May 2025

Center for Geopolitics | JPMorganChase

Helping Clients Navigate Global Challenges

Inaugural reports on:

A New Middle East Chessboard

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

The Russia-Ukraine Endgame and the Future of Europe

A message from Jamie Dimon

Chairman and CEO, JPMorganChase

For much of my life, the United States of America has proudly seen itself—and has been seen by others—as the gravitational center of the free world. We haven't always lived up that responsibility, but the broad outlines of that role have held firm, acknowledged even by those who challenged it.

I was born in 1956—when Ike was president, Elvis was king, and the Yankees were on top. The United States had emerged victorious from the Second World War and was busy building out the global institutions and norms meant to prevent a third. What we didn't know then was that the world—and our place in it—would continue to be shaped by cycles of profound upheaval.

I was 12 in 1968, a year that marked one of the most turbulent chapters in modern American history. The assassinations of Martin Luther King Jr. and Robert F. Kennedy. The Tet Offensive and a deeply divided nation over Vietnam. Political turmoil at home and intense rivalry abroad. The Cold War and the space race. It was a turning point—one of several I would witness over the decades.

Today, I believe we are once again at a hinge point in history. The post-COVID world is defined by new and competing forces: global competition alongside deep interconnectedness, rapid technological change, economic volatility, regional conflict, geopolitical rivalry, and mounting pressure on democratic institutions. Our greatest risk is geopolitical risk.

This moment demands clarity, agility, and foresight. That's why we created the JPMorgan Chase Center for Geopolitics—a new initiative to bring together the tremendous experience and expertise we have to help our clients navigate the strategic implications of a fast-changing world. Our goal is not only to track key geopolitical trends, but to translate them into actionable insights for business, investment, and risk management.

While global dynamics may shift, our firm's advantage lies in our scale, our expertise, and our ability to cut through the noise with rigor, sound judgment, data, and knowledgeable recommendations. At JPMorganChase, we are focused on helping clients not just react to change—but lead through it. This is the JPMorganChase advantage.

A message from Derek Chollet

Managing Director and Head of the JPMorganChase Center for Geopolitics

Dear Readers, Friends, and Clients of JPMorganChase,

I am pleased to introduce the inaugural series of publications from the JPMorganChase Center for Geopolitics. This isn't a news digest. It's a lens—sharpened by research, analysis, and experience—into the tectonic shifts reshaping our world. Our mission is to go beyond headlines and help clients navigate uncertainty and anticipate what comes next: the moves, countermoves, and signal flares that define the geopolitical chessboard. These reports, released quarterly, will be paired with occasional breaking-news analyses along with in-person and virtual briefings to help drive deeper insight, smarter conversation, and informed decisions.

Our first series of reports center on three critical fronts:

1. **A New Middle East Chessboard:** Old alliances are fraying. New ones are forming. Regional players are asserting themselves, while global powers reposition. The Middle East is no longer a fixed board—it's an open game where wildcards and big plays can be increasingly decisive.

2. **An Era of Global Rearmament and the U.S. Defense Industrial Base:** A worldwide military build-up is underway and is transforming geopolitics—and the U.S. industrial base is straining to keep pace. This analysis examines the gaps, chokepoints, and strategic dilemmas facing America's arsenal as it prepares for a more contested and fractured world.

3. **The Russia-Ukraine Endgame and the Future of Europe:** Grappling with calls for "strategic autonomy" and the long shadow of the Russia-Ukraine war, Europe is at a crossroads. The choices made in the coming months—on security, integration, and economics—will define the continent's geopolitical role and whether the pre-World War II world order is past or precedent.

Looking ahead, future reports will dive into additional flashpoints and fault lines:

- **U.S.-China Strategic Competition and Indo-Pacific Integration:** The rivalry isn't cooling—it's calcifying. Structural tensions, economic decoupling, and a deepening trust deficit make grand bargains unlikely. With few guardrails and plenty of provocation, the risk of escalation—intended or not—looms large. The Indo-Pacific isn't just a theater; it's the main stage.

- **Re-wiring of Global Trade and Supply Chains:** From tariffs to reshoring, the economic map is being redrawn. What began as a bid to protect American industry is now reshaping global trade norms—and with them, the strategic underpinnings of U.S. power.
- **Global Realignment and Retrenchment:** That every action has a reaction is not just a law of physics but also geopolitics. As the U.S. recalibrates and China expands, middle powers and emerging nations are shifting allegiances, hedging bets, and questioning the old order. This is no mere power shuffle—it's a reordering of the geopolitical deck.
- **The AI Revolution:** Big data is the new oil—and the AI extraction race is fully underway. Nations are competing for dominance in innovation, infrastructure, and critical minerals that will determine their national security and global influence for decades to come. Both the United States and China are doubling down on research and development, sidelining regulation and data privacy in favor of speed and scale—with geopolitical consequences that are only beginning to surface.
- **Rising Global Populism:** Populism is experiencing a global resurgence with more leaders across established democracies using nationalist rhetoric to appeal to disillusioned voters and challenge the political establishment. The result? A growing prioritization of domestic interests over global cooperation—and a higher-stakes game for multinationals operating across a landscape of increased protectionism and isolationism.

We hope this first series of reports sharpens your understanding of today's volatile political environment—and helps you better anticipate the shocks and shifts that could shape tomorrow's markets, and what JPMorganChase has to offer.

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May 2025

A New Middle East Chessboard

Overview

After coming dangerously close to all-out war in 2024, the Middle East now finds itself on the cusp of several potential gamechangers—developments that, if realized, could fundamentally reshape the region and usher in a new era of stability and prosperity. Seizing this moment demands more than bombs and bravado. For the U.S. to pull off a diplomatic hat trick—(1) neutralizing Iran, (2) advancing regional integration, and (3) setting Palestine on a credible path to statehood—it must secure the enlightened self-interest of transactionally-minded stakeholders and restore confidence in America's staying power amid growing talk of U.S. troop withdrawals and shrinking foreign assistance. 2025 is a pivotal year for the region as multiple critical issues come to a head.

Gamechanger 1: Iran in the box

No actor shapes the Middle East's security environment for the worse more than Iran—its malign behavior is the organizing principle defining alliances, rivalries, and threat perceptions. After a series of bold, high-risk Israeli military actions last year, **Tehran now finds itself at its weakest point since the 1979 Islamic Revolution.** Its "axis of resistance"—including Hezbollah, Hamas, and other Iranian-aligned militant groups—is reeling. Deterrence has been undermined and air defenses shattered after two failed missile attacks on Israel. New leadership in Syria and Lebanon seem intent on resisting its influence. Russia, once a reliable backer, is focused on Ukraine. At home, the regime faces deepening unrest, a spiraling economy, an energy crisis, and a looming leadership transition. And yet, Iran still holds a powerful card: its nuclear program.

The diplomatic window is cracked open, but likely not for long. Iran's leadership, fully aware of their exposed position (and working to overcome it), may feel pressure to negotiate—especially with President Trump stating his preference for a deal over "doing the obvious," while visibly ramping up U.S. military presence into the region. But Iran won't accept just any deal; demands for zero enrichment that resemble Israel's preferred "Libya solution" will be rejected. More doable is something that looks like the Obama-era "JCPOA," perhaps without the detested sunset clauses. Such an agreement would be enough for the Administration to declare victory and move on – as some Administration officials are hinting they are ready to do.

The looming October 18, 2025, expiration of UN sanctions relief adds more urgency. **If Iran is still pursuing a bomb by late summer or fall, the UK, France, and Germany are expected to allow for the "snapback" of UN sanctions that include an arms embargo, targeted global asset freezes, travel bans on Iranian leadership, a ban on uranium enrichment and reprocessing, a ban on ballistic missile technology, and authorization for cargo inspections.** In response, Iranian officials have said they would consider leaving the Non-Proliferation Treaty (NPT) regime, which would remove virtually all nuclear inspection mechanisms. This tit-for-tat would be lose-lose for all sides. Sanctions relief, on the other hand, as part of any deal would lift Iran's economy, re-open the country's access to markets and trade, and allow it to re-capture some market share within the energy sector. One of the hardest issues to reconcile is how to prevent Tehran from using any sanctions relief to refuel its war machine (as happened a decade ago with the JCPOA).

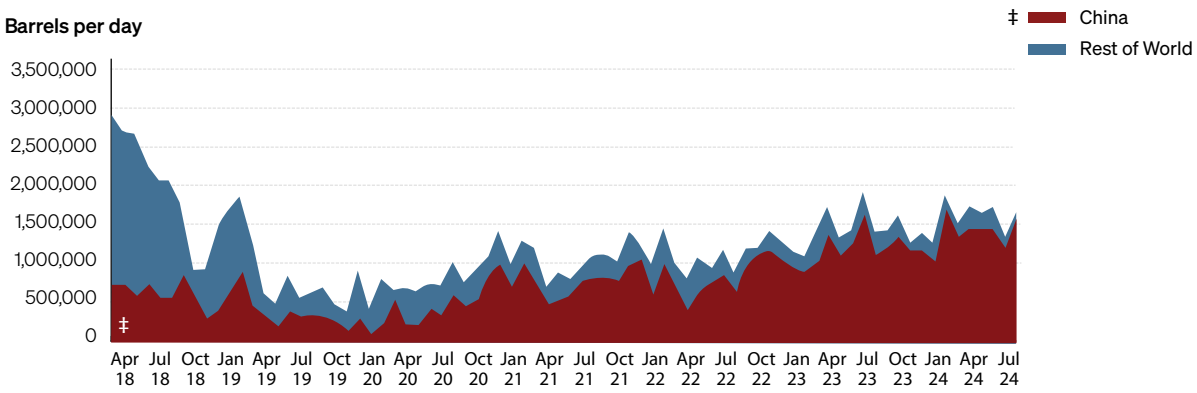
Despite the incentives pushing toward a deal—including, importantly, the Gulf states' shift toward reproachment over confrontation in service of transforming their economies—miscalculation remains a serious risk. Communication channels are shaky and mutual distrust runs deep. Israel, possibly backed by Iran hawks in the U.S. pushing for "maximum pressure" or "escalate to deescalate," now sees this as the perfect moment to strike. Iran might double down and sprint for a bomb. Either side could misread the other's intentions. Escalation, whether by design or mistake, could come fast—and spiral into a wider regional war.

Odds:

65%

chance of a nuclear deal with Iran

Reported Iranian Petroleum Exports

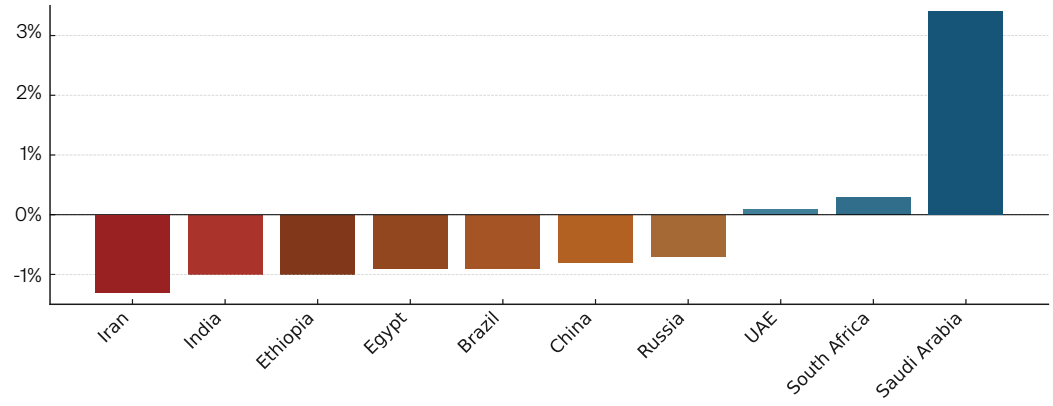


Data through September 2024

Source: United Against Nuclear Iran

Note: "Rest of World" includes some exports to unknown destinations, which may eventually reach China.

Iran Losing Ground: BRICS GDP Growth Rate Difference from 2023 to 2024



Source: IMF WEO April 2024

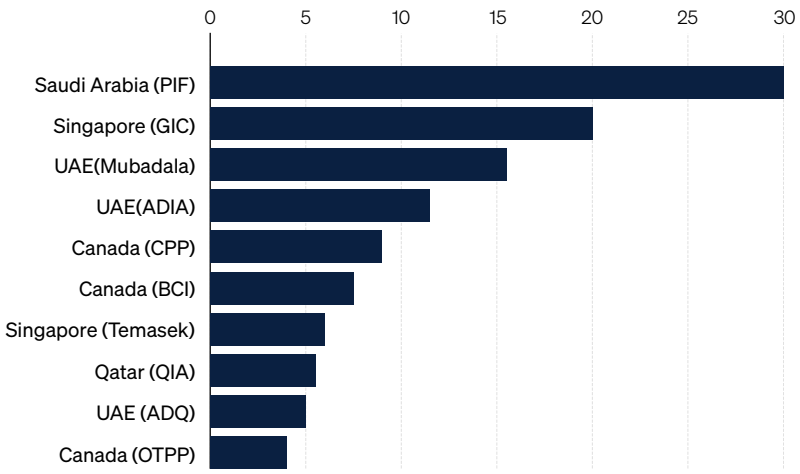
Gamechanger 2: Regional integration realized

2025 marks five years since the landmark Abraham Accords—a tectonic shift that opened up relationships, travel, trade, and cross-border investment between Israel and several Arab states, and three years since the launch of the Negev Forum, which aimed to deepen these relationships further. While the October 7 attacks and Israel's military response in Gaza stalled that momentum, it remarkably didn't stop it, and further normalization isn't off the table. With the right peace deal—namely one that includes a credible path to Palestinian statehood—the door remains open to reignite regional integration. **The ultimate prize: normalization between Saudi Arabia and Israel.** Both parties want it and, in late 2024, were closer than ever to a deal, backed by quiet but intensive U.S. diplomacy.

For Riyadh, normalization is not about Israel per se—it's about business. Vision 2030, Crown Prince Mohammed bin Salman's sweeping modernization plan, hinges on global economic integration. Powered by the financial engine of its $700+ billion sovereign wealth fund (the Public Investment Fund, or PIF), Saudi Arabia is actively repositioning itself from a petrostate to a diversified investment hub, with a focus on:

- **Tourism and infrastructure:** Multibillion dollar developments include NEOM, Red Sea resorts, and cultural heritage sites in Al Ula and Rua Al Madinah. Saudi Arabia has led the G20 in international tourist growth rate since 2023, when it welcomed over 100 million tourists and surpassed Vision 2030 expectations seven years ahead of schedule.
- **Aviation and logistics:** Two new global carriers (Riyadh Air and a rebranded Saudia) aim to serve over 190 destinations combined, with new Boeing aircraft worth nearly $37 billion (the fifth largest commercial package in company history). They will fly out of the new King Salman International Airport, which will be one of the world's largest designed to serve 120 million passengers annually by 2030 (by comparison, Dubai handled 92 million last year).
- **Entertainment and sports:** Saudi Arabia is hosting the 2025 Esports World Cup, 2030World Expo and 2034 FIFA World Cup, bidding for the 2036 Summer Olympics, leading the high-stakes merger between LIV Golf and the PGA, investing even more in soccer and mixed-martial arts, and developing the $350 billion Quiddiya entertainment megaproject in Riyadh.
- **Technology and capital markets:** Riyadh is expanding PIF-backed investments in AI, fintech, clean energy, global real estate, healthcare, and biotech. It aims to establish itself as a biotech hub in the region by 2030 and globally by 2040.

Public investment funds, capital deployed, $bn 2023

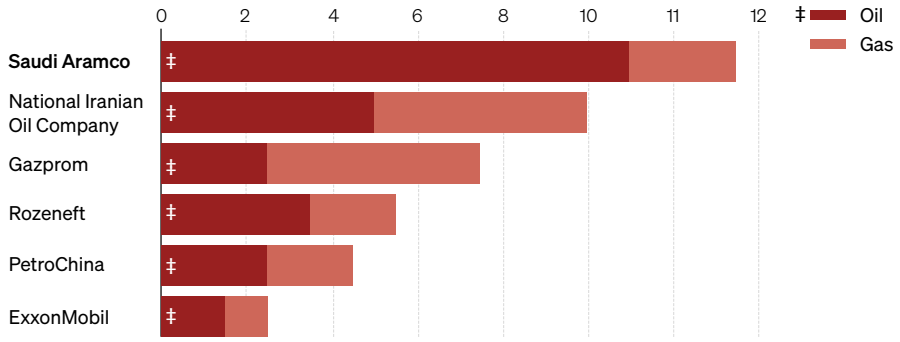


Source: Global SWF

The speed and scale of the Kingdom's transition is jaw-dropping. However, for its ambitions to be fully realized, key changes are still needed. Although the economy is rapidly diversifying, many businesses still find it more difficult to operate there than in many of its neighbors. For example, the regulatory environment remains too challenging, which hampers growth. The Kingdom's complex bureaucracy remains opaque and often arbitrary, which stifles

innovation. And the comparative tax regime remains less attractive when compared with many of other Gulf states, which hinders investment.

Oil and gas production, 2023, million barrels of oil equivalent per day



Source: Wood Mackenzie

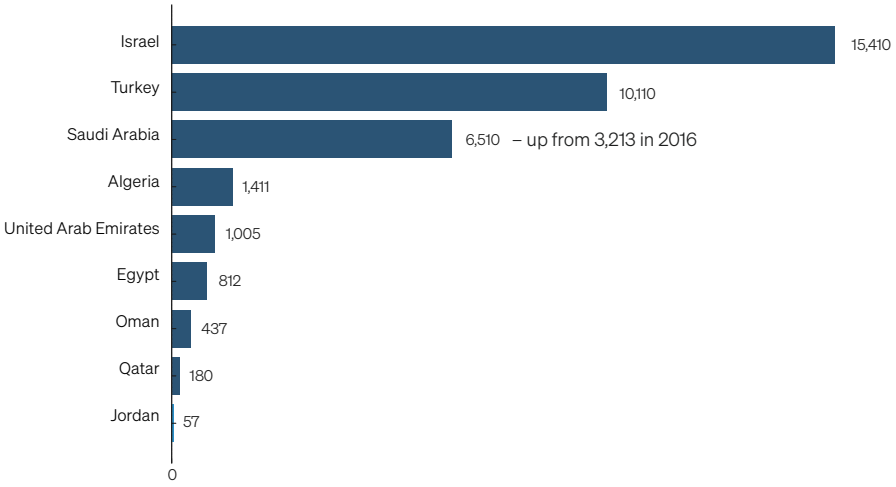
As Saudi Arabia ramps up, it's not just transforming its own economy—it's recalibrating the region's economic gravity. For smaller Gulf players like the UAE, Qatar, and Bahrain, the challenge is maintaining their first-mover advantage and competitive edge as the Saudi juggernaut hits full stride. In this emerging Middle East 2.0, regional integration isn't just a peace dividend—it's a business model. The stakes are high, and the window for U.S. leadership in shaping the economic architecture of the region may not stay open for long. **Saudi Arabia's Vision 2030 will move ahead with or without the United States.** President Trump's May 2025 visit to the region accelerated the momentum toward greater integration, emphasizing the tremendous growth opportunities and potential for U.S. partnerships in the region, pledging a reported $2 trillion in investments over the next several years in such areas as defense and cutting-edge technologies.

Odds:

85%

chance of greater regional integration in the mid-term

Top countries by patent filing: 2023 total patent applications across MENA countries



Source: WIPO statistics database. Last updated: December 2024

Gamechanger 3: Palestine on a long road to statehood

In a region oversubscribed with tough challenges, this is the hardest to achieve, where progress seems furthest away. A credible, timebound, and irreversible path to Palestinian statehood remains the critical hinge for lasting, long-term regional stability—and for unlocking the full potential of economic integration across the Middle East. The situation in Gaza is tragic, volatile, and unresolved. Hamas is unrepentant and still holds hostages, so the IDF is back on the ground in Gaza and now expanding into the West Bank. But Israel's endgame remains murky. The Netanyahu government has made clear that Hamas cannot be allowed to govern Gaza again—rightly so—but has yet to present a viable alternative. Without a credible post-conflict plan, Gaza risks becoming a long-term quagmire for Israel, draining resources, deepening global isolation, and stalling normalization efforts with Arab states.

A roadmap toward Palestinian statehood—however incremental—would re-energize the Abraham Accords, bolster moderate Arab regimes, and give regional investors and multinationals the confidence they need to commit long-term capital. Without it, normalization risks becoming a glass ceiling: visible, but never fully breakable.

A broader deal could also act to stabilize the Red Sea corridor, vital to global shipping and trade. The current Houthi threat—disrupting one of the world's busiest maritime chokepoints—won't be destroyed by airstrikes alone. A political solution, anchored in reduced regional tensions and Palestinian progress, is the only way to ensure lasting stability—and with it, lower shipping insurance costs, more predictable supply chains, and downward pressure on global prices.

Odds:

10%

chance of interim steps being agreed in mid-term; higher odds if/when leadership changes on both sides

Efforts to end the conflict between Israel and the Palestinians

1993 — Oslo Accords: recognition
Israel and the Palestine Liberation Organisation achieve mutual recognition

1994 — Israel Gaza withdrawal
Agreement on autonomy for Gaza and Jericho. Israel agrees to pull out of 70% of the Gaza Strip

1995 — Oslo II
Rabin and Arafat sign second agreement in September that divided the West Bank into three zones, keeping Gaza continuous. Rabin is assassinated in November.

2000 — Camp David: setback
Talks stumble over the final status of Jerusalem and Palestinian refugees who lost their homes in 1948

2003 — The Quartet
The Quartet (EU, US, Russia and the UN) issue a road map aimed at ending the Intifada, freezing Jewish settlements in the West Bank and creating a Palestinian state by 2005

2007 — Annapolis: 2nd chance
Israel and the Palestinian Authority (PA) pledge to seek peace by end 2008. The initiative collapses

2008 — Gaza offensive
Israeli military operation in the Gaza Strip, which is controlled by Hamas. The PA, controlled by Fatah, exits the Annapolis process

2010 — Dialogue in Washington
Direct negotiations between Mahmud Abbas and Benjamin Netanyahu

2013 — Nine months of talks
The US announces 9 months of direct talks. Israel suspends the process after a reconciliation accord between Fatah and Hamas

2016 — Settlements condemned
The UN Security Council demands Israel stop settlement activities in Palestinian territory. The US refrains from vetoing the resolution

2020 — "Deal of the Century" rejected
The Trump Administration releases a peace plan for the Israeli-Palestine conflict that is rejected by Palestinian leadership. Abraham Accords signed between Israel, UAE, and Bahrain.

2023 — Israel-Hamas War
Surprise Hamas attack on Oct 7 leads to Israeli incursion into Gaza.

Source: AFP/JPMorganChase

If President Trump hits a parlay on these three gamechangers, he won't just earn the Nobel peace prize he's long sought—he'll have rewritten the future of the Middle East. But the clock is ticking. The region's tectonic plates are shifting, and the opening may not last.

This is the new Middle East chessboard. The next moves will shape the game for a generation.

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

- **Iran Deal 2.0**
  The contours of a new deal with Iran would be transformative. How much sanctions relief does Tehran get? Does Iran pump that revenue into rebuilding its proxy network or its economy? Trump has opened the door to reproachment with Iran — could we see steps towards normalizing relations?

- **Israel's political future**
  How long does Netanyahu last politically? With corruption trials ongoing and coalition fractures deepening, Israel's political volatility could spike well before the next scheduled election in 2026—complicating diplomacy and slowing momentum on key regional deals. And if he goes, who's next?

- **Syria reboot**
  A new government under Al-Shara presents a window to re-engage with Damascus. President Trump's ground-breaking meeting with Al-Shara and announced intention to lift all U.S. sanctions presents an opportunity to unlock significant energy, infrastructure, and energy deals. Yet the timeline for sanctions relief remains uncertain (especially because the U.S. Congress will need to act) and Syrian stability is shaky. The next question is when the U.S. will restore diplomatic relations, reopen its embassy, and renew vital assistance.

- **Lebanon opening**
  A new president is challenging Hezbollah's grip in the south and a tenuous calm along the Israel–Lebanon border has kept tensions from boiling over. Efforts to reassert state authority could reshape the security landscape and restore investor confidence. But will it hold long enough for displaced civilians on both sides to return—and for a political settlement to take root?

- **AI & tech surge**
  Saudi Arabia and the UAE are going all-in on AI. With billions flowing into data centers, cloud infrastructure, semiconductors, and climate tech, the region is fast becoming a global AI investment frontier.

- **Leadership transitions ahead**
  Three aging leaders—Palestinian Authority President Mahmoud Abbas, Saudi King Salman, and Iran's Supreme Leader Ayatollah Khamenei—are in all in their late 80s and in fragile health. Two lack clear successors. Their eventual exits will be regional inflection points with unpredictable fallout.

- **U.S. military posture**
  Internal debates in Washington are heating up over the future of the U.S. military footprint in the region. A major redeployment would have wide-ranging strategic and economic implications for American influence.

- **Kingdom 2.0**
  As Saudi Arabia's Vision 2030 unfolds, the Kingdom is racing to rebrand itself, investing heavily in tourism, infrastructure, and mega-projects. The question is: when does Saudi Arabia fully transition from a work-in-progress frontier market to a prestige destination for leisure, culture, and business? Global perceptions—and questions around social openness, including alcohol and entertainment—will shape how quickly any paradigm shift can occur.

May 2025

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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.

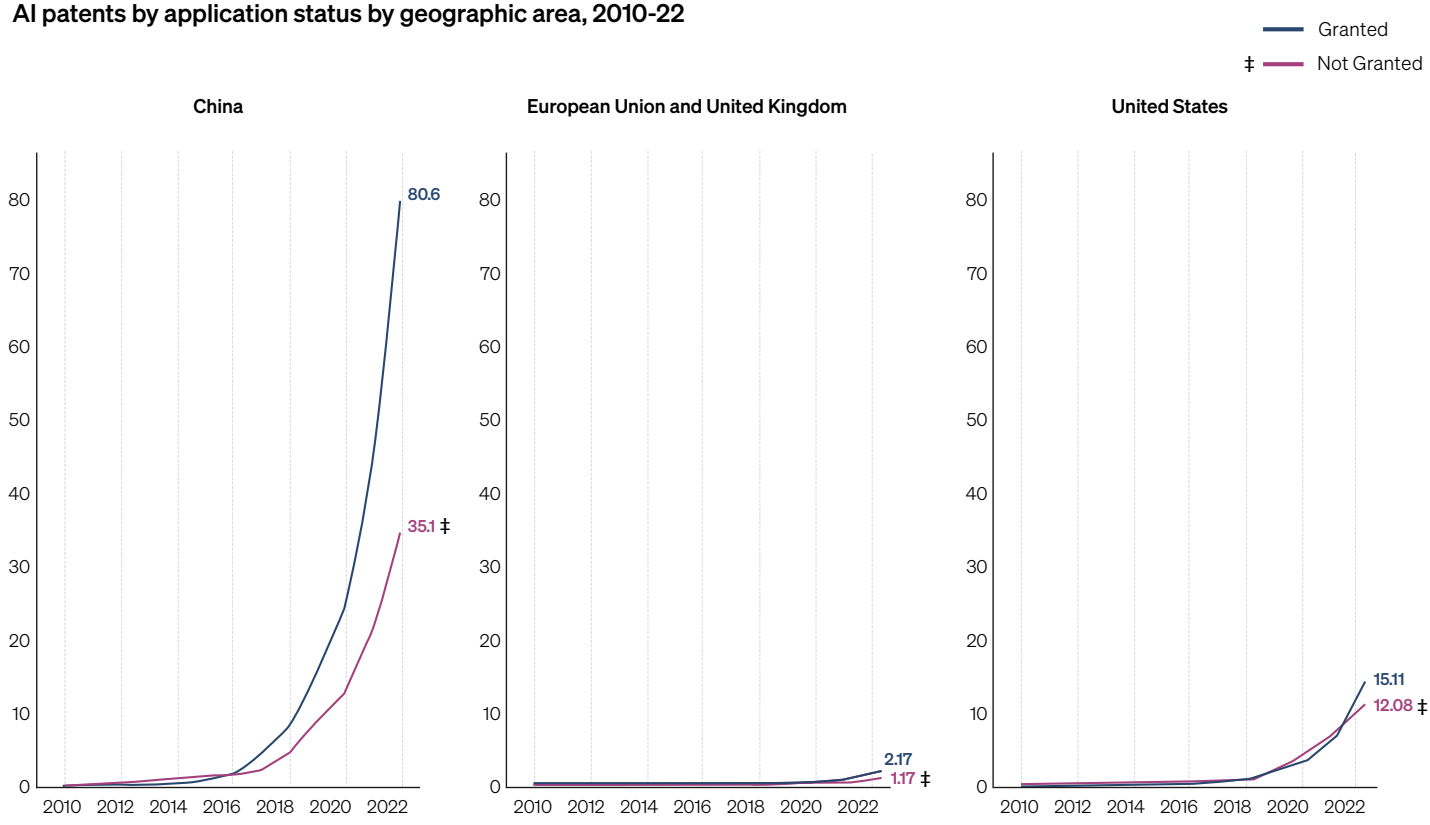
   This innovation gap is shining a harsh light on the U.S. Department of Defense's (DoD) long-standing procurement challenges—rigid budgetary cycles, protracted production

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.

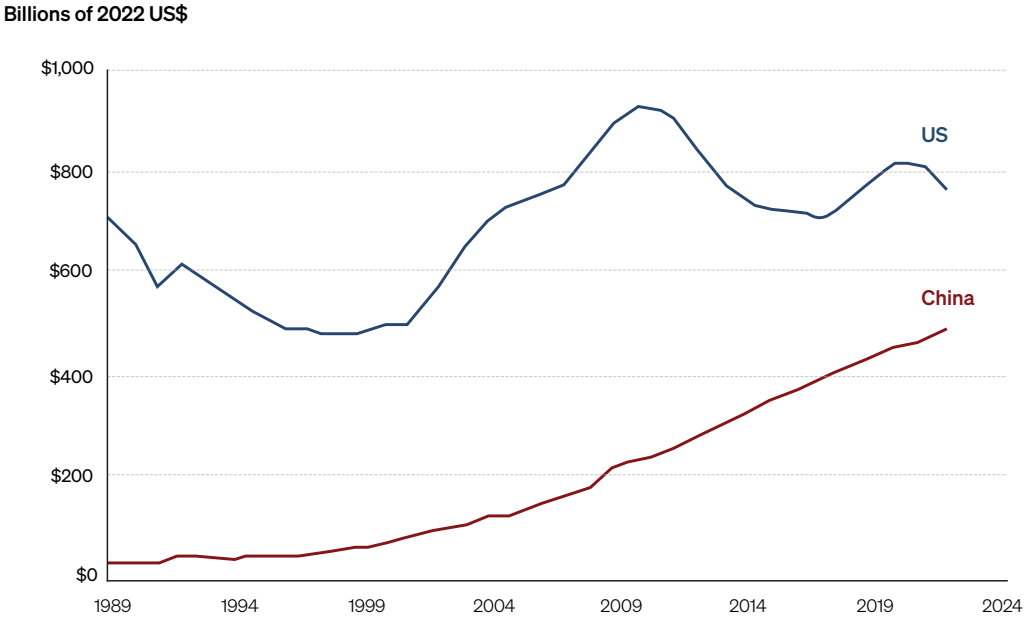
Compounding the challenge is the tightening alignment among China, Russia, Iran, and North Korea—sometimes referred to as the "CRINK" axis. This emerging bloc is exchanging technology, intelligence, and access to critical resources, allowing mutual circumvention of Western sanctions and export controls. **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.

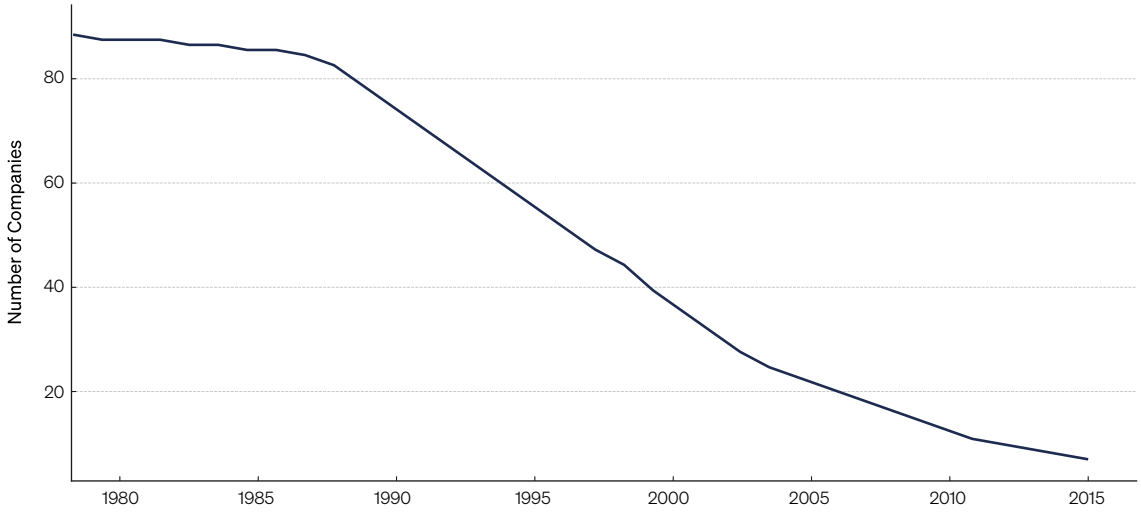
The U.S. Defense Industrial Base is not ready

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

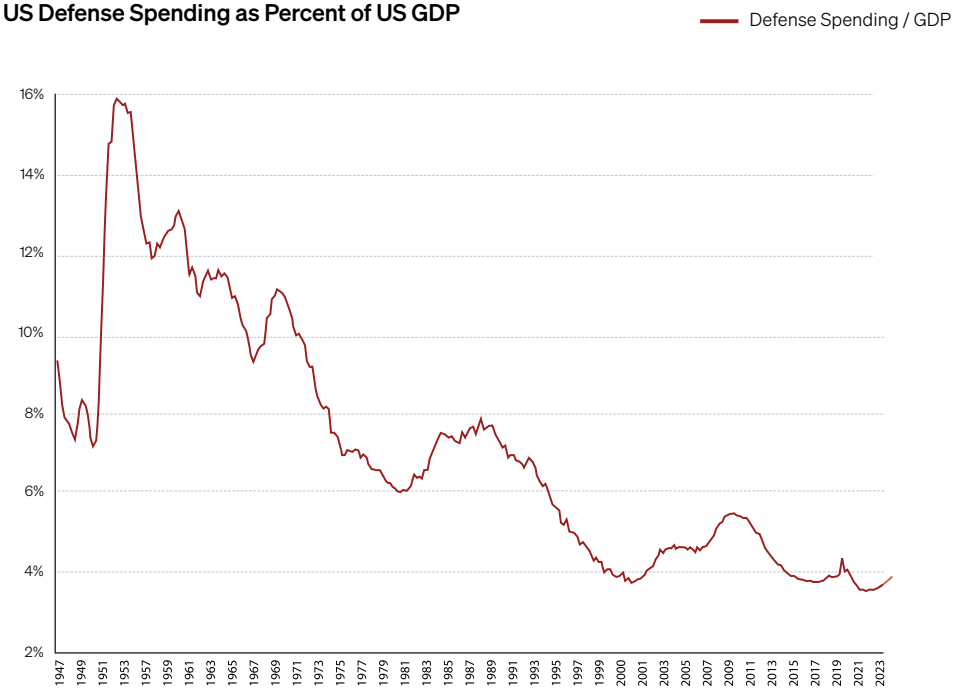
Decades of consolidation and uneven investment have left the U.S. defense industrial base woefully ill-equipped to sustain America's military dominance, a reflection of both demand- and supply-side failures. Following the Cold War, the U.S. drastically reduced its defense production capacity under the 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.

Center for Geopolitics | JPMorganChase

Helping Clients Navigate Global Challenges

May 2025

The Russia-Ukraine Endgame and the Future of Europe

Expect an imperfect deal by end of Q2

As Europe runs low on weapons, Ukraine on fighters, the U.S. on patience, and transatlantic unity frays, **President Zelenskyy will likely be forced to accept a negotiated settlement with Russia sometime this year** that freezes the fighting but stops short of a comprehensive peace agreement. Putin's losses are also far from sustainable. At its current rate of gain, Russia will control all of Ukraine in about…118 years. So Putin will aim to cut a deal that is favorable to his overall goal to eventually control Kyiv. **2025 was always going to be the year of negotiation, and the endgame is here.**

But will it last? The durability of any settlement will depend on: (1) how satisfied President Putin is with Ukrainian and Western concessions (*did he get enough of what he wanted*?). Both sides need a deal they can defend politically. And (2) the strength of the security promises underwriting it (*are they sufficient to deter further aggression and allow Ukraine to rebuild with confidence*?). These are in direct tension; **the weaker the security promises, the more concessions Ukraine will have to swallow**—neutrality, demilitarization, disarmament, territory, etc.—or risk a return to fighting.

Generally, we see **4 possible outcomes, each with parallels to other countries today**:

Odds:
15%

Best case – "South Korea"

President Zelenskyy will get neither NATO membership nor the full restoration of Ukraine's territory. However, if he can secure an **in-country European tripwire force** backstopped by an **American security promise** on assistance and intelligence support, then the 80 percent of Ukraine still under Kyiv's control will be set on a much more stable, prosperous, and democratic trajectory. The West's decision to leverage the approximately $300 billion it has frozen in **Russian sovereign assets** would also get reconstruction in Ukraine off to a good start.

Odds:
20%

Still OK – "Israel"

Strong, enduring military and economic support without a significant foreign troop presence would likely still provide Ukraine the space to turn itself into a fortress, pursue military modernization, and eventually establish its own deterrent. But war would always be on its doorstep. Putin would still need to see sufficient economic benefits (including sanctions relief) and a stronger relationship with the U.S.

Odds:
50%

Not great – "Georgia"

In the absence of both foreign troops and strong military support, Ukraine will experience ongoing instability, stunted growth and recovery, waning foreign support over time, and the effective derailment of its Western integration (i.e., EU and NATO membership), with gradual drift back into Russia's orbit.

Odds:
15%

Worst case – "Belarus"

If the United States abandons Ukraine—or is perceived as switching sides—and Europe fails to step up, Russia will hold firm to its maximalist demands and seek Ukraine's total capitulation, turning the country into a vassal state of Moscow. In this scenario, Russia will have effectively won the war, divided the West, and irrevocably upended the post-World War II world order.

Putin's maximalist demands: 6 nos and 6 yeses

1. **No:** NATO membership and Ukraine's declared neutrality
2. **No:** Nuclear weapons in Ukraine or umbrella for it
3. **No:** Foreign troops in Ukraine (including peacekeepers)
4. **No:** Foreign military aid or intel sharing
5. **No:** Large Ukrainian military (major reduction in the size of Ukraine's army)
6. **No:** Modern weapons in Ukraine (major restrictions on the types of weapons Ukraine can possess)

1. **Yes:** International recognition of Russia's claim on Crimea and four provinces (about 20% of Ukraine)
2. **Yes:** Veto over foreign security guarantees for Ukraine
3. **Yes:** Ban on military exercises by U.S. and other NATO forces on the territories of newer alliance members
4. **Yes:** Limits on U.S. troops in Europe
5. **Yes:** Sanctions relief and unfreezing of Russian assets
6. **Yes:** Return of Russian diplomatic compounds in the U.S.

What might a "Georgia scenario" look like for Ukraine? Democratic drift without security anchors

Following its 2008 war with Russia, Georgia benefited from a surge of Western aid and political support that stopped short of troops and security promises. Today, Georgia's ruling party, Georgian Dream—backed by a Russia-friendly oligarch—has frozen EU accession and adopted Kremlin-style "foreign agent" laws that led to the suspension of U.S. and EU funding. Political instability and democratic erosion, fostered by creeping Russian influence, have influenced investor confidence amid drops in FX reserves.

Meanwhile, economic connectivity with Russia has deepened: remittances from Russia alone accounted for over 15% of Georgia's GDP in 2022–2023, making it the country's largest source of remittance income. Trade and direct travel have expanded, and the inflow of Russian nationals has surged. With a 2023 GDP of just $30.5 billion—one-eighth the size of Oklahoma's—Georgia's small, remittance- and tourism-heavy economy is still growing but increasingly vulnerable. Once seen as a reform success story, Georgia illustrates how the absence of credible security and institutional anchors can gradually undermine democratic governance and weaken economic potential.

A Ukraine facing a similar outcome could initially benefit from a wave of donor enthusiasm and reconstruction assistance. **But without firm integration into Western security and political structures, Ukraine would risk a slow drift into geopolitical gray space.** Some percentage of the nearly 7 million Ukrainian refugees may choose not to return, depriving the economy of much-needed skilled labor. Risk-averse investors could choose to avoid an unstable, security-fragile environment, limiting foreign direct investment and stunting diversification.

Ukraine could re-open vulnerable trade corridors or informal dependencies linked to Russia. Insurance costs and risk premiums for business would remain high, undermining competitiveness. Restrictions on military size and capacity—if part of a negotiated settlement—could prematurely stifle Ukraine's dynamic defense and tech sectors, erasing a potential engine of postwar growth. Paradoxically, the loss of eastern territory might act as a tourniquet—cutting Kyiv off from a costly insurgency in the Donbas and allowing reconstruction to focus on more governable, less damaged regions requiring less public spending.

Absent firm commitments, Ukraine's future could echo Georgia's—a sobering reminder that wars can end without a just peace, and even the strongest pro-Western sentiment can fade if not adequately reciprocated by Western institutions.

Territorial control in Ukraine

Source: Institute for the study of War with American Enterprise Institute's Critical Threats Project - By Samuel Grandos

The future of Europe

Shifts in U.S. policy on Ukraine and other issues are super-charging European calls for greater "strategic autonomy" from its most important ally and top trading partner.

How we got here:

Twin shocks

Russia's full-scale invasion of Ukraine shocked the continent from its post-Cold War complacency and sparked bold changes to European security, energy, and economic policies in support of both Kyiv and the post-war international order the conflict has come to represent.

The *second shock* was the abrupt shift in U.S. policy as exemplified by President Zelenskyy's visit to the Oval office on February 28, 2025. The acrimonious visit, preceded days earlier by a U.S. vote in the United Nations against a resolution condemning Russia's aggression and then followed by the temporary suspension of U.S. military and intelligence aid to Ukraine, was a thunderclap across Europe – raising fears about America's abandonment of its principles and position as leader of the free world.

Tipping point

Whether this signal was intended or not, there is now broad acknowledgment in European capitals that greater "strategic autonomy" is needed to correct for the continent's over-reliance on the United States—a deep and fundamental interconnectedness built by design and over decades. Reflecting wider sentiment, the new Chancellor of Germany and long-time transatlanticist, Friedrich Merz, has declared that his "absolute priority" will be to "achieve independence from the USA" and has pledged significant defense investments.

While the conversation around such autonomy is not new—it has been building since U.S. President Barack Obama began a "pivot to Asia" in 2012—we are at a tipping point, with more European states moving from a position of hedging to de-risking. The recent introduction of new U.S. tariffs is amplifying calls for greater European protectionism and has made transatlantic cooperation across a range of key issues more difficult.

What happens now:

Consensus remains elusive on precisely how to establish greater independence from the United States, to what degree, at what cost, and to whose benefit. The EU has stated its commitment to enhancing competitiveness, deepening financial integration, coordinating an energy policy, investing in defense, and diversifying diplomatic and economic relationships. Becoming a true counterweight, however, will depend on whether it can come together both internally and with the UK—a task made more difficult by the lack of a clear leader and some members states (like Hungary) more sympathetic to the new U.S. agenda.

Urgent challenges

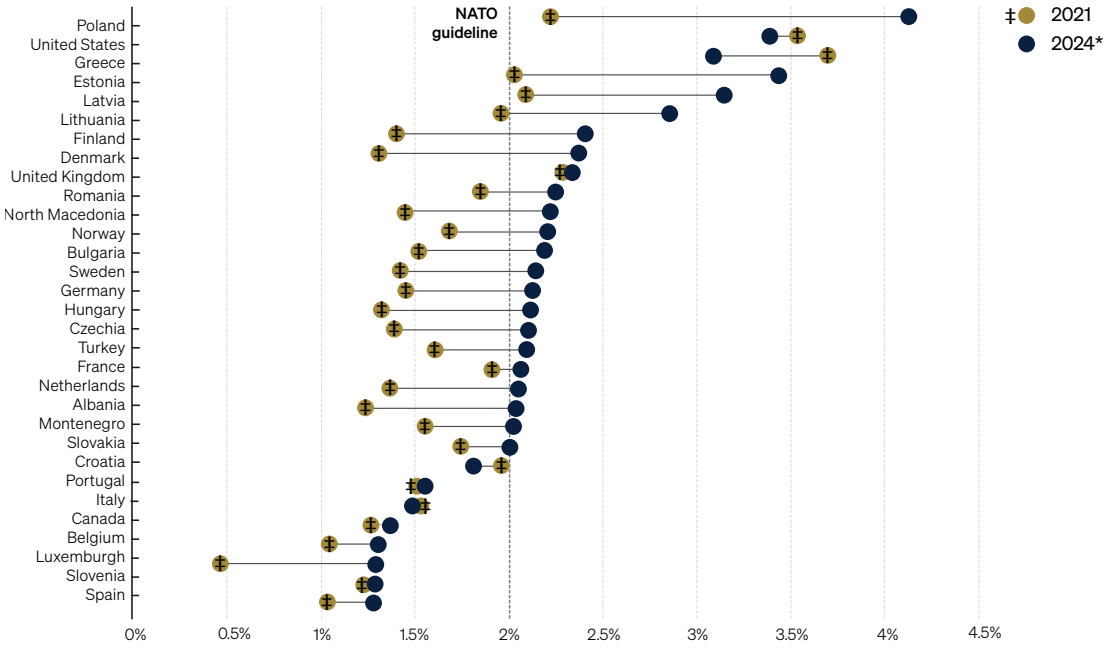
Some of the most pressing challenges for which Europe will need quick answers are in the security and defense realm, namely: (1) how to ensure Ukraine continues to have the materiel support and, importantly, the security guarantees it needs to reach a just and lasting peace with Russia (something Beijing will be closely watching), and (2) how to strengthen its own territorial defenses against rising geopolitical and hybrid threats (which blur the lines between war and peace) in a way that credibly compensates for America's unclear commitment to NATO's Article 5 collective defense agreement.

Need to grow the DIB

The strength of Europe's defense industrial base (DIB) will be important, if not dispositive, in both cases and it is not currently fit for purpose—a matter of increasing urgency in London, Paris, and, notably, Berlin, where Chancellor Merz championed an historic spending deal exempt from debt restrictions. There are also serious efforts underway in Brussels to address structural deficiencies to rearmament, including relaxing EU deficit spending rules and opening new avenues for borrowing, but whether individual member states—many of which are managing brittle governing coalitions, fiscal constraints, and populist

headwinds—will have the political will and capacity to introduce tough trade-offs, particularly to beloved social welfare programs, remains to be seen. In 2024, EU member states' collective defense spending totaled €326 billion or 1.9% of EU GDP, a 30% increase since 2021, but still just four-tenths that of the United States at almost $900 billion. As Europe moves from a "post-war" to a "pre-war" footing, this will be an important space to watch.

Defense spending as share of real GDP (%)



**2024 numbers are estimates. Iceland excluded as it does not have a standing army*
Source: NATO, Atlantic Council

What to do with Russian frozen assets?

Beyond troops and security guarantees, Europe's other powerful, if controversial, card to play in shaping the outcome of the Russia-Ukraine war is its control over approximately two-thirds of the $300 billion in Russian frozen assets. The EU must achieve unanimous consent every 6 months to extend its sanctions on Russia; the next vote is needed by July 31. If Hungary or another member state decline to vote in favor of extension—without the blocked assets having been seized—sanctions against Russia will end, along with much of Europe's leverage, and the funds will return to Russia. Such a sizable sum would provide a lifeline to the Russian economy, invigorating its military rearmament efforts. Alternatively, if transferred to Kyiv, the funds would go a long way in compensating Ukraine for the estimated $523 billion in Russian-caused damage and boost its reconstruction efforts.

Too early for last rites

After 80 years, no one should be rushing to eulogize the transatlantic alliance, which has proven remarkably resilient and underwritten the longest period of peace and global prosperity in history.

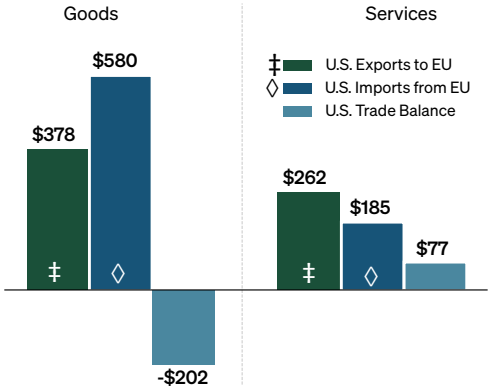
European leaders are courting the Trump Administration in an effort to preserve the transatlantic relationship and the U.S. role in Europe, an acknowledgement of both its intrinsic value and irreplaceability over the near- to mid-term—a timeline that extends well beyond Russian military reconstitution estimates of 5-10 years. **So there is still a chance, though seemingly remote, to steady the ship.**

Why it matters

The transatlantic relationship has been a cornerstone of modern geopolitics, and the implications of a break are severe for both sides and, indeed, for the world as a whole.

1. The security and prosperity of the United States remains tightly linked to that of the Euro-Atlantic area. No other economic relationship is as integrated with as great an ability to shape and steer the global economy. The EU is America's largest trading partner, and their combined economies represent close to fifty percent of global GDP. The dollar and the euro are two of the world's most important reserve currencies.
2. European militaries remain the United States' most capable partners in confronting international challenges, and Europe is a primary basing hub enabling the American military's global reach.
3. Transatlantic coordination within multilateral institutions and forums, such as the United Nations and G7, have galvanized global action on some of the world's most intractable challenges.
4. It is the absence of conflict in Europe that has allowed the United States to focus its attention and resources elsewhere, including in the Indo-Pacific. And it is the combined strength of Europe and the United States that has formed the essential barrier to imperial and revisionist powers seeking a return to the pre-1945 world order—a world defined by spheres of influence and predatory land grabs by bigger countries against smaller neighbors.

2023, trade in flows, investment data on a stock, historical-cost basis

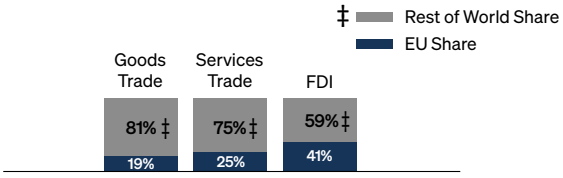


Source: CRS, with U.S. Bureau of Economic Analysis data for 2023.

Foreign Direct Investment

Source: CRS, with U.S. Bureau of Economic Analysis data for 2023.

EU Share of U.S. Total Trade and Investment with World



Source: CRS, with U.S. Bureau of Economic Analysis data for 2023.

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

- **Two weeks in June**
  The June 15-17 G7 Leaders' Summit in Canada, followed closely by the June 24-26 NATO Summit in The Hague and the June 26-27 European Council meeting, will be revealing of the approach and leverage of each side.

- **When will Trump and Putin meet?**
  After several long phone calls between the two leaders, Trump is keen to sit down with Putin, asserting that "nothing will happen" in resolving Ukraine until they do. This moment will be the diplomatic equivalent of the Super Bowl, capturing the world's attention (like President Biden's only meeting with Putin in 2021 in Geneva) and leaving everyone to ask whether it will achieve a genuine breakthrough or, like Trump's 2018 meeting with Putin in Helsinki, be remembered for controversy.

- **Redeployment order?**
  Approximately 90,000 U.S. troops are in Europe—for now. Some of them almost certainly will not be there at this time next year.

- **Trade war or skirmish?**
  The U.S. has imposed tariffs on the EU of 25% on steel, aluminum, and finished autos, and a 10% "universal" tariff with certain carveouts. It announced a 20% "reciprocal" tariff on April 2, but paused for 90 days on April 9. The EU has since paused any retaliatory measures, but will be prepared should negotiations fail. Despite its stated openness to making a deal, the EU will have little room for maneuver on agriculture and non-tariff barriers like those associated with the Digital Services Act and Digital Markets Act.

- **European defense—fact or fiction?**
  European governments have promised big increases in defense investment but delivering won't be easy. If new German Chancellor Friedrich Merz's budget lives up to the hype, it will mark a turning point for European defense investment and set new, continent-wide expectations.

- **Sanctions renewal?**
  The EU's regular 6-month extension of sanctions against Russia is due July 31. If the votes aren't there, Europe has a short window to seize frozen Russian assets.

- **China-Europe Reproachment?**
  Beijing is trying to make the most of a chill in the U.S.-Europe alliance. An expected EU-Xi Summit in July could open doors.

- **Next steps on U.S.-Ukraine mineral deal?**
  Signed on April 30, the deal positively affirms the "long-term strategic alignment" between the U.S. and Ukraine and establishes a reconstruction investment fund, but remains murky on details. The economic viability of exploitation is still in question (the infrastructure alone will require billions of dollars) and estimates suggest up to 40% of Ukraine's minerals are in territory occupied by Russia.

- **Populist diplomacy?**
  More controversial U.S. engagements with outlier parties like Germany's AfD will add friction.

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