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THE BUILD-OUT

How war is reshaping Asian infrastructure



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EDITORS' NOTE

Welcome to the August 2026 edition of StoneBench's *The Build-Out* newsletter. From the war in Iran to hypersonic missile test ranges on the Korean peninsula, evolving conflicts in the Middle East and Europe over the past few years are having an impact across a range of industries beyond just defence. In this edition of the newsletter, we're taking a microscope to how great-power rivalry and the return of the war economy is reshaping global energy, digital infrastructure and industry—with Asia increasingly at the centre of every major fault line.

THE RETURN OF THE WAR ECONOMY

For most casual observers, the US-Iran war marked the return to a familiar world of open and direct conflict, but in reality, it was merely the biggest, most obvious flashpoint amidst the roiling tumult of growing geopolitical aggression. Just turn the clock back four years and see how the Ukraine conflict has also rewritten the underlying economic fundamentals of not just Europe but the rest of the world. What about the civil strife that continues to rage across Myanmar, or the push-pull between the two Koreas?

The numbers tell the grim story: in 2025, global military spending rose 2.9% to US$2.9 trillion, as governments looked to rearm and bolster security against the backdrop of intensifying war and geopolitical upheaval. In Asia, this period marked the fastest growth in military spending since 2009, with arms sales increasingly flowing east.

JAPAN: PACIFISM TO PRODUCTION

Asia is now emerging as a key node in global defence supply chains as its hardware manufacturing capabilities are retooled towards the needs of arms makers and governments in the West and Middle East. According to research by the Bank of America, the region is set to enter one of its most "capital-intensive phases" in 2026 as the region intensifies its focus on naval shipbuilding and maintenance—projects that could last 10 to 20 years and solidify the region's place in the global defence industry.

Japan will conduct tests of hypersonic missiles and other projectiles on Australian soil under a new bilateral deal.

At the nexus this evolving role is change of heart among in Japan, whose Prime Minister Sanae Takaichi has set into motion a turn away from the country's post-World War II pacifism—unthinkable just a decade ago. Japan's 2026 Defence White Paper, published in August, gives unprecedented focus to measures aimed at bolstering sovereign defence industry capacity.

Its partnership with Australia, in particular, is the key outlet for this: this year, Japan will conduct tests of hypersonic missiles and other projectiles on Australian soil under a new bilateral deal, and co-develop a laser system for detecting threats on land and littoral platforms. This represents a deepening of an existing partnership, build atop a ten-year AUD10 billion deal for Australia to acquire a fleet of Japanese stealth frigates—Japan's biggest defence export deals since World War II.

The already tight-knit US-Japan defence technology partnership is deepening as well: a Japanese satellite is now carrying American military surveillance hardware, part of a joint effort to boost surveillance capacity across the Pacific. Even India is getting in on the action, with both countries exploring joint development in naval shipbuilding and design. Alongside Japan, India is a member of the Quad security alliance, widely seen as a counterweight to China's expanding presence in the Indian Ocean and wider Asia-Pacific.

RETOOLING INDUSTRY

An underappreciated part of the story is the way in which existing industries—and whole economies—are reorienting themselves towards defence. Technological innovations are all being reassessed for dual use in defence applications. Consider, for example, how Japan's Nissan and Honda are teaming up with self-driving startups, to develop AI-powered autonomous vehicles, racing to close the gap with US and Chinese rivals. Or how India's "Make in India" initiative—dreamed of as a step towards transforming the South Asian country into beating heart of global innovation, design and manufacturing—is being used to channel Tokyo's technological expertise towards defence development.

Tensions over the Strait of Hormuz are still constraining crude oil and LNG shipments, with a mere seven commodity ships sailing through the waterway in late August 2026.

WAR'S RIPPLE EFFECTS

Economic impacts flow both ways, however. While defence players have seen their prospects grow, other parts of the economy are feeling the pinch. Tensions over the Strait of Hormuz are still constraining crude oil and LNG shipments, with a mere seven commodity ships sailing through the waterway in late August 2026. With peace talks in limbo, the uncertainty continues to reverberate across every commodity market in Asia.

Oil prices remain elevated—and unpredictable—while the war's impact on fertiliser supply chains piles on the pressure on Asia's food security. Germany has been scrambling to make up shortfalls in essential fertiliser supplies as the effective closure of the Strait of Hormuz continues to roil global commodity flows.

The most underappreciated risk in the current environment may be the compounding effect of simultaneous shocks across interconnected systems. The Iran war disrupts energy; energy disruption raises inflation; inflation tightens financial conditions; tighter conditions slow the infrastructure investment needed for both the energy transition and AI build-out; slower AI build-out reduces the productivity gains that were supposed to offset the costs

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of the green transition. Each of these dynamics is individually manageable. Together, they represent a systemic stress test for which few economies (and even fewer supply chains) are fully prepared to deal with.

This is further underscored by the World Bank's decision to lower its 2026 global growth projections. Rising oil prices, elevated bond yields and persistent inflation are compressing the fiscal space available to Asian governments precisely when they need to invest most heavily in energy transition, digital infrastructure and defence.

WHAT WE ARE WATCHING FOR

Throughout history, war economies have been the cradle of modern-day geopolitical superpowers, but in today's hyperconnected and technologically-driven reality, conflict is breeding unpredictable sources of uncertainty and turmoil. Rising defence spending converges with adjacent (and new) industries—what world is coming into view? These are key dynamics to watch:

- **Asia's defence industry as an emerging economic sector.** Japan's pivot from pacifism to defence production is an industrial policy story that could reshape its economic trajectory for a generation. The combination of hypersonic missile development, stealth frigate exports, co-developed laser systems and AI-powered autonomous vehicles represents the emergence of a new high-value manufacturing sector in Japan. India's "Make in India" defence ambitions—if realised through the Japan partnership—could similarly transform its industrial base. Watch for how defence spending flows into adjacent technology sectors: AI, robotics and advanced materials across the region.
- **Will defence demand create a new frontier for critical minerals rivalry?** Critical minerals are already a significant point of geopolitical contention, with China notably using its influence over rare earth and mineral exports as a geopolitical lever. While much has been said about the importance of critical minerals for AI development and the energy transition, there is overlapping application in defence and arms manufacturing. Estimates suggest that demand for 10 key critical minerals such as vanadium, manganese, titanium and copper could rise 135% over the next decade, from the defence sector. Governments are taking note and reacting. For example, the US Department of Defence has invested US$400 million into Australian scandium. As military pressure mounts, so will the minerals chokepoint.
- **Other countries following Japan's hard power about-face.** Neighbours in Asia Pacific are keeping a close eye on Japan's progress, not just in terms of how it's spending its money but also how it's navigating diplomatic implications. A little farther south, South and North Korea are already hardening their approaches, and India doesn't look far off. Indonesia is already putting out feelers for security partnerships—while still maintaining its prima facie policy of non-alignment. Who is next on the block?

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