



Defence Industrial Development in the Middle East

The importance of a military industrial strategy

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Executive summary

Industrial Development is a hot topic in the Middle East defence industry, with numerous Middle East nations looking to minimise their dependence on others for their military activities and localise their key military assets. Certain nations, such as in KSA Vision 2030, have specifically identified the importance of defence as a primary enabler for economic growth, job creation and skills development. As a result, there is subsequently a great focus on the creation and implementation of effective industrial development programmes.

However, although the desire and effort is apparent, there is a risk that the overall focus and means of getting there are clouded. With such a great desire to achieve tangible visible outputs, large sums of industrial development spending is being put towards programmes that are either short-term in nature, not aligned with the overall defence national strategies, or are not achieving real industrial development in defence sectors for the nation.

With the desire and pressure for progress being so strong, some nations are not pausing to consider where they want to be in the next 20, 30 and 40 years and how they can use industrial development programmes, industrial participation and offset obligations to achieve this.

Without taking the time to look forward and clearly identify where each nation wants to be, there is a continuing risk that significant money and resources are wasted on short-term ambitions rather than supporting the longer-term strategic vision of building an established local industrial defence ecosystem that is more competitively positioned in the global defence market.

Each nation is different and has its own challenges. Short-term needs, such as local employment pressures, must of course be met, and industrial development programmes put in place to achieve them. Such goals can be addressed through a robust and forward-thinking industrial defence strategy that achieves both the short-term needs of the nation as well the long-term positioning strategy.

With such a great opportunity in the region through industrial participation and offset, this paper looks at the importance for Middle East nations to spend the time and focus to ensure they have succinct, long-term and evolving military industrial strategies to achieve their ambitions, focusing less on what is needed 'right now' and more on what will be needed over the next few decades.



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Knowledge is power



One of the biggest challenges for Middle East nations is to develop local knowledge and skills that can be used to drive the development of local defence industries. Historically, offset and industrial development programmes have focused on high volume activities that may well achieve throughput, skills development and job creation, but it is lower level repeatable work that is not at the forefront of developments in defence technologies.

In order to achieve operational sovereignty and full freedom of action, Middle East nations need to use offset and industrial participation commitments to accelerate learning and development with a focus on future defence technologies. Although learning how to perform basic defence industrial duties (such as operations and maintenance) are valuable job creators, they are short-term and increasingly being replaced by new technological developments and, by their very nature, are continuously dependent upon foreign acquisitions.

Middle East nations should place more value in the defence education and skills development of their local populations so that future generations can be at the forefront of global defence industrial development, repositioning the region from supporting global industrial players to leading global defence developers.



This is a challenge, as it can be hard to quantify the value of learning programmes and development agendas and whether money spent is having a real difference. It is easier to see the initial value of physical product (maintenance facilities etc.) as they are tangible, however their value is limited and short-term, often becoming obsolete after the completion of the associated offset obligation. The real value is in developing the defence knowledge, skills and capabilities of the local population so that this value is long-lasting, multi-faceted and drives the achievement of future operational sovereignty and freedom of action.

The future is not physical



Warfare is moving ever further away from the 'physical' and in to 'electronic and digital' warfare, utilising cyber, AI and other technological advances. It is important therefore that Middle East nations assign significant industrial development programmes that expand their capabilities in these future technologies.

Much like with learning and development, the resulting value of industrial development funding in these areas can be harder to see than physical capabilities, especially when you factor in the national sensitivities that these areas often provide, which can limit access and awareness. However, it is vital that significant elements of a military industrial strategy is focused on the future technologies that will dominate the defence environment, investing in R&D capability expansion so that the region can compete with more mature defence technology markets and nations.

“History will be the judges, but it is plausible that by 2050 (or perhaps before) automation and artificial intelligence will have altered not just the character, but the very nature of war.”

Global Strategic Trends, UK MoD, Sixth Edition,



Once again, the focus should be more on future needs not current needs. Middle East nations must decide on which elements of defence technologies they want to lead on in the future, invest heavily in these areas and ensure that offset and industrial participation obligations are funneled into the development of these priority areas.

Middle East nations should take the time to identify which areas are the best for them to focus on. Factors such as operational sovereignty, security of information, future military trends, as well as market competitive elements should all be considered when deciding on what future technologies to invest in.

Military industrial strategy is vital



The national military industrial strategy should be the cornerstone of future industrial development for the Middle East nations. It should define how the nation wants to structure and position its defence industry in the future within the global defence ecosystem. These strategies must be developed in a considered manner with a long-term focus, have real value targets assigned to them, along with being continually reviewed to monitor progress and achievements.

Fig 1: Elements of a military industrial strategy

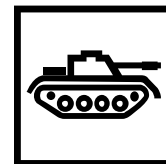


Each Middle East nation's military industrial strategy will be very different given that they have different priorities, challenges and focal points for its nation's future. When setting the goals and overall strategy, consideration must be given to national security agendas, employment requirements, political factors, the existing industrial base, as well as the desires of the nation as to how it wishes to be viewed by the world.

Military industrial strategies are not just for developing nations, but for all nations at every stage of domestic defence industry maturity. With technological advancements occurring at such a rapid pace, and having such a pronounced impact on the future of warfare and national security, every nation must continue to look forward and develop long-lasting industrial strategies to ensure continuous improvement.

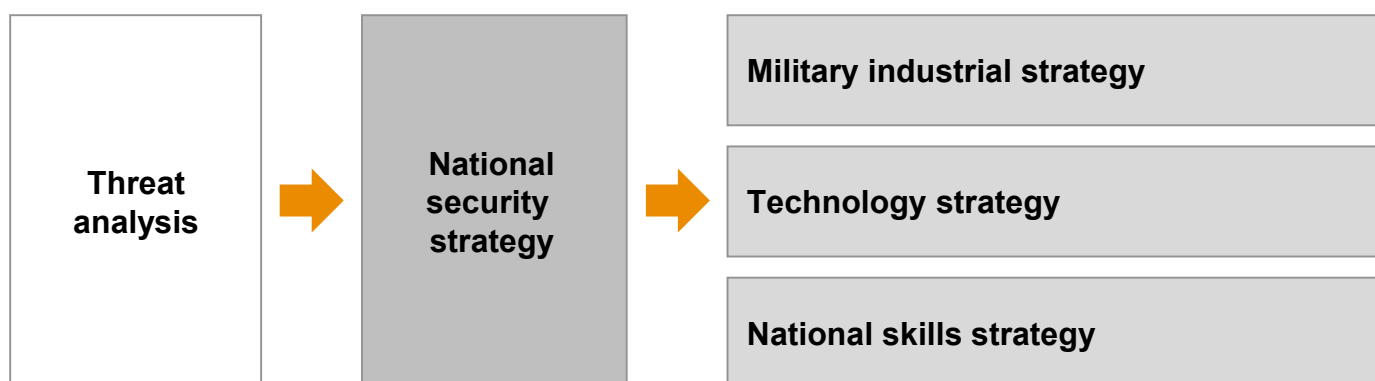
The long-term aim should be to lead industrial development on a global scale, not just catch up.

Military industrial strategy within the wider national ecosystem



A military industrial strategy must not be created in isolation. It should be a representation of the overarching requirements of the nation to mitigate threats, protect its citizens and achieve overall national security. Alongside the technology strategy and national skills strategy, the military industrial strategy must be used as a way to help achieve a nation's objectives.

Fig 2: The military industrial strategy within the wider national ecosystem



The military industrial strategy is an enabler of, and is enabled by, a number of other defence related strategies and initiatives. Without constant engagement with these other elements, a military industrial strategy cannot be effective as either it will not have the throughput to drive the development, and/or will not have the ecosystem to deliver its ambitions.



Acquisition

Without a nation conducting military acquisitions, it is very difficult to achieve any significant industrial development. A nation's industrial development agenda should work hand in hand with the acquisition planning for the military. Considerations such as operational sovereignty and freedom of action must be taken into account when conducting military acquisitions. In addition a nation's industrial base must be structured and developed in a manner to meet the acquisition needs of the military as much as possible, both now and in the future.



Talent & capability development

National talent and capability development is essential in order to achieve a nation's industrial ambitions in defence. The defence sector must work with education and labour sectors to ensure that academic courses, professional development and specialised training is conducted to support the defence industry and to drive the industrial agenda in the focus areas defined in the military industrial strategy. Research and technology programmes must also be aligned with the military industrial strategy to take the lead in the development of technological focal points.



Enabling ecosystem

A nation's wider ecosystem needs to be enabled to support the industrial development of defence. Initiatives such as building industrial clusters, providing fiscal incentives to attract new entrants into the defence space, and building localisation programmes that both achieve industrial development and incentivise foreign companies to invest in the local economy are vital. Achieving industrial development cannot just be mandated, various enablers must be put in place across the sector to encourage this growth and incentivise new companies and capabilities into the defence ecosystem.

Want to know more?

PwC has extensive experience working in industrial development in the Middle East. We have worked with government regulators, national champions and international defence companies to develop the Middle East defence industry and build strategies and plans for the future.



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Susanna has worked in defence related jobs for the last 22 years. Before PwC, she spent eight years in the UK Ministry of Defence across a range of commercial strategy and defence export roles before leaving as 3* Director General Commercial. She has wide ranging commercial, procurement, negotiation and restructuring experience at the highest level of government and with foreign governments across EMEA and Australia.

Susanna has worked closely with the major defence equipment and service providers at CEO level. She also has designed and implemented legal regulation for single sourced military equipment and services. She is an experienced bid leader for multi-million dollar bids, and has been a lead negotiator for the UK government.



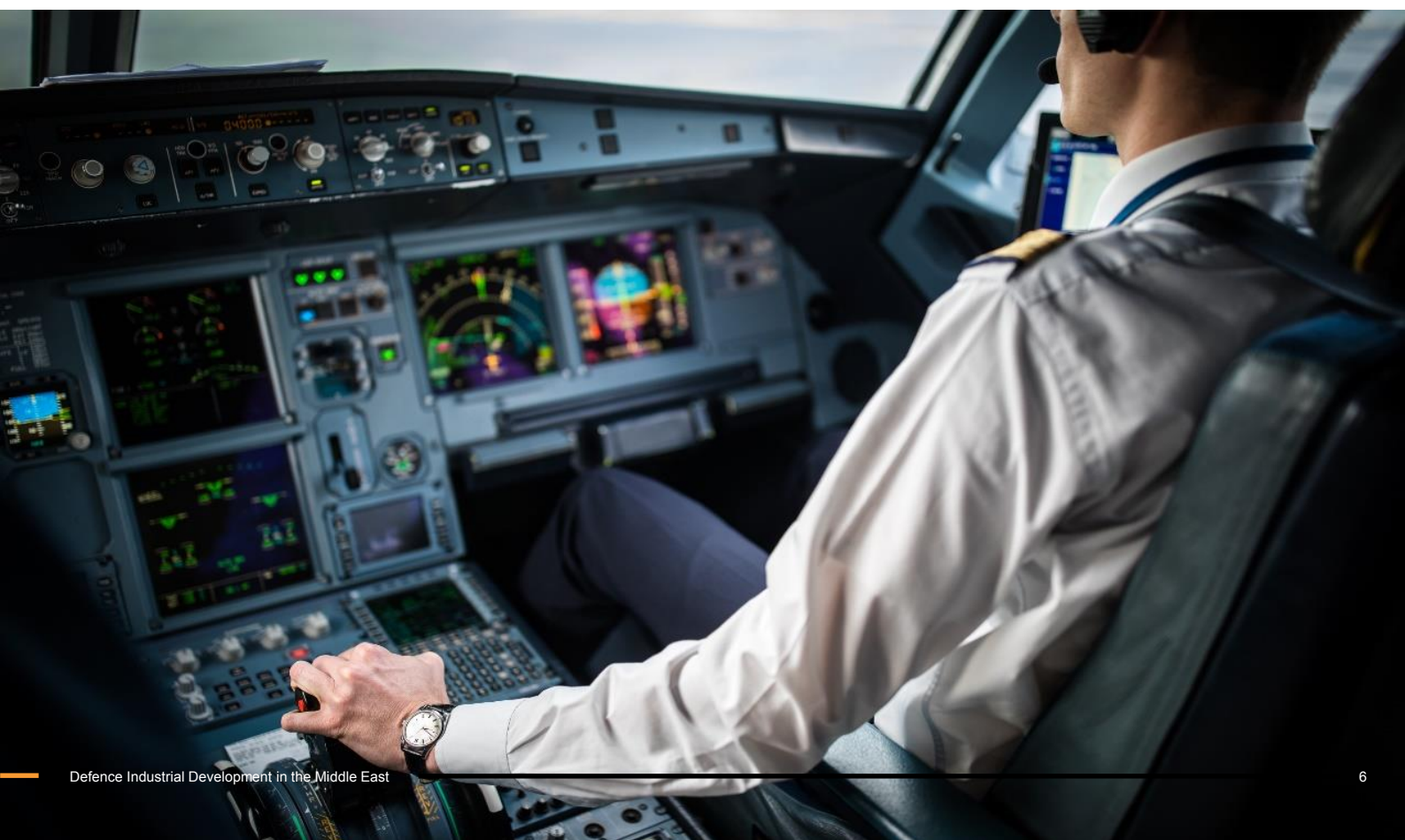
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Lewis has run defence programmes in the Middle East over the last 12 years. With a focus on the government and industrial development elements of defence, Lewis has extensive expertise in setting up government organisations as well as developing the Middle East defence industrial base. Working with both regional government organisations, and international defence companies, Lewis has led teams to deliver industrial development and localisation programmes and has designed and delivered industrial development strategies for the Middle East region.

Lewis has worked with military clients including NATO, the UK Armed Forces and the UAE Presidential Guard, as well as leading defence industrial organisations including Lockheed Martin, L3 Harris, GAMI and SAMI.





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