

Battle stations: Asia's arms race heats up

China's military expansion and an unpredictable White House are sparking increased defence spending in the region

Jamie Smyth in Sydney AUGUST 26, 2018

At Canberra airport, a sleek modern building on the edge of [Australia](#)'s sleepy capital, evidence of Australia's military build-up is everywhere. Almost every advertising hoarding is plastered with the name of an international defence company, such as [Raytheon](#), [BAE Systems](#), [Lockheed Martin](#) and [ThyssenKrupp](#). The promotional blitz has even prompted a "No Airport Arms Ads" campaign to ask the airport to replace them with a "friendlier greeting to the nation's capital".

The world's biggest defence contractors have been lured by a government plan to spend A\$200bn (\$147bn) on military hardware over the next decade — the largest build-up of military capabilities in peacetime in the country's history. Companies are scrambling to catch the eye of the visiting politicians and generals who oversee procurement decisions.



The blitz of defence adverts has prompted a 'No Airport Arms Ads' campaign to try to persuade Canberra airport to replace them with a 'friendlier greeting to the nation's capital'

They are also hiring thousands of staff and establishing new manufacturing operations to help deliver Canberra's strategy to create one of the most capable armed forces in Asia Pacific and transform Australia into one of the world's [top 10 arms exporters](#). It is currently ranked 19.

"I make zero apologies for wanting to ensure the nation's security and to protect our servicemen and women," says Christopher Pyne, Australia's defence industry minister. "We live in a more unsettled region than we have in several decades . . . One of the developments in our region in the last few years is the militarisation of islands in the South China Sea by the People's Republic of China and of course the Korean peninsula has been unstable for decades."

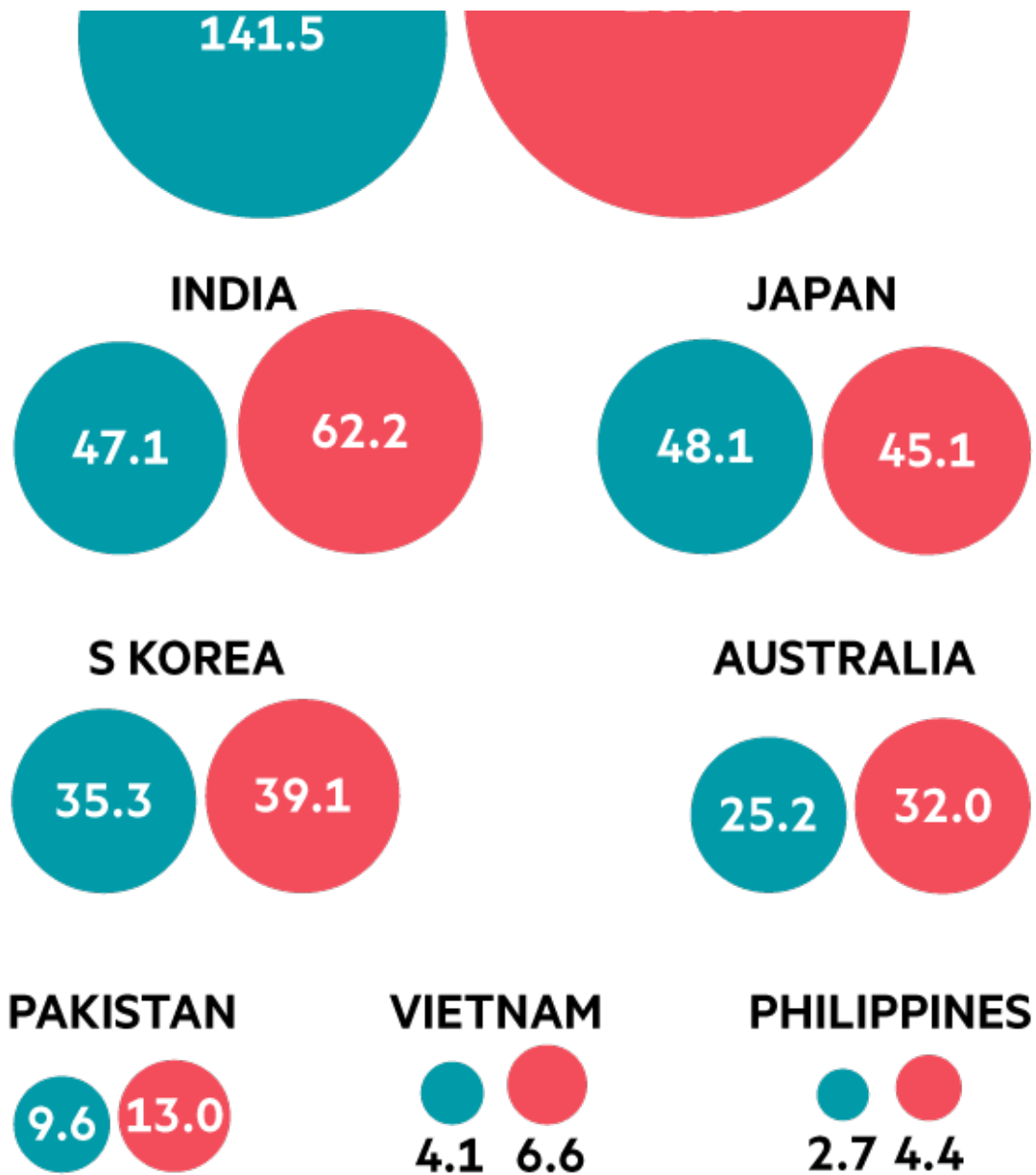
A decade-long push by Beijing to modernise its military forces and advance its territorial claims in [contested waters in Asia](#) is prompting a response from neighbours, which some commentators argue risks spawning a regional "arms race" that increases the threat of conflict.

"Fear and uncertainty caused by China's rapidly-increasing economic, military, and strategic might has been a key driving force behind the regions' renewed interest in the recent military build-up," says James Johnson, a visiting fellow at the UK's University of Leicester

and author of *The US-China Military & Defense Relationship during the Obama Presidency*. “The scale and momentum risks a new and destabilising arms race.”

Defence spending on the march (\$bn), adjusted for inflation at 2018 prices





*Annual estimate

Source: Jane's by IHS Markit

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Annual defence spending in Asia Pacific has more than doubled since the turn of the century to \$450bn — more than \$200bn of that by China — and by 2035 half the world's submarines will patrol Indo Pacific waters, according to Australia's recent defence white paper. The region is forecast to surpass North America as the world's biggest spender on weapons by 2029, according to Jane's Defence Budgets by IHS Markit.

Meanwhile, the “wrecking ball” diplomacy of President Donald Trump, who has threatened to pull the US out of international agreements and savaged allies for not spending enough on defence, while courting North Korea’s Kim Jong Un and Russia’s Vladimir Putin, is creating anxiety in the region.

The military build-up is running in parallel with a [recalibration of traditional alliances](#). Australia is deepening its political and military relationships with regional powers Japan and India, as well as Asean countries such as Singapore, the Philippines and Indonesia, to act as a bulwark against China’s growing economic and military power.

“Allies in the region had already concluded President Barack Obama’s ‘Pivot to Asia’ strategy was all talk and no action and now under Trump their anxieties about US commitment to defend them have redoubled,” says Hugh White, a professor of strategic studies at Australian National University.

“It is probably too soon to pick up this trend in defence spending, but there is a huge re-evaluation of defence capabilities under way and even previously unthinkable actions, such as countries developing their own sovereign nuclear deterrents, may now be reconsidered,” he adds.

Asian Pacific military spending



HMAS Sydney, an air warfare destroyer, under construction in Adelaide © Bloomberg

\$1.7tn

The estimate for global defence spending this year, up 3.3%

A\$200bn

Australia's budget for military hardware over the next decade

2029

The year when Asia Pacific weapons spending is set to pass that of North America

The financial crisis led many western and Asian countries to cut back on military expenditure, while China continued to expand its defence budget. But this year Jane's is forecasting that global defence spending will rise 3.3 per cent to \$1.7tn — the fastest rate of growth in a decade and a post-cold war high.

The extra spend reflects an upswing in the global economy, instability in eastern Europe and Asia Pacific and the election of Mr Trump, who has ordered a big increase in US spending and is pressing Nato allies to follow suit.

The US is budgeting to spend \$717bn on defence in 2019, an almost 8 per cent year-on-year increase and its highest spending since 2011. Beijing's spending is scheduled to rise to \$207bn this year, consolidating its position as the world's second-largest spender on defence and boosting investment in high-tech weapons ranging from artificial intelligence to aircraft carrier killer missiles to drone swarms.

Across Asia Pacific countries have been reacting to China's growing power and [Pyongyang's nuclear threat](#) for some years. But the [unpredictability of the Trump White House](#) has added a potency that is prompting even previously reluctant spenders, such as Japan, to modernise their armed forces.



A missile launches in North Korea. Across Asia Pacific countries have been reacting to China's growing power and Pyongyang's nuclear threat. In December Tokyo approved a ¥5.19tn defence budget under prime minister Shinzo Abe, who is pushing to revise the nation's [pacifist constitution](#) . Although it has yet to go beyond 1 per cent of GDP the Japanese budget includes money to buy cruise missiles for its F-35 stealth fighter jets, which would provide Tokyo — for the first time — with the capability to strike land or sea targets in North Korea and China.

In South Korea a public debate erupted last year over whether the country should develop its own nuclear deterrent to counter Pyongyang. A Gallup Korea poll in September 2017 showed three in five South Koreans favoured building nuclear weapons, while a poll by YTN, a TV news channel, showed 68 per cent favoured redeploying US tactical nuclear weapons, which were withdrawn in the early 1990s.

For the moment there seems little prospect that a nuclear deterrent will be embraced due to opposition from Moon Jae-in, South Korea's president. But a breakdown in talks between Washington and Pyongyang could reignite the nuclear debate.



Chinese warships and aircraft during an exercise in the South China Sea. Annual defence spending in Asia Pacific has more than doubled since the turn of the century to \$450bn — more than \$200bn of that by China © Reuters

“There is a general global perception of increased instability and threats that ‘demand’ keeping military options open and more needed than five to 10 years ago,” says Siemon Wezeman, senior researcher at the [Stockholm International Peace Research institute](#). “Everyone is reacting to what others do, arguing about who started it and unable or unwilling not to follow the trend. Better safe than sorry, or the old saying, ‘if you want peace, prepare for war’.”

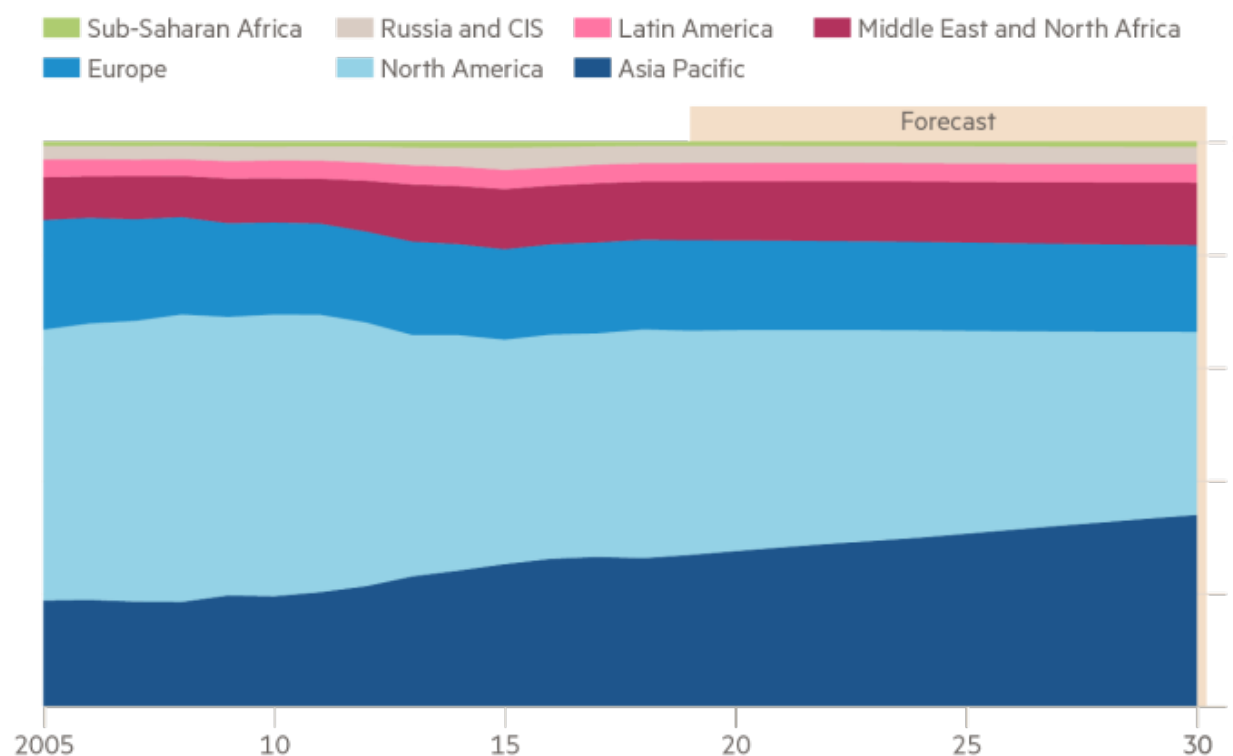
However, he says the increase in military spending has not yet become a real “arms race”, which is characterised by an out-of-control spiral of action and reaction by nations. In most countries spending is following growth rates, which means the proportion of military spending as a percentage of gross domestic product has not changed substantially or reached the high levels seen during the cold war, says Mr Wezeman.

At Fleet Base East, a sprawling naval precinct at Garden Island on Sydney harbour, dozens of Australian sailors are performing drills on the deck of HMAS Anzac, a 25-year-old frigate in dock for some care and attention from BAE Systems.

“While the Anzac frigate remains one of the best capabilities and ships in the water, the Hunter Class represents a step change in the anti submarine warfare capability of the Royal Australian Navy,” says Peter Buchanan, general manager for maritime sustainment.

Military spending in Asia Pacific to overtake that of North America

% of global defence expenditure



Source: Jane's by IHS Markit
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Australia's 2016 defence white paper outlined a \$200bn shopping list including the country's first fleet of armed drones among a host of other military hardware. In July it ordered nine Type 26 frigates from BAE as part of a [huge shipbuilding](#) programme, which is costing almost A\$100bn and will deliver 54 vessels to the Royal Australian Navy by the late 2040s.

The frigates, to be built in Australia under a new government-led industrial strategy designed to create jobs and boost self-sufficiency, will be crammed with the latest weapons systems and stealth technologies to hunt submarines — identified as one of the main strategic challenges in the Asia Pacific region.

The spending splurge is part of the ruling Liberal-National coalition’s plan — set to continue under [Scott Morrison](#), who was appointed prime minister on Friday after the ousting of Malcolm Turnbull — to increase defence spending from an 80-year low of 1.6 per cent of GDP in 2012 to 2 per cent of GDP by 2020-21.

“I’ve never seen weakness as being a promoter of peace,” says Mr Pyne. “The history of the world tells us [that] to protect your national security, you have to be strong.”



HMAS Hobart. In July Australia ordered nine new Type 26 frigates from BAE © Bloomberg

He says the US is right to ask its allies to do more.

Yet the election of Mr Trump has alarmed Canberra’s military and political elite, who have watched him calling into question the future of Nato and backtracking on commitments to allies. His erratic behaviour has bolstered Canberra’s resolve to re-arm and seek new alliances in Asia.

“Trump has poured an accelerant on to a more fundamental problem,” says Richard McGregor, an analyst at the Lowy Institute. “He is a symptom of the problem rather than its creator.”

The diplomatic uncertainty has also forced a rethink of traditional alliance structures in the region, some of which date back to world war two. India, the US, Japan and Australia have reinstated the “quad”— a diplomatic initiative designed to counterbalance Chinese

power and influence — while in 2016 the Obama administration lifted its arms embargo on Vietnam, reflecting Washington’s push to bolster ties with countries in the region to counter Beijing’s growing economic influence and strategic power. In return, Hanoi opened its ports to visiting US warships for the first time since the end of the Vietnam war.



Former Australian prime minister Malcolm Turnbull, fourth from left, on the submarine HMAS Waller © Getty

Separately, Australia and New Zealand are directing development aid to the South Pacific, where Beijing funnelled at least \$1.7bn between 2006 and 2016.

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“We are seeing a move away from the traditional defence alliances in Asia, whereby countries used to rely on one-on-one partnerships with the US.

They are now running in parallel with a new race to build defence ties across the region, most notably between Japan, India and Australia, as a bulwark against China,” says Mr McGregor.

“[But] there is a paradox at play here — Australia and other Asian countries are only able to increase their defence spending and buy new weapons because they are benefiting from the growth of China’s economy. In other words, in order to defend themselves against China, they actually need China to succeed.”

Business: Defence sector sees opportunity to expand

It has a handful of local companies, such as CEA Technologies — which develops radar systems —and shipbuilder Austal, which export to the US, Middle East and elsewhere. But it is using its multibillion dollar contracts for submarines, tanks and frigates, to encourage foreign multinationals to expand their Australian operations and use them as a base to export defence equipment overseas.

Thales, a French multinational, is a big success story. Its Sydney-based subsidiary has exported about A\$1.6bn worth of submarine sonars, air traffic control systems and Bushmaster armoured vehicles to Europe, Asia and the Caribbean.

“We are creating jobs, investment, new infrastructure, research and a skilled workforce,” says Christopher Pyne, minister for defence industry. “A nation that takes its sovereignty seriously should be investing in this type of capability.”

Mr Pyne is hopeful his government’s A\$35bn deal with BAE to build nine frigates in Australia could enable the country to export the T26 Hunter class design to other countries. Under the contract, ASC, a government owned business, will transfer temporarily to BAE to undertake the build programme and then revert back to Australian public ownership at the end of the project.

“At the end of this programme we will have our own sovereign design and build capability, which means we would definitely be able to export frigates,” says Mr Pyne, who has spent two years on the road around the Middle East, Asia, Europe and US showcasing Australia’s defence industry.

But many defence analysts doubt Australia can break into the world’s top 10 arms exporters list dominated by the US, Russia and increasingly China. Some go as far as warning that the government’s requirement for Australia’s Defence Forces to mainly buy locally built equipment is pork barrel politics, designed to create jobs and buy votes rather than get the best equipment.

“It’s very unlikely that Australia can make major inroads into the global arms market, despite this push,” says Euan Graham, analyst at the Lowy Institute, a think tank. “This is more about creating local jobs and shoring up weak political constituencies.”

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