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Made in China: Beijing woos Southeast Asian Defence Market

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18 August 2010

Defence cooperation between China and some Southeast Asian nations are edging ever closer as Beijing-backed Chinese firms ramp up arms transfers to the region. This is amidst calls for ASEAN to be less dependent on western suppliers. The US seems to be taking notice.

Increasing Defence Trade

IN RECENT years, China has complemented its already significant economic and political engagement of Southeast Asia with increased military cooperation, particularly in the area of defence trade. While China is no stranger to the Southeast Asian defence market, having sold equipment to regional states such as Myanmar and Thailand in the past two decades, Beijing seems to be making a serious push to sell arms to its Southeast Asian neighbours of late.

Like any other commodity on the international market, China's arms sales are driven by a combination of demand and supply, albeit to a certain point. China has been known to leverage on arms sales to sweeten political ties with recipient nations, often at discounted prices or with generous loan repayment schemes. Some analysts have noted that such deals are targeted at nations of particular value to Beijing, such as resource-rich nations, in hopes of securing access to energy and raw materials. Its current customers often tend to be seeking to diversify, or lack access, to alternative supply sources. Prestige may also be another driving factor, with the spread of Chinese-made arms raising Beijing's profile internationally.

Favourable Demand and Supply Climate

Favourable conditions are contributing to China's growing profile in the ASEAN arms market. Firstly, in recent years, ASEAN countries have demonstrated a growing demand for defence equipment as they seek to update their defence systems and replace ageing hardware, presenting China with an

opportunity to promote its defence goods. Furthermore, with the implementation of the ASEAN-China Free Trade Agreement (ACFTA) which went into effect in January 2010, the tariffs of products, including arms and ammunition from both China and ASEAN countries, have been reduced. This development has allowed Chinese firms to offer cheaper defence goods for ASEAN nations.

Secondly, a number of ASEAN countries are hoping to reduce their dependence on Western defence technologies, and are attempting to nurture the growth of their own domestic industrial base. Earlier in 2010, Malaysia's defence minister Datuk Seri Dr Ahmad Zahid Hamidi called on ASEAN nations to share and strengthen defence technological know-how within the region, as well as reduce dependence on Western technologies. Beijing's flexibility in transferring defence technologies should resonate with ASEAN members, particularly for the less wealthy nations seeking to improve their defence industrial base, without excessive financial strain on their limited national budgets.

Chinese defence firms are producing increasingly sophisticated goods over their 20 years in the export business, and are slowly gaining the attention of the global export market. They also offer comparatively cheaper products than their Western counterparts. The largest carrots, however, seem to be Beijing's flexible payment arrangements and willingness to transfer the technologies to customers instead of merely selling them. For example, Thailand has recently begun to develop advanced rocket systems based on Chinese technology acquired in 2009.

Domestically, the Chinese government has introduced a number of favourable policies to facilitate its defence exports. In February 2010 it enacted a new law in which companies and public utilities manufacturing defence goods will enjoy preferential treatment and subsidies from the government. This will allow Chinese firms to save on production costs, although whether these savings will translate into cheaper defence export goods remains to be seen.

Sino-US Tussle for Regional Influence?

China's efforts to market its defence goods in Southeast Asia have certainly not gone unnoticed. It seems to have sparked a renewed drive by Washington to maintain its presence among key regional players. The US Department of Defence is processing – what was termed by defence market intelligence IHS Jane's – a "complete capability package" for the Indonesian military in July this year in an apparent response to an Indonesia that was increasingly turning to Chinese suppliers. A month earlier, the two countries signed a wide-ranging agreement intended to integrate existing defence collaboration, following a rigorous evaluation of US-made aircraft in service with Indonesian armed forces by the US Air Force. These developments are a remarkable turnaround by Washington, considering that it was as recent as 1999-2006 when sales of lethal weaponry to Indonesia were banned. Closer defence ties with Jakarta may also be a hedge against an increasingly assertive China in the region.

The Sino-US tussle for influence in Southeast Asia is apparent over strategically-important nations such as Indonesia. The interest in Indonesia is stimulated by a few factors, including its strategic position, which is home to increasingly important shipping lanes; the country's huge resource base, in which oil exploration is largely undeveloped; and its rapidly expanding economy, which is expected to drive large-scale military modernisation over the next decade and beyond. Indonesia has many important sea lanes which are of strategic importance to both external powers. Industrialised East Asian countries have to rely on these critical shipping lanes to conduct maritime trade and to import much of their energy resources and raw materials. China and the US may also want to protect freedom of navigation for their naval vessels in this part of waterways.

Granted, the range and volume of Chinese defence equipment is still relatively modest at this stage. But with Chinese-made hardware getting increasingly sophisticated while remaining affordable, coupled with generous repayment options and technology transfer options, it is likely that regional

interest in what Chinese firms have to offer will increase in the future.

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