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BUILDING AMERICA'S INDUSTRIAL BASE

Investing in America's Suppliers

**The Importance of Small and Medium-Sized Businesses
in America's Reindustrialization**

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KEY FINDINGS

The United States is investing heavily in the industries that will shape its economic future. Growth in aerospace and defense, AI, energy, semiconductors, and other critical industries is directing capital toward new facilities and production capacity and generating demand throughout the supply chains that support them. Whether this wave of investment translates into lasting economic growth will depend on whether small- and medium-sized suppliers can capture this demand and provide the materials, components, equipment, and services these industries need. This report examines the pressures facing these firms and what it will take for them to keep pace.

- 1. Small and mid-sized manufacturers are essential to America's industrial growth.** They account for nearly 9 in 10 firms in key industrial sectors and supply the specialized components, equipment, materials, and services larger producers depend on. The strength of these supplier networks will shape how quickly industrial investments translate into domestic output.
- 2. As America looks to build its industrial base, barriers to supplier growth differ substantially across industries.** Some industries lack specialized capabilities and competitive domestic ecosystems; others are approaching capacity limits or need to reposition established manufacturing capabilities toward faster-growing markets. Expanding domestic supply will require strategies tailored to these distinct constraints.
- 3. A productivity gap limits how smaller manufacturers are able to compete.** Small and mid-sized manufacturers generate about **\$142,000 in value added per worker**, compared with **\$319,000 for large firms**. Narrowing this gap by 20 to 40 percent could generate an estimated **\$145 billion to \$292 billion in added annual GDP**, while narrowing the wage gap could add up to **\$52 billion in annual worker earnings**.
- 4. Building a higher-performing supplier base requires access to capital, capabilities, and customers.** Suppliers need financing to modernize and expand operations, skilled workers and managers to adopt new technologies and navigate evolving markets, and clearer pathways to contracts that justify those investments. Connecting these supports can help more firms translate investment into higher productivity, new capabilities into commercial opportunities, and growth into a deeper base of scaled suppliers.

Research Series Context

This essay is a foundational piece of "Building America's Industrial Base," a research series that examines how suppliers and their workers participate and scale within U.S. industrial supply chains. The series focuses on five industry pillars essential to long-term U.S. competitiveness: Supply Chain and Advanced Manufacturing, Defense and Aerospace, Energy Independence and Resilience, Frontier and Strategic Technologies, and Pharma and HealthTech. This report addresses the critical need to invest in U.S. supply chains and address the gap between the scale of industrial investment and the capacity of domestic small and mid-sized suppliers to absorb it.

SECTION I: HISTORIC INVESTMENT AND GROWTH OF CRITICAL INDUSTRIES IN AMERICA

The United States is undergoing one of the most significant industrial transformations in decades. Public funding and private investors are directing unprecedented levels of capital toward strategic industries, driven by geopolitical competition, supply chain disruptions, energy security concerns, defense modernization, and rapid technological change. Advanced manufacturing, semiconductors, energy systems, defense, artificial intelligence, and other critical technologies have emerged as central pillars of U.S. economic competitiveness and national security.

Federal industrial policies—including the CHIPS and Science Act, Infrastructure and Investment Jobs Act, and Inflation Reduction Act—provided an important catalyst for this economic transition. Together, these laws represented the largest federal commitment to industrial investment since the Cold War. While portions of these programs have since been revised, delayed, or rescinded, the broader investment cycle continues. The underlying market drivers that motivated these policies (reshoring, supply chain resilience, defense requirements, and AI-driven demand for computing infrastructure) remain firmly in place.

At the same time, private markets have become a major force shaping industrial development. Since 2021, companies have announced hundreds of billions of dollars in domestic investments across semiconductor fabrication, battery manufacturing, data centers, aerospace, defense production, grid infrastructure, and advanced manufacturing facilities.¹ Reshoring and foreign direct investment announcements have reached record levels, while corporations increasingly seek domestic suppliers capable of meeting requirements for resiliency, security, and proximity to end markets.²

This wave of investment is beginning to translate into increased economic activity across strategic industries. U.S. manufacturing value added increased from approximately \$2.7 trillion at the start of 2023 to \$3.0 trillion by the end of 2025, an increase of roughly 8 percent.³ Growth has been particularly strong in advanced manufacturing segments tied to national industrial priorities. Computer and electronic products expanded by 14 percent, electrical equipment by 14 percent, and aerospace and defense manufacturing by 26 percent over the same period.³ Similar growth trends are emerging in sectors connected to energy systems, AI infrastructure, advanced computing, and defense supply chains.

Looking forward, demand for industrial production is expected to remain strong. Data center construction, AI computing infrastructure, grid modernization, defense procurement, semiconductor production, and energy system deployment are projected to drive sustained demand for manufactured goods and industrial services throughout the coming decade. While growth rates vary across sectors and regions, long-term forecasts consistently indicate expansion in advanced manufacturing, defense, energy technologies, and digital infrastructure, as shown in Exhibit 1.



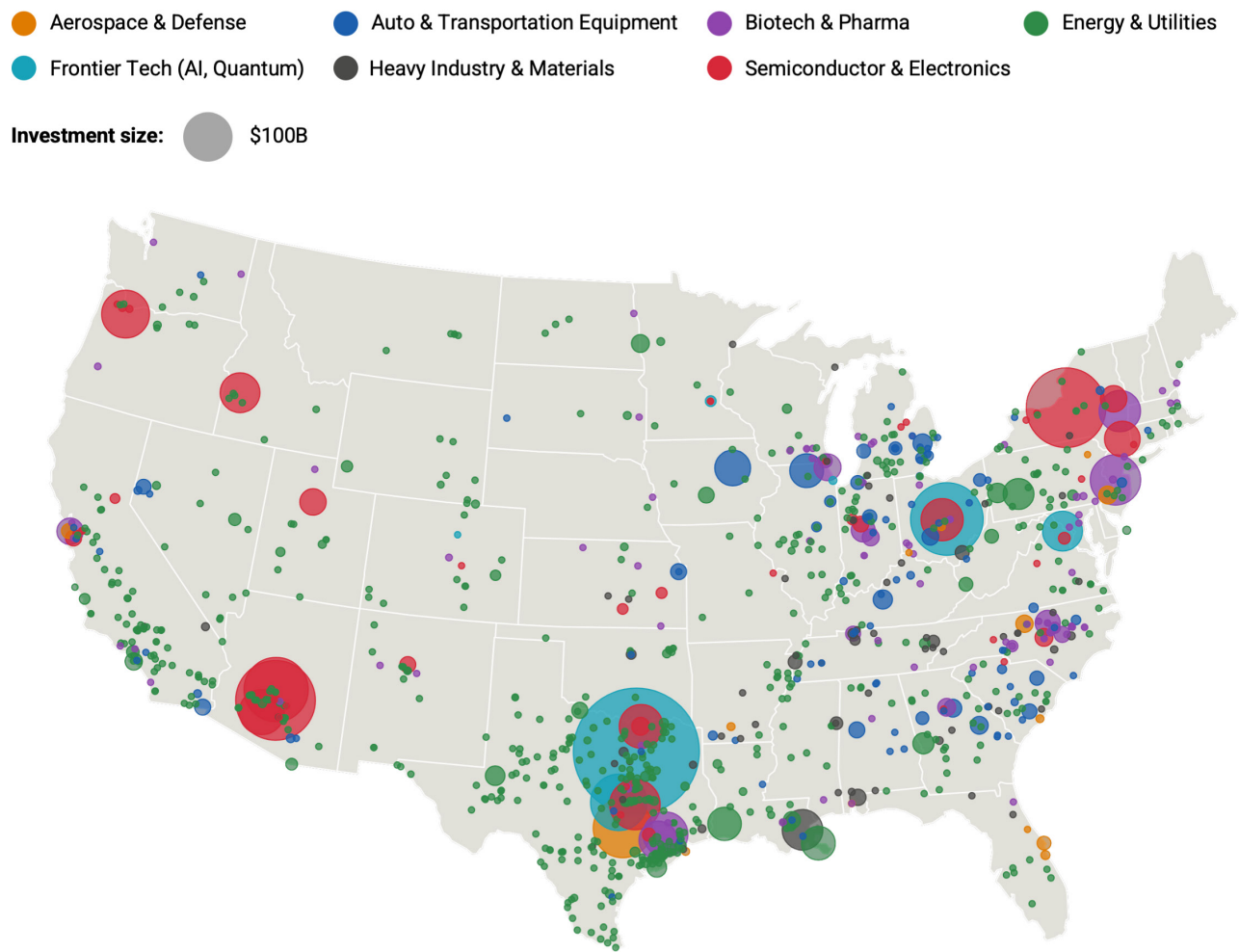
Exhibit 1: U.S. Market Size and Growth Forecasts in Representative Critical Industries

Sector and Sub-Areas	2025 (USD Billions)	2035F (USD Billions)	CAGR 2025-35F
Aerospace and Defense			
Military Drones	16	35	8%
Unmanned System	10	29	11%
Hypersonics Missiles	2.1	7.3	13%
Space Launch Services	9.2	30	13%
6G	2.6	33	29%
Wireless Mesh Networks	2.4	4.1	6%
Energy and Utilities			
Nuclear Power	14	23	5%
Grid Modernization	15	76	18%
Distributed Energy Resources (DER)	105	129	2%
Battery Energy Storage (BESS)	3.2	28	25%
Solar Energy & Storage	33	135	15%
Critical Materials and Frontier Technologies			
Semiconductors	285	1,013	14%
Critical Minerals Mining & Processing	63	137	8%
Edge Computing	7.4	58	23%
Quantum Computing	0.4	2.5	20%
Pharma and HealthTech			
Biopharmaceuticals	234	419	6.0%

Sources: Market research from Grand View Research, SNS Insider, Fortune Business Insights, PS Market Research, Credence Research, IMARC Group, and Precedence Research. Full source links and methodology notes are provided in the references.⁴

Geographically, investment is expanding into new areas across the country. Research from Brookings and MIT indicates that economically distressed counties have attracted a disproportionate share of announced strategic sector investments since 2021.⁵ New semiconductor, battery, energy, and defense facilities are increasingly being located in emerging manufacturing regions across the South, Midwest, and Mountain West, as shown in Exhibit 2. These investments are driving broader community investment, as industrial regions spur demand for affordable workforce housing, improved infrastructure, and local supply chains to support long-term growth.

Exhibit 2: Map of Private Industrial Investments Announced since 2021



Notes: Circle size represents company-announced capital investment. Multi-site totals are plotted at the primary location.
Sources: Public company announcements and investment trackers, including Semiconductor Industry Association Chip Supply Chain Investments, E2 Clean Economy Works, Rhodium Group/MIT CEEPR Clean Investment Monitor, Manufacturing Megaprojects Tracker, and company press releases.

With historic levels of public and private investment flowing through the U.S. economy, the next phase of America's reindustrialization will depend on rebuilding its industrial base. While capital is financing new semiconductor fabs, battery plants, energy facilities, defense production, and AI infrastructure, the long-term success of these investments will depend not only on attracting capital but also on strengthening the supply chains that enable production.



SECTION II: ROLE AND IMPORTANCE OF U.S. SUPPLIERS

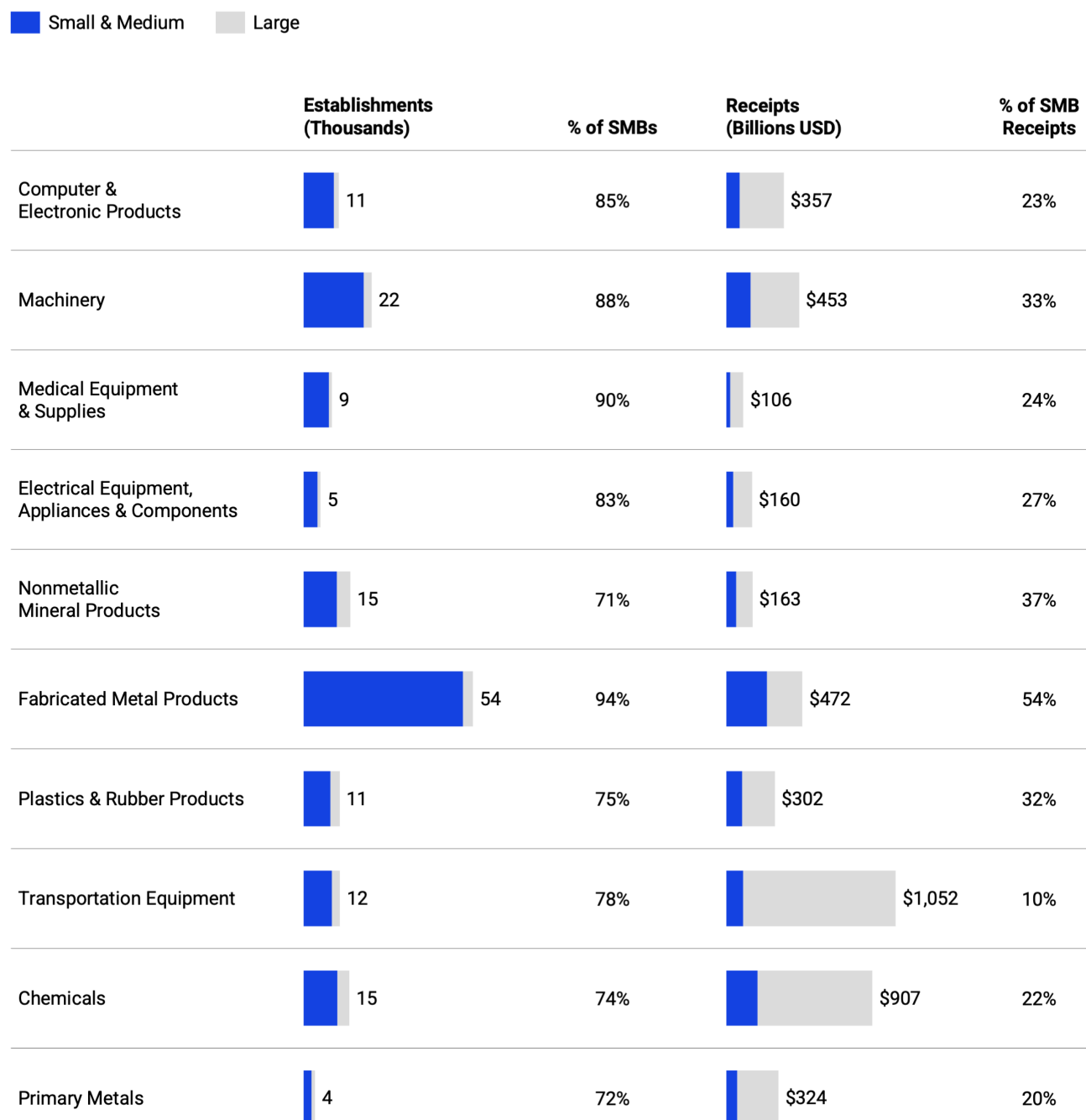
Supplier networks are the foundation of America's critical industries. Every industry relies on a network of suppliers that provide the materials, components, equipment, and services needed to design, build, and maintain products. These supplier networks connect raw materials to finished products and determine how quickly firms can expand production, adopt new technologies, and respond to changing market conditions.

As critical industries grow, demand is increasing throughout their supply chains. While large manufacturers often receive the most attention, suppliers produce specialized parts, precision components, tooling, industrial equipment, engineering services, and contract manufacturing critical to industrial growth. The strength of these supplier networks will play an important role in determining whether recent investments translate into lasting industrial growth.

Small and medium-sized businesses (SMBs) make up much of America's supplier base. Small firms account for almost nine in ten firms in machinery, electrical equipment, and other durable manufacturing and for nearly half of the sector's economic output (Exhibit 3).⁶ Their scale and specialization allow them to serve target markets, adapt production to customer needs, and provide capabilities that would be costly for large manufacturers to develop in-house.

The importance of suppliers extends beyond their direct economic contribution. Deep supplier networks allow manufacturers to source specialized capabilities, spread the risks and costs of innovation across firms, and respond more quickly as technologies and markets change. They also create pathways through which industrial growth reaches more businesses, workers, and communities. When these networks are thin, even major investments can depend heavily on imported inputs or a small number of large firms. And when they are deep and competitive, investment can generate broader gains in domestic production, innovation, and employment.

Exhibit 3: Small firm share of establishments and sector receipts



Notes: Small and medium-sized firms = Firms with fewer than 500 employees; Large firms = Firms with 500+ employees.

Source: U.S. Census Statistics of U.S. Businesses, 2022

The semiconductor industry illustrates how these networks operate. A semiconductor fabrication plant depends on hundreds of suppliers that provide silicon wafers, specialty chemicals, precision-machined parts, clean-room equipment, robotics, testing equipment, packaging, logistics, and maintenance services (Exhibit 4).⁷ While a fabrication plant can be built in several years, developing the supplier network that supports it often takes much longer. Suppliers must invest in specialized equipment, develop technical expertise, train workers, obtain certifications, and build the customer relationships needed to compete.

The same dynamic is emerging across America's critical industries. Batteries, aerospace and defense, energy systems, and AI infrastructure all depend on deep networks of specialized suppliers. Alongside investment in major production facilities, building a competitive industrial base requires strengthening the suppliers that enable those facilities to operate, expand, and remain productive over time.

Exhibit 4: Semiconductor Value Chain Breakdown

	Stage	Subsectors	Number of firms	% of SMBs
Upstream	Upstream activities create the materials, tools, and designs for chip production	Raw Materials & Chemicals	2,621	98%
		Manufacturing Equipment	170	95%
		Chip Design (Fabless firms)	No public data available	N.A.
Midstream	Midstream activities turn wafers into chips through precision manufacturing	Wafer Fabrication	822	95%
		Process Control & Metrology	672	99%
		Cleanroom Infrastructure	9,019	99%
Downstream	Downstream activities tailor chips to integrate into end-uses	Assembly, Packaging, & Testing	No public data available	N.A.
		Product Integration	861	99%

Source: U.S. Census Bureau County Business Patterns, 2023

SECTION III: UNDERSTANDING THE CONSTRAINTS ON SUPPLIER GROWTH

Demand for supplier products and services is growing faster than the domestic supplier base can respond. The current wave of investment is increasing demand for components, materials, equipment, and services across critical industries. Manufacturers and project developers increasingly require suppliers that can produce at scale, meet rigorous technical specifications, and integrate into complex domestic supply chains. While investment has accelerated, many domestic suppliers are still building the production capacity, technical capabilities, and workforce needed to compete in these rapidly evolving markets.

This supplier gap reflects several distinct constraints. **Capability constraints** occur where suppliers possess manufacturing capacity but lack the technologies, certifications, engineering expertise, supplier ecosystems, or customer relationships needed to compete in emerging industries. **Capacity constraints** arise when competitive suppliers approach production limits and require additional equipment, facilities, and workers. **Transition constraints** emerge where firms remain concentrated in mature products and markets while demand shifts toward faster-growing industries such as semiconductors, energy, and aerospace and defense. **Competitiveness constraints** stem from structural disadvantages—including energy and feedstock costs, capital intensity, regulatory requirements, and global price competition—that limit the economics of domestic manufacturing and industrial services.

Comparing domestic production with trade patterns offers important signals of where supplier constraints are most pronounced. Imports have grown alongside domestic production across many strategic industries, indicating that domestic suppliers have not expanded at the speed, scale, or sophistication required to fully meet growing demand. A significant proportion of this import growth has occurred in intermediate goods—including machinery, electronic components, electrical equipment, and industrial materials—that are essential inputs into U.S. manufacturing.⁸



Exhibit 5 combines indicators of U.S. production capacity, industry growth, and trade exposure to diagnose the binding constraints facing different manufacturing industries. Capacity utilization indicates whether existing domestic production is approaching its operating limits, while value added growth measures the pace of industry expansion and the strength of underlying demand.⁹

Import penetration measures the share of domestic demand supplied by foreign producers and serves as an indicator of the competitiveness and maturity of domestic supplier networks. Industries with high import penetration often face greater challenges to reshoring production back to the U.S., reflecting not only lower production costs abroad but also more developed supplier ecosystems, larger economies of scale, and decades of accumulated manufacturing know-how.

Based on these indicators, the U.S. manufacturing sector can be sorted into four industry archetypes, each defined by a different constraint on supplier growth.

Exhibit 5: Diagnosing Supplier Constraints Across U.S. Manufacturing Industries

Industry	Capacity Utilization	Value Added Total (2025)	Value Added Growth ('22-25)	Import Penetration (2025)	Industry Constraints
Computer & Electronic Products	75%	\$318B	3.1%	85%	Capability Constrained
Machinery	78%	\$205B	5.4%	45%	Capability Constrained
Medical Equipment & Supplies	77%	\$75B	5.7%	48%	Capability Constrained
Electrical Equipment, Appliances & Components	87%	\$83B	5.8%	61%	Capacity Constrained
Nonmetallic Mineral Products	81%	\$76B	2.1%	14%	Capacity Constrained
Fabricated Metal Products	74%	\$193B	3.2%	18%	Transition Constrained
Plastics & Rubber Products	75%	\$101B	2.1%	23%	Transition Constrained
Transportation Equipment (including Aerospace, Motor Vehicles, and Ship Building)	68%	\$394B	6.4%	33%	Transition Constrained
Chemicals	72%	\$578B	4.3%	36%	Competitiveness Constraints
Primary Metals (including Critical Minerals Processing)	66%	\$78B	-3.0%	58%	Competitiveness Constraints

Notes: Industry Constraints — segmentation analysis based on capacity, value added growth, and trade value indicators.

Sources: Capacity Utilization — Federal Reserve, Industrial Production and Capacity Utilization; Value Added Total and Value-Added Growth — U.S. Bureau of Economic Analysis; Import penetration — calculated as imports ÷ (domestic shipments + imports - exports), using U.S. Census Bureau Annual Survey of Manufactures and USITC (imports and exports).

Capability-constrained industries

Capability-constrained industries have a high reliance on imports and moderate domestic capacity utilization—evidence that these industries lack comparable supplier ecosystems, specialized technologies, engineering capabilities, and accumulated manufacturing expertise to international peers. Expanding domestic production in these industries depends not just on new factories, but on building the technical capabilities required to compete in globally sophisticated supply chains.

These industries form much of the upstream manufacturing base for semiconductor fabrication, aerospace and defense, and biopharmaceutical manufacturing. Computer and electronic products manufacturers produce electronic components, sensors, and precision instruments. Machinery suppliers produce semiconductor fabrication equipment, industrial automation systems, and advanced production machinery. Medical equipment and supplies manufacturers produce medical devices, surgical instruments, and other precision technologies supporting the biopharmaceutical and health technology industries.

Together, these suppliers produce the critical components, production equipment, and precision technologies that underpin strategic industries where firms must meet rigorous technical, quality, and certification requirements.

Capacity-constrained industries

Capacity-constrained industries have high capacity utilization rates and strong industry growth, indicating that competitive domestic producers are approaching production limits as demand continues to accelerate. In these industries, expanding domestic supply depends primarily on increasing manufacturing capacity through investments in production facilities, equipment, workforce, and capital.

This industry grouping includes manufacturers that produce the equipment and industrial materials needed to build energy infrastructure, electric transmission and distribution systems, data centers, and advanced manufacturing plants. Electrical equipment manufacturers produce transformers, switchgear, motors, generators, batteries, wire and cable, and electrical distribution equipment. Nonmetallic mineral products manufacturers produce cement, concrete, glass, insulation, ceramics, and other construction materials essential for industrial facilities and infrastructure.

These industries are a critical part of the supply base that supports America's industrial expansion, enabling the construction of the infrastructure and production facilities needed for long-term economic growth.

Transition-constrained industries

Transition-constrained industries represent a legacy manufacturing base that is heavily concentrated in mature products and markets. Characterized by moderate domestic capacity utilization and relatively low import penetration, these industries require help to support existing suppliers reposition their products, processes, and customer relationships to compete in faster-growing strategic industries. Expanding domestic supply depends on supporting suppliers as they diversify into new markets through investments in engineering capabilities, product development, certifications, and business development.

This set of industries includes manufacturers that produce a broad range of intermediate goods used throughout the manufacturing economy. Fabricated metal products manufacturers produce structural components, precision stampings, fasteners, fabricated assemblies, and industrial hardware. Plastics and rubber products manufacturers produce molded components, engineered plastics, seals, gaskets, tubing, and specialty polymers.

Transportation equipment manufacturers are also adapting to evolving technologies, shifting market demand, and intensifying global competition, particularly as trends like electrification transform final assembly and parts manufacturing across aerospace, automotive, rail, ships, and other transportation systems. These firms often possess transferable manufacturing capabilities—including precision machining, systems integration, and quality management—that can be applied to other strategic industries.

Unlocking growth in these industries depends on helping established manufacturers convert existing capabilities into new commercial opportunities across strategic supply chains.

Competitiveness-constrained industries

Competitiveness-constrained industries exhibit lower capacity utilization, moderate-to-high import penetration, and structural cost disadvantages, suggesting that supplier growth is constrained less by manufacturing capability than by the economics of domestic production. The primary challenge is improving long-term competitiveness in industries where energy costs, feedstocks, capital intensity, and global market dynamics heavily influence investment decisions. Expanding domestic production therefore depends on strengthening the underlying economic conditions that enable suppliers to compete globally.

This archetype includes manufacturers that produce many of the foundational materials used across the industrial economy. Chemical manufacturers produce specialty chemicals, industrial gases, battery materials, coatings, adhesives, pharmaceutical ingredients, and other materials that support a range of advanced manufacturing supply chains. Primary metals manufacturers produce steel, aluminum, copper, specialty alloys, rare earth alloys, and other engineered materials that serve as foundational inputs into aerospace and defense, semiconductors, and critical minerals processing.

These industries supply the essential materials that underpin America's industrial base, but strengthening their competitiveness will require coordinated investments in productivity, innovation, and advanced manufacturing technologies alongside continued supplier development.

Together, these archetypes demonstrate that the barriers to expanding domestic supplier networks differ substantially across industries. Some sectors require expanding production capacity, others require rebuilding technical capabilities and supplier ecosystems, while still others require helping established manufacturers transition into faster-growing markets. Building America's industrial base requires more than adding factories—it requires targeted strategies that address the specific constraints limiting supplier growth in each industry.



SECTION IV: SUPPLIER PRODUCTIVITY – GAPS AND OPPORTUNITIES

Across industries, domestic suppliers must be able to expand manufacturing capacity, invest in new technologies, develop skilled workers, build management and engineering capabilities, and access evolving markets. These actions determine whether firms can keep pace with growing demands and compete in increasingly complex global supply chains.

The consequences are evident when evaluating supplier productivity. Small and mid-sized manufacturers generate \$142,000 in value added per worker across industries, compared with \$319,000 for large firms—a productivity gap of over 55 percent.¹⁰ Further, U.S. small businesses have been less productive than larger companies and small firms in other advanced economies.¹¹

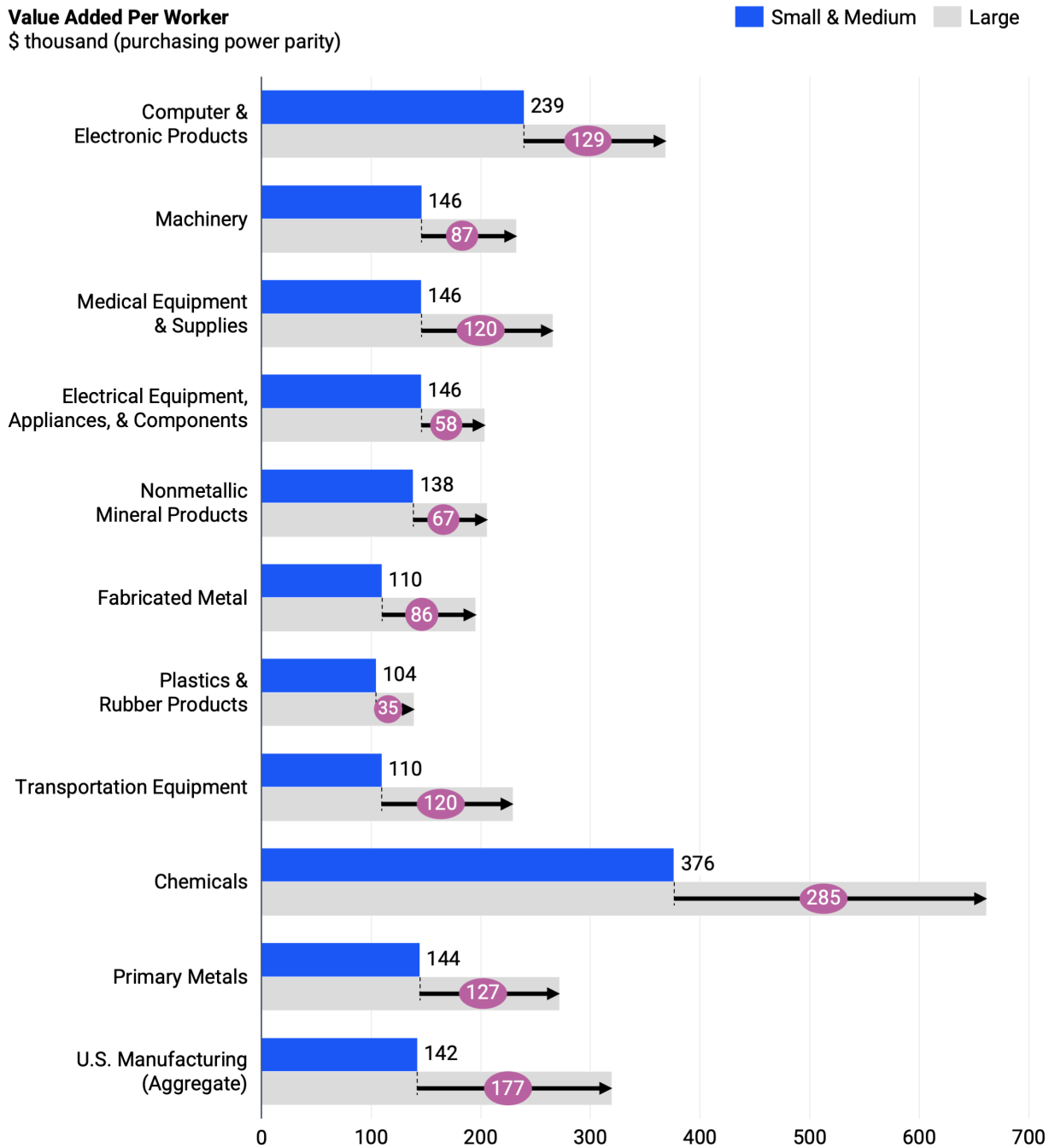
The productivity gap varies substantially across industries (Exhibit 6) and is loosely associated with the four industry archetypes. Large firms generate more value added per worker across every industry, although the size of the gap varies widely. These differences reflect variation in production scale, capital intensity, technology adoption, and markets served by small and large firms.

Capability-constrained industries require sustained investment in advanced equipment, engineering expertise, digital technologies, and quality systems that enable smaller firms to perform more sophisticated work. Capacity-constrained industries need automation, workforce development, and process improvements that allow suppliers to expand output efficiently as demand grows, rather than relying primarily on additional workers and facilities.

Transition-constrained industries need to modernize operations while repositioning existing capabilities toward higher-value products and markets. Investments in engineering, product development, certifications, and customer relationships can help suppliers apply existing production expertise to new strategic industries. Competitiveness-constrained industries require productivity improvements alongside broader efforts to address the scale, energy, feedstock, and capital costs that shape the economics of domestic production.



Exhibit 6: Firm Productivity (SMM relative to Large Firms), by Manufacturing Subsector



Note: Value added per worker used to measure labor productivity using receipts per worker and gross output-value added ratios by sub-sector. Small and medium-sized firms = Firms with fewer than 500 employees; Large firms = Firms with 500+ employees.

Sources: U.S. Census Annual Survey of Manufactures; Statistics of U.S. Businesses (2022).



Sizing the Opportunity of a High-Performing Supplier Base

Closing the productivity gap among small and mid-sized manufacturers represents a significant opportunity to expand U.S. industrial output and raise worker earnings. Narrowing that gap by 20 to 40 percent across approximately 3.8 million workers could generate **between \$145 billion and \$292 billion in incremental GDP annually**.¹²

This opportunity is concentrated in industries where smaller suppliers already form a substantial share of the production base. In capability-constrained industries, gains would come from helping firms adopt advanced technologies, build technical and management expertise, and meet the requirements of sophisticated customers. In capacity-constrained industries, they would come from enabling competitive firms to expand production. In transition-constrained industries, they would come from helping established suppliers apply existing capabilities to faster-growing markets. The opportunity therefore depends not only on building a new base of suppliers but also on enabling firms already at work to become more productive and compete for a greater share of growing domestic demand.

A higher-performing supplier base could also support substantial gains in worker earnings. OECD research finds that small manufacturing firms pay approximately 20 percent less than large firms.¹³ Narrowing this wage gap across the 4.1 million workers employed by advanced manufacturing SMBs could generate **up to approximately \$52 billion** in additional annual labor income.¹⁴ This wage opportunity illustrates how the benefits of higher supplier performance could extend beyond firm revenues to workers and the regional economies where manufacturers operate.

Productivity and wages are closely connected. More productive firms are better positioned to invest, expand production, and support higher compensation. Higher wages, in turn, improve firms' ability to attract and retain the skilled production workers, engineers, technicians, and managers needed to adopt new technologies and sustain growth. Closing the supplier productivity gap could therefore create a reinforcing cycle of greater output, stronger firms, and higher worker earnings.

Capturing this opportunity will require strengthening the capabilities that allow firms to improve and scale. Access to capital determines whether suppliers can invest in equipment, automation, facilities, and certifications. Technical expertise and management experience shape whether those investments translate into higher productivity. Workforce development provides the skills needed to operate increasingly sophisticated production systems. Access to markets creates the customer demand and revenue needed to sustain growth. Together, these capabilities determine whether rising industrial demand translates into greater domestic production and broadly shared economic gains.

Closing supplier productivity gaps could generate **\$145-292 billion in incremental GDP annually** and up to **\$52 billion in additional labor income.**

SECTION V: BUILDING THE SUPPLIER BASE – WHAT IS REQUIRED

Meeting the growing demands of America's strategic industries will depend on whether suppliers can invest, adapt, and grow. Firms need visibility into emerging markets, management expertise to chart a path into them, capital to modernize and expand, and workers prepared for increasingly sophisticated production.

These requirements reinforce one another, forming a growth pathway. Credible market opportunities give firms a reason to invest; managers translate those opportunities into business and operational strategies; capital finances the necessary equipment, technologies, and capabilities; and skilled workers turn those investments into higher productivity and more complex production. Building a stronger supplier base depends on making this pathway easier for more firms to navigate.

Creating pathways to markets and scale

Supplier growth begins with credible market opportunities. Firms are unlikely to invest in equipment, workers, certifications, and new technologies without confidence that those investments can lead to sustained business. Yet smaller manufacturers often lack visibility into emerging demand, relationships with large buyers, and the resources needed to navigate lengthy qualification and procurement processes. In strategic industries, suppliers may need to meet technical standards, develop prototypes, complete certifications, and qualify with customers years before meaningful revenue materializes.

Stronger pathways to market can give suppliers earlier visibility into future demand, clearer information about customer requirements, and support navigating qualification and procurement. Buyers and industry intermediaries can help connect emerging demand with capable firms, creating a clearer progression from market opportunity to initial contracts and, ultimately, to larger and more complex work.

Strengthening managerial capabilities and business support

Supplier growth depends on management teams capable of evaluating market opportunities, identifying capability gaps, planning investments, integrating new technologies, and navigating growth. Smaller manufacturers often operate with thin management teams, leaving limited capacity for longer-term strategy alongside day-to-day operations. These constraints become more significant as firms enter industries with unfamiliar technologies, standards, customers, and procurement processes.

Specialized business support and industry expertise can help suppliers assess opportunities, develop investment strategies, adopt new technologies, and make the operational changes needed to compete. Stronger managerial capabilities can improve investment decisions, reduce the risks of entering new markets, and help firms manage the complexity that accompanies growth.

Expanding access to capital

Supplier growth depends on capital that matches the scale and timeline of investment. Smaller manufacturers need financing for equipment, automation, digital technologies, facilities, engineering capabilities, workforce development, and certifications. Yet the Federal Reserve's 2026 Small Business Credit Survey found that only 42% of manufacturing SMBs seeking financing received the full amount requested, while 22% received none. Of those denied, 37% cited existing debt, a significant jump from the 22% citing the same in 2021.¹⁵

Financing must reflect the multiyear process of becoming a more competitive supplier. Entering strategic supply chains can require simultaneous investments in equipment, technical staff, certifications, product development, and customer qualification before new revenues materialize. A stronger supplier base needs a continuum of capital that can support modernization, expansion, and market entry while accommodating the risk and long timelines associated with supplier development.

Developing the workforce of the future

Supplier growth depends on workers capable of operating increasingly sophisticated production systems. Engineers, technicians, machinists, quality specialists, and production workers must be able to deploy automation, meet rigorous standards, and adapt as technologies and customer requirements change. The challenge extends beyond filling current vacancies: suppliers may need new technical capabilities before local training systems have adapted, while rapid technological change increases the need to continually update the skills of existing workers.

Workforce development should anticipate these shifts and align training with the capabilities suppliers are building. Stronger connections among manufacturers, buyers, community colleges, apprenticeship programs, and incumbent-worker training providers can identify changing skill needs earlier, share the cost of specialized training, and prepare workers as new production capacity and supply chains develop.

Looking forward: Building the supplier base as a system

The path from market opportunity to production is rarely linear, but each element shapes what comes next. Market opportunities create the rationale for investment; managers determine how firms respond; financing enables them to act; and skilled workers turn new equipment, technologies, and processes into higher performance. Gaps anywhere along this pathway can prevent capable suppliers from growing.

The potential gains are substantial. Narrowing the productivity gap between small and large manufacturers could generate \$145 billion to \$292 billion in additional annual GDP, while narrowing the wage gap could add up to \$52 billion in annual worker earnings. Over the next decade, these gains—combined with more firms reaching scale and greater participation in higher-value strategic supply chains—could represent a cumulative economic opportunity exceeding \$1 trillion.

Capturing this opportunity will depend on how the United States approaches the next phase of its industrial expansion. The country already has many of the necessary building blocks: growing demand across strategic industries, substantial public and private investment, a large base of existing manufacturers, and institutions that support financing, technology adoption, workforce development, and market access. The challenge is to connect these assets more effectively around how suppliers invest and grow.

The current wave of industrial investment creates an opportunity to build a deeper and more productive manufacturing base. The outcome will depend not only on the scale of capital flowing into strategic industries, but also on how widely the resulting demand reaches domestic suppliers—and whether those firms can develop the capabilities to respond. If more suppliers can move from opportunity to investment, from investment to higher productivity, and from higher productivity to sustained growth, the benefits could extend well beyond the firms themselves. Stronger suppliers could increase domestic production, support higher worker earnings, and improve the ability of critical industries to expand and adapt over time.

America's reindustrialization is already under way. The question now is whether the supplier base can grow with it. Investing in the firms that provide the materials, components, equipment, and services behind industrial growth could help turn today's wave of investment into a more productive, competitive, and resilient U.S. economy.



FOOTNOTES AND REFERENCES

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The convergence range reflects plausible improvements in capital access, technology adoption, workforce capabilities, and supply chain integration, informed by evidence on SME productivity convergence under coordinated support policies (OECD, SME and Entrepreneurship Outlook 2023; Ref. 13). Value added per worker is used as the measure of labor productivity. Estimates are illustrative and intended to indicate the order of magnitude of the opportunity.
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