Asia's Defense Spending Surge

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Christopher Gannatti, CFA
Global Head of Research

Key Takeaways

- Asia's defense spending is projected to rise from roughly $700 billion in 2026 to $1.0 to $1.2 trillion by 2030, with capital flowing toward drones, ships, missiles and defense electronics, positioning the WisdomTree Asia Defense Fund (WDAF) to benefit from a multi-year capex super-cycle.
- Japan, South Korea, Taiwan and India are accelerating defense investment through domestic manufacturing, advanced technologies and exports, creating broad opportunities across aerospace, naval systems, electronic warfare and space that WDAF is designed to capture.
- Beyond prime contractors, suppliers of electronics, specialty materials, propellants and batteries could see broad gains from rising procurement, reinforcing WDAF's diversified exposure across the defense supply chain.

Why the Capex Super-Cycle Is Just Getting Started

For decades, defense budgets across Asia were measured, predictable, and largely dwarfed by the United States. That era is over. The region is now in the early innings of a structural rearmament cycle that has been framed as a movement from roughly $700 billion in aggregate defense spending in 2026 toward $1.0–1.2 trillion by 2030.1 The drivers are not episodic, and are rooted in geopolitical realignment, technology competition, and the hard lesson that deterrence requires sustained investment in hardware, not just diplomatic posture.

For investors, the question is not whether Asia's defense budgets are rising, as they clearly are. The more interesting question is *where* that spending flows within the defense supply chain, and which companies sit at the convergence of multiple tailwinds. The answer points to what could be termed a capex super-cycle, one in which procurement, research and development, and infrastructure spending grow far faster than the traditional personnel-heavy budget lines that characterized earlier eras.

The Budget Architecture Is Changing

The most important structural shift underway is not the headline spending number; it is the *composition* of that spending. Across Japan, South Korea, Taiwan, and India, defense ministries are deliberately:

- Rebalancing away from operating expenses, such as salaries, benefits, and maintenance

- Rebalancing toward capital expenditure, which means such areas as platforms, weapons systems, sensors, ships, aircraft, and the electronics that tie them together

Japan is the clearest case study. After decades of self-imposed restraint near 1% of gross domestic product (GDP), Tokyo is pushing toward a 2% target framework. The FY2027 effective ratio, when coast guard, R&D, and cyber investment are included alongside core military spending, is already closer to 1.5%, and the government has explicitly named strategic sectors for elevated investment:

1. Drones
2. Warships
3. Rockets
4. Launch sites

That specificity matters because it’s telling us that Japan is not simply spending more; it is directing that spending toward high-technology, capital-intensive domains where the industrial base compounds over time.

Korea's trajectory is similarly defined. With a defense budget rising from roughly 2.4% of GDP in 2026 toward a targeted 3.5% by 2035, Seoul is simultaneously investing in domestic platform development and positioning itself as a global defense exporter. The success of Korean land systems, like the K2 main battle tank and self-propelled artillery in European markets, demonstrates that the country's defense industrial base has reached world-class production standards and cost competitiveness. Export success, in turn, funds further domestic R&D, creating a virtuous cycle.

Taiwan presents the most acute case. Under pressure to move toward NATO-style defense reporting and targeting spending equivalent to 5% of GDP by 2030, Taipei is pursuing procurement-heavy supplementary budgets as rapidly as its political economy allows.2 The emphasis on self-reliance, which includes indigenous shipbuilding, domestic aerospace manufacturing, and electronic warfare, reflects both budgetary ambition and a structural conviction that Taiwan's security cannot depend entirely on imported platforms with uncertain delivery timelines.

India rounds out the core narrative. With defense spending targeted at approximately 2.5% of GDP by FY2031, and with 18% defense capex growth highlighted for 2026, New Delhi's ambition is legible in its policy architecture. The indigenization drive, formalized through Positive Indigenization Lists that restrict imports across hundreds of defense items, means that the budget growth largely flows to domestic producers, not foreign primes. That policy context significantly shapes which companies capture the upside.

A Multi-Country, Multi-Domain Portfolio

What makes Asia defense compelling as an investment theme is not any single country's budget trajectory in isolation, but rather the simultaneous activation of procurement cycles across multiple large economies,

each reinforcing the others through export dynamics, technology sharing, and allied interoperability requirements.

The WisdomTree Asia Defense Fund (WDAF) is built to capture this capex shift across its full breadth. Rather than concentrating in one country or one domain, the strategy has holdings in companies that span six thematic exposure buckets that reflect how modernizing militaries actually allocate their procurement budgets:

5. Air platforms and aerospace manufacturing
6. Defense electronics and C4ISR (command, control, communications, computers, intelligence, surveillance, and reconnaissance)
7. Missiles and guided weapons
8. Land systems and armored mobility
9. Naval shipbuilding and maritime systems
10. The innovation layer of unmanned systems, space ISR,3 and dual-use technology

Each theme maps directly to where the budget mix is shifting, which is to say away from personnel and toward hardware, networks, and capability.

Korea Aerospace Industries, as the largest individual holding by weight, is the most direct expression of Korea's airpower ambition. The KF-21 fourth-generation fighter program and FA-50 light combat aircraft are both in active production ramp, with export discussions underway across multiple allied nations. Hindustan Aeronautics Limited occupies an analogous position in India, which is to say a government-owned aerospace prime that is the primary vehicle for Tejas fighter deliveries, helicopter procurement, and aero-engine ecosystem development. Both companies are beneficiaries of the shift from personnel-heavy budgets to platform-heavy procurement.

Bharat Electronics Limited’s (BEL) position in the portfolio reflects a subtler but equally important dynamic. As platforms become more expensive and technologically complex, the electronics content per platform rises. Radar systems, electronic warfare suites, network-centric warfare architectures, and battlefield management systems all run through companies like BEL in India and Hanwha Systems in Korea. These electronics names benefit from the capex mix shift regardless of which specific airframe or ship gets funded, because every modernization program increasingly requires a nervous system of sensors and data links.

The naval theme is particularly well-represented, spanning Hyundai Heavy Industries and Daewoo Shipbuilding in Korea, Mazagon Dock and Garden Reach Shipbuilders in India, CSBC in Taiwan, and Austal in Australia. Asia's coastal geography makes naval power structurally important in a way that is unlike Europe or the Middle East. Fleet expansion in Korea, India, and Taiwan is not discretionary; it is driven by geography, contested maritime claims, and the need to project presence across increasingly active sea lanes.

Innovation Spillovers: Where Defense Spending Seeds the Next Cycle

One of the most analytically interesting aspects of the current Asian defense buildup is the extent to which military investment is creating dual-use capabilities that compound well beyond the initial government order book. Unmanned systems and artificial intelligence could be the clearest examples, as these are technologies where military urgency accelerates civilian adoption.

DroneShield's position in the portfolio captures this dynamic from the counter-UAS angle. As unmanned systems proliferate, the demand for systems that detect, track, and neutralize them grows commensurately. Australia-based companies like Electro Optic Systems Holdings (EOS) (remote weapon stations and space tracking) and Austal (autonomous maritime vessels) sit at the intersection of near-term defense procurement and longer-term dual-use technology adoption.

The space ISR dimension deserves particular attention. Japan's QPS Holdings and Axelspace both operate small-satellite constellations providing persistent earth observation, capabilities that have explicit defense value for military planners who need continuous imagery of contested regions. Korea's Satrec Initiative offers analogous exposure in the satellite manufacturing domain. As defense budgets explicitly carve out funding for space situational awareness and geospatial intelligence, these companies transition from commercially interesting names into strategically prioritized ones.

India's Paras Defence and Zen Technologies round out the innovation layer, with the former providing optics, anti-drone systems, and space optics; the latter operating in simulation, training, and counter-UAS. These are not core-platform companies, but they benefit from a defense establishment that increasingly views readiness and electronic sophistication as force multipliers that reduce the need for raw platform quantity.

The Picks-and-Shovels Layer

Any honest analysis of a defense spending super-cycle should acknowledge that the most direct beneficiaries, the prime platform manufacturers, often carry fully-reflected valuations once a theme becomes widely recognized. The more differentiated opportunity frequently lies in the supply chain: the companies that provide engines, castings, propellants, sensors, cables, and materials that every platform requires.

In India, this supply chain layer is particularly rich. Solar Industries provides energetics and propellants for missiles and rockets. PTC Industries produces titanium and superalloy castings that are critical inputs for aerospace engines and airframes. MIDHANI (Mishra Dhatu Nigam) manufactures specialty alloys used across defense aerospace and space programs. Premier Explosives supplies propellants for missile programs. These companies are indirect beneficiaries of every large platform order placed by the Indian Ministry of Defence, and their indigenization mandate protections mean the domestic policy environment is actively working in their favor.

Korea's Poongsan, maker of ammunition and specialty metals, and Vitzrocell, maker of military batteries, represent analogous supply chain exposure within Korean rearmament. As restocking and export demand

for Korean land systems accelerates, the companies that supply ammunition, power systems, and precision components see revenue pull-through that does not depend on winning any single large contract.

Fiscal Space Divergence: A Filter That Matters

Not all defense budget ambitions are equally credible. Japan, Korea, and Taiwan benefit from relatively robust fiscal positions and transparent budget processes. Their stated spending targets have higher certainty of execution, which arguably justifies a premium in valuation for companies anchored to those budget paths.

India's case is structurally different. Budget execution in defense has historically lagged ambition, with capital expenditure frequently underspent against targets. The indigenization drive has introduced its own complications. Qualifying domestic suppliers to defense-grade standards takes time, and the gap between policy intent and industrial capacity is a genuine constraint. This does not diminish the India opportunity, as the growth torque available from even partial execution of stated targets is substantial, and the supply chain is developing rapidly, but it does argue for weighting execution catalysts more heavily when evaluating individual India-based holdings.

Australia and Singapore represent a third category, which is to say not headline defense-spending targets in the regional super-cycle narrative, but meaningful beneficiaries through exports, regional sustainment contracts, and allied interoperability spending. ST Engineering's multi-domain Maintenance, Repair and Overhaul (MRO) and defense electronics exposure is a useful example of how a Singapore-based company captures recurring revenue from a region building out installed bases across diverse platforms.

Conviction in the Theme

The confluence of sustained budget commitments, deliberate capex mix shifts, export market development, and technology-driven dual-use spillovers creates a macro environment for Asia defense that is qualitatively different from earlier spending cycles. This is not a one-country story, nor is it dependent on a single geopolitical trigger. It is a broad-based structural reallocation of national resources toward security in a region that has concluded, from Tokyo to New Delhi, that the cost of underinvestment in defense is higher than the cost of sustained commitment to it.

For investors seeking exposure to this theme, the opportunity spans the full stack. This means from aerospace primes and shipyards at the top, through electronics and sensor companies in the middle, to propellant, castings, battery, and materials suppliers at the base. The portfolio depth available across Korea, India, Japan, Taiwan, and Australia means that the thematic case does not rest on concentration in any single name or country, a structural advantage when geopolitical and budgetary uncertainty is precisely the macro context in which the theme is most compelling.

Figure 1: Companies & Weights in WDAF

Company	Country	Weight
Korea Aerospace Industries Ltd	Korea	8.24%
Hindustan Aeronautics Ltd	India	7.73%
Bharat Electronics Ltd	India	7.66%
Hanwha Systems Co Ltd	Korea	3.45%
Hyundai Heavy Industries Co Ltd	Korea	3.32%
Daewoo Shipbuilding & Marine Engineering	Korea	2.61%
Mazagon Dock Shipbuilders Ltd	India	1.78%
DroneShield Ltd	Australia	1.48%
Solar Industries India Ltd	India	1.43%
Electro Optic Systems Holdings	Australia	1.30%
Austal Ltd	Australia	1.04%
QPS Holdings Inc	Japan	0.83%
Garden Reach Shipbuilders & Engineers	India	0.74%
Zen Technologies Ltd	India	0.72%
PTC Industries Ltd	India	0.56%
CSBC Corp Taiwan	Taiwan	0.44%
Poongsan Corp	Korea	0.42%
Vitzrocell Co Ltd	Korea	0.40%
Paras Defence and Space Technologies Ltd	India	0.39%
Satrec Initiative Co Ltd	Korea	0.22%
Mishra Dhatu Nigam Ltd (MIDHANI)	India	0.18%
Premier Explosives Ltd	India	0.18%
Axelspace Holdings Corp	Japan	0.09%

Source: WisdomTree, as of July 7, 2026. For current holdings of WDAF, please click here. **Holdings are subject to risk and change**.

1 Source for this article, unless otherwise stated: Ahya, Chetan, et al. 'The Viewpoint: Defense Spending—Shifting into a Higher Gear.' Morgan Stanley Research Report, July 7, 2026

2 NATO Stands for North Atlantic Treaty Organization.

3 Stands for Intelligence, Surveillance, and Reconnaissance.

Important Risks Related to this Article

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