

CURRENT ISSUES

No. 25: ASEAN Defense Industry Collaboration (9/07/2011)

In February 2011 the defense ministers of the Association of South East Asian Nations (ASEAN)¹ agreed to promote five areas of security cooperation: maritime security, humanitarian assistance and disaster relief, peacekeeping operations, counter terrorism, and military medicine.² In a subsequent meeting in May, they agreed to adopt Malaysia’s concept paper on ASEAN Defense Industry Collaboration (ADIC). This concept paper aims to reduce defense imports by ASEAN members from US \$25 billion per year to US \$12.5 billion.³ This represents a new level of security cooperation in a region that is heavily dependent on defense imports. This paper analyzes the effects ADIC may have on defense markets in the region.

Challenges to Increased Regional Cooperation

The ADIC concept paper is geared towards “encouraging development of industrial and technological strength” and “promoting technological sharing”.⁴ To date, however, ASEAN efforts at security cooperation of any kind have been hindered by the recurrence of conflict in the region, including the dispute over the Spratly islands in the South China Sea, with claims of sovereignty by Brunei, Malaysia, Philippines, Taiwan and China. In addition, more robust defense trade has been hindered by governments’ desires for full reciprocity. As Malaysian Defense Minister Ahmad Zahid Hamidi noted: “Malaysia has bought CN-235 aircraft and Super Puma helicopters from Indonesia, who promised to buy 2,000 Proton Saga

sedans. However, in the end Indonesia had only bought 200 Proton Sagas. We will buy from Indonesia, but what will Indonesia buy from Malaysia at the same value?”⁵ As shown in Figure 1 below, the ASEAN countries with the most robust defense trade – Indonesia, Malaysia, Singapore and Thailand – conduct almost no trade amongst each other.

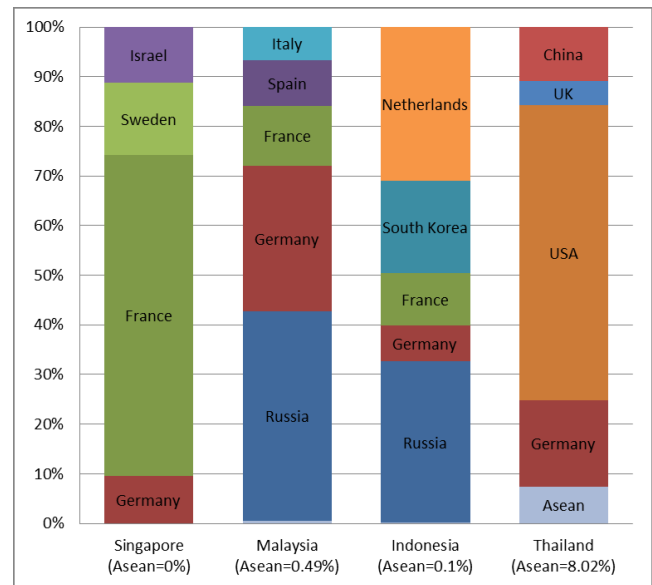


Figure 1: Shares of Arms Imports by Country of Origin for Singapore, Malaysia Indonesia and Thailand (2000-2010) Source: SIPRI 2011 Arms Transfers Database

Yet another challenge to greater defense industrial collaboration in the region is the imbalance in national defense industrial capabilities. Only two ASEAN members, Singapore and Indonesia, have a significant defense industrial base, and only one, Singapore, is represented on the list top 100 global defense companies.⁶ Singapore exports its defense goods and services to a host of countries, whereas Indonesia exports almost exclusively to three: Malaysia, Pakistan and South Korea. Moreover, Singapore’s exports are diversified, encompassing

¹ The ASEAN members are Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.
² ASEAN Defense Ministers Meeting, Strengthening Defence Cooperation of ASEAN and the Global Community to Face New Challenge [Press Release], February 22, 2011.
³ Novan Iman Santosa, Malaysia, Indonesia pace ASEAN military industry, The Jakarta Post, May 19, 2011.
⁴ ASEAN Secretariat, Joint Declaration of the ASEAN Defence Ministers on Strengthening Defence Cooperation of ASEAN in the Global Community to Face New Challenges, Jakarta, May 19, 2011.

⁵ Novan Iman Santosa, May 19, 2011.
⁶ Defense News Top 100 for 2010, DefenseNews, July 25, 2011.

aircrafts, ships, armored vehicles and artillery, while Indonesia's exports consist primarily of transport and patrol aircraft and helicopters. None of the other ASEAN members have significant defense industrial bases, even by regional standards.



Royal Malaysian Air Force CASA CN-235, built by PT Dirgantara Indonesia
Source: Milborne One, used under a creative commons license.

The Missing Links in ADIC

In light of these facts, it is unsurprising that defense trade amongst ASEAN members has been minimal and that the region remains heavily dependent on imports. And while the ADIC concept represents a first step towards changing the current dynamics, it lacks sufficient detail on two key issues without which greater collaboration on defense industrial issues will be difficult. The first is how to grow ASEAN members' defense industrial bases in a manner that meets regional demand. This will require a coordinated effort to share at least some of the defense requirements of individual defense ministries, in itself no trivial task. It will also require that those requirements be translated into national defense industrial policies that produce capabilities to meet the respective requirements. Lastly, of course, it will require investments by governments, the private sector, or a combination of both to create and broaden the relevant defense industrial bases.

The second issue that ADIC must address is the ability of ASEAN members to trade amongst themselves in defense goods and services. Developing domestic defense industrial capabilities

will be of no use if the goods and services generated are not procured. Producing defense capabilities relevant to potential customers is a first step. In parallel, mechanisms enabling the seamless transfer of defense goods and services within ASEAN members must be put in place. Such mechanisms would ease export control requirements as well as customs regulations. Taken a step further, policies would be implemented requiring member nations to give preference to companies from other member nations when making defense acquisition decisions. Only if a capability could not be acquired from an ASEAN member would national governments be allowed to approach suppliers from non-ASEAN nations.

Will ADIC work?

As it currently stands, ADIC is an early-stage concept with ambitious long-term goals but lacking key elements. Yet even if these elements were put in place, key challenges would remain. First, governments would need to make significant investments to develop their defense industrial bases. Production lines will have to be built and the workforce to operate them will have to be trained. Incentives such as tax credits and loan guarantees will have to be made in order to attract investment by the private sector. Second, governments will need to be willing to make acquisition decisions based on multinational ASEAN considerations rather than purely national ones.

When it comes to an industry as closely linked to national security as the defense industry, governments are less likely to favorably consider international collaboration as they are when it comes to humanitarian assistance, peacekeeping and counter terrorism. To succeed, ADIC will need to overcome significant challenges, and doing so will require a political commitment and a coordinated implementation strategy that can guide defense industries in the region on a long-term basis.

—Sneha Raghavan and Guy Ben-Ari

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