocate funding, will absorb Joint Interagency Task Force 401 and the Defense Autonomous Warfare Group as deputy elements, and will leverage the Defense Innovation Unit as the department’s single commercial-industry interface. The new DRPM-UxS will, in effect, oversee a combined \$53.6 billion in requested funding for drone and counter-drone capabilities in the latest budget

Building on Biden administration programs, the second Trump administration has also accelerated several initiatives, including efforts to field containerized cruise missiles, the U.S. Air Force’s Family of Affordable Mass Missiles program, and the U.S. Navy’s low-cost cruise missile, the Multi-mission Affordable Capacity Effector. Those efforts are promising but alone are not sufficient. The following

recommendations, organized across five fronts, aim to close that gap and turn momentum into scaled production within the two-year window.

Unlocking Industrial Speed: Schedule, Risk, and Capital

To scale capabilities to deter or defeat China within two years, the Pentagon will need to shift toward a more risk-tolerant, portfolio-based acquisition approach that emphasizes speed, scale, and aggregate capacity over the exquisite performance of individual systems. It will also need to send a strong and consistent demand signal to industry, with substantial budgets to build a wide range of capabilities. As Secretary of Defense Pete Hegseth [remarked](#), “an 85 percent solution in the hands of our armed forces today is infinitely better than an unachievable 100 percent solution.” Implementation of that approach will require careful policy changes and mindset shifts. Inevitably, as the U.S. government and industrial base increase their risk appetite in the pursuit of great speed, scale, and effectiveness, appropriators and other industry leaders should expect some investments to fail. Such trade-offs are vital to delivering a material increase in military advantage within a highly compressed time frame.

The Trump administration has taken steps to increase speed through its recent Acquisition Transformation Strategy (ATS), which explicitly notes the importance of schedule and volume-driven production. The guidance could follow the recent example of Admiral Kevin E. Lunday of the U.S. Coast Guard, however, who [underscored](#) the need to “streamline and create an acquisition and contracting superhighway” during the recapitalization of the U.S. ice-breaking fleet. In his directive to acquisition leadership, Lunday required prioritizing delivery schedule over both cost and quality considerations.

The FY26 National Defense Authorization Act (NDAA) incorporated key elements of the Standardizing Permitting and Expediting Economic Development (SPEED) Act, a bipartisan bill that reformed the National Environmental Policy Act in 2025. The NDAA establishes an accelerated requirements process for designated high-priority capabilities, directing the DOD to compress requirements development and validation timelines—traditionally spanning multiple years—into a

period measured in months. It also reduces sequential review layers to streamline requirements approval and assigns greater authority to program executive officers (PEOs) over requirements refinement, budget alignment, and execution for covered programs. It is designed to enable faster transition from validated need to contract award.

The NDAA also advanced core provisions of the Fostering Reform and Government Efficiency in Defense (FoRGED) Act, legislation proposed to overhaul the DOD. It streamlines and expands statutory middle tier of acquisition (MTA) pathways for rapid prototyping and fielding, affirming two-to-five-year timelines, simplifying documentation and reporting requirements, and providing limited exemptions from the Joint Capabilities Integration and Development System (JCIDS) for qualifying programs. Those provisions are designed to institutionalize rapid acquisition as a default option for urgent operational needs rather than as exceptional workarounds.

The defense industrial base would benefit from clearer, portfolio-specific, risk-tolerance guidance for high-urgency missions, such as a twenty-four-month sprint to build capacity for a Taiwan contingency. For example, the Pentagon just began fielding small numbers of LUCAS in the Middle East, using them against Iran in Operation Epic Fury. Each LUCAS costs \$35,000 and copies the basic design of Iran's Shahed-136 one-way attack drone. It has a range of roughly two thousand kilometers and a payload between fifty and one hundred fifty kilograms. It is a proven design. The Pentagon could immediately order large numbers of them, potentially even splitting the order between SpektreWorks, which produced the initial versions, and other producers with latent manufacturing capacity, using the World War II Liberty Ship model.

The Collaborative Combat Aircraft (CCA) program also illustrates positive, schedule-driven development: it achieved a first preliminary design review flight within eighteen months, and the Air Force Program Office aligned its acquisition processes to operate under an accelerated schedule, though many hurdles remain before fielding begins in 2029. Waiting an entire budget cycle to move to scale beginning in late 2027 or 2028, with delivery around 2030, is how the Pentagon has done business for

decades. Instead, the Pentagon should send consistent demand and schedule signals today by ordering substantial quantities to prepare for a Taiwan contingency over the next two years.

Recommendation 1: Establish Schedule-Driven Acquisition Authorities

The secretary of defense should establish a formal Rapid Industrial Expansion Authority that explicitly delegates power to program acquisition executives to bypass non-statutory JCIDS requirements for designated precise mass systems, similar to the exemptions granted for software.

Sending the signal to prioritize schedule-driven acquisition aligns with the NDAA's accelerated requirements process, which prioritizes faster validation and fielding of high-priority capabilities, and goes further by explicitly linking schedule-driven authorities to industrial-scale outcomes, such as sustained monthly missile or one-way attack drone production, rather than limiting oversight to program-level milestones and initial fielding timelines.

Recommendation 2: Implement Portfolio-Level Risk Tolerance Guidance

The Office of the Secretary of Defense and service acquisition executives should issue guidance to program offices and force planners that explicitly prioritizes schedule for designated high-urgency portfolios (e.g., air defense, long-range strike) over cost and quality (within relevant performance parameters). This guidance will require the Office of the Secretary of Defense and service leadership, in partnership with appropriators, to accept defined levels of technical, operational, and financial risk to accelerate fielding. Otherwise, fear of system failure could lead to continued delays and failure to prioritize the "85 percent solution."

Recommendation 3: Get All Big Beautiful Bill Funding on Contract by December 31, 2026

Congress appropriated \$150 billion to the Pentagon in the OB3, including substantial funds for precise mass systems and investments in the defense industrial base. In aggregate, the bill directs tens of billions of dollars toward innovative and emerging capabilities and enablers, including flexible wedge funding for rapid commercial integration and significant investments in autonomy, artificial intelligence-enabled systems, unmanned platforms, and low-cost weapons. At least \$7.7 billion of those appropriated funds

are explicitly dedicated to the near-term scaling of precise mass capabilities. The government shutdown and internal executive branch debates over spending were among the factors that substantially slowed those funds' disbursement. Faster deployment is essential, and although the industry may take advantage of U.S. government time pressure, contracts for precise mass systems may be less subject to those risks than expensive legacy systems that rely comparatively less on proven commercial technology.

Critics have alleged that the acquisition reform effort failed to engage Congress sufficiently in advance—an oversight that has likely compromised longer-term efforts to build trust with appropriators for more flexible and durable funding mechanisms. The executive branch should redouble efforts to proactively engage with Congress and industry when technology develops rapidly. Contracting should also be transparent—speed is not a justification for secrecy. Otherwise, the Office of the Secretary of Defense and service leadership risk exacerbating a trust deficit that could stymie a shift toward a more risk-tolerant acquisition process for lower-cost systems. Ultimately, the executive branch must bring appropriators along, not present them with a *fait accompli*. The Pentagon should accelerate efforts to deploy funds; over 90 percent of OB3 precise mass funding remains unspent as of this writing.

Flexible Contracting

Other transaction authority (OTA) and MTA pathways are critical to rapidly prototyping and fielding systems. But success requires empowering program managers to use those tools responsibly, combined with institutional support for faster decision cycles and acceptance of iterative development.

Indeed, the FY26 NDAA incorporates and advances key provisions associated with the FoRGED Act by codifying and reinforcing statutory MTA pathways for rapid prototyping and rapid fielding; affirming two-to-five-year timelines; streamlining test, evaluation, and acquisition-strategy documentation; and providing scoped exemptions from JCIDS for qualifying programs. The NDAA also integrates elements drawn from the SPEED Act by expanding and clarifying the use of flexible contracting mechanisms, including OTAs, commercial solutions openings, adjusted procurement thresholds, and consumption-based contracting models, and by establishing the Defense Innovation

Unit-managed BOOST program to accelerate the transition of successful prototypes into programs of record. The ATS complements those statutory changes with a “maximize flexible contracting” pillar for rapid, low-cost contracting tools to accelerate delivery of operational capabilities. The recommendations in this report complement those reforms by focusing OTA and MTA flexibilities on the two-year China contingency.

MTAs in particular can become risk-reduction programs with unfunded or delayed follow-ons. But if they are scoped narrowly to proven designs, and if services engage early and with binding production-funding commitments up front, those challenges can be mitigated. For a two-year contingency, traditional acquisition timelines are prohibitive, making focused MTA use necessary despite risks.

Recommendation 4: Expand Use of OTA and MTA for Production-Adjacent Efforts

The secretary of defense should issue a policy, which Congress should support, allowing OTA and MTA pathways not only for rapid prototyping and fielding but also for production ramp-ups, line expansions, and integration of incremental capability upgrades. This recommendation extends the logic of BOOST beyond technology demonstration into tooling, line expansions, and incremental upgrades, taking advantage of the new statutory flexibility but orienting it toward the two-year sprint.

Recommendation 5: Seek Congressional Authority for Multiyear Contracts

The Pentagon should pursue congressional authorization for multiyear contracts for high-priority munitions, high-demand spare parts, and air-defense systems, enabling vendors to plan workforce and capital investments with confidence.

The FY26 NDAA and FY26 Appropriations Bill already require the secretary of defense to enter into multiyear procurement contracts for high-demand systems to deliver efficiency and industrial base stability, and momentum is building: the House Armed Services Committee’s FY27 NDAA mark, approved at its June 2026 markup, would authorize multiyear procurement for thirteen critical munitions—including Patriot PAC-3 and terminal high altitude area defense interceptors, advanced medium-range air-to-air missiles, Tomahawks, and several Standard Missile variants—and was

amended during markup to add air-defense systems such as lower-tier air and missile defense sensor and Integrated Battle Command System to the list of platforms eligible for multiyear contracts. Extending that concept to multiyear OTA arrangements, and for a broader portfolio of systems, would align flexible contracting tools with Congress’s sustained push for greater and more predictable long-term demand.

Aligning Strategy, Budgets, and Industrial Base Targets

The two-year window for credible denial requires aligning strategy with resources and industrial realities, which means committing to predictable demand signals, ensuring funding stability, and supporting the companies that can produce critical capabilities so they can invest in workforce, tooling, and capacity.

Momentum in that domain is building, but additional support from Capitol Hill is required to achieve meaningful and swift progress. The ATS includes a “stabilize demand signals” pillar that calls for more consistent and predictable demand, especially in munitions, through increased multiyear procurements, economic-order-quantity buys, guaranteed purchase orders, and fenced funding—all intended to give industry confidence to invest. The FY26 NDAA operationalizes parts of that agenda by requiring multiyear procurement contracts for high-demand systems and authorizing over \$15 billion in munitions procurement alongside \$142.6 billion for research, development, testing, and evaluation of emerging technologies. The SPEED Act’s BOOST program is also explicitly designed to help transition promising technologies into programs of record, addressing one aspect of misalignment between strategy, budgeting, and industrial-base requirements.

Recommendation 6: Establish Predictable, Multiyear Demand Signals in 2027 NDAA

Fund five-year demand commitments for critical munitions and air-defense systems, enabling industry to hire workers, expand facilities, and improve supply chains without fear of demand collapse. Those commitments should be reinforced through clear, public, and credible demand signaling at the

presidential and secretary level, enabling industry to explain to shareholders why outlays for manufacturing and other infrastructure must be front-loaded to 2026 and 2027.

Resolving Known Bottlenecks

Key anti-air and strike systems suffer from multiple production chokepoints. Increasing throughput, modernizing manufacturing processes, expanding testing and validation infrastructure such as wind tunnels and range time, and securing long-lead components remain essential, and decision-makers can emphasize those solved problems to unlock additional capacity for lower-end systems by 2028. The Pentagon needs to make those solved problems an enduring priority, however, beyond an imminent Taiwan contingency.

The NDAA begins to address those bottlenecks by establishing the Defense Industrial Resilience Consortium, which tackles supply-chain fragility, diminishing manufacturing sources, and surge-capacity shortfalls. It also requires the DOD to streamline qualification and approval of parts that use alternative manufacturing. The FY26 NDAA builds on the SPEED Act by requiring PEOs to assess and identify critical components and subcomponents within major weapons systems suitable for transition to advanced manufacturing techniques on accelerated timelines, including additive and other nontraditional manufacturing methods. The NDAA likewise advances elements of the FoRGED Act by authorizing targeted industrial expansion and sustainment activities to address diminishing manufacturing sources and material shortages, complementing accelerated acquisition pathways with focused investments in production resilience.

Recent efforts to expand the investment authorities and resources of the Office of Strategic Capital (OSC) and to turn the Joint Production Acceleration Cell into a Wartime Production Unit are useful but insufficient to deliver results within a two-year time frame. The investments must also adhere to clearer legal frameworks and transparency standards to ensure they match the best-in-class capabilities or improve the supply chain, which will enable those investments to survive political fluctuation over time. Although the ATS also focuses on attracting additional private capital, rapid increases in scale

require direct government investment via easy-to-deploy financial tools. These recommendations seek to spur that deployment, among other aims.

In sum, the U.S. government must offer significant firm-level industrial support at scale in the defense industrial base, including loans, grants, and contracts from OSC, the Industrial Base Analysis and Sustainment program, and the DPA—and should conduct those market interventions in a highly competitive and transparent manner.

Recommendation 7: Fund Critical Production Line Modernization

The U.S. government should directly fund targeted upgrades—automation, tooling, test equipment, and facility expansions—at specific bottleneck production lines (e.g., rocket motors, seekers, and propellants) that limit output across multiple systems where industry lacks the financial incentive to invest. This recommendation, though more operationally specific, aligns with the SPEED Act’s focus on advanced manufacturing and the FoRGED industrial expansion program. Those investments may require invoking the DPA at times or otherwise directly deploying government dollars to expand and build production capacity to expedite production across multiple contractors.

Recommendation 8: Pre-Fund and Stockpile Common Long-Lead Components

The government should also selectively fund a shared inventory of long-lead items (e.g., carbon fiber, microelectronics, and energetics precursors) to eliminate multi-month delays and enable immediate surge production or direct additional funds to contractors to create a stockpile themselves under strict performance metrics. The FY26 NDAA incorporates elements associated with the SPEED Act by directing the DOD to examine civil reserve manufacturing networks, address parts obsolescence and diminishing manufacturing sources, and develop longer-term industrial resilience strategies. Together, those provisions provide a statutory foundation for a government-managed stockpiling approach, although the language remains largely conceptual and may not translate into establishing dedicated programs, funding streams, or execution authorities for long-lead component inventories. The ATS likewise highlights the need to “[fuel the arsenal of freedom](#)” through expanded domestic manufacturing and better lifecycle planning but does not yet prescribe a concrete government-directed long-lead

inventory plan. Policymakers may need to consider declaring a national munitions emergency to leverage DPA Title III authorities to place orders immediately for various components and inputs. Leveraging those authorities could help overcome path dependency and scale the production of optimal but unproduced or underproduced inputs, such as the energetic CL-20 used to maximize explosive power, for which scaled production lines do not currently exist.

To advance this recommendation, the executive branch should immediately declare a national munitions emergency and invoke DPA Title III authorities to aggressively prepurchase and stockpile critical inputs. The executive branch should likewise continue to prioritize efforts, such as the Export-Import Bank's Project Vault, to alleviate shortages in base inputs, such as critical minerals, for defense material.

Recommendation 9: Integrate Dual-Use Software Capabilities Where Applicable

Commercial-first applications cannot always support military objectives. In categories such as C5ISRT and logistics, incorporating off-the-shelf technologies such as advanced AI tools for planning or isolated, unclassified datasets could improve outcomes in a shorter period than traditional software acquisition approaches. The DOD should establish clear and attractive incentives for spurring adoption of commercial software and data in relevant domains.

Strengthening Supply Chains

The industrial base is constrained by fragile supply chains—dependence on foreign suppliers, insufficient domestic sources for critical materials, and limited second- or third-tier vendors. Hardening and diversifying supply chains is necessary to prevent disruption in a crisis and support sustained high-rate production.

Both the ATS and NDAA suggest creating consortia to identify and mitigate supply-chain fragility by addressing single-source vulnerabilities and dependencies on non-allied suppliers, expanding domestic manufacturing, modernizing arsenals and depots, and building workforce pipelines. Current applications

of the DPA have also been useful for stimulating some domestic production of critical materials, but existing investments are unlikely to yield sufficient quantities for a 2027 or 2028 fight.

Recommendation 10: Incentivize Dual-Sourcing and Domestic Re-shoring

The DOD should provide multiyear contracting incentives and cost-sharing grants for companies that establish second domestic sources for critical materials and components and reduce dependency on foreign suppliers. It should also give clear guidance to PEOs and contracting officers to focus more on material sourcing. Combined, those measures have the greatest applicability beyond a two-year time horizon but could also help within two years, particularly for some low-end manufacturing where dual sourcing is easiest. This recommendation builds directly on the NDAA's Defense Industrial Resilience Consortium model, which is designed to identify and assess supply-chain vulnerabilities across critical defense inputs by pairing those diagnostic functions with explicit, targeted incentives to drive behavioral change by industry. Those incentives include using multiyear procurement and demand commitments to provide investment certainty; cost-sharing arrangements, loan guarantees, and industrial expansion funding to offset the upfront costs of re-shoring and dual-sourcing; preferential contracting and sourcing criteria that reward reduced reliance on China-exposed inputs; advance procurement and prepurchasing of long-lead components to stabilize upstream demand; and accelerated qualification and approval pathways for alternative suppliers and manufacturing methods.

To supplement those incentives, the DOD should establish more concrete pathways for information sharing and technology diffusion with the Ukrainian defense industry—the only friendly industrial base with contemporaneous experience in scaling, by orders of magnitude, the production of precise mass. Together, those tools and re-shoring efforts would translate consortium-identified risks into concrete industrial outcomes rather than standalone assessments.

Recommendation 11: Create a Tier-2 and Tier-3 Supplier Stabilization Program

Building on the ATS recognition of supply chain fragility, especially Tier-2 and Tier-3 companies not in the headlines, launch targeted loan guarantees and rapid contracting pathways for small and mid-tier suppliers producing specialized components (e.g., castings, energetics, seekers, and specialty electronics)

to prevent single-point failures, and mandate some degree of component commonality and compatibility for such components among multiple providers to attain greater economies of scale. Although a leaked version of the Pentagon's FY26 spending plan does not explicitly mention the Gauntlets program, it allocates around \$16 billion to low-cost weapons, including \$1.4 billion for expansion of the UAS industrial base. While the ATS focuses on direct negotiations with Tier-2 and Tier-3 suppliers, additional government-led negotiation with the supply chain may not be the fastest route to scale productive capacity. Loan guarantees will allow private capital to mobilize quickly and efficiently—alleviating the cash flow challenges smaller suppliers face—without the need for intensive government intervention on the operational level of production. Loan guarantees can be tied to delivery and schedule covenants, which will create deep incentive alignment and ensure that capital is put to work with appropriate haste.

Recommendation 12: Implement Firm-Specific Industrial Policy Interventions

Even with strong demand signals, market failures can persist on short time horizons. The Pentagon should use industrial policy tools to transparently undertake firm-specific interventions as needed—and use a range of financial and contractual instruments to accelerate the creation of new productive capacity in the defense industrial base. Some of those authorities and tools—particularly subsidized lending instruments—require intradepartmental agreement on where to push large quantities of subsidized debt. The DOD, therefore, needs to develop a view of the highest-impact companies, sectors, and subsectors to prepare for conflict with China, and should continue to onboard financial and investment expertise into the relevant offices within the Office of the Secretary of Defense, including the OSC. Technical expertise should be the primary criterion for selection and leadership of those initiatives, to increase the probability of achieving goals such as scaling precise mass. The DOD should create a more transparent, streamlined lending approval process that allows for the rapid use of its increasingly flexible financial firepower to build production capacity without increasing the risk of graft or corruption.

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