

The New Arsenal of Alliances: Asia's Defense Renaissance and the Investment Opportunity It Unlocks

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Key Takeaways

- Asia's defense spending is surging in response to rising regional threats, with countries like Japan, South Korea and Taiwan aggressively increasing military budgets and reshoring defense production.
- Despite leading a global rearmament cycle, Asia's defense champions remain under-represented in global portfolios, a disconnect the [WisdomTree Asia Defense Fund \(WDAF\)](#) aims to exploit.
- [WDAF](#) seeks to offer investors targeted exposure to Asia's military-industrial resurgence, capturing the intersection of national security, reshoring and next-generation defense technologies.

A Catalyst Born of Pressure, and Pragmatism

For decades, Washington's Indo-Pacific posture has depended on forward-deployed U.S. forces and an implicit guarantee of regional security. But that framework is changing. On his most recent Asia tour, President Trump made his message unambiguous: it's time for America's Asian allies to shoulder a greater share of their own defense.

The *Wall Street Journal* headline captured the moment, "Trump Tells Asia Allies: It's Your Turn to Boost Military Spending."¹ From Gyeongju to Yokosuka, Trump's team pressed leaders in Japan, South Korea and Taiwan to accelerate defense buildouts amid rising threats from China and North Korea.

This isn't an isolated request. It's the logical sequel to a geopolitical pattern already in motion. European allies began hiking budgets after similar prodding during Trump's first term; Asian governments, facing sharper and more proximate threats, are now doing the same. The political rhetoric may sound transactional, but the underlying forces are structural. The Asia-Pacific is entering what one could call the *era of defensive autonomy*, a long-cycle transformation in which nations rearm, reorganize and reshore their defense industrial bases.

The Geopolitical Drivers: Beyond the Headlines

China's military modernization continues to accelerate, with live-fire drills rehearsing a Taiwan blockade and a growing maritime militia pushing into disputed South China Sea waters. North Korea, meanwhile, keeps testing cruise and hypersonic missiles with minimal external pushback.

In response, regional powers are rewriting their playbooks:

- **Japan** has pledged to reach the NATO3-standard 2% of gross domestic product (GDP) in defense spending by FY2026, a historic break from its postwar constraints.
- **South Korea** aims to hit 3.5% of GDP by 2035, expanding its naval capacity and submarine fleet while co-producing missile systems in Europe.
- **Taiwan**, having long spent about 2% of GDP, now targets 3.3% next year and 5% by 2030, an extraordinary commitment for an island under constant pressure.
- **India** is pairing defense industrialization with "Make in India" ambitions, pursuing domestic fighter jet and shipbuilding capacity to reduce reliance on foreign suppliers.

Each of these developments—accelerating budgets, supply chain reshoring and defense tech localization—feeds into a sustained regional investment supercycle. It's not just about building tanks and ships; it's about upgrading industrial ecosystems, stimulating employment and embedding defense innovation into national development strategies.

The Investment Context: A Global Defense Repricing

Global defense spending surged to record highs in 2024, and Asia-Pacific accounted for nearly a quarter of the total.⁴ Investors have been quick to price U.S. and European defense primes into this new reality. Lockheed Martin, BAE Systems and Rheinmetall have already re-rated.⁵ But in Asia, the story is still young.

Despite their centrality to global rearmament, Asian defense champions have been structurally under-represented in global portfolios. Most defense exchange-traded funds (ETFs) are U.S.-centric, leaving a gap where the next decade's growth is most likely to occur. The result? A disconnect between geopolitical reality and capital allocation, a classic inefficiency that the [WisdomTree Asia Defense Fund \(WDAF\)](#) was designed to correct.

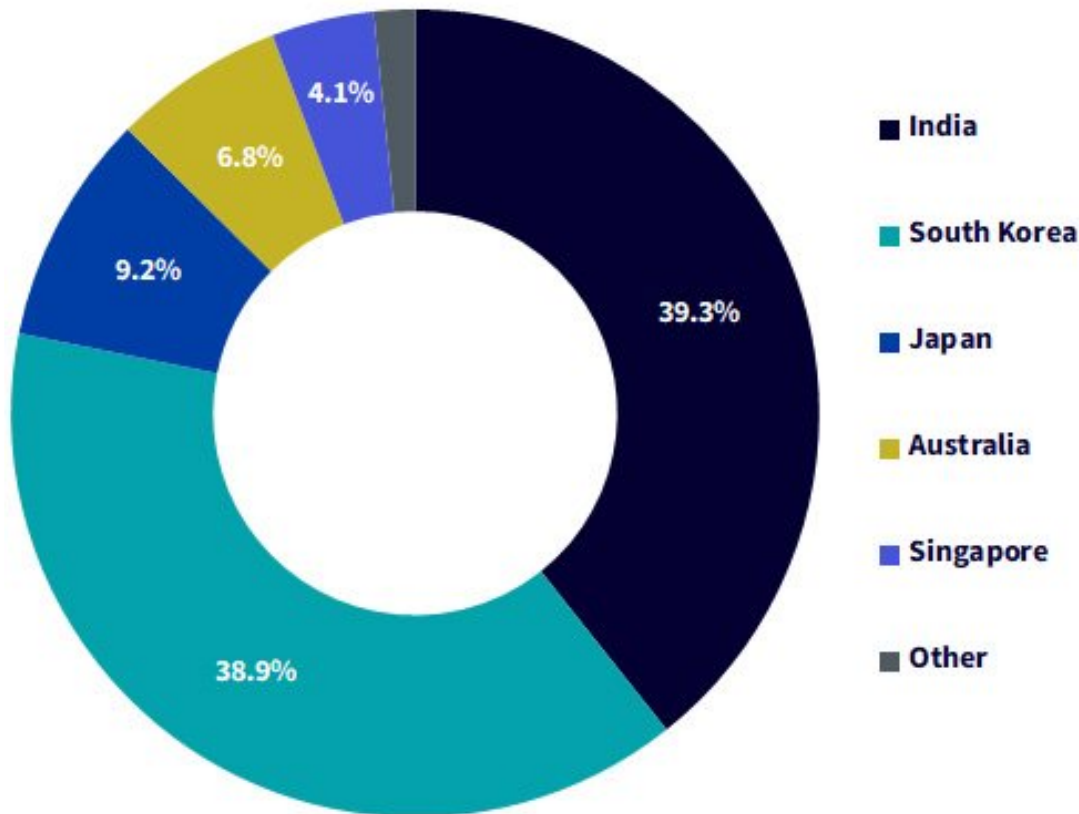
Introducing WDAF: Capturing Asia's Defense Investment Cycle

The [WisdomTree Asia Defense Fund \(WDAF\)](#) tracks the [WisdomTree Asia Defense Index](#), and was launched in 2025 to capture the economic and industrial renewal underpinning Asia's rearmament. The Fund's methodology is not merely regional, it's *strategically thematic*.

The strategy targets companies that derive at least 10% of their revenue from defense activities and tilts toward those with higher exposure. This approach offers a *pure-play orientation*, filtering out conglomerates whose defense operations are marginal and amplifying those positioned at the heart of the military modernization wave.

As is visible in figure 1, this Index includes companies from across Japan, South Korea, India, Taiwan and Southeast Asia. It is reconstituted semi-annually to reflect dynamic changes in the defense sector.

Figure 1: Country Exposures Emphasize the Markets Seeing the Spending Boost



Source: WisdomTree. Holdings for the WisdomTree Asia Defense Index as of 10/28/25. Subject to change. You cannot invest directly in an index.

The weighting system adjusts for both *free-float market capitalization* and *exposure intensity*, with caps to preserve liquidity and diversification.

Figure 2: Asia's Emerging Defense Primes

Name	Country	Weight
Bharat Electronics Limited	India	7.5%
Hindustan Aeronautics Limited	India	7.2%
Mazagon Dock Shipbuilders Ltd.	India	7.1%
Hanwha Aerospace Co., Ltd.	Korea	7.1%
LIG Nex1 Co., Ltd.	Korea	5.3%
Korea Aerospace Industries, Ltd.	Korea	5.0%
Hanwha Systems Co., Ltd.	Korea	4.9%
Mitsubishi Heavy Industries, Ltd.	Japan	4.6%
HD Hyundai Heavy Industries Co., Ltd.	Japan	4.3%
Hyundai Rotem Co.	Japan	4.3%
Total		57.3%

Source: WisdomTree. Holdings for the WisdomTree Asia Defense Index as of 10/28/25. Subject to change. You cannot invest directly in an index.

As is visible in figure 2, the strategy's top holdings illustrate its design logic. As of late October 2025, the portfolio's 10 largest names, ranging from **Hanwha Aerospace** and **LIG Nex1** in South Korea to **Hindustan Aeronautics**, **Mazagon Dock Shipbuilders** and **Bharat Electronics** in India, represented about 57% of total weighting.

These companies aren't just national champions; they are *exporters of security*. Hanwha's joint venture in Poland for missile production, India's Cochin Shipyard expansion and Japan's Kawasaki Heavy Industries' global supply chain all point to the rise of Asia as not just a defense buyer, but a defense supplier.⁶

Why This Structure Matters

Where traditional ETFs often dilute exposure with adjacent sectors, such as transport, logistics or IT services, **WDAF** is architected to be *undiluted and directional*. Its revenue-adjusted weighting ensures that capital flows to the companies most directly benefiting from defense expenditure, not those tangentially related.

A Secular Theme with Cyclical Tailwinds

In a world of contested supply chains and shifting alliances, defense spending is one of the few areas where political consensus transcends party lines. Asian governments, whether democratic or autocratic, see military modernization as both a deterrent and a domestic growth engine.

The underinvestment gap is the crucial concept. Decades of limited regional capability have created an enormous catch-up opportunity. Now, with defense budgets rising and local champions scaling production, that gap is closing, fast.

Moreover, these defense ecosystems are technologically rich. Aerospace, cybersecurity, AI-driven command systems and precision manufacturing are increasingly interlinked. [WDAF's](#) Index captures this cross-sectoral synergy by including firms in advanced engineering, electronics and materials sciences that form the backbone of next-generation deterrence systems.

It's also notable that [WDAF](#) sits at the intersection of reshoring and strategic autonomy, two of the defining macro trends of the 2020s. Just as Europe is repatriating energy and semiconductor production, Asia is localizing defense supply chains, from munitions to propulsion to software. Investors who miss this parallel could underestimate the compounding nature of the theme.

The Macro Angle: Defense as an Economic Multiplier

Defense spending is fiscal stimulus with a flag on it. The capital that governments channel into defense rarely disappears. Instead, it circulates through supply chains, spurring high-value employment, research spending and manufacturing resilience.

Japan's \$50 billion annual defense budget expansion, for instance, stimulates both heavy industry and semiconductor tooling; South Korea's naval buildout reinforces steel and shipbuilding demand; India's aerospace indigenization nurtures private-public R&D clusters.⁷

In aggregate, these effects resemble the "green energy multiplier" of the past decade, but this time, the driver is security, not sustainability. Both are forms of industrial policy, and both redirect capital toward long-duration assets with geopolitical tailwinds.

Why Now, and Why WisdomTree

Timing matters. Asia's defense modernization is not hypothetical, it's budgeted, legislated, and politically incentivized. Yet, the public market instruments to express this view have been sparse until now.

The [WisdomTree Asia Defense Fund \(WDAF\)](#) converts this strategic realignment into an investment that mirrors an index, sitting between two poles: the macro reality of rising security expenditure and the micro opportunity of under-owned Asian defense equities.

WisdomTree's innovation lies in translating a political transformation into a portfolio architecture, one that balances concentration (in high-exposure firms) with breadth (across the region). This is *not* a short-term trade on conflict; it's a long-term structural allocation to the economics of deterrence.

1 Source: A. Ward et al., "Trump Tells Asia Allies: It's Your Turn to Boost Military Spending," The Wall Street Journal, 10/29/25.

2 Source for bullets: Ward et al., 2025.

3 Refers to North Atlantic Treaty Organization.

4 Source: "Global Defense Spending Annual Snapshot," Forecast International, 2024.

5 Source: Bloomberg, with year-to-date data as of 10/29/25.

6 Sources: S. Seo, "South Korea's Hanwha Bets Big on Europe with Polish Missile Venture," KED Global, 9/3/25; "Cochin Shipyard Launches Three Complex Ships Showcasing India's Shipbuilding Capabilities," Economic Times, 10/17/25; E. Grant, "Kawasaki Heavy Industries: Navigating Global Shifts with Strategic Agility and Defense-Driven Growth," AINvest, 8/8/25.

7 Sources: G. Arthur, "Japan Passes Record Defense Budget, while Still Playing Catch-Up," Defense News, 1/16/25.; "South Korea's Shipbuilding and Steel Industry," Commodity Insights, 4/3/25; P. Nath, "How Private Players are Driving India's Defence Manufacturing Boom," ET Manufacturing, 9/14/25.

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