



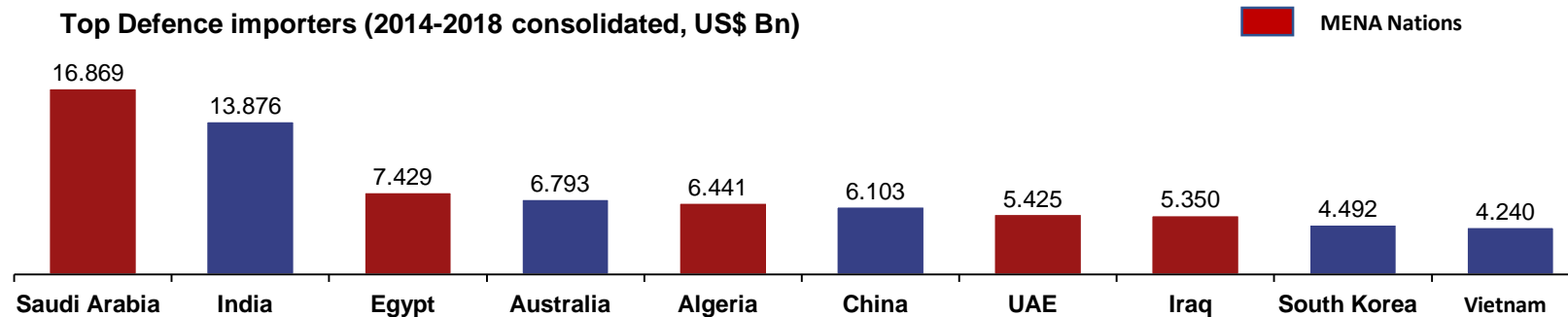
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The challenges of developing defence industry in the Middle East

The motivation for Middle East nations to develop defence industries

- Domestic development of military capability is a **statement of national intent or priority**
- Profitable defence industry helps national **economic diversification, the development of technology and the growth of the technical skills base**
- It facilitates the **building relationships and influence** with other nations
- Nation seek better value for money by developing **domestic industry rather than importing defence products**



The graph shows the top10 global defence importers of which 5 are from Middle East & North Africa (MENA)

The historical limiting factors which have hindered development in the Middle East

Conflict and instability

- Have drained resources
- Have limited cooperation between nations

Dependence on Imports

- Lack of a manufacturing base and funds increased the attraction of imports in the short-term
- Exporters have been reluctant to transfer technology or allow production under license

Overreach

- Plans for the development of defence industry were too ambitious and costly
- Industries were unsustainable

Bureaucracy and lack of cooperation

- International alliances have not been productive
- It has been difficult to start a strong flow of Foreign Direct Investment

National infrastructure and resources

- Existing industrial bases were not capable enough to support defence industrial growth
- There was insufficient funding and trained people to support development



The inherent risks in developing domestic defence industries

Increased financial costs

- Set-up costs are a major investment
- Domestic industry often requires preferential trading conditions
- They often require financial support or subsidies
- They often require legal and commercial support

Reliance on the domestic market

- Domestic defence industries depend normally upon domestic spending for survival making them a compulsory cost
- Export sales alone are not sufficient to compensate

The creation of monopolies

- Technically Inefficient
- Poor quality
- Costly
- Slow to produce
- Uncompetitive and therefore not for export

Opportunity Costs

- Overspending on defence creates an opportunity cost elsewhere in the economy
- This can have unforeseen effects

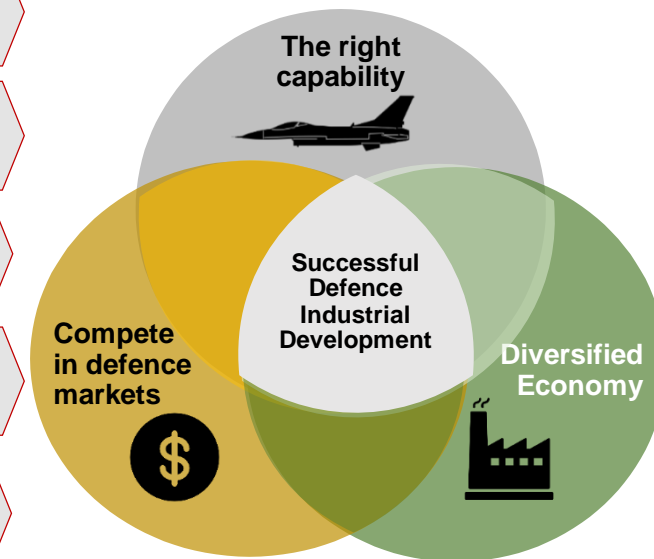
Key success factors for defence industrial development



There are five factors which help the successful development of a defence industry

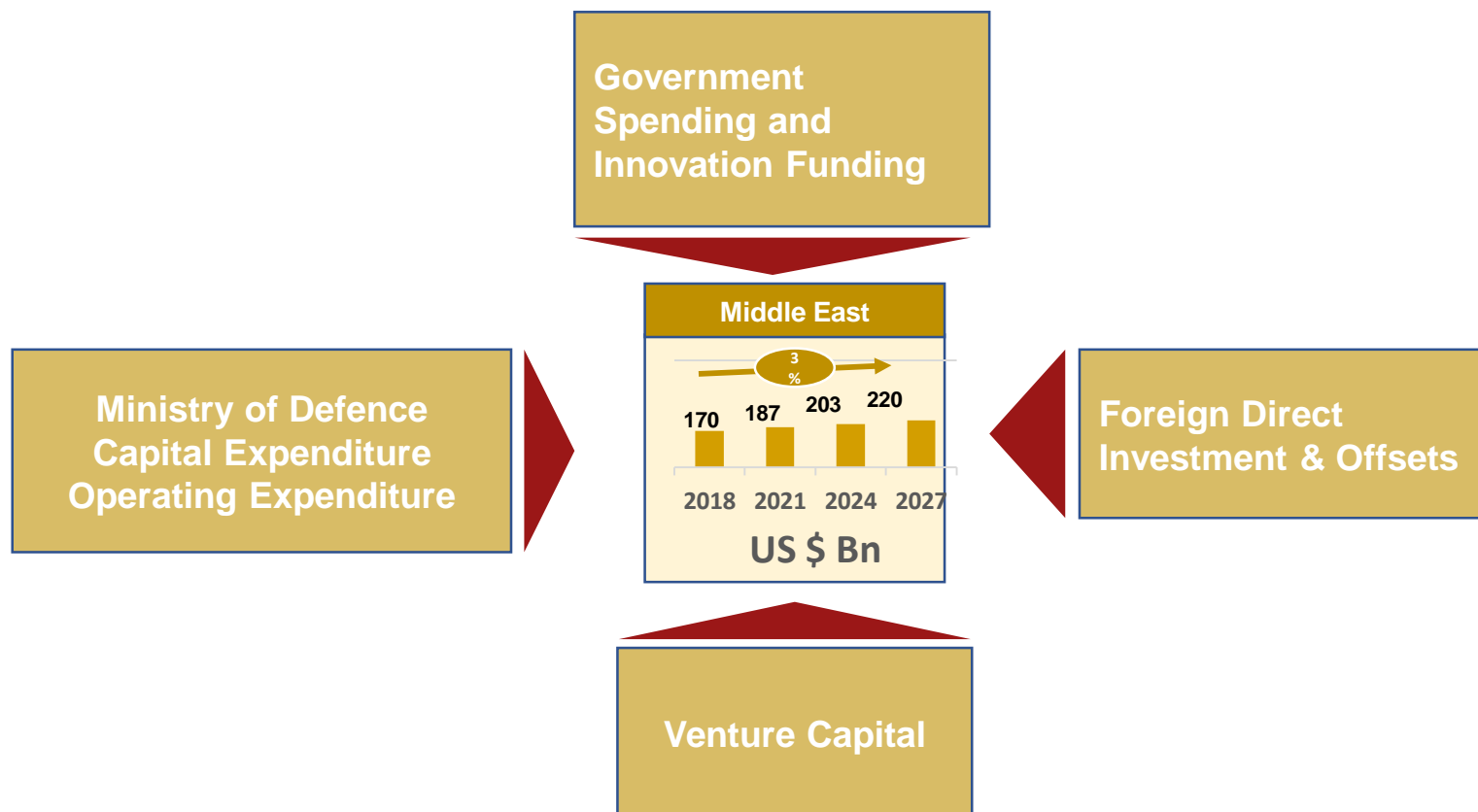
Clear and aligned national policies

Defence Policy	<ul style="list-style-type: none">• Defence Objectives and Tasks• Capability Priorities & Security of Supply• Make or Buy decisions
Economic Policy	<ul style="list-style-type: none">• Foreign Direct Investment rules• Financial and other support for Start-ups and SMEs
Industrial Policy	<ul style="list-style-type: none">• Industrial Development Priorities• Export Policy• Analysis of Value Chain and Supply Chain selection
R&D Policy	<ul style="list-style-type: none">• Selection of technology development priorities• Long-term strategy for R&D
Education Policy	<ul style="list-style-type: none">• Selection of priority subjects for schools and Universities• Selection of postgraduate priorities• Align with Defence Industry requirements
Employment Policy	<ul style="list-style-type: none">• Development of employment terms and conditions for defence ecosystem



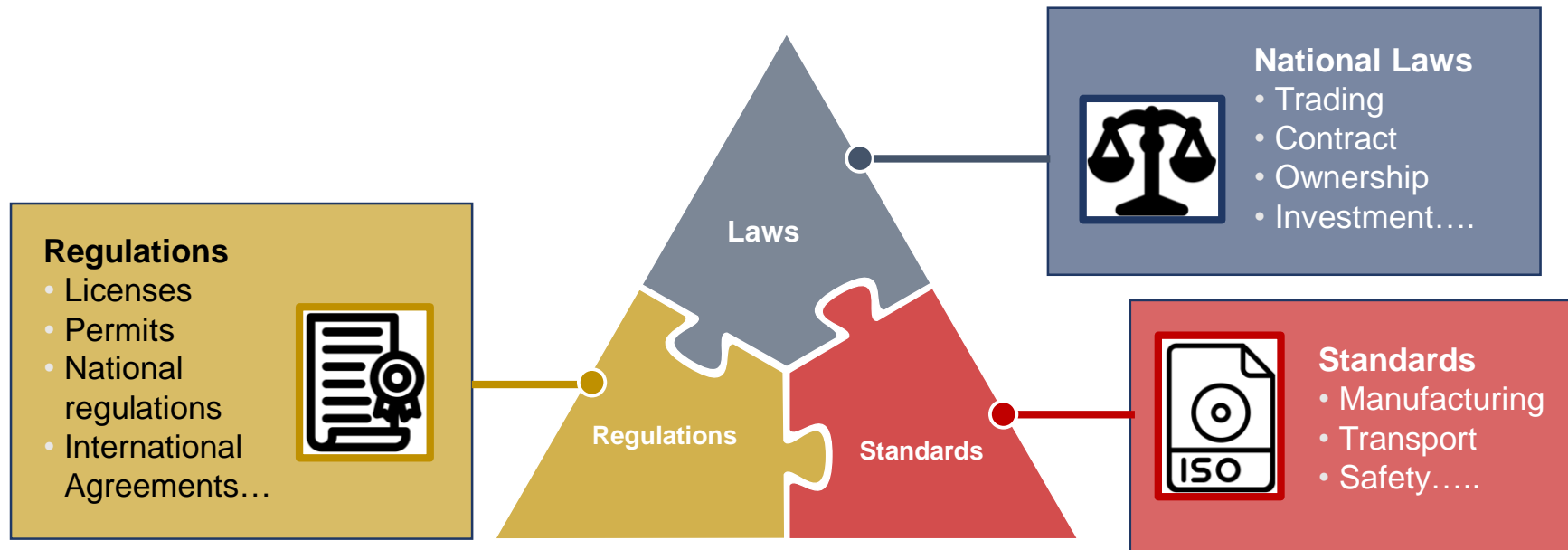
Alignment in national policies is essential to develop a successful defence industry

Allocating and aligning budgets and finance



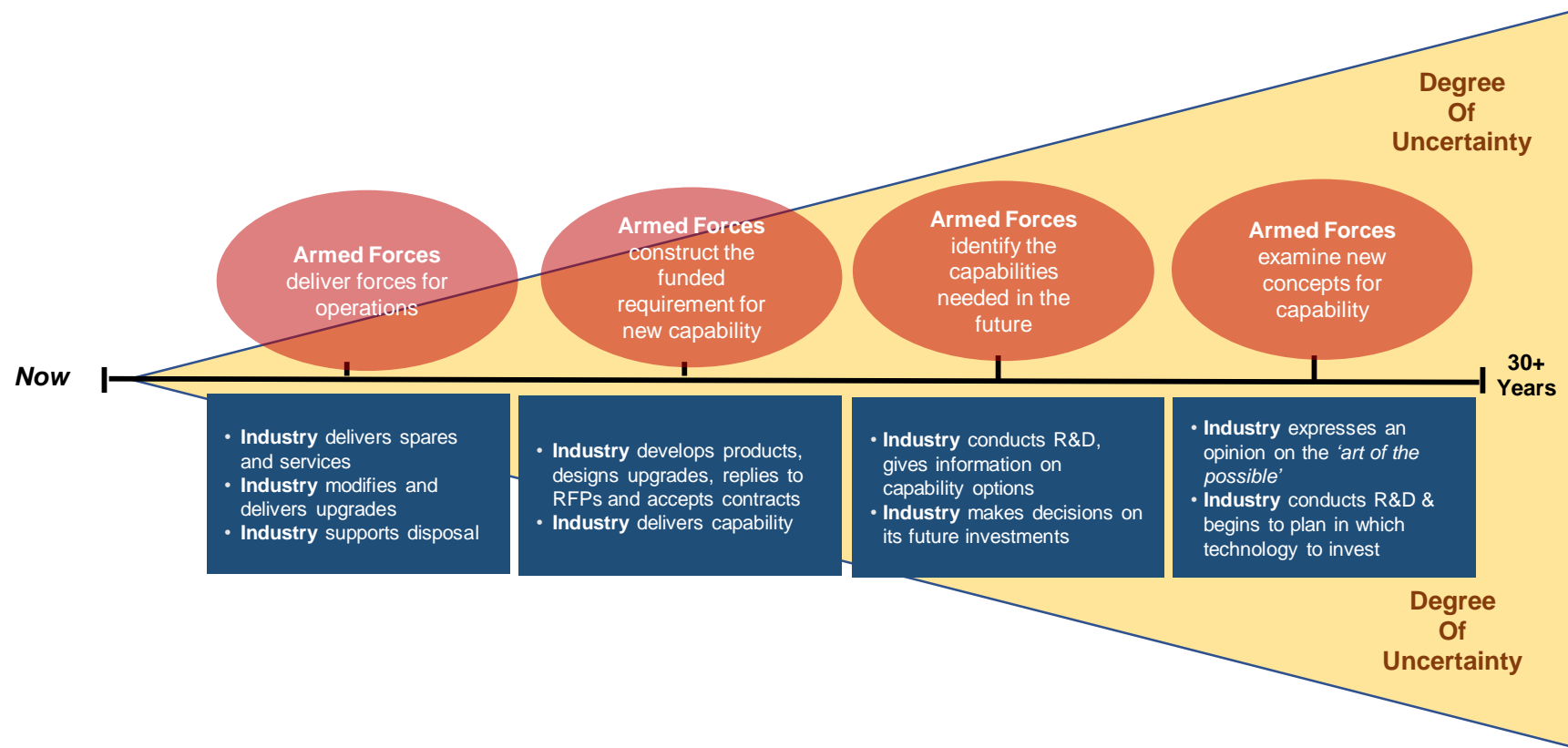
Regional defence spending is forecast to rise – nations must focus funding and investment to develop industry to meet this opportunity

Laws, Regulations and Standards



Strong laws, regulations and standards set and control the environment in which successful industrial development can occur and high quality manufacture can be achieved

Transmitting demand to defence industry



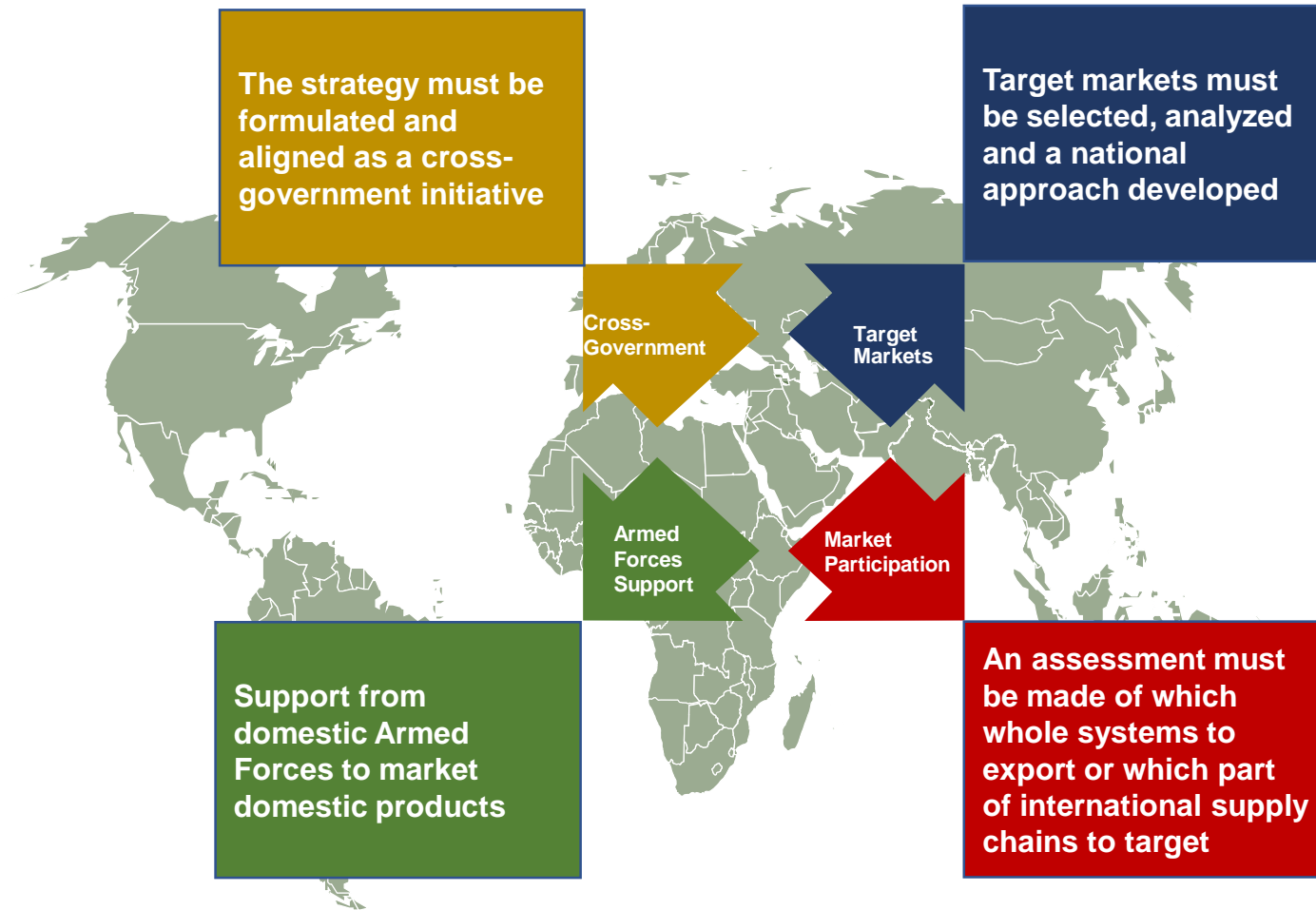
Armed Forces and Industry communicate so that early investment decision can be made

Policy which incentivizes Strategic Partners and Allies

Industrial Models	 <ul style="list-style-type: none">• Traditional Joint Ventures often have only short-term impact• Other model could have longer-term advantages<ul style="list-style-type: none">– Landed Companies– Government-owned Contractor-operated– Tapering Equity
Technology Transfer	 <ul style="list-style-type: none">• Strategic Partners must be incentivized to transfer technology• Mutual advantage must be identified• Good relations and cooperation with allies are essential – regulations exists, agreements will be required
R&D	 <ul style="list-style-type: none">• Nations should work with Strategic Partners and Allies to develop onshore companies which co-develop R&D and products from an existing technological base
Offsets	 <ul style="list-style-type: none">• Successful nations target offsets or use them flexibly• Funding can be directed to R&D, Start-ups and innovation projects• OEMs welcome direction on discharging their liabilities

Foreign Direct Investment (FDI) and partnerships are essential to successful industrial development

Targeted and aligned export strategy

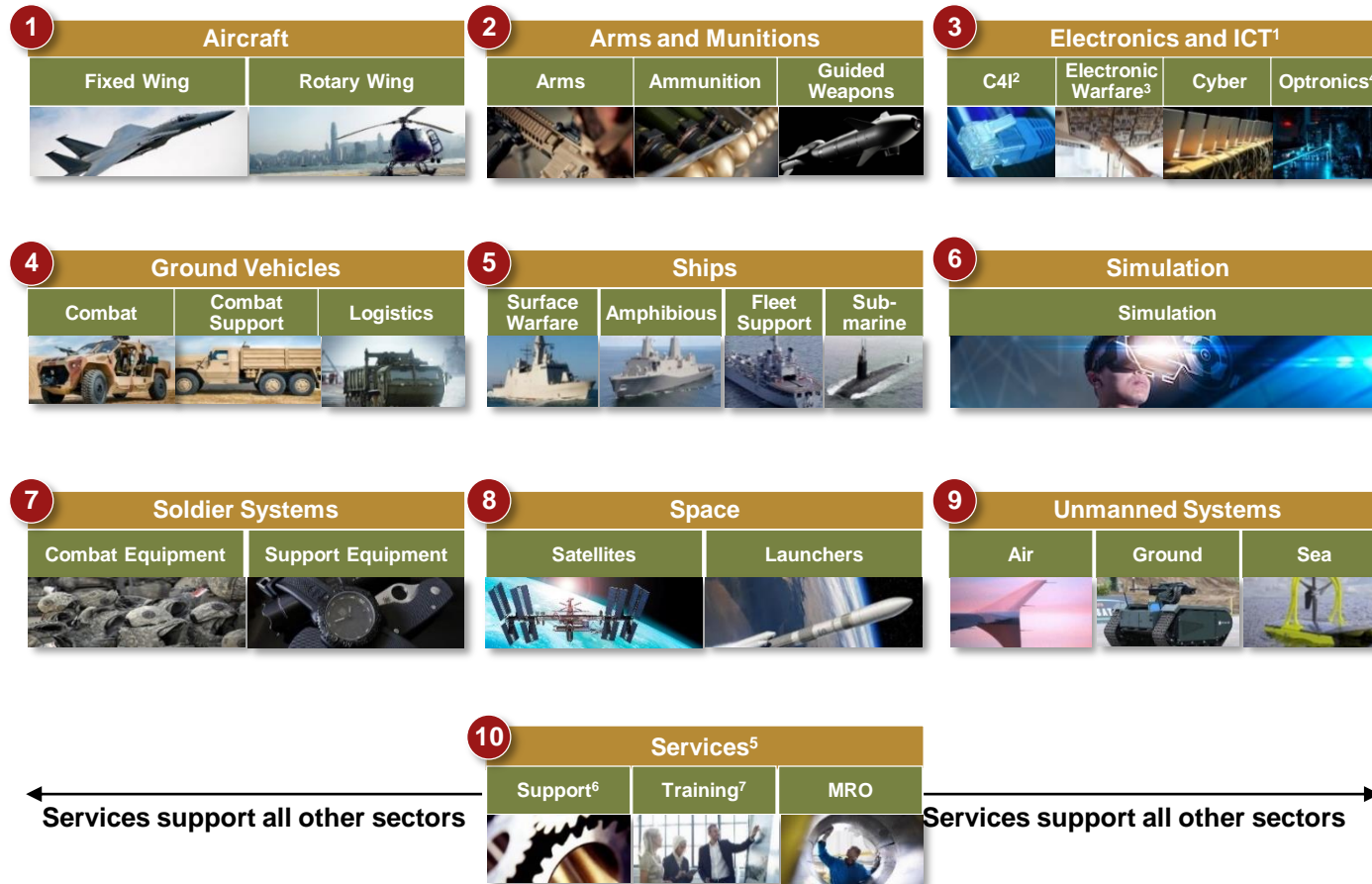


The UAE Approach - Developing a national ecosystem of interconnected elements



The UAE has many initiatives which create an ecosystem in which defence industry can develop.

The UAE is developing a strong in a wide range of defence industry sectors





Thank You ...