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STRENGTHENING AMERICA'S DEFENSE INDUSTRIAL BASE THROUGH SUPPLY CHAIN DIVERSIFICATION AND INTERNATIONAL PARTNERSHIPS

Debra Zides, Danielle Miller, Jeff Kwastel, and Dan Ward

CONTENTS

SUMMARY

The United States faces mounting challenges to its National Security supply chains, including over-consolidation, supply chain fragility, and limited innovation pathways. These challenges reflect longstanding institutional incentives and processes, and addressing them requires coordinated action across government, industry, and trusted allied partners. This paper focuses on opportunities to improve the Defense Industrial Base's (DIB's) resiliency by applying a strategic approach to international collaboration. This comprehensive strategy focuses on three key actions: selling military technology to allies, buying from allied suppliers, and co-developing and co-producing new technologies with partners. These actions will accelerate innovation, build resilience, enhance collective security, and align with the April 2025 Executive Orders, "Modernizing Defense Acquisitions and Spurring Innovation in the Defense Industrial Base"[1] and "Reforming Foreign Defense Sales to Improve Speed and Accountability."[2] The recommendations in this paper are designed to operationalize these approaches.

INTRODUCTION

To build a resilient and adaptive Defense Industrial Base (DIB), the United States should adopt a domestic-first principle that maximizes domestic development and production while strategically leveraging allied partners to fortify supply chain resilience. Operationalizing this principle involves actionable strategies such as selling military technology to allies, buying from allied suppliers, and co-developing and co-producing new technologies with trusted partners. These efforts are essential for maintaining a credible deterrence and ensuring the U.S. and its allies retain a decisive strategic advantage in an increasingly complex and contested world. This approach complements ongoing Administration efforts to streamline Foreign Military Sales.

THE CASE FOR STRATEGIC DIVERSIFICATION

To enhance the U.S. national defense posture, it is essential to foster competition, ensure equitable access to markets, and include a wider range of innovative technology companies. Central to this effort is improving collaboration across the National Security supply chain, including allied nations whose industries, innovations, and interests align with ours. Expanding access to a broader range of suppliers across allied countries mitigates risk, supports interchangeability, and strengthens collective security by enabling demand aggregation and economies of scale. A distributed supply base also presents adversaries with a more complex targeting problem, both physically and in cyberspace, and provides redundancy for critical components and materials, particularly in areas such as rare earth elements and specialized materials where geographic concentration creates strategic vulnerabilities. This collaborative approach incentivizes best-value competition, thereby strengthening resilience across the ecosystem. Specifically, programs should qualify multiple domestic and trusted allied suppliers and compete opportunities among them. Programs should select suppliers through weighted tradeoffs that enable timely and accelerated combat capability delivery, rapid and continuous modernization, and expanded and adaptable manufacturing capacity for surge preparedness.

Comparative and Absolute Advantage: Leveraging Allied Strengths and Technology Transfer

Different countries often possess absolute or comparative advantages in specific technological domains based on their industrial heritage, educational systems, and research priorities. And, in many cases, the U.S., via bilateral agreements (e.g., U.S.- Australia Treaty Concerning Defense Trade Cooperation) and arrangements (e.g., Security of Supply Arrangements), has been able to access critical technology and expertise. For example, Australia contributes expertise in advanced radar systems,[3] South Korea excels in naval shipbuilding,[4] and Estonia leads in cybersecurity innovations.[5] These complementary strengths are not a replacement for domestic American suppliers but rather can be used as an additional tool to, where appropriate, augment the defense ecosystem. By leveraging specialization and facilitating technology transfer and standard harmonization, allied nations can collectively achieve technical excellence across multiple domains. International defense cooperation also enables the rapid adoption of innovations and best practices, raising the overall capability baseline and ensuring efficient investments among the international partners.

Economic Efficiencies, Market Scale, and Alliance Benefits

International defense cooperation creates larger markets for specialized capabilities that would not be economically feasible for a single nation. This enables investment in niche technologies and production capacity, improving the entire ecosystem's capabilities while distributing costs across multiple partners. Furthermore, defense industrial cooperation can help foster shared interests that strengthen alliances during peacetime and enhance interchangeability and responsiveness during crises.

Considerations and Risks in Defense Diversification

While strategic diversification and international collaboration offer substantial opportunities to strengthen the U.S. DIB, they also introduce important risks that must be carefully managed. Increased complexity in coordination and oversight, challenges in global supply chain management, and concerns about technology transfer and security can create vulnerabilities if not addressed proactively. Dependence on foreign suppliers may expose the U.S. to disruptions outside its direct control, and achieving true interchangeability across allied systems can be hindered by differences in standards and priorities. Furthermore, a more distributed defense ecosystem may present adversaries with a broader attack surface, requiring enhanced security measures across multiple jurisdictions. Managing these risks requires shared accountability and coordinated mitigation measures across government, industry, and allied partners. Recognizing and mitigating these risks is essential to realizing the full benefits of diversification while safeguarding National Security.

International collaboration has immense potential for strengthening the U.S. DIB. However, realizing these benefits requires deliberate action and well-structured strategies. To operationalize this vision, the U.S. must focus on three key areas: selling military technology to allies, buying from allied suppliers, and co-developing and co-producing new technologies with trusted partners. These strategic threads provide a roadmap for building a resilient, adaptive, and more strategically useful defense ecosystem. The recommendations that follow emphasize joint risk assessments, aligned incentives, and streamlined processes to address these systemic challenges.

SELLING, BUYING, AND BUILDING WITH ALLIES

Accomplishing the aforementioned strategic steps (i.e., selling military technology to allies, buying from allied suppliers, and co-developing and co-producing new technologies and capabilities with trusted partners) requires aligned policy, streamlined processes, and fostered collaboration, ensuring the U.S. and its allies can collectively strengthen their defense ecosystems and maintain a strategic advantage. These efforts recognize shared responsibility across government, industry, and allied partners for fixing systemic issues. These threads are discussed below:

Align Policy

The decision to broaden a supply chain with a partner or ally can range from securing access to critical technologies to maintaining production lines for U.S. defense manufacturers. In an increasingly complex global environment, the United States must have a clear understanding of its own strategic objectives as well as those of its partner nations to ensure that policy goals are complementary. Furthermore, partner nations should demonstrate a strong commitment to protecting intellectual property and technological know-how, both of which are essential for maintaining a competitive advantage. Robust foreign direct investment (FDI) and outbound investment regimes can provide confidence that intellectual property and manufacturing expertise will be safeguarded from adversaries seeking to

exploit the open-market economies of the U.S. and its partners. Ultimately, using a partner's supply chains should support the U.S. objective of maintaining a technological edge with achieving broader policy goals. Aligning policy and incentives across partners is essential to addressing system-level challenges.

Recommendations:

- **Establish Clear Policy Alignment Criteria:** Develop a standardized framework for assessing the policy alignment of potential supply chain partners, including their export control laws, foreign policy positions, and commitment to U.S. security objectives.
- **Strengthen Intellectual Property Protections:** Require partner nations to adopt and enforce robust intellectual property protection measures as a precondition for participation in sensitive supply chains, with regular audits and compliance checks.
- **Implement Joint Supply Chain Risk Assessments:** Conduct regular, joint risk assessments with partner nations to identify potential vulnerabilities, such as legal or political changes that could disrupt supply flows and develop contingency plans accordingly.
- **Promote Secure Investment Screening Mechanisms:** Encourage partners to implement or enhance FDI and outbound investment screening regimes to prevent adversarial access to critical technologies and manufacturing expertise.
- **Expand Multilateral Technology Security Agreements:** Negotiate multilateral agreements among trusted allies to harmonize export controls, information security standards, and technology transfer policies, reducing the risk of unilateral actions that could disrupt supply chains.

These recommendations will enhance collective security through a more efficient, transparent, and responsive National Security supply chain.

Streamline Processes

The complexity of export control regulations, such as those enforced through the International Traffic in Arms Regulations (ITAR), often frustrates even close allies and impedes efforts to engage Allied capabilities. Recognizing these persistent challenges, the April 2025 Executive Order, "Reforming Foreign Defense Sales to Improve Speed and Accountability," seeks to streamline the Foreign Military Sales (FMS) process, enhance transparency, and strengthen the U.S.'s ability to deliver advanced capabilities to partners and allies. These friction points are systemic process challenges, which the recommended reforms are designed to address in partnership with allies and industry.

By modernizing export control processes and selectively sourcing from trusted allies, the U.S. can accelerate the use of advanced capabilities, foster co-development and co-production initiatives, and create opportunities for reciprocal investment. Streamlined processes will not only enhance U.S. readiness and resilience but also expand industrial capacity by enabling the sale of weapon systems to foreign partners—while ensuring certain sensitive mission areas remain restricted to domestic suppliers. Ultimately, a more agile and effective export control framework will position the U.S. and its allies to respond rapidly to emerging threats and maintain a technological edge.

Recommendations:

- **Streamline the FMS Process:** Establish fast-track pathways for trusted allies (e.g., North Atlantic Treaty Organization [NATO] members, Five Eyes partners) for specific categories of technology, particularly those tied to shared operational goals (e.g., Intelligence Surveillance Reconnaissance [ISR], cyber defense, autonomous systems).
- **Modernize Export Controls:** In line with the Executive Order's (EO's) directive to reduce rules and regulations and focus protections solely on the most sensitive and sophisticated technologies, accelerate a risk-based review of ITAR and related export control frameworks. Streamline processes for dual-use and low-risk systems, clarify criteria for inclusion on the FMS-Only List, and implement parallel decision making for export approvals.

These steps will reduce friction for trusted partners while maintaining robust controls over strategic capabilities, supporting both U.S. competitiveness and alliance readiness.

- **Enhance Co-Development and Co-Production Transparency:** When U.S. companies build technologies with foreign partners, ensure that resulting systems are designed with export in mind—facilitating sales to allies without costly redesigns or approvals.
- **Open Acquisition Channels to Allied Vendors:** Expand the use of bilateral and multilateral defense procurement agreements (e.g., reciprocal defense procurement memorandum of understanding [MOU] framework) to reduce barriers for foreign firms and facilitate their participation in U.S. defense programs. Determinations regarding when domestic sourcing is required—such as for sensitive mission areas—should be explicitly addressed in each program's Acquisition Strategy, ensuring alignment with National Security priorities and economic objectives.
- **Incentivize Use of Best-Value Technologies:** Rather than incentivizing the use of foreign technology for its own sake, reward the use of technologies—domestic or allied—that provide the best operational and economic advantage. Encourage competition among suppliers to ensure that the most effective, innovative, and cost-efficient solutions are adopted.

Foster Collaboration

Multinational Research & Development (R&D) initiatives can suffer from misaligned budgets, programmatic complexity, or intellectual property disputes. However, when done well, co-development leads to greater interoperability, cost-sharing, and deeper alliance cohesion. The challenge lies in building structures that encourage innovation while navigating sovereign sensitivities and bureaucratic hurdles. Shared governance and transparent frameworks reflect the shared nature of the challenge and the need to align incentives across participants.

Recommendations:

- **Establish Joint Innovation Hubs:** Stand up regional centers for collaborative R&D focused on emerging technologies (e.g., quantum, hypersonics, autonomy) staffed by U.S. and allied personnel. These should operate in an agile fashion more akin to the DoD innovation ecosystem (e.g., Defense Innovation Unit [DIU], Air Force Work Project [AFWERX], Special Operations Forces Work Project [SOFWERX], etc.) than a traditional program office. Leverage lessons learned from former and existing partner engagements, international agreements, the Coalition Warfare Program, etc.
- **Standardize Intellectual Property (IP) and Data-Sharing Agreements:** Pre-negotiate IP frameworks and classification protocols to enable real-time technical collaboration, particularly in artificial intelligence, software, and unmanned systems where iteration is rapid and continual.
- **Align Funding, Timelines, and Mission Requirements:** Create bilateral or multilateral "innovation compacts" with shared timelines and cost commitments. These compacts should establish clear frameworks for cost-sharing and require participating nations to contribute to the development, production, and fielding costs of joint programs. The investment mechanism should be expanded from the traditional proportional contribution based on Gross Domestic Product or defense budgets to include equity stack and debt financing options. To ensure effective oversight, governance structures should mimic industry models—such as a board of directors or advisory councils—and be clearly defined in the MOU for each program or class of programs. Any decision to sell military technology to an ally, buy a capability from ally suppliers, or co-develop/produce a new technology or capability with an ally must meet a warfighter need. Collaborative efforts should prioritize operational requirements, such as improved cyber security. By aligning funding, timelines, and mission objectives, strategic use of allies' capabilities would reduce U.S. funding risks while ensuring projects deliver strategic value.

CONCLUSION

The evolving global security environment requires the United States to move beyond traditional approaches and make supply chain reliability a core pillar of its Defense Industrial Base. By optimizing domestic production and working with trusted allied partners, the U.S. can address challenges in sourcing and improve industrial resilience. Targeted reforms, such as those outlined in the April 2025 EOs, are essential for strengthening the defense supply chain and ensuring it can withstand emerging threats.

The actionable strategies detailed in this paper focus on reducing supply chain risk through three key actions: selling military technology to allies, buying from allied suppliers, and co-developing and co-producing new technologies with trusted partners.

These strategies provide a comprehensive roadmap for building a defense supply chain that is resilient, adaptive, and competitive. By taking these steps, the U.S. will accelerate innovation, strengthen alliances, and ensure that the National Security supply chain is prepared to meet both current and future threats. Success depends on coordinated action across the Department, Congress, industry, and trusted allies.

Working with trusted allies on supply chain resilience is not just a prudent strategy; it is a National Security imperative. By anchoring defense policy in this principle, the United States will reinforce its ability to restore *peace through strength*, safeguard its technological edge, and secure a lasting strategic advantage for itself and its allies.

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ABOUT THE AUTHORS

Debra Zides is Principal Program Manager for Rapid and Agile Acquisition at MITRE, specializing in transitioning critical technologies from science and technology to procurement and fielding. With over 30 years of DoW acquisition experience, the retired Air Force officer has led programs across critical mission areas, including Space, command and control, ISR, and counter small Uncrewed Systems (UxS). Debra holds a bachelor's degree in mechanical engineering (Rensselaer Polytechnic Institute) and master's degrees in organizational management (George Washington University) and military operations (Air University). She is a certified Defense Workforce Improvement Act Level III and Project Management Professional.

Danielle Miller joined MITRE from the Office of the Undersecretary of Defense for Acquisition and Sustainment, where she led efforts to strengthen the Defense Industrial Base as part of the Office of the Assistant Secretary of Defense for Industrial Base Policy. She established the Office of Policy, Analysis, and Transition, leading initiatives to map DoW supply chains across 180 weapon systems, develop policies to protect key sectors, and modify mobilization practices. Danielle played a central role in developing and publishing the Executive Order 14017 Report, "Securing Defense-Critical Supply Chains," and the "National Defense Industrial Strategy" (NDIS), and as Acting Deputy Assistant Secretary for Industrial Base Resilience, she worked on the NDIS implementation plan. Her expertise spans critical and strategic materials, battery and energy storage, microelectronics, casting and forging, and missiles and munitions, and she has held previous leadership roles in readiness and force employment analysis. Danielle holds degrees from Wright State University and Florida State University.

Jeff Kwastel is a Principal Enterprise Engineer for Acquisition Studies and Analyses at MITRE. He focuses on using commercial and agile acquisition methods to rapidly field innovative warfighting capabilities. He has served as an officer in the U.S. Judge Advocate General's Corps, white collar crime prosecutor, and acquisition and information technology counsel for the U.S. Air Force and U.S. International Development Finance Corporation. He holds a B.A. from the University of Michigan and J.D. from the University of Georgia.

Dan Ward is a military technologist and innovation catalyst, who served eight years at MITRE. He previously served for more than 20 years as an acquisition officer in the U.S. Air Force, where he specialized in leading high-speed, low-cost technology development programs. Dan is the author of four books: PUNK (2023), LIFT (2019), The Simplicity Cycle (2015), and F.I.R.E. (2014).

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