



2016 Defense Markets Report Regional and Country Case Study

Asia Pacific

Japan, the Republic of Korea and Taiwan remain long-standing top importers of U.S. defense articles. Southeast Asian defense forces have also increased steadily over the past decade to counter China, as it has become the second largest global military spender. Although the issue over disputed islands is not new, China's development of artificial islands in the South China Sea and beyond has caused increased regional tensions and, hence, an increase in projected defense spending throughout the Asian Pacific Region. Concerns from neighboring countries over North Korean activities are also mounting. This partly results from North Korea's January and February 2016 missile/rocket tests, which have sometimes been described as miniaturized hydrogen bomb tests.

REPUBLIC OF KOREA

The Republic of Korea (ROK) offers enormous market opportunities for defense exporters and was the seventh largest defense export market in 2015. According to *Defense News*, ROK requested \$33.2 billion for its 2016 defense budget, which is roughly 4 percent higher than the previous year. Approximately 30 percent may be set aside for new equipment, indicating strong growth potential for U.S. companies, while other sources confirm that a large portion of the remaining budget will go toward maintenance, improving military culture, and may involve higher wages and benefits for more dangerous missions.

In 2013, the two countries celebrated the 60th anniversary of the "U.S.-ROK Alliance".¹ The 2007 signing of a bilateral free trade agreement further established the ROK as an excellent trade partner and market for U.S. exporters.

Opportunities

The largest sector increase earmarked in the ROK defense budget includes building 3,000 ton

submarines. Various submarine projects are in place, and although main platforms and operation systems will be manufactured locally in Korea, the ROK Navy may choose to import some parts and components that cannot be locally sourced. Other contract opportunities in ROK include UAVs, C4ISR (command, control, communications, computers, intelligence, surveillance and reconnaissance), tanks (although these are also a big export product for ROK) and anti-submarine warfare equipment. Other best prospects include avionics, missile systems sensors, gyros and other high-tech electronic systems, select tactical weapons for various forces (including Special Forces or Marine Corps), and numerous safety and security articles (e.g., bomb detectors, detection systems, etc.)

In addition to the above contract opportunities, U.S. parts for military aircraft represent the largest sector shipped to the ROK, based on Census Bureau export data, and also present a good starting place for exporters new to the ROK. The ROK Air Force uses a wide-range of U.S. military aircraft, including over 158 F-5 and F-5E variants, 59 F-15E and F-15K variants, 71 F-4 Phantom II and F-4E variants, and 118 F-16 and F-16D variants; the F-35 and F-35A variant are on order.

Because many aircraft parts sales are channeled through FMS for the ROK, supplying aircraft parts and/or engines for these aircraft fleets is another starting point for U.S. producers—therefore, companies may often participate in the FMS program.

The ROK's key procurement entity is the Defense Acquisition and Procurement Agency (DAPA). All companies who want to engage in defense exports must be registered with this government entity. Specifically, U.S. suppliers delivering their defense goods through direct commercial sale (DCS) would do so directly with the ROK military via DAPA or a Korean defense company.

DCS sales in the defense industry accounted for roughly an average of 44 percent of total DAPA procurement from 2009 to 2013, based on ROK figures.

Potential Challenges for U.S. exporters

Offsets in any country can be an issue, but companies are urged to recognize the important role of offsets in the ROK. The offset requirement will vary depending on the value of the program, the number of competitors and the overall benefit of helping the ROK create an indigenous program. As a reminder, the U.S. Government, as a policy, does not encourage or assist companies to commit to or enter into offset agreements, even though offsets requirements remain prevalent in the aerospace and defense industries.

Resources

U.S. exporters interested in further information on how to increase their ROK market share should reference <http://export.gov/southkorea/> and explore the resources provided at the end of this report. Additionally, participation in Defense Expo Korea (DX Korea) is an excellent opportunity for companies exploring this market or who would like to network with potential foreign buyers. Although the show is located in Seoul, it also has a regional defense focus and will include delegates from over 44 countries.

Suggested Trade Show

Defense Expo Korea (DX Korea)

Dates: September 7 - 10, 2016

Venue: Seoul, Korea

[See the DX Korea website for details](#)

REST OF ASIA PACIFIC

Defense spending is expected to increase in Japan, Indonesia, the Philippines and Vietnam. "By 2020, total regional spending is expected to reach \$533 billion annually from \$435 billion in 2015, of which Chinese defense spending makes up about 40 percent of all defense spending in the Asia Pacific Region."² This ratio of spending suggests that 60 percent, or roughly \$261 billion annually and growing, represents significant export opportunities for defense companies within the remaining Asia Pacific region (outside of China).

Japan

During 2013, Japan was the third largest importer of U.S. defense goods, based on the Census Bureau's total military export data. In 2015, Japan dropped to sixth, which was indicative only of other countries' increased spending, not a decline from Japan. The requested defense budget for FY2016/2017 is roughly \$40.3 billion, which appears to be over 2 percent higher than 2015, and represents a fourth consecutive increase in defense spending since December 2012.

Japan's defense programs in the short-term will focus on positioning itself in the disputed islands, including investment in more amphibious warfare capabilities. Japan has already procured equipment to address this security concern, including AAV7 amphibious assault vehicles (produced by BAE), Mitsubishi SH-60K anti-submarine warfare helicopters, Bell Boeing V-22 Osprey multi-mission tiltrotor aircraft, Northrop Grumman RQ-4 Global Hawk drones, F-35A Lightning fighter aircraft and more. Other purchases will include tanker aircraft and possibly ship or land-based anti-missile systems.

Opportunities in Japan

The Japanese Ministry of Defense plans to build a military radar station on Yonaguni Island. Parts suppliers for this and the previously listed programs may find opportunities. The Japan Self-Defense Forces (SDF) are the unified military forces of Japan and are controlled by the Ministry of Defense (MOD). The SDF has more equipment in common with the United States military than any other ally and has recently purchased 42 F-35s. Other U.S. military aircraft in Japan's fleet include 12 AH-64D attack helicopters, 47 UH-60J/JA utility helicopters and 32 CH-47J/Jas

transport helicopters, providing opportunity again for producers of aircraft parts as a way to break into this market.

Japan is a key U.S. ally and has changed its laws to allow greater arms cooperation and exports in response to concern over China. The United States enjoys a defense agreement with Japan, and with additional provisions and new defense guidelines, this may lead to an increase in U.S.-Japan cooperation in areas of co-development, co-production and defense technology sharing.³ The guidelines for U.S.-Japan Defense Cooperation were revised on April 27, 2015. As of August 2015, “the Japanese Government’s interpretation of article 9 of the new Defense Guidelines apparently allows unlimited expansion of Japan’s defense ability.”⁴

Resources

Suggested Trade Show

JAPAN AEROSPACE 2016

Dates: October 2016

Venue: Tokyo, Japan

[See the Japan Aerospace website](#) or contact <http://export.gov/japan/>

Singapore

Singapore is considered a well-established market with many opportunities for U.S. defense exports and jumped from 17th to 14th place from 2014 to 2015.⁵ The defense outlook for Singapore over the next five years is very optimistic in light of the regional issues. Although Singapore’s defense spending was flat in 2015, defense spending in 2016 is expected to increase by \$10.5 billion, or roughly 3.4 percent of GDP; these same defense spending levels are expected to continue to increase based on GDP targets over the next five years.

Opportunities in Singapore

Singapore is known to have an excellent business environment and is open to development opportunities for international companies seeking to enter Singapore’s defense market. Due to the country’s geographic location, small size and population, and overall country demographics, Singapore’s defense industry is not sufficient to address increased threats of maritime piracy and the

spread of heightened terrorism. For these reasons, Singapore’s defense needs cannot be met solely by domestic defense companies, and the country remains heavily reliant upon imports.

Singapore’s most notable growth sectors and sales opportunities include military aircraft and artillery, including planned upgrades to the country’s F-16 fleet. Singapore also intends to modernize and develop its navy, coast guard and air force. Demand for aircraft parts and MRO services will offer growth potential as well. Other fighter aircraft in Singapore’s fleet include the A-4 Skyhawk, F-15E Strike Eagle, F-5E Tiger II, military trainers (including the M-346 and SF 260), helicopters (including the SA 332 Super Puma, the UH-1 Huey, AH-64 Apache and CH-47 Chinook), and other special purpose military aircraft such as the KC-135 Stratotanker, F-27 Enforcer and E-2 Hawkeye. Singapore has committed to procuring F-35 fighters but, despite their deep involvement in the multinational program, has yet to confirm an order.

Based on Census Bureau data, Singapore’s top sector for U.S. exporters in 2014 to 2015 was engines and turbines for military aircraft, and notably, the three top engine producers (GE, Pratt & Whitney and Rolls Royce) all have facilities in Singapore. The last major shipment of U.S. military aircraft was in 2012 when military aircraft imports peaked, and aircraft parts naturally followed as the largest sector, peaking in 2013, but continued to rank as the second largest sector for both 2014 and 2015. Aircraft parts are a natural export to allow for maintenance, repair and overhaul of Singapore’s potential future delivery of F-35B aircraft. The main competition U.S. companies could face is with a domestic company called Singapore Technology Engineering (STE) and foreign competition.

Australia

Australia plays an important leadership role in both the Asia Pacific and the global market based on its prosperity and resources; the country is also committed to supporting and collaborating with NATO and other U.S. partners and allies. Australia not only released an aggressive 2016 white paper announcing huge defense plans through 2026 but was also ranked the third top destination for U.S. defense exports in 2015, up from seventh in 2014, based on Figure 3. Australia claims territorial jurisdiction over 10 million square miles – or 27.2 million square km – of the

Earth's surface, which are evenly split between land and sea, and is on that measure the largest nation in the world. That in itself places a heavy burden on Australia to adequately defend and secure such a broad swath of territory.

Opportunities in Australia

Australia has already begun to increase its defense spending. Australia's total spending commitment on programs and acquisitions is worth roughly AUD 195 billion (USD 141 billion). Major U.S. export opportunities include warships, fighter aircraft, helicopters and missile systems.⁶ As a partner in the F-35 Lightning II/Joint Strike Fighter program, Australia has scheduled 72 aircraft for purchase, which are intended to replace its fleet of F/A-18F Super Hornets and its F/A-18A/B Hornet multirole fighters.

Australia's military aircraft fleet also includes the new Poseidon P-8A maritime patrol aircraft (replacing the P-3C Orion), E-7A Wedgetail (Airborne Early Warning & Control Aircraft), EA-18G Growler Electric Warfare Aircraft, several types of transport aircraft-- including C-27J Spartans, C-130J Hercules, C-17 Globemasters, KC-30A Multi-Role Tanker/Transports, PC-9/A advanced trainers, Hawk 127s and Beechcraft King Air 250s.

In 2007, the United States and Australia signed a Defense Trade Cooperation Treaty, which further strengthened the two countries' long-standing and close partner relationship. Australia also has significant economic security interests in Southeast Asia, South Asia and the entire Indo-Pacific region.

With a majority of Australia's trade going to China, Japan and the Republic of Korea, two-thirds of the country's trade must transit through the South China Sea. As a result, it is imperative to Australia to ensure that those ocean regions are secured for safe transit from pirates and other aggressive actions, which requires strong investment in Australia's defense architecture. This security reality has led Australia to significant increases in defense spending plans to 2 percent of GDP, making Australia an extremely attractive market for U.S. companies seeking to expand defense exports.

U.S. exporters interested in further information on how to increase their Australian market share could reference the Commercial Service office at Commerce

at <http://export.gov/Australia> and explore the resources provided at the end of this report. To review business opportunities advertised by Australian Government agencies, U.S. exporters are encouraged to visit <https://www.tenders.gov.au/>.

The following trade show is excellent for exporters interested in further exploring markets in both Australia and The Asia Pacific Region.

Resources

Suggested Trade Show

AVALON 2017

Date: 28 February – 5 March, 2017

Venue: Geelong, Australia

<http://www.airshow.com.au/airshow2017/TRADE/>

Indonesia

Indonesia's USD 870 billion GDP makes it the largest economy of the ASEAN grouping. The country has committed to increasing defense spending from .8 percent to 1.5 percent of GDP in order to establish a "minimal essential force" by 2024. Following an economic slowdown in 2014, Indonesia regained momentum in the first quarter of 2015, representing opportunity for U.S. defense exporters.

Historical Census Bureau export data confirms that since 2005, shipments of military aircraft parts from the United States to Indonesia have dominated shipments in other sectors. Indonesia uses an aging and smaller fleet of U.S. military aircraft, including six F-5Es, 13 F-16A/Cs, five F-16B/Ds and 18 C-130B/Hs. The majority of these aircraft are over 30 years old. Also notable, the last major shipment of military aircraft from the United States to Indonesia was in 2005. Due to budget constraints, Indonesia has tended to purchase second-hand aircraft and equipment, but serious accidents in 2013 and 2015 have led to calls for removal of older aircraft from the fleets and the purchase of new, not second-hand aircraft.

As such, opportunities may exist for U.S. aerospace and defense companies to pursue opportunities in Indonesia, particularly for aircraft parts and maintenance equipment. Indonesia's recent interest in Russian fighters, and ongoing maintenance and support problems for U.S. aircraft (as a result of the 1999 to 2005 sanctions related to East Timor), may

indicate more difficulty for U.S. companies selling aircraft platforms. Additionally noteworthy was the rapid spike in the tanks, artillery, missiles, rockets, guns and ammunition sector (50050) from 2014 to 2015, as shipments jumped over 500 percent. Indonesia is projected to be a major world economy by 2035, as it has experienced the most rapid economic development within Southeast Asia. These current economic indicators and other sources predict that Indonesia will likely become one of the largest (if not the largest) defense spender in Southeast Asia.

Resources

Suggested Trade Show

INDODEFENSE 2016

Date: November 2-5, 2016

Venue: Kemayoran, Jakarta

www.indodefense.com

¹ See Appendix 2 at end for information on U.S. and Republic of Korea bi-lateral agreement.

² "Growing Security Fears Boost Defense Budgets," IHS Jane's, December 2015.

³ Also see appendix 2.

⁴ <http://www.loc.gov/law/help/japan-constitution/interpretations-article9.php>

⁵ Census Bureau export data.

⁶ "2016 Defence White Paper," Australian Government, Department of Defense.