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# REBUILDING THE ARSENAL OF DEMOCRACY

The U.S. and Chinese Defense Industrial Bases in an Era of  
Great Power Competition

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## EXECUTIVE SUMMARY

**T**he U.S. defense industrial base—including the executive branch, Congress, and defense companies—lacks the capacity, responsiveness, flexibility, and surge capability to meet the U.S. military's production needs as China ramps up defense industrial production. Unless there are urgent changes, the United States risks weakening deterrence and undermining its warfighting capabilities against China and other competitors. A significant part of the problem is that the U.S. defense ecosystem remains on a peacetime footing, despite a protracted war in Ukraine, an active war in the Middle East, and growing tensions in the Indo-Pacific in such areas as the Taiwan Strait and Korean Peninsula.

The United States faces several acute challenges.

First, the Chinese defense industrial base is increasingly on a wartime footing and, in some areas, outpacing the U.S. defense industrial base. Most open-source research and analysis on the U.S. defense industrial base has been conducted in a vacuum and has not systematically assessed China's defense industrial base. Chinese defense companies, such as China North Industries Group Corporation Limited and the Aviation Industry Corporation of China, are producing a growing quantity and quality of land, maritime, air, space, and other capabilities. China increased its defense budget by 7.2 percent in 2024 and is heavily investing in munitions and acquiring high-end weapons systems and equipment five to six times faster than the United States, according to some U.S. government estimates. China is now the world's largest shipbuilder and has a shipbuilding capacity that is roughly 230 times larger than the United States. One of China's large shipyards, such as Jiangnan Shipyard, has more capacity than all U.S. shipyards combined, according to U.S. Navy estimates.

Second, the U.S. defense industrial base continues to face a range of production challenges, including a lack of urgency in revitalizing the defense industrial ecosystem. The U.S. Department of Defense has taken some helpful steps to strengthen the industrial base, such as developing a National Defense Industrial Strategy, increasing production for some weapons systems, and pushing for multiyear procurement. But there is still a shortfall of munitions and other weapons systems for a protracted war in such areas as the Indo-Pacific. Supply chain challenges also remain serious, and today's workforce is inadequate to meet the demands of the defense industrial base.

Third, the United States has not sufficiently leveraged its relationships with allies and partners, though it has taken some steps

through such arrangements as the Australia–United Kingdom–United States (AUKUS) partnership. Nevertheless, there are too many bureaucratic hurdles and inefficiencies in the Foreign Military Sales (FMS) program, International Traffic in Arms Regulations (ITAR), and other policies and procedures. Co-development, co-production, co-sustainment, and other forms of cooperation between the United States and its closest allies and partners have been stifled. While the current National Defense Strategy notes that U.S. defense strategy needs to be “anchored” in allies and partners, the United States has fallen short in defense industrial base cooperation with its friends.

There are multiple reasons for these challenges. One is that the U.S. defense industrial base is much bigger than any one agency or department. The Department of Defense, Department of State, Department of Commerce, Department of the Treasury, Congress, the private sector, and other organizations play important roles in the industrial base. But they often have different interests and priorities. In addition, there is significant political and bureaucratic resistance to reforming the defense industrial base and broader defense ecosystem. Some areas of the executive and legislative branches remain too risk averse in sharing sensitive technology with allies and partners. Others mistakenly see a revitalization of the defense industrial base as giving money to greedy executives engaged in waste, fraud, and abuse.

Moving forward, the United States needs to take several steps to revitalize the defense industrial base and broader ecosystem in an increasingly dangerous world.

**White House–Led Initiative:** There is an urgent need for the U.S. president to create a body that provides strategic guidance and helps oversee a revitalization of the defense industrial base. Revitalization will not occur without White House leadership, as the history of the U.S. defense industrial base demonstrates. During major crises in U.S. history, such as World War II and the Cold War, presidential leadership was essential. Presidents Franklin Delano Roosevelt, Harry Truman, Dwight D. Eisenhower, Ronald Reagan, and others were pivotal in providing the leadership, strategic vision, organization, and funding to revitalize the defense industry. One option is a variant of the production boards that existed during the Roosevelt and Truman administrations. Such a body could be established by the U.S. president and exercise

general direction over U.S. defense procurement and production; help determine the policies, plans, and procedures of federal departments regarding defense procurement, production, arms sales, and technology transfers; establish priorities in the distribution of materials and services; fix bureaucratic problems; incentivize industry; improve communication with industry; and, perhaps most importantly, provide a sense of urgency.

**Defense Spending:** The United States likely cannot revamp its defense industrial base without additional spending on the development and production of weapons systems necessary for deterrence and warfighting. During the Cold War, the U.S. defense budget was between 9 and 11 percent of GDP during the Eisenhower administration, between 8 and 9 percent during the Kennedy and Johnson administrations, and over 6 percent during the Reagan administration. Today’s defense budget of roughly 3 percent of GDP is not consistent with a security environment in which authoritarian states, such as China, Russia, Iran, and North Korea, are threatening the United States and its allies and partners across the globe. Without an increase in funding for the development and production of weapons systems, it will be virtually impossible to revitalize the defense industrial base to compete with China.

**Multiyear Contracting:** The Department of Defense and Congress need to expand the use of multiyear procurement to create sustained demand signals that will promote investment in the defense industrial base. Congressional appropriators need to fund—and the military services need to spend—a wider range of munitions important for warfighting and deterrence in the Indo-Pacific, Europe, and Middle East. Multiyear procurement is important to build a consistent and predictable demand signal that creates more transparency and less risk for prime contractors and more fragile sub-tier suppliers.

**Strategic Stockpiles:** The Department of Defense and Congress should allocate additional funding for contracts and other incentives

(such as tax incentives, regulatory relief, and long-term contracts) to build and maintain surge production capacity. This funding can be used to modernize and expand facilities and develop flexible production. The Department of Defense maintains stockpiles of key munitions, minerals, chemicals, technology, and medical supplies, but it needs to better manage inventory and stockpile planning to decrease near-term risk.

**Workforce and Supply Chains:** The United States needs to create the conditions that diversify the supplier base for the defense industry and invest in new production methods. The Department of Defense should look for opportunities to assist companies with upskilling and reskilling workers by offering incentives, such as expanding investments in the Manufacturing Innovation Institutes and in programs designed to support the talent necessary for defense-related manufacturing and science, technology, engineering, and mathematics jobs.

**Allies and Partners:** The White House—or a White House-appointed body—needs to focus increased attention on streamlining FMS and Direct Commercial Sales (DCS) review policies and procedures, as well as support co-development, co-production, and other types of arrangements with allies and partners. The Department of Defense should develop a more efficient review process for releasing technology, accelerate acquisition and contracting assistance, and ensure broad U.S. government support to improve the FMS process. The Defense Security Cooperation Agency, working with the services and military departments, should establish a rapid contracting process to reduce the backlog in getting approved FMS cases on contract. The administration should move quickly to put in place regulations that will provide broad exemptions for the United Kingdom and Australia, much like the United States

has provided to Canada. In addition, the U.S. government should increase co-production, co-development, and other arrangements with key allies and partners in such areas as munitions, shipbuilding, and ground vehicles.

These steps are important to strengthen the U.S. defense industrial base in a competitive security environment. In his “Victory Speech” in December 1940, one year before Pearl Harbor, President Franklin Delano Roosevelt implored the nation to revitalize its defense industry. It is a message that is just as relevant today. “We must be the great arsenal of democracy,” Roosevelt said. “For us this is an emergency as serious as war itself. We must apply ourselves to our task with the same resolution, the same sense of urgency, the same spirit of patriotism and sacrifice as we would show were we at war.”