

Opinion **Lex**

## Defence spending: global arms race has overlooked Asian sector

With defence budgets rising and demand high South Korea has emerged as a surprising supplier of war materiel



Ukraine has reported a critical shortage of artillery shells for its war with Russia © AFP via Getty Images

## YESTERDAY

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The world has moved past shortages of everything from chips to grain in recent years. But the next shortage — explosives — is going to last much longer. Record military spending means the sector's stocks are about to get a fresh boost.

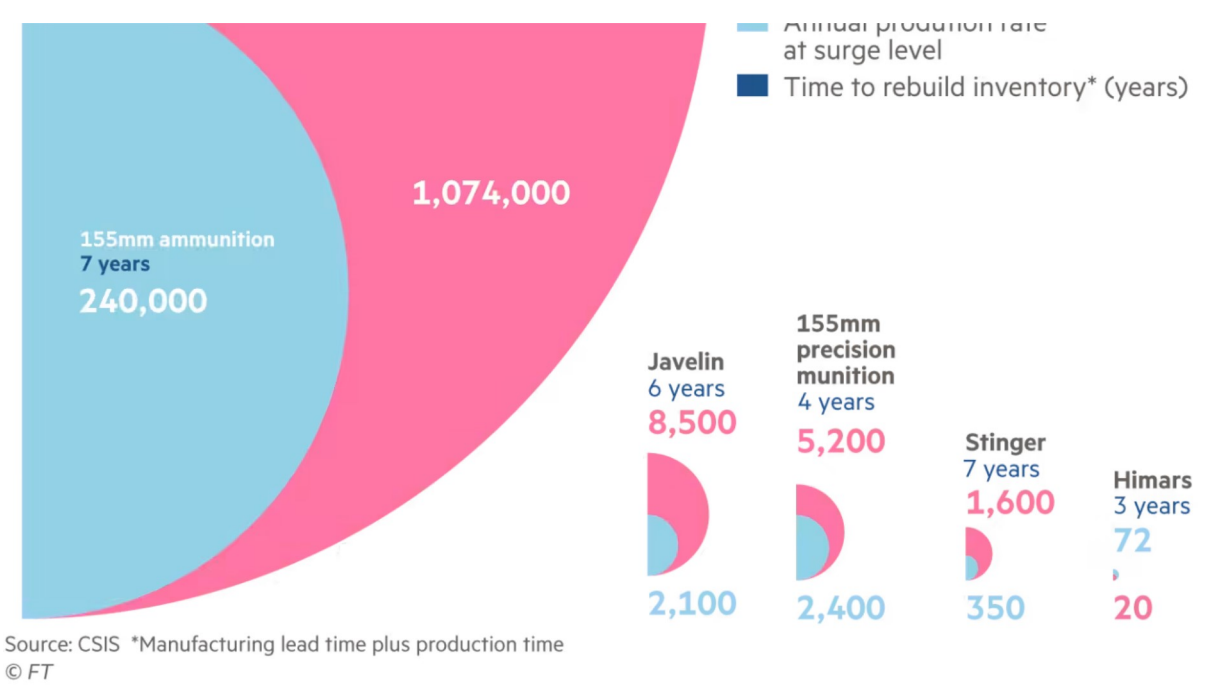
Global military spending rose by 3.7 per cent in real terms last year to a record \$2.2tn, according to think-tank Stockholm International Peace Research Institute. That was the biggest increase since the end of the Cold War three decades ago. Europe's rose 13 per cent because of Russia's invasion of Ukraine. Ukraine itself spent \$44bn, a record-breaking 640 per cent increase.

Ammunition is in short supply. Ukraine appealed to the EU last month to send 250,000 artillery shells a month to ease a critical shortage. Yet Europe struggles with its own shortage of arms stocks amid weak domestic production capacity. Even the US, which produces about 180,000 artillery shells a year, has reported supply shortages.

### US weapon inventories

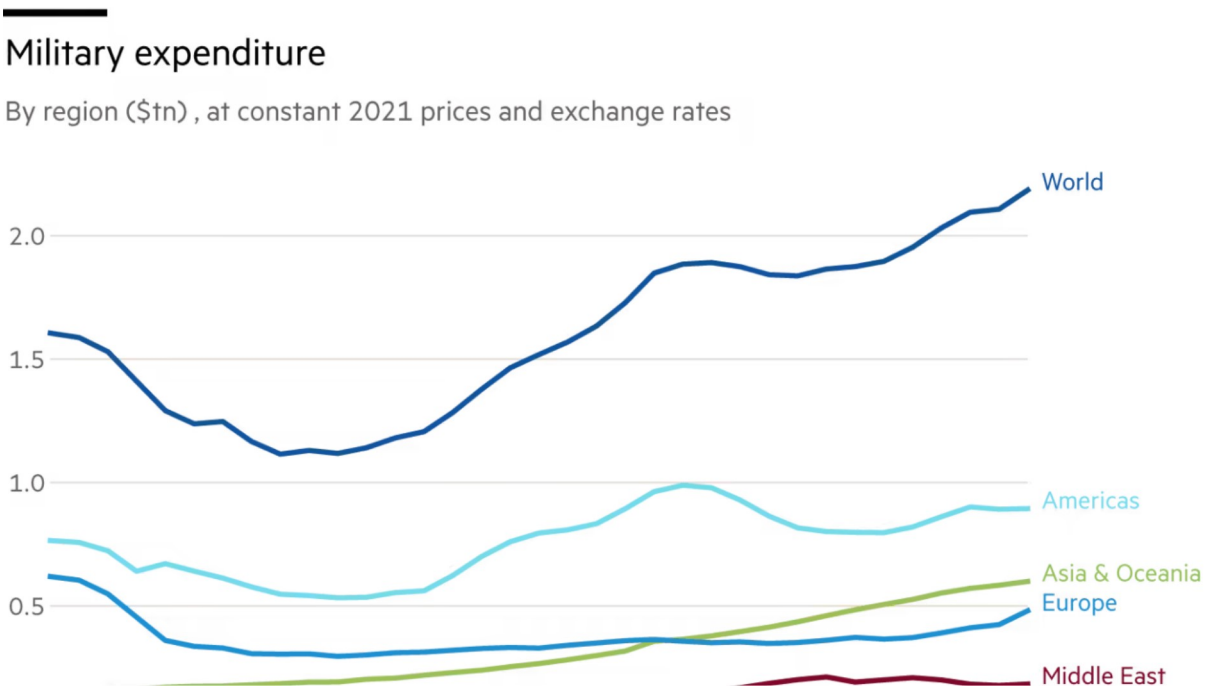
Manufacturing lead time plus production time\*

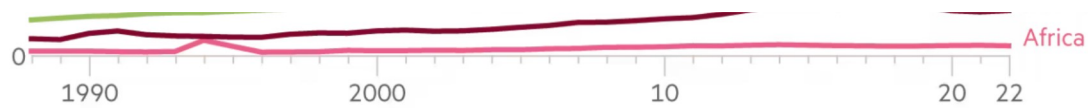




More countries have turned to South Korea, where nearly a million artillery shells are expected to be in inventory. Korea’s Poongsan Corporation produces ammunition and other military goods. These made up two-thirds of net operating profits in 2022. Its shares have nearly doubled since early July.

Korea’s government has maintained limits on lethal weapons exports. But as shortages grow more acute, that could change. Defence exports by South Korean companies more than doubled last year as Europe upgraded their tanks and weapons. Poland, for example, signed nearly \$6bn worth of deals with local makers last year for tanks and howitzers.



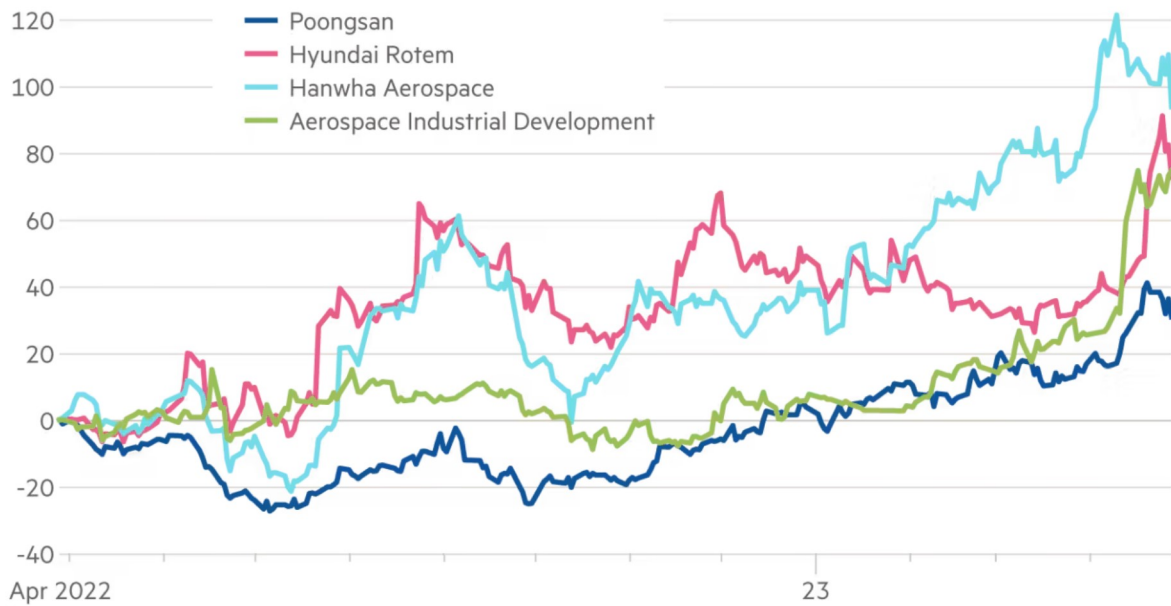


Source: Stockholm International Peace Research Institute  
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Korean makers, such as Hyundai Rotem, KAI, LIG Nex1 and Hanwha Aerospace, have a growing market in Asia, including to Taiwan. Shares of Hyundai Rotem and Hanwha Aerospace have nearly doubled in the past year but still trade at a discount to global peers. Taiwanese peers are catching up. Shares of aerospace specialist AIDC are up 80 per cent in the past five months alone.

### Asian defence contractors

Share price (rebased)



Source: S&P Capital IQ  
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As long as Ukraine and Taiwan remain hotspots for armed conflict, shares of Asia’s defence companies will continue to attract investors.

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