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## Everything Must Go: The Impact of Motivated Sellers on the Asia-Pacific Arms Market

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THE United States Congressional Research Service (CRS) has released its annual report on conventional arms transfers to the developing world, and the message for the Asia-Pacific region is mixed. In general, however, a lot of weapons are flowing into the area, and the consequences of these transfers are still unknown.

The Asia-Pacific region has in recent years become the world's largest market for arms, overtaking the Near East. According to CRS, during the period 2002-2005, the Asia-Pacific accounted for nearly half, or US\$43.6 billion worth, of all arms transfer agreements made with the developing world. In terms of deliveries, Asia was still number two in 2002-2005, at 38 percent (US\$30.7 billion). Nevertheless, six Asian-Pacific countries – China, India, South Korea, Pakistan, and Malaysia, and Taiwan – were among the top ten arms importers during this same period.

The Southeast Asian arms market is particularly noteworthy. While it is relatively small – collectively worth around US\$2 billion annually – it is also one of more truly open and competitive markets when it comes to arms sales. Compare this to China or India, which mostly buy from Russia, or Japan or Taiwan, which are more or less captive markets of the US defence industry. While the US, for example, dominates Southeast in the sale of fighter aircraft (e.g., F-15s to Singapore, F-16s to Indonesia, Singapore, and Thailand, F/A-18s to Malaysia), the United Kingdom has scored particular success in exporting its Hawk trainer jet to Malaysia and Indonesia. Germany, meanwhile, has sold submarines to Indonesia and corvettes to Malaysia and Singapore; France, frigates to Singapore and antiship cruise missiles to Indonesia, Malaysia, Singapore, and Thailand; Russia, Su-30 fighters to Malaysia, Indonesia, and Vietnam; and Sweden, submarines to Singapore. Malaysia and Singapore constitute the largest arms buyers in Southeast Asia; during 2002-2005, for example, Kuala Lumpur placed orders for US\$2.8 billion worth of arms.

### **The Lure of the Asian Arms Market**

Given the size and strength of the Asia-Pacific arms market, it is not surprising that this region has become a critical market – and therefore the object of particularly fierce competition – for the world's leading arms suppliers, that is, the US, Western Europe, Russia, and Israel.

The Asia-Pacific is a particularly crucial market for Russia's arms industry. According to CRS, nearly 85 percent of all Russian arms exports during the period 2002-2005 – approximately US\$13 billion worth – went to this region, mainly to China and India but also increasingly to Indonesia, Malaysia, and Vietnam. Russian arms transfer agreements with Asia-Pacific nations have surged in recent years, totaling US\$16 billion for the period 2002-2005 and accounting for 74 percent of all of

Russia new overseas arms sales.

Many European arms producers have also come to depend heavily upon sales to the Asia-Pacific region. Almost half (45 percent) of France's arms sales agreements during 1998-2005 – and fully three-quarters during just the period 2002-2005 – were made to this region. During the same 1998-2005 timeframe, the region accounted for 58 percent of Germany's, and 35 percent of the UK's, total arms agreements to the developing world.

Until recently, the US was the single largest arms supplier to the region, and the region is still a sizable market for US weapons systems. Between 1998 and 2005, Washington delivered more than US\$21 billion worth of arms to the region, accounting for approximately 35 percent of all US arms exports during this period. Only the Middle East was a larger arms market for the United States.

### **It's the Economy, Stupid!**

Why the interests in arms export in general, and to the Asia-Pacific in particular? While nations often have military-strategic reasons for selling arms overseas – such as alliance-building, interoperability, geopolitical signalling, etc. – increasingly economic considerations have dominated this drive to market.

For many arms manufacturers, as local markets have contracted, arms exports have become a matter of sheer survival. Jobs, technology bases, and entire production facilities are on line. After the fall of the Soviet Union, Russian military spending collapsed, and today Russia actually exports more arms just to the Asia-Pacific region than it sells to its own military. European defence budgets have been static or declining for years, and, consequently, Europe's leading defence firms are increasingly dependent upon foreign markets. Britain's BAE Systems and France's Thales, for example, typically derive around three-quarters of their income from sales outside of their home counties. Military exports comprise approximately one-third of the Swedish defence company Saab's revenues. The Israeli defence industry also exports about three-quarters of its output.

Even US defence firms, despite growing US defence budgets and a huge domestic arms market, have felt the pressure to export arms, especially as some weapons systems, such as the F-16 and F-15 fighters and the M-1 tank, are now solely produced for foreign markets.

As economic interests have become paramount, supplier restraint has been replaced by a readiness on the part of the major arms producers to sell just about every type of conventional weapon system available. In addition, supplier states have often used technology transfers and offsets as inducements to make an arms sale, even though these activities can pose potential proliferation concerns. Germany, for example, has transferred submarine production technology to South Korea, while Russia has licensed the production of its Su-27 fighter jet to China.

US arms producers have also become much more aggressive in pursuing exports. The U.S. government has been increasingly willing to lobby hard for arms sales in support of its defence industry. Washington has also become much more permissive when it comes to the overseas release of some of the country's most advanced military systems. This policy have even been applied to state-of-the-art US weapons systems that are still in development, such as the Joint Strike Fighter project, for which co-development partnerships have been offered to such Asian countries as Singapore and Australia.

### **Implications**

The transfer of advanced conventional weaponry to the Asia-Pacific region in general, and to Southeast Asia, in particular, has many implications. Recent arms transfers to the Asia-Pacific go beyond “mere” modernization, and the introduction of new types of armaments promises to significantly upgrade and modernize the manner of war-fighting in the region. Many regional militaries are, for example, acquiring greater lethality and precision at greater ranges, increased power projection, and, above all, improved command, control, communications, computing, intelligence, surveillance and reconnaissance (C4ISR). Stand-off precision-guided weapons have greatly increased combat firepower and effectiveness. The addition of modern submarines and surface combatants, amphibious assault ships, air-refueled combat aircraft, and transport aircraft have all extended these militaries’ theoretical range of action. Advanced reconnaissance and surveillance platforms have considerably expanded their capacities to “look out” over the horizon and in all three dimensions. Consequently, conflict in the region, should it occur, would likely be more “high-tech:” faster, more long-distance and yet more precise, and perhaps more devastating in its effect.

The spread of advanced conventional weapons could also have an adverse effect on regional security environments where tensions are already high. And without necessarily leading to arms races, these new arms acquisitions can lead to very expensive, and perhaps imprudent, arms competitions.

Two things are for certain. First, barring any supplier restraint, the Asia-Pacific region will continue to be an important arms market and an increasingly avid consumer of advanced weapon systems. And second, given the current economic climate affecting the leading arms producing firms and their state sponsors, supplier restraint is extremely unlikely.

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