

Rearming the West: Can Strategic Reform Restore Deterrence Before 2027?

PART ONE – STRATEGIC AWAKENING

The world stands on the brink of systemic conflict. The post-WW2 international order—once anchored by Western deterrence, US security guarantees, and NATO cohesion—is fragmenting under pressure from multiple directions: an emboldened Russia, an assertive China, and the steady erosion of institutional resilience within Western democracies themselves. With war in Europe already underway, and the Indo-Pacific teetering towards confrontation, the question is no longer "if" the next major conflict emerges—but "when."

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Executive Summary

2027 is now widely viewed by military analysts as the critical threshold year. The moment when Western democracies must be ready to overmatch peer adversaries—or risk being strategically outmanoeuvred.

In response, a wave of defence procurement and funding reforms has swept across NATO nations and European allies. But are these reforms enough? Can they meaningfully close the warfighting capability gap in time?

This white paper examines:

- The United States' internal procurement revolution, including the landmark 2025 Hegseth Memo which makes Commercial Solutions Openings (CSOs) the default procurement pathway across DoD. This shift signals a strategic pivot toward speed, agility, and commercially viable innovation.
- The United Kingdom's creation of the DSR Bank (Defence, Security and Resilience), a sovereign capability bank designed to fund dual-use innovation, accelerate capability development, and anchor British industrial resilience at the core of national defence.
- Germany's constitutional amendment and budgetary transformation, ending decades of military underinvestment and establishing a new baseline for force readiness and deterrence.
- The European Union's increasingly co-ordinated defence investment posture, alongside accelerated procurement timelines, joint industrial programmes, and battlefield-driven urgency from Ukraine.
- The decisive momentum of northern and eastern Europe, where Sweden, Finland, the Baltics and Poland are rapidly transforming from defence dependants into hardened, frontline power contributors.

Fragility Underpinning Western Democracies

Critically, this paper also interrogates the fragility underpinning Western democracies: demographic contraction, political polarisation, overstretched public finances, and the challenge of converting money into usable combat power at speed.

"Quantity has a quality all its own," as Stalin once observed. But in the modern era, responsiveness, survivability, and integration are the new watchwords.

This paper explores whether the West can regenerate these attributes fast enough to avoid strategic defeat.

Key Takeaways

- Procurement structures are changing—but not fast enough to guarantee credible deterrence by 2027.
- The US and UK are showing reformist intent, but execution risks remain high without cultural and structural enforcement.
- Europe's awakening is real, but too fragmented to sustain strategic overmatch without deepened integration.
- Adversaries will seek to exploit the current window of vulnerability before reforms reach maturity.

If Western democracies are to deter conflict rather than react to it, the next two years are decisive.

This paper sets out the strategic, fiscal and industrial imperatives to ensure that democratic nations are not simply armed—but ready.

The 2027 Threshold: Why Time Is Running Out

There is a growing consensus within defence circles that 2027 marks a critical inflection point in global security. It is not a random date. It is grounded in observable trends—strategic posturing, rearmament cycles, demographic clocks, and explicit signalling by adversaries.

In short, 2027 is the year when peer conflict could plausibly erupt—and Western democracies must be militarily, economically, and politically ready to respond.

Strategic Forecasts, Open Warnings

Xi Jinping has instructed the People's Liberation Army to be "fully modernised" by 2027, with many analysts interpreting this as a signal of intent for Taiwan. Meanwhile, Russian doctrine continues to evolve around sustained confrontation with NATO, and war on European soil is already underway.



China's Taiwan Timeline

China's timeline for Taiwan coincides with maturing missile strike capabilities, amphibious readiness, and full operational integration of AI-enhanced targeting and surveillance.



Russia's Recalibration

Russia's recalibration from rapid manoeuvre to attritional, industrial-scale warfare has shocked the West—and forced a reassessment of munitions stockpiles, repairability, and sustained force generation.



United States' Bifurcated Horizon

The United States faces a bifurcated horizon—detering two peer adversaries while managing internal political instability and an overstretched defence-industrial base.

2027 is not the end of anything—it is the beginning of a new strategic era. The question is whether democratic nations will enter it prepared.

The Capabilities Gap

At present, Western forces—while technologically superior in many areas—suffer from a crippling set of limitations:

- **Insufficient mass:** Most NATO ground forces lack the volume required for sustained operations against a peer threat.
- **Overcentralised procurement:** Programmes are still governed by legacy processes that reward compliance over combat readiness.
- **Brittle logistics:** Just-in-time supply models collapse under contested conditions.
- **Industrial atrophy:** Base manufacturing and armament production cannot surge fast enough to meet sustained wartime demand.

These limitations are not theoretical. They have been exposed, in slow motion, by the war in Ukraine. And they are being watched closely by those who may seek to exploit them.

As General Sir Richard Barrons once noted: "We are not ready for the war we may have to fight."

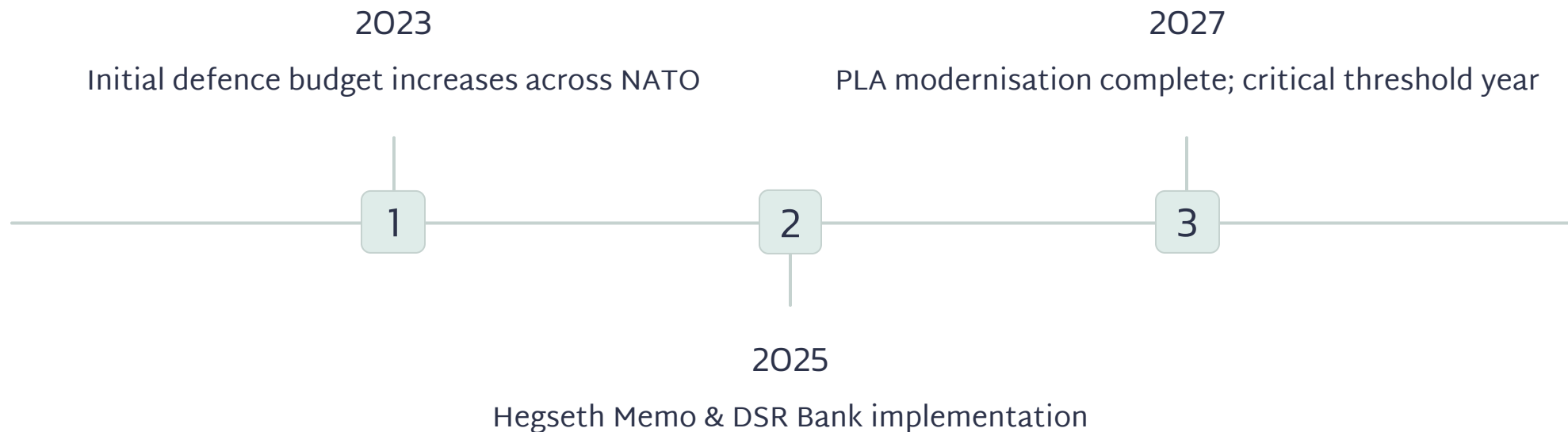
Time-Limited Window of Reform

Western defence ministries have begun to respond. Budgets are rising. Industrial policy is back. Innovation is being prioritised.

But time is not on our side.

Procurement cycles in Europe often exceed 10 years. Shipbuilding programmes, armoured vehicle refreshes, and force structure adjustments all take years to field. There is now less than 24 months to translate political will into battlefield reality.

This shortfall creates a window of opportunity for adversaries. And they know it.



In this chapter, we establish the "why now?" of defence reform. The remainder of this paper explores whether and how current funding and procurement reforms can bridge the capability gap in time—before 2027 becomes the year the West was found unready.

The American Pivot: Commercial Solutions, Warfighting Agility, and the Hegseth Memo

The United States remains the backbone of Western military power. But even America is now acknowledging the limits of its defence-industrial model. For too long, the Pentagon's acquisition system has been weighed down by bureaucracy, cost overruns, and glacial timelines. In 2025, that changed—with a single, striking intervention.

On 3 March 2025, US Deputy Secretary of Defense Peter Hegseth issued an internal memo to the Department of Defense mandating that Commercial Solutions Openings (CSOs) become the default procurement mechanism across all branches and agencies.

This was more than a policy shift. It was a declaration of war against stagnation.

Commercial Solutions Opening: What It Is, and Why It Matters

CSOs are a flexible, rapid acquisition method designed to bring commercially available solutions directly into defence programmes—without requiring vendors to navigate the traditional labyrinth of military contracting.

CSO Key Features

- Prototype contracts can be awarded quickly, often within weeks.
- Small businesses and non-traditional defence companies can compete, bypassing legacy prime lock-ins.
- Innovation is favoured over incumbency, allowing for modular, software-centric, and dual-use technologies to be fielded at pace.

Cultural Shift

The Hegseth Memo transformed CSOs from an option into the default. Every acquisition officer in the DoD is now expected to explain why not a CSO was used—flipping the cultural norm and disincentivising red tape.

Strategic Objectives Behind the Reform

This shift is not cosmetic. It is tightly aligned with a broader understanding that:

- Warfighting agility is now a strategic imperative.
- Peer adversaries are fielding new systems every 12–24 months, often by bypassing traditional procurement entirely.
- Emerging tech ecosystems—AI, autonomy, cyber, sensing—must be brought into the fight rapidly and iteratively.

As Hegseth himself wrote in the memo: "Speed is the new deterrent. Bureaucracy is now a vector of vulnerability."

The CSO pivot also reflects lessons learned from Ukraine, where battlefield adaptation cycles shrank to weeks. Off-the-shelf commercial drones were adapted into strike platforms faster than most Western programmes could issue a contract notice.

Implementation and Friction

Despite its intent, implementation remains uneven:

- Service branches differ in their readiness to embrace CSOs.
- Institutional inertia is strong—many procurement officers are still rewarded for compliance, not outcomes.
- There is still a risk that CSOs are treated as adjuncts rather than core operating systems.

But the direction of travel is clear. In combination with initiatives such as the Defense Innovation Unit (DIU), the Replicator programme, and tech-forward commands like SOCOM and DEVCOM, the CSO mandate represents a structural realignment.

Implications for Allies

For the UK and Europe, this American shift should be a wake-up call. If Britain or Germany continue to rely on decade-long procurement arcs, while the US pulls forward dual-use commercial capability at speed, NATO interoperability will suffer—and strategic cohesion will fracture under pressure.

Moreover, it raises the bar for what "reform" looks like. Political rhetoric is not enough. Procurement reform must be enforceable, scalable, and grounded in operational urgency.

The UK's DSR Bank: Strategic Finance for a Nation in Flux

Britain has long punched above its weight in defence, thanks to deep institutional knowledge, global networks, and a battle-tested military. But in recent years, fiscal restraint, capability hollowing, and fractured procurement cycles have weakened its ability to convert policy into power.

Recognising the need for change, the UK Government launched one of its most ambitious defence-industrial reforms in decades: the Defence, Security and Resilience Bank (DSR Bank). More than just a funding mechanism, the DSR Bank is intended as a sovereign capability platform—designed to restore industrial sovereignty, accelerate dual-use innovation, and rebuild the connective tissue between defence policy and economic strategy.

This chapter examines whether it can deliver on its promise in time.

What Is the DSR Bank?

Announced in late 2024 and operationalised in Q1 2025, the DSR Bank is a state-backed strategic investment vehicle. Its mandate is wide-reaching:



Patient Capital

Provide long-term patient capital for UK defence and resilience programmes.



Innovation Catalyst

Catalyse dual-use and cross-sector innovation, particularly at the intersection of AI, autonomy, quantum sensing, space, and energy.



Scale-Up Support

Enable the scaling of small and mid-cap firms critical to sovereign supply chains.



Sovereignty Protection

Reduce dependency on foreign capital and ownership in sensitive sectors.

Crucially, the Bank is not designed to function like a traditional MoD budget line. It operates more like a hybrid between the UK Infrastructure Bank and a sovereign innovation fund—authorised to take equity stakes, issue procurement-backed loans, and co-invest alongside commercial actors.

Strategic Logic

Britain's defence challenge is not just about kit. It's about resilience:

- Can we sustain production in a crisis?
- Can we integrate new capabilities faster than adversaries?
- Can we protect critical technologies from foreign acquisition?

The DSR Bank is an explicit answer to these questions. It treats defence and resilience not just as spending lines, but as investable, growable capabilities that require scale and control.

In the words of a senior MOD strategist: "The future of war isn't just fought in trenches—it's fought in term sheets, factories, and IP registers."

The Bank aims to pull Britain out of the 'valley of death'—where promising technologies stagnate between prototype and deployment—and into a posture of continuous adaptation.

Early Focus Areas

Initial capital has been earmarked for:



Secure
Communications
Tactical mesh networks



Edge AI
Deployable AI platforms



Energy Resilience
For critical infrastructure



Precision Systems
Next-generation
munitions

While modest in scale compared to US initiatives, the DSR Bank is targeted in intent. It seeks to align capital with mission—and ensure that Britain's most strategically relevant technologies don't get bought out, offshored, or mothballed.

Risks and Roadblocks

The concept is strong. But delivery will be everything.

- Whitehall turf wars could undermine agility. The Bank must resist being absorbed into traditional civil service machinery.
- Investment discipline and operational independence will be key to avoiding capture by legacy contractors.
- Clarity of mission is essential. If the Bank becomes another generalist SME fund, it will fail its strategic brief.

Nonetheless, the intent is notable. Few European countries have yet developed a comparable vehicle. If executed well, the DSR Bank could become a model for hybrid defence financing in the 21st century.

The UK's DSR Bank is not just a policy tool. It is a test of strategic seriousness. Whether Britain can convert this intent into a credible, resilient warfighting base will be one of the defining questions of its defence posture leading into 2027.

Europe Awakens: Strategic Spending Across Germany, the EU, and the Frontline States

For decades, European defence planning operated under the illusion of permanence: US protection was assumed, peace was presumed, and defence budgets were an afterthought. That era is over.

The war in Ukraine was the wake-up call. What followed has been nothing short of historic—particularly in Germany, where a country long constrained by post-war pacifism is now undergoing the most significant defence reorientation since the Cold War.

This chapter assesses the scope and substance of Europe's awakening—and asks whether it is coordinated, coherent, and fast enough to matter.

Germany's Zeitenwende: From Pacifism to Power Projection?

In February 2022, just days after Russia invaded Ukraine, Chancellor Olaf Scholz stood before the Bundestag and declared a "Zeitenwende"—a turning point. In words that surprised many, he pledged:

- A €100 billion special fund for defence modernisation.
- Immediate upgrades to air, land, and cyber capabilities.
- Long-term commitment to meet and exceed the NATO 2% GDP spending benchmark.

More importantly, in 2025, the German parliament approved a constitutional change allowing sustained defence investment outside its traditional fiscal constraints. This was the breaking of a taboo.

As one senior Bundeswehr general put it: "We are no longer building a contribution force. We are building a defence force."

However, ambition and execution are not the same. Germany still faces:

- Procurement delays due to legacy contracting models.
- Logistical bottlenecks, particularly around munitions and repair cycles.
- Political hesitancy over force projection and strategic posture.

Nevertheless, Germany's pivot is real—and it is reshaping the European defence landscape.

EU Defence Integration: From Paper Tiger to Operational Relevance?

The European Union, long criticised for duplication and inertia in defence, is beginning to show signs of operational relevance:

European Defence Fund (EDF)

Has grown in budget and scope, focusing on joint R&D, interoperability, and industrial collaboration.

European Peace Facility (EPF)

Originally seen as a soft-power instrument, has now delivered over €6 billion in military aid to Ukraine—including lethal aid and training.

Joint Procurement

The Commission has initiated programmes for joint procurement of ammunition, missile systems, and unmanned platforms, aiming to avoid the fragmented orders that plagued Europe's COVID vaccine rollout.

Yet the EU still struggles with:

- **Speed:** Decision-making across 27 states remains slow.
- **Duplication:** NATO and EU coordination is improving, but friction remains.
- **Strategic depth:** Europe still relies on the US for strategic lift, ISR, and nuclear deterrence.

The will exists. The machinery needs reform.

The New Frontline: Scandinavia, the Baltics and Poland

If Germany is the awakening giant, the northern and eastern flanks of Europe are already in motion.



Poland's Transformation

Poland now spends more than 4% of GDP on defence and is on track to become Europe's largest land force. Its procurement of South Korean tanks and howitzers has redefined agility in armament delivery.



Nordic Professionalism

Finland and Sweden, now NATO members, bring with them deep reserves of military professionalism, territorial defence experience, and resilient industrial bases.



Baltic Innovation

The Baltic States have embedded defence into national identity. Latvia and Estonia, in particular, are pioneering digital mobilisation strategies and citizen-soldier integration.

These nations are no longer just absorbers of deterrence. They are becoming providers of it.

A Fragmented Renaissance

What emerges is a picture of energy without unity.

Europe is spending more on defence than at any time since the Cold War—but with wildly varying doctrines, procurement timelines, and industrial strategies. Without deeper integration—both with each other and with NATO—this fragmentation may undercut the continent's ability to deliver credible, coordinated force at scale.

As former NATO Deputy Secretary General Rose Gottemoeller warned: "More money is not the same as more power—unless we spend it smart, together, and fast."

Europe is no longer asleep. But it remains slow, and often divided. The next two years will determine whether this awakening becomes a true strategic renaissance—or a lost opportunity remembered only in hindsight.