Asia defence: from flashpoint to defence hub

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After decades of relying on external security guarantees and imported equipment, Asia is entering a sustained, multi-year cycle of strategic defence investment. Governments are responding to a more contested security environment by resetting policy, funding larger procurement plans and building domestic industrial capability. This emerging capital expenditure (capex) and readiness cycle creates a structural opportunity. It supports manufacturers and suppliers with the closest exposure to Asia's procurement pipeline, while expanding recurring revenue in sustainment, upgrades and munitions.

Structural forces driving Asia defence

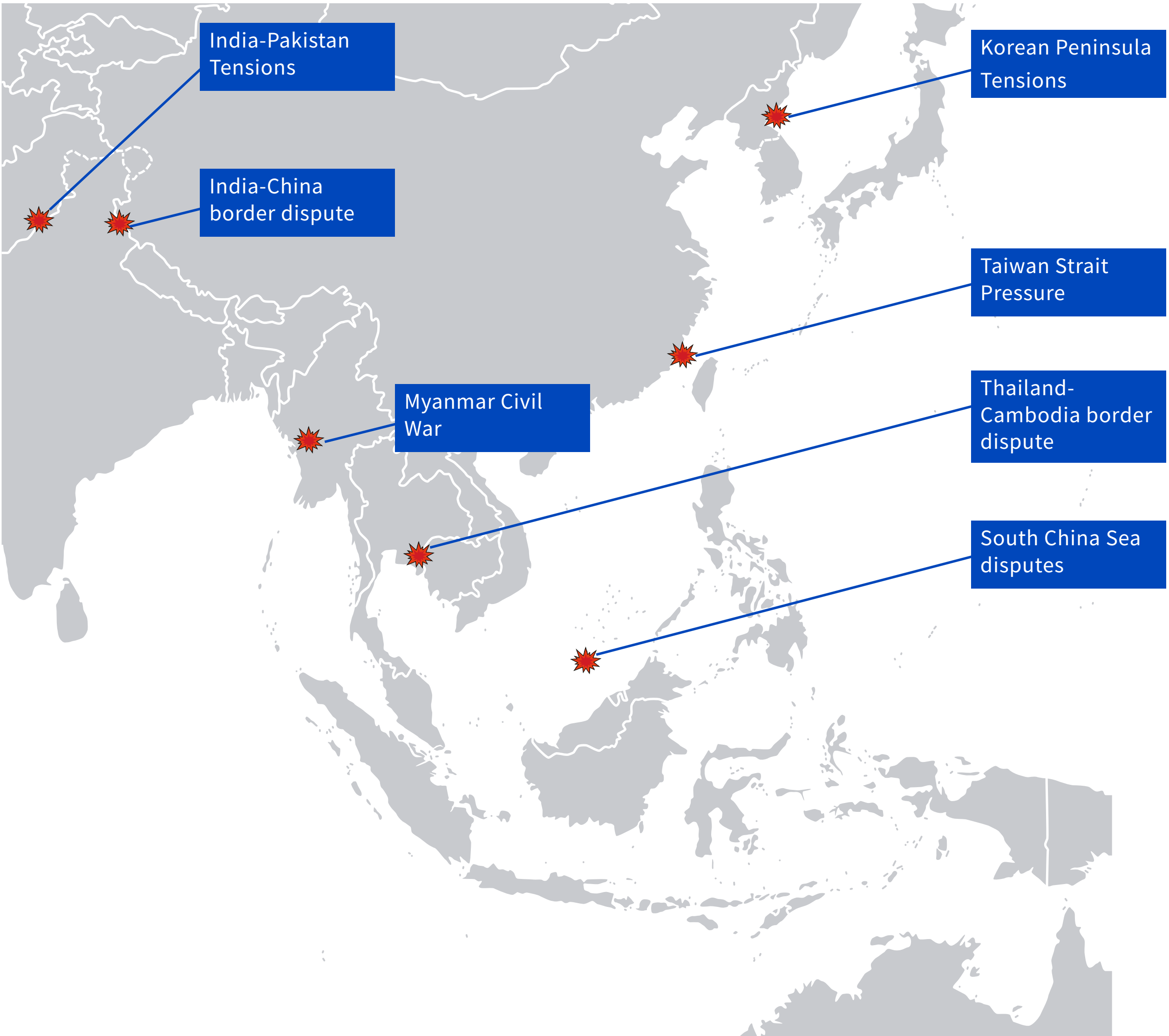
Geopolitical tension is keeping readiness structurally high

Asia's security environment is more confrontational. The region faces multiple flashpoints, and several are persistent rather than cyclical. This lifts the baseline for readiness and accelerates inventory modernisation.

Higher readiness is expensive. It supports sustained demand not only for new equipment, but also for maintenance, upgrades, training, and munitions replenishment. These categories are typically less discretionary than headline procurement because they are tied to operational availability.

Meanwhile, Asia has multiple concurrent flashpoints spanning the Taiwan Strait, the Korean Peninsula, and the India–Pakistan border. The breadth of risk helps explain why defence has become a standing budget priority rather than a short-term response.

Figure 1: Geopolitical Flashpoints in Asia-Pacific



Source: WisdomTree, December 2025.

Strategic autonomy is moving from ambition to funded policy

As the US refocuses, allies and partners are carrying more of their own security burden. In Asia, this is translating into procurement and industrial plans that prioritise local capability. Strategic autonomy is increasingly expressed through indigenisation, with governments seeking to improve self-reliance and build a domestic defence industry.

Localisation shifts more defence spending to domestic firms. Licensed assembly, domestic industrial policy and in-country maintenance can redirect defence spending toward domestic manufacturers and service providers. This can strengthen the strategic position of domestic suppliers over the programme life cycle.

For example, India reports that 65%[1] of its defence equipment was produced domestically

1 Source: United Service Institution of India, Assessment of India's Indigenous Defence Manufacturing Capabilities, May 2025.

by value in 2024, and the policy ambition is to push this higher over time. In parallel, India's Atmanirbhar Bharat agenda includes an ambition to reach INR 3 trillion[2] in defence production by 2029. South Korea is pursuing scale as well, with a target to become the world's fourth largest defence exporter by 2030[3].

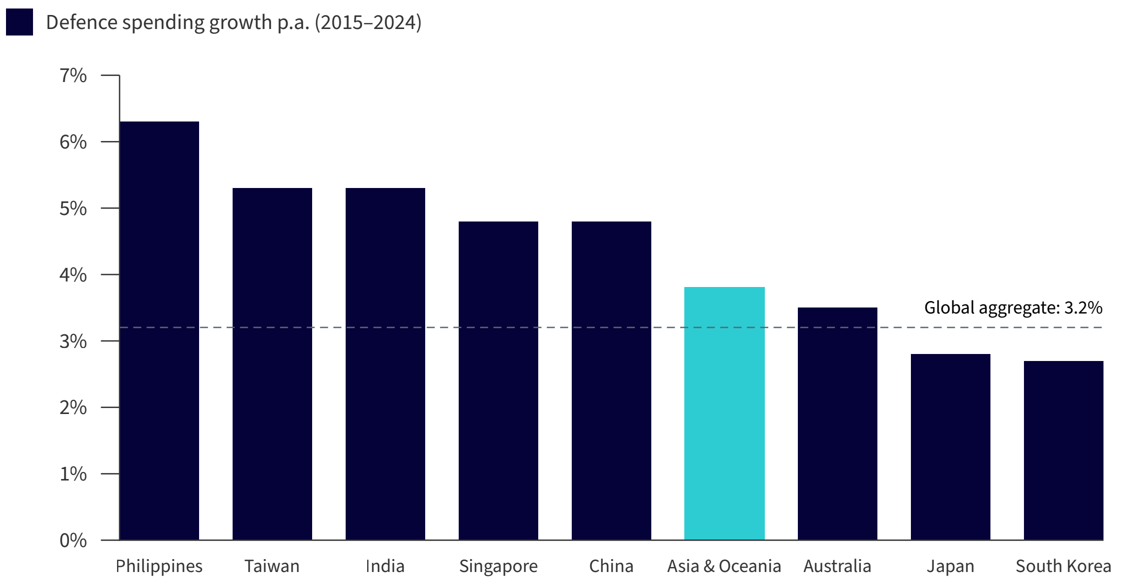
Budgets are stepping up, and the plans are increasingly multi-year

Defence spending in the Asia-Pacific has moved from incremental to structural. The shift is visible in formal targets, updated security doctrines, and longer funding horizons. Asia's spending growth has also been persistently higher than the global baseline across cycles.

This matters because multi-year plans improve contract visibility and allow the industry to invest in capacity. They also support broader ecosystems and domestic munitions lines that require sustained utilisation to be economic.

Asian defence spending reached a post-Cold War record and recent growth has remained above the global baseline. From 2015 to 2024, the Compound Annual Growth Rate (CAGR) for Asia and Oceania was 3.8% versus 3.2% globally[4]. Japan illustrates how this trend is now being reinforced by explicit policy. Its 2022 National Security Strategy set a goal to lift defence spending to 2% of GDP by FY2027, marking a break from decades of around 1% of GDP.

Figure 2: Growth in major Asian countries is outpacing the global level



Source: SIPRI Military Expenditure Database. Data extracted as of 16 December 2025. Defence spending growth rates are based on the amounts in USD term. **Historical performance is not an indication of future performance and any investments may go down in value.**

2 Source: United Service Institution of India, Assessment of India's Indigenous Defence Manufacturing Capabilities, May 2025.

3 Reuters: South Korea to become 4th-largest global defence power, 20 October 2025.

4 Source: SIPRI Military Expenditure Database. Data extracted as of 16 December 2025. Defence spending growth rates are based on the amounts in USD terms. **Historical performance is not an indication of future performance and any investments may go down in value.**

Cross sectoral synergy is widening the opportunity in broader sectors

Defence budgets are no longer concentrated in ships, aircraft and armoured vehicles. As in Europe and the US, spending is spreading into unmanned systems, cybersecurity, space, and C4ISR[5]. These areas sit at the intersection of defence and the broader technology sectors.

Unmanned systems, including drones, are a clear example. The Russia–Ukraine war has shown how unmanned systems can be deployed at scale, from surveillance to strike missions. Asian defence companies are responding by expanding unmanned offerings, partnering with electronics and software suppliers, and integrating unmanned systems into wider networks.

These segments often have shorter upgrade cycles, more frequent replacement, and more recurring service revenue than traditional platforms. They also broaden the set of potential beneficiaries to include subsystem suppliers. However, technological standards can evolve, and competition in tech sectors is intense, which can put pressure on margins.

Country case studies: drivers by major market

Asia's defence expansion is becoming structural, but the drivers differ by country. Japan's post-2022 shift shows how a doctrine reset can reshape procurement and lock in a multi-year spending path. South Korea highlights how domestic capability and export ambition can scale production, while India shows how procurement and industrial policy are steering more spending toward domestic suppliers over time.

Japan: from constrained posture to funded modernisation

In late 2022, Japan revised key security documents, signalling a move beyond post-war constraints. Concrete changes include plans to acquire counterstrike capabilities and to relax long-standing arms export restrictions, which will provide clearer funding support and a wider set of capabilities to procure.

The political backdrop has strengthened. In February 2026, Prime Minister Sanae Takaichi led the Liberal Democratic Party (LDP) to a decisive lower house result, improving the government's ability to advance a more assertive security agenda[6]. The policy shift is relatively clear. The focus now is on delivery.

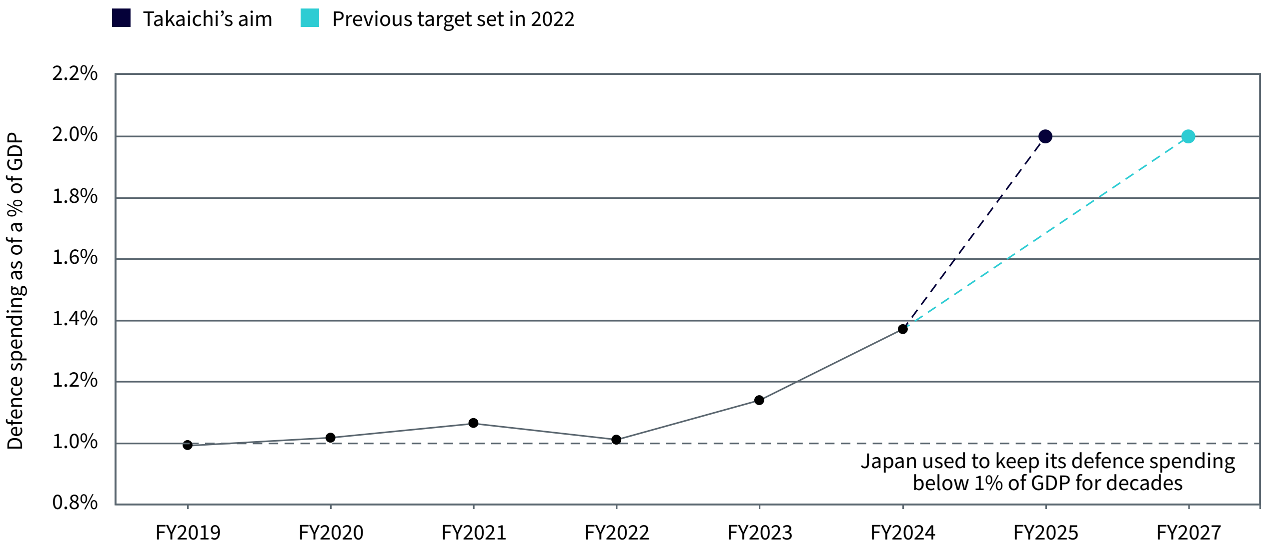
A key watch point is whether spending will accelerate. The formal target remains 2% of GDP by FY2027. Prime Minister Takaichi may support faster execution and further steps that shift Japan toward a more conventional security role. This includes continued debate over constitutional revision.

Near-term priorities include expanding munitions stockpiles, strengthening air and missile defence, and upgrading command and intelligence. These areas pull through recurring demand in electronics, spares and upgrades, alongside headline procurement.

5 C4ISR: Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance

6 Reuters: Japan's 'Iron Lady' Takaichi forges historic election win, 7 February 2026.

Figure 3: Japan's defence spending accelerates



Source: SIPRI, National Security Strategy (2022), Japan Ministry of Defence. Japan's fiscal year runs from 1st April to 31st March.
Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.

South Korea: defence tech independence plus export scale

South Korea's defence industry is shaped by a dual engine. Domestic demand supports high readiness and modernisation, while exports offer scale and production continuity. Government policy aims to strengthen technological sovereignty, reduce import dependence and compete in global markets.

On the one hand, self-sufficiency indicators are improving. Korea's 2020–24 arms imports fell 24% versus 2015–19[7]. At the same time, Korean defence companies recorded revenue growth that outpaced global developed market peers over 2022–2024.

On the other hand, export ambition is explicit. South Korea aims to become the world's fourth-largest defence exporter by 2030. What is changing is the diversity of exports and the customer base. Exports are reaching a wider set of destinations, including Europe, Southeast Asia, the Middle East and Latin America, and spanning multiple categories, such as aircraft, armoured vehicles and artillery. The Poland relationship illustrates continuity. After a major arms package was signed in 2022, a further K2 tank deal was agreed in 2025[8].

Although exports remain sensitive to regulation and geopolitics, export momentum is strong, and domestic demand provides ballast when export timing is uneven.

7 Source: SIPRI Arms Transfers Database, as of March 2025.

8 Source: Ministry of Defence of Poland, The Korea Times.

Figure 4: South Korean arms exports grow and diversify

Category	1990-94	1995-99	2000-04	2005-09	2010-14	2015-19	2020-24
Air-defence systems	-	-	-	-	-	-	60
Aircraft	-	42	11	13	476	797	318
Armoured vehicles	11	17	5	12	12	61	486
Artillery	10	-	69	546	646	248	1.097
Missiles	-	-	-	-	9	31	33
Ships	236	49	325	309	134	1,817	806

Source: SIPRI Arms Transfers Database, Mar. 2025. The bars and figures compare the values of exports of different categories of major arms in each period, calculated using SIPRI trend-indicator values. SIPRI Trend-Indicator Values (TIVs) are SIPRI's standardised measure of the volume of international transfers of major conventional weapons, based on the military resources transferred rather than their financial value. **Historical performance is not an indication of future performance and any investments may go down in value.**

India: procurement reform and industrial build out under Atmanirbhar Bharat

India's defence theme is anchored in self-reliance. The policy framework aims to reduce import dependence, expand domestic production, and build a competitive industrial base.

For decades, India relied heavily on imported systems, with Russia and European suppliers playing an important role. Imports remain significant, but the direction is shifting as India diversifies suppliers and pushes local manufacturing.

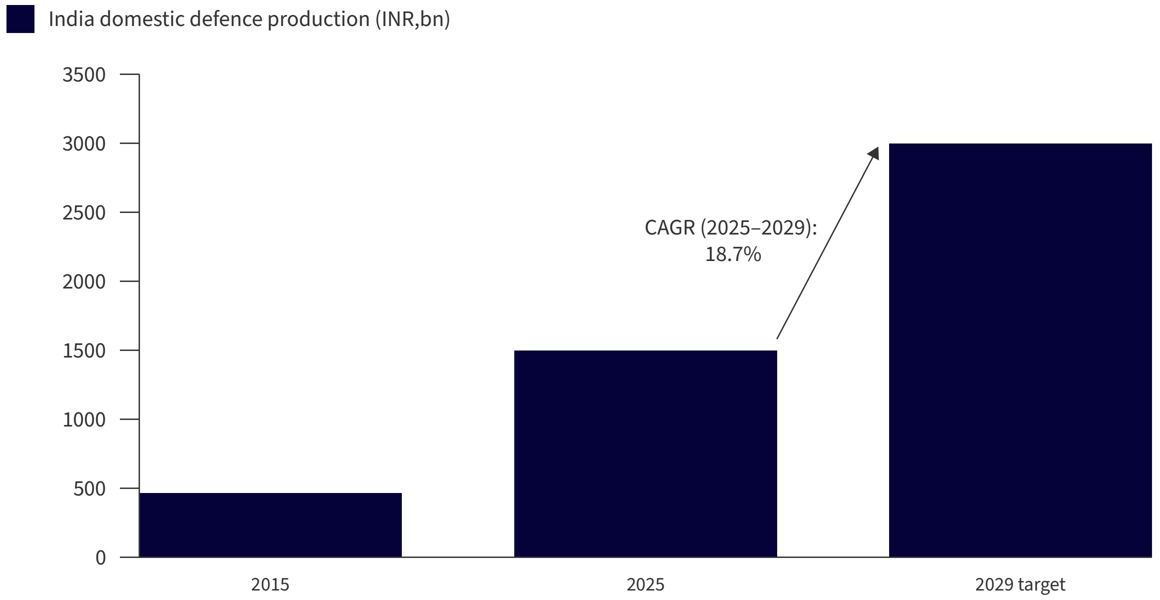
The investment implication is straightforward. More programmes are structured to reward local capacity. India targets defence self-reliance by 2027 to reach 70%[9]. Firms that can deliver indigenised platforms and subsystems, plus maintenance and upgrades, should see a growing role.

HAL's Tejas fighter programme illustrates the shift. It is designed and built domestically, and it supports a broader ecosystem in aviation that can scale as upgrade cycles progress.

Execution risk remains. Domestic programmes can face supply chain constraints and changing procurement priorities. Even so, the policy direction is supportive of a larger and more capable domestic industrial base.

9 Source: Teji Mandi, India Ministry of Defence. India Brand Equity Foundation.

Figure 5: India's domestic defence production targets to 2029



Source: United Service Institution of India, Assessment of India's Indigenous Defence Manufacturing Capabilities, May 2025.
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Conclusion

Asia's defence landscape is at an inflection point. Security pressures are high, budgets are rising on multi-year paths, and industrial policy is shifting more spend toward domestic capability. With modernisation expanding into defence sectors and beyond, the region is building a broader, more durable defence hub that supports long-term demand.

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