

Politics

Rahm Emanuel Says US Defense Firms Cause Bigger Risks Than China

- Buybacks pose bigger risk than China, outgoing US envoy says
- Delays in defense equipment shipments may hurt US alliances



Rahm Emanuel *Photographer: David Paul Morris/Bloomberg*

By [Alastair Gale](#) and [Akemi Terukina](#)

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American defense companies are hurting the nation's security interests by prioritizing share buybacks over delivering weapons to the US military and its allies, according to the outgoing US envoy to Japan.

Ambassador Rahm Emanuel said the firms are more focused on increasing their stock value than on investing in production capacity. This has contributed to delays in weapons shipments, which could harm US security and weaken American alliances, he said in an interview on Wednesday.

“The US defense industry is a bigger risk to America's security and the credibility of our deterrence than China is,” Emanuel said in Tokyo.

Emanuel, who was confirmed as ambassador to Japan in 2021, said he had witnessed the damaging impact of years-long delays in defense equipment shipments on both the US military and its regional allies. “I can’t tell you how many times here I’ve had to use my political capital to cover for their failure,” he said.

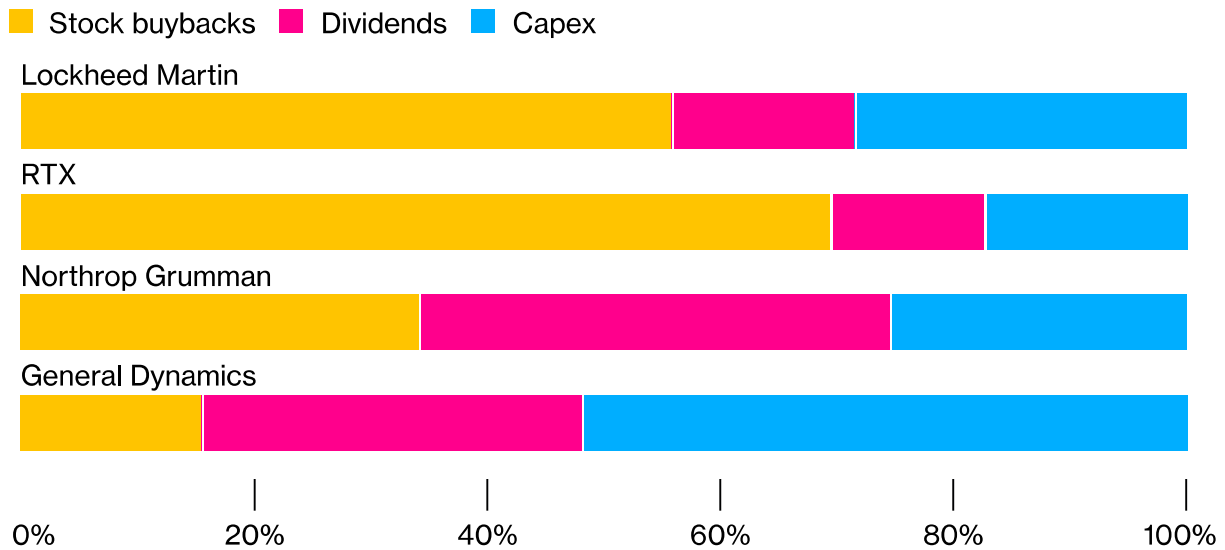
One solution – he added – would be to ban defense contractors from buying back their own stock for several years if they fail to deliver orders on time.

Rising geopolitical tensions and conflicts in the Middle East and Ukraine have fueled demand for defense products, benefiting companies like RTX Corp.  , Northrop Grumman Corp. and Lockheed Martin Corp.

In 2023, Lockheed Martin and RTX spent a combined total of \$18.9 billion on stock buybacks, compared with just \$4.1 billion on capital expenditures, according to data compiled by Bloomberg.

Lockheed Martin and RTX didn’t respond to requests for comment, nor did Northrop Grumman and General Dynamics Corp., two other major defense contractors with stock buyback programs.

Capital Use by Major US Defense Contractors in 2023



Source: data compiled by Bloomberg

Contractors like Lockheed Martin, maker of the F-35 fighter jet, also are being hit with criticism from supporters of President-elect Donald Trump,

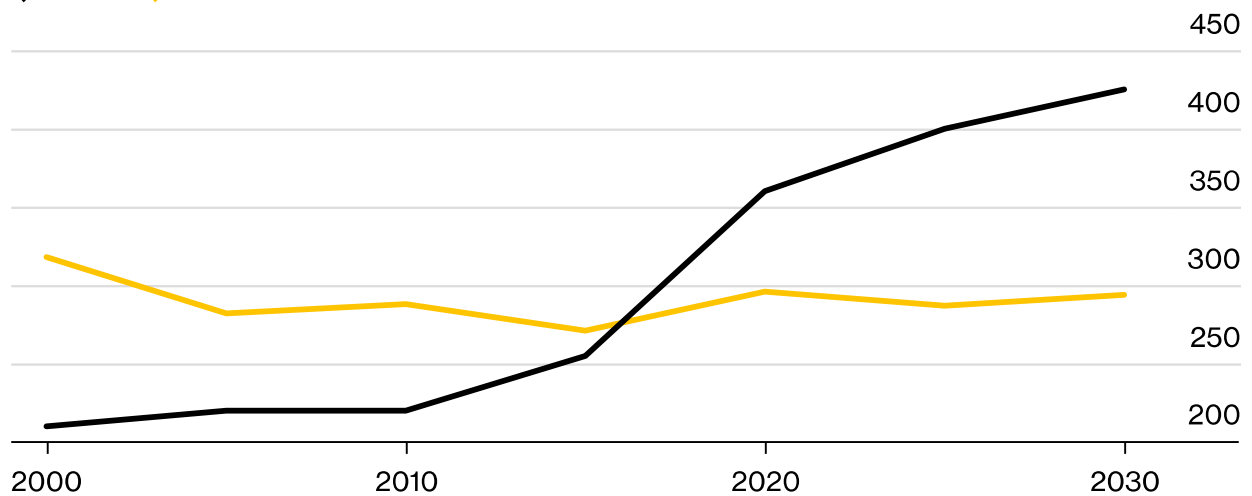
who argue that the future of defense lies with high-tech innovators. Billionaire Elon Musk, an adviser to Trump on cost-cutting, has said that “some idiots are still building manned fighter jets like the F-35” in an age of drones.

Emanuel’s remarks are some of the most strident among US officials about large stock buyback programs among defense contractors. Last year, Navy Secretary Carlos del Toro said defense companies should prioritize spending on shipyards over stock buybacks.

One of most acute shortages is in shipbuilding, where the US now falls far behind China in its ability to expand its Navy or replace aging ships. While US military plans call for producing two nuclear-powered attack submarines each year, shipyards can currently only complete one.

Navy Battle Force Ships

China US



Source: Congressional Research Service

Note: Battle force ships comprise submarines, aircraft carriers, cruisers, destroyers, frigates and corvettes


Limits on manufacturing capacity and lengthy administrative procedures have also caused delays in delivering US defense equipment to allies such as Japan and Taiwan. The total value of arms purchased from the US but not yet delivered to Taiwan was estimated at \$21.95 billion as of November, according to Cato Institute, a US think-tank.

One problem was ensuring reliable government funding to give US contractors confidence that contracts would continue well into the future,

said Jeffrey Hornung, a senior political scientist at Rand Corp.

“Think of how inconsistent Congress and the White House have been in recent memory with talking about building a huge Navy, only to never put the money behind those promises,” Hornung said.

As it faced manufacturing delays, Washington has accelerated weapons shipments to Ukraine by drawing from American military stockpiles, including \$1.25 billion in aid from US inventories announced by the Biden administration at the end of last year. The government is preparing a final \$500 million in military assistance soon, Bloomberg News reported.

The US has also dipped into its own supplies to send anti-tank missiles, sniper rifles and machine guns to Taiwan, Pentagon documents show .

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[Trump Says NATO Nations Should Spend 5% of GDP on Defense](#)

[Lockheed to Meet F-35 Delivery Goal While Musk Assails Warplane](#)

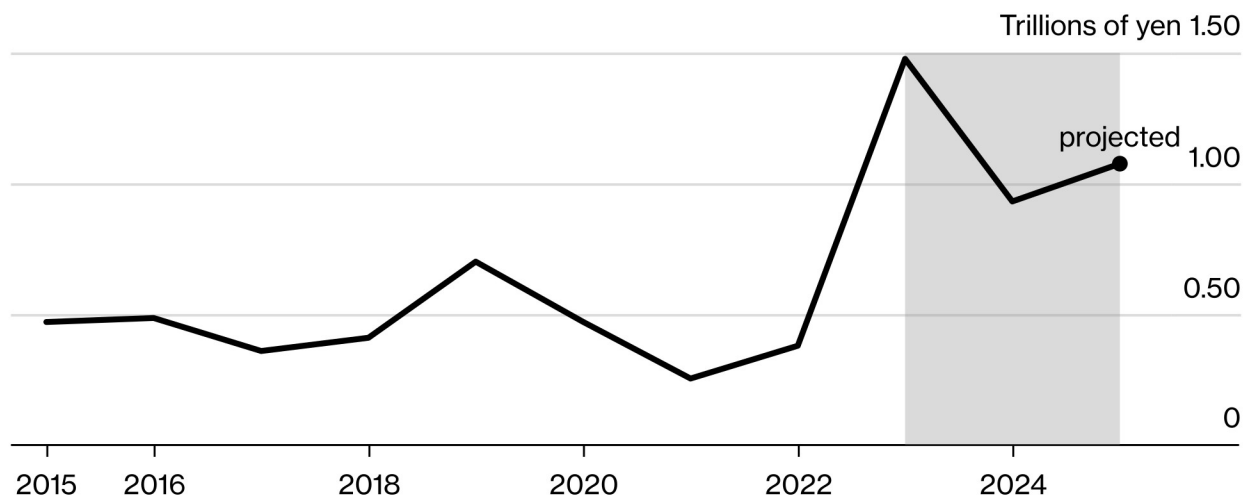
Japan today is one of the biggest buyers of US military hardware after it decided in 2022 to ramp up defense spending in response to growing threats from China and North Korea.

Last week, the US approved the potential sale to Tokyo of as many as 1,200 air-to-air missiles produced by RTX for use on aircraft including the F-15 and F-35. The deal, which will likely take years to complete, still requires approval from Congress.

Washington wants Japan to help produce more Patriot air-defense missiles to boost global inventories, but plans to increase production have stalled due to a shortage of component known as a seeker, which must be sent from the US.

US defense equipment sales to Japan

■ Japan's defense build-up period



Source: Japan's Ministry of Defense

Note: Figures from contracts under US Foreign Military Sales program

Emanuel, who will end his term as ambassador next week and has two children in the US military, said chronic delays in weapons shipments were undermining the growing coordination among US allies to deter China's military and letting down US service members.

He criticized defense industry executives for consistently failing to fulfill promised orders on time without any accountability, and said it was time for them to "have some skin in the game."

"Your stock options will not be boosted based on stock buybacks until you fix this problem," he added.

– *With assistance from Larry Liebert*

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