the double-edged sword of war: Navigating the minefield surrounding the strategic realities of rearmament in 2024

2024 was a year of unseen levels of regional conflicts and wars with the ongoing Russia-Ukraine War, the escalation of the genocide in Palestine, the toppling of the al-Assad regime, and the wars in Sudan and the DRC. With 23,842 dead and 51,925 injured in Palestine in the past year alone and 60,000 in Sudan, many in DRC and Israel, the human suffering and loss of life have been unprecedented in recent history. Meanwhile, Ukrainian officials have reported a record number of 427,000 Russian soldiers killed alongside reports of 12,000 Ukrainian deaths since 2022.

As a NATO member, Ukraine's ongoing conflict has direct military implications for all NATO states. The economic implications for much of Europe were evident in the cost-of-living crisis being fuelled by geopolitical tension and economic policies such as boycotting Russian oil and gas, resulting in fluctuating commodity prices. Meanwhile, many economies have seen the defense sector fuelled growth, profiting from varying geopolitical tensions over the past year.

This explains the dramatic rise in stock prices for arms companies following heavy rearmament in 2024, with Asian states such as Japan and Korea leading the charge, abandoning previous caps on defense spending.

Venture capitalist funding in arms has tripled fourfold since 2019, whilst shares in major European defense companies such as Germany's Rheinmetall and the Norwegian Kongsberg Gruppen have rocketed this past year following sharp increases in orders for tanks, missiles, and artillery, resulting in profits which will benefit these firms for years to come.

This begs the question if these months of bloodshed and violence have brought positive economic benefits for much of Europe and the West's economy.

Some say the EU's promises to increase defense investment from 2% of GDP to 3% is simply not enough, with NATO official Admiral Rob Bauer calling the lack of investment into defense "stupid. Whilst it is clear considerable financial profit can be gained from increased investment into defence, current EU budget constraints and ESG laws by investment banks, pension and structural funds limit further expansion through policies such as caps on direct defence investment.

Bauer's argument holds when comparing feeble European rearmament efforts to the benefits demonstrated by Asian countries such as Japan and Korea, who have seen significant defence share price spikes. As of 2024, South Korea is now amongst the top 10 global arms exporters. The economic benefits will continue to grow as their rearmament is collecting pace. Japan, meanwhile, increased defence funding by $59 billion this year, entirely abandoning its 1% of GDP defence spending cap. As a result, triple-digit share price spikes in major South Korean and Japanese arms firms have boosted them into amongst the 20 gainers on the MSCI All-Country World Index this year. In particular, Hanway Aerospace, South Korea's largest defence group, has seen shares triple such that they are now just behind Nvidia in the MSCI All-Country World's biggest gainers this year.

India's defence sector has had a similar success story this year, balancing a dual role as a leading arms importer as well as a growing domestic defence powerhouse.

With New Delhi already leading as the world's largest arms importer for the past 2 decades, India has also been increasing its pace of rearmament, reflected in its largest arms firms reporting rocketing stock prices in 2024. To name one, Hindustan Aeronautics now trades at almost 10 times its book value. HDFC, one of the country's largest asset managers, is another success story. The first to initiate a defence-focused fund in June 2023, HDFC has reaped at least an estimated 73% annualised returns for investors since then. The fund has attracted so much attention that it had to close itself from new investments in July 2024, due to volatility risks. HDFC has not been the only fund of this kind to have been created in India with many others following suit, such that the Nifty IndiaDefence Index has had returns of 56% in 2024 alone, outperforming estimates and surpassing the 10% return reports for the wider Nifty 50 Index.

The glowing performance reports of Asian arms' firms demonstrates the possibility of potential rewards to be reaped by their European competitors in the market, if they increase investment.

In this context, NATO General Bauer's frustration with Europe's relatively miniscule attempts to reap similar rewards seems much more justified. Whilst Asian states defence industries have been quick to revaluate regulation which has limited expansion of their defence industries, Europe has been slower to follow suit.

Economic benefits aside, considering Trump's warnings to the West to find self-assured security measures and the ongoing war on European turf, rearmament would not only be the financially advantageous decision for Europe's defence sectors, it would also be the smart and safe decision. It would also be naïve to assume the bloodshed in the Middle East including Israel's assassinations of Hassan Nasrallah and intervention in Iran will go very long unpunished. Vengeance is sure to spark further conflict in the region.

However, these economic benefits should be weighed against the non-economic costs of human suffering that the supply of these arms would create. Furthermore, as we have seen from past conflicts, there have been waves of people seeking safety and shelter in more stable countries which in itself will create costs for those countries.

Overall, whilst the Russia-Ukraine War has increased the cost of living for many in Europe through its impact on oil prices, it could be argued that these adverse effects could be offset by sufficient funding for rearmament and defence firms. Even if the UK wanted to limit rearmament, investing iinits arms firms would only reap benefits and allow them to increase output and meet the already ongoing surge in demand for arms. This would create employment opportunities and stimulate trade and economic activity, raising GDP the way it has done for economies such as India, Japan and South Korea which have decided to pursue rearmament and investment opportunities in their respective defence sectors. The only thing holding the UK and similar European economies back from these benefits seems to be legislative ESG restrictions and laws.

However, their relevance in today's geopolitical landscape would need to be reassessed considering the events of the past year. To quote Ursula Von der Leyen, "The threat of war may not be imminent, but it is not impossible. The risks of war should not be overblown, but they should be prepared for." Rearmament amidst the current political landscape is arguably a necessity, but presents many economic opportunities as well, as 2024 has shown. Finding a balance between extracting the economic gains arising from rearmament whilst maintaining global stability will be key going forward in 2025.