

## **Defence Procurement in Southeast Asia**

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From my vantage-point in Singapore, in the middle of the sub-region, it is abundantly clear that after a hiatus resulting from the financial crisis of 1997-8 and lasting in most cases until the middle of this decade, Southeast Asian governments are again investing substantial resources in their armed forces, and particularly in procuring weapons systems and other military equipment. This phenomenon raises some important questions. What factors are driving military modernisation and defence procurement, and influencing procurement choices? What is the contemporary scope and scale of defence procurement in Southeast Asia? How does defence procurement work in practice: what are the processes and who are the main actors involved? And what is the result of defence procurement? Does it lead to improved military capabilities? What is its impact on Southeast Asia's security: is it enhancing the sub-region's stability or is there evidence of an arms race which might be destabilising?

In the first place, it must be said that it is sometimes difficult and dangerous to generalise about any aspect of Southeast Asia, including military and defence issues in the sub-region. This is an extraordinarily diverse collection of states, which vary widely in their population size, their wealth, their political systems, the security challenges they face, and in terms of their armed forces' origins and evolution, scale, organisation, doctrine, operational experience, regional and international links, and their equipment. Extraordinarily diverse influences have driven their defence policies, levels of military spending and arms procurement programmes.

However, it is clear that since the 1970s Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam have all had programmes aimed at improving their military capabilities with procurement of weapons systems suitable for conventional warfare - that is, capabilities geared for

war with other states - playing a prominent role in this process euphemistically referred to as 'military modernisation'.

For armies, this meant not only modernising equipment inventories but by the 1990s also developing rapid deployment components. (These rapid deployment forces were, of course, potentially useful for maintaining internal security as well as for external defence). But much more striking were the expansion and modernisation of Southeast Asian navies and air forces. During the 1980s and 1990s, Southeast Asian states started to purchase larger surface warships, anti-ship missiles, submarines, maritime patrol aircraft and multirole combat aircraft. At the same time, most Southeast Asian governments have intended that lower intensity operational roles such as internal security and coastal protection should increasingly be delegated to paramilitary forces. But persistent and in some cases widening low-intensity challenges on land and at sea have meant that Southeast Asian armed forces have often been unable to relinquish their traditional constabulary roles.

The regional financial crisis a decade ago severely undermined the ability of major Southeast Asian states – Indonesia, Malaysia and Thailand – to fund the military procurement seen as necessary to modernise their armed forces. For the first half of the current decade, this left Singapore as the only Southeast Asian state allocating substantial resources for purchasing new equipment and developing new capabilities. Indeed, Singapore has been committed to not just modernising but to transforming its armed forces to maintain their combat advantage over potential regional adversaries. I will return to this point later. With economic recovery in recent years, however, the larger Southeast Asian states have increased their defence spending again, allowing them to resume military modernisation and procurement plans that had been postponed.

#### *Rationales for military modernisation and procurement*

It is fairly clear that most Southeast Asian states' military modernisation plans had their origins during the Cold War, which attained its zenith in this part of the world with the Soviet-backed Vietnamese occupation of Cambodia during the 1980s. This coincided with a major spurt in non-communist Southeast Asian armed forces' modernisation efforts. However, factors related to the Cold War provided declaratory justifications *but not reasons* for many aspects of most non-communist Southeast Asian states' defence policies and military procurement programmes.

In reality, these programmes were generally not responses to particular threats but rather reflected long-established rationales, which continue to play key roles in defence policy-making and decisions on military procurement to this day. Some of these rationales are essentially domestic and unrelated to external security considerations. Growing economies have increased the funding available to all government departments, including defence ministries and armed forces. Southeast Asian governments have often viewed military modernisation as an important aspect of overall national modernisation with the long-term aim of securing the trappings as well as the substance of developed country status.

Developing national defence industries – which require a market in the national armed forces - has sometimes been seen as an important component of national industrial strategy. Attempting to build up national defence industries, often in the vain hope of achieving ‘national self-sufficiency’ in defence production (something that even major Asian powers such as China, India and Japan are incapable of) has been a declared goal for some Southeast Asian states. Even if self-sufficiency is illusory, however, local defence industrialisation strategies may be a way of ensuring that not all procurement spending leaves the country and that some feeds back into the national economy, boosting employment and skills levels. Most states demand industrial offsets (usually but not always intended to benefit the defence sector of local industry). These offset requirements may be a significant influence on procurement choices, but are seldom the most important factor. But why have national defence industries so blatantly failed to thrive in Southeast Asia (except in Singapore)? A partial explanation may be that politicians and senior military officers do not derive lucrative commissions from local, mainly state-owned local industry.

In some cases, the military has either been in power, has recently withdrawn from a political role, or is threatening to stage a coup: each case provides a reason why the views and wishes of the armed forces’ leadership should be given great weight in deciding military funding levels and appropriate force structures. In some Southeast Asian states, long-term internal security challenges – often ethnic rather than ideological in nature – provided rationales for maintaining well-funded and well-equipped armed forces. International defence suppliers’ pressure and slush-funds have contributed to a culture of corruption amongst some Southeast Asian politicians and senior military officers involved in making force structure and procurement decisions. Legislation in the United States and Europe has helped to control the problem, but has not removed it as a factor influencing procurement.

Other considerations have also been influential. Crucially, Southeast Asian states' military modernisation efforts have represented part of a gradual, long-term adjustment to a regional strategic environment that has been evolving towards greater strategic multi-polarity and uncertainty since the late 1960s, when President Nixon announced the so-called 'Guam doctrine' under which the United States' Southeast Asian friends could not expect large-scale intervention by US ground forces to prop them up in the face of internal or external security threats. The United States has remained a key player in regional security. The Philippines and Thailand are classed as major non-NATO allies, and Singapore has an important bilateral security agreement with Washington. The US is also involved in multilateral regional structures such as the ASEAN Regional Forum, the IISS Shangri-La Dialogue and the Western Pacific Naval Symposium. Though some are loath to admit this, most if not all Southeast Asian governments have felt reassured by the US strategic presence in the Asia-Pacific. Yet there is a sense in Southeast Asia that US power is declining and that other powers – notably China, but also perhaps India in the longer-term - are increasingly important. This sense of US decline has become more pervasive than ever during the present decade. The 'war on terror', including the intervention and subsequent wars in Afghanistan and Iraq has been particularly counterproductive for US influence in parts of Southeast Asia. A sense of the weakening economic position of the US, crystallised in the crisis of 2008, has reinforced perceptions of a shifting balance of power.

In sum, Southeast Asian governments know that they cannot and, in many cases, do not wish to rely on the US to provide for all their security needs and this provides a further rationale for attempting to develop new military capabilities as a hedge against an increasingly uncertain future. In part because of the importance of remaining on good terms with China for economic reasons, and in part because of confidence that it will be possible to integrate Beijing into diplomatic mechanisms such as the ASEAN Regional Forum, ASEAN Plus Three and East Asian Summit and thus become a responsible stakeholder in Southeast Asian security. Southeast Asian states generally do not think in terms of engaging in 'balancing' behaviour in relation to the People's Republic either through alliance with the US or through transforming ASEAN into a military alliance. Nevertheless, some Southeast Asian governments – notably Vietnam's – are attempting to develop military capabilities that signal intent to defend their national interests against Chinese pressure.

Within Southeast Asia, there has also been a perennial and widespread concern to 'keep up with the neighbours' for both prestige and military reasons. This is archetypal behaviour for relatively

young states with insecure governments that are not held properly accountable for their defence spending and procurement. Possessing and displaying high-profile military equipment such as modern fighter aircraft and main battle tanks becomes a matter of national status. However, beneath the surface there is another reason for keeping an eye on neighbouring states' military programmes and sometimes making military procurement decisions in response. Southeast Asia is replete with bilateral disputes, tensions and distrust among its constituent states. Many of these tensions derive from colonial-era boundaries, but some have resulted from post-colonial disagreements. It is strikingly true that there has been no major armed conflict between members of ASEAN since the organisation was set up in 1967. But there have been border clashes, naval stand-offs, and reactive military mobilisations involving neighbours. It is clear that certain pairs of Southeast Asian states have made and still make serious plans for war with each other. It would be putting it too strongly to say that there has been an 'arms race' within Southeast Asia, but there is certainly much evidence of reactive military procurement. Indeed, in recent years politicians and military leaders have sometimes explicitly justified procurement decisions with reference to neighbours' purchases of similar equipment.

#### *Making procurement decisions: actors and processes*

There is little consolidated information in the public domain regarding how defence procurement processes in Southeast Asian states work, and precisely which actors are involved, as opposed to data on the specific types, quantities and costs of equipment procured on the international market. Procurement decisions more often than not seem to emerge from the 'black boxes' of defence ministries and military headquarters. However, it can be assumed that in broad outline the process in Southeast Asian states is broadly comparable to what we know about defence procurement elsewhere. Governments, taking advice to a greater or lesser extent from their military, foreign affairs and intelligence establishments, set the broad parameters of defence policy including the size, structure and strategic orientation of the armed forces, in accordance with national strategic outlooks based on ideology, perceived geopolitical interests and available budget.

The armed forces, singly or jointly, and more or less under the supervision of defence ministers and their senior officials, then have considerable leeway to define the type and quantity of equipment and services that the armed forces need to execute their assigned roles effectively. From this process, operational requirements emerge and these trigger a procurement process characterised by a greater or lesser degree of complexity and transparency. However, given the oft-stated requirement for security in the defence sector, the degree of openness in procurement may

be limited even in liberal democracies. Secrecy in the procurement process, justified on security grounds, may be used as a cover for incompetence or corruption. Indeed, the traditional lack of transparency in the defence sector provides an ideal environment in which corrupt practices may thrive if adequate checks and balances are not present.

Like Southeast Asia's political and bureaucratic systems, its defence procurement practices nevertheless vary considerably in detail from state to state. Reflecting its relatively high level of defence spending and its advanced military capabilities, Singapore's defence procurement system is almost certainly the most sophisticated and professional in Southeast Asia. The intricate procurement system is managed by specialist Ministry of Defence agencies and involves computerised scoring of bids as well as detailed technical assessments of contenders for contracts taking into account capability, price, life-cycle logistic support requirements and the potential involvement of the local defence industry. (I provide a fairly detailed account of the process in my book, *Defending the Lion City*). Major procurement decisions - for example, the competition for a new combat aircraft conducted earlier this decade - are however ultimately subject to Cabinet approval because of the scale of funding required and possible geopolitical implications. There has never been any suggestion of malpractice in relation to major defence procurement by Singapore, although there have occasionally been examples of junior contracting officers being convicted for corruption in relation to minor acquisitions from local contractors.

In other Southeast Asian states, however, details of the defence procurement process are not as clear as in Singapore's case. However, the controversy in Malaysia over recent defence acquisitions (notably Scorpene submarines from France and Su-30 combat aircraft from Russia) has led the defence ministry there to clarify how the procurement system works, describing how 'exhaustive studies' of the contenders for the contracts were then placed before technical and price negotiation committees, with approval by the Attorney-General's department also being necessary before the Ministry of Finance approved the decisions and contracts were signed. However, these explanations have not stilled the debate or allegations of impropriety in the process.

In Myanmar the military controls every aspect of the state, starting with the armed forces, and defence policy including procurement. In Laos and Vietnam, national defence is the allocated preserve of militaries which are entwined with ruling communist parties. Though the Party imposes control through its ultimate command of the state budget, the armies which it dominates

and which contribute key personnel to the state's political hierarchy have considerable freedom to define strategic priorities.

In several Southeast Asian states, there has been considerable change in the defence procurement process over recent decades, reflecting major developments in the pattern of civil-military relations which have seen the ascendancy of democratic civilian governments in all three countries. While the armed forces continued to play central parts in defining operational requirements, their role as overall arbiters of defence policy including procurement was circumscribed in the new political environment. In Indonesia and the Philippines, civilian governments have imposed control over the armed forces through legislation and institutional change which has brought some civilianisation within defence ministries from the ministers downwards, as well as scrutiny of defence policy including procurement by elected politicians in national legislatures. In Thailand, however, the 2006 coup effectively reversed a similar process. At the time of the return to elected government in early 2008, a new Defence Law yielded substantial authority to the military over the drafting, authorisation and management of their own budget, with important implications for procurement.

#### *Defence spending and procurement trends*

The scale and scope of defence procurement depends above all on the availability of funding. In most, but not all, cases this derives from an annual defence budget, though in Southeast Asia there are cases of various types of extra-budgetary funding covering procurement. In some cases – for example contemporary Indonesia – the defence budget simply is not large enough to cover major procurement, which has to be funded by loans. In other cases, government may dip into national reserves to fund procurement. Finding out with accuracy how much Southeast Asian governments spend on defence in general is by no means always straightforward; uncovering the size of procurement budgets is considerably more difficult.

Between 1985 and 1996, the US dollar value of defence spending grew rapidly in Southeast Asia: by 45-60% in Indonesia, Malaysia, Myanmar and Thailand, and more than doubling in the Philippines and Singapore. Vietnam was the only major Southeast Asian not to increase its defence spending: indeed, the withdrawal of Soviet aid caused a decline of around 70%. There are difficulties in estimating and comparing defence budgets in Southeast Asia. Nevertheless, during the early and mid-1990s it seemed fairly clear that military spending by each of the sub-region's four 'big spenders' (Indonesia, Malaysia, Singapore and Thailand) was roughly equivalent at around US\$3.5-4.5bn annually. The Philippines was spending only around US\$1.5bn.

The economic crisis which struck the region in 1997 drastically reduced overall economic growth and cut state revenues, forcing Southeast Asian governments to curtail defence spending and procurement drastically. At the same time, local currencies' depreciation against the dollar substantially reduced the international purchasing power of remaining procurement funds.

The most seriously affected country was Thailand, where economic problems had begun to undermine the defence budget and procurement even before the 1997 crisis. In the Thai case, defence spending declined from US\$4.2bn in 1995 to US\$2bn in 1998. Innovative ways of funding defence procurement – notably through barter trade – were found, but in Indonesia, Malaysia and the Philippines as well as Thailand, the crisis forced governments to postpone or reduce armed forces' modernization plans. Major procurement projects were cancelled or shelved, though in some cases Southeast Asian armed forces were able to secure 'second-best' options.

As in many things, however, **Singapore** proved the exception in a regional environment of recession-induced defence cutbacks. Despite the severe if temporary impact of the crisis on Singapore's growth, in 1998/99 the city-state's defence budget was increased significantly, and in 1999/2000 and 2000/2001 was held at more or less the same level. In 2001/02, year-on-year increases began again. Though Singapore's military procurement plans were apparently stretched over longer timeframes because of the recession, there was no significant hiatus in the overall 'SAF2000' modernization project. This had been adopted in 1988 as the result of a major force structure review, and emphasized the importance of maintaining and where possible enhancing the Singapore Armed Forces' technological advantages over potential adversaries (primarily immediate neighbours) particularly by developing advanced C4, ISR and logistic capabilities. While such projects continued behind the scenes, more obvious evidence of Singapore's steady investment in defence included continuing major procurement programmes involving combat aircraft and naval vessels.

During the current decade Singapore has stood out more than ever in the region because of its efforts to develop its armed forces. Singapore's defence spending has increased substantially and steadily during the current decade, to US\$7.8bn in 2008/9, by far the largest military budget in the sub-region. Evidence of Singapore's steady investment in defence has included continuing major procurement programmes. The last of six *Formidable*-class frigates was delivered in August 2008; all the vessels will be commissioned by early 2009. Later in 2009, the first batch of F-15SG

combat aircraft, out of 24 ordered so far, is expected to be delivered to a Singapore air force training squadron in the United States. Delivery of four Gulfstream G550 Conformal Airborne Early Warning Aircraft is also expected during 2009, with operational capability following in 2010. In July 2008 Singapore's defence ministry eliminated the British Aerospace *Hawk* 128 from its advanced jet trainer competition, leaving the Alenia Aermacchi M-346 and the Korean Aerospace Industries/Lockheed Martin T-50 as the contenders. Singapore continues as a Security Cooperation Participant in the US-led F-35 (Joint Strike Fighter) development programme, but a claim in July 2008 by Major-General Charles Davis, the programme's manager, that the city-state required 100 of the aircraft seemed unrealistic. Singapore is known to be interested in the RQ-4 *Global Hawk* UAV for maritime reconnaissance, but no decision has been made to procure the system.

Nevertheless, with gradual economic recovery, defence spending has begun to grow again in Malaysia, Indonesia and Thailand. In **Malaysia's** case, defence spending is hard to assess because of the country's rather opaque budgeting system for development spending. However, defence procurement evidently recovered relatively quickly after the recession, allowing full-scale resumption by mid-decade of programmes suspended in the late 1990s. But even in Malaysia's case, some programmes were scaled down or stretched. For example, the ambitious project to build 21 New Generation Patrol vessels, mainly in local shipyards, was reduced to just six ships. The defence component of the Ninth Malaysia Plan (covering the years 2006-10) mainly funds equipment already ordered. All 18 Su-30KMM combat aircraft ordered in 2003 are scheduled for delivery by the end of 2008 together with eight MB-339CDs as lead-in fighter trainers, and four A400M heavy transport aircraft ordered in 2005 are due to be in service by 2013. The army's first main battle tank regiment equipped with PT-91Ms was working up to operational capability during 2008. The navy continues to train submarine crews in France with a view to bringing its two *Scorpene* boats back to the new base at Sepanggar Bay in Sabah during 2009-10, and four more locally-built Meko-100 type large patrol vessels should be commissioned by 2010. In August 2007, Malaysia ordered a second batch of 18 Avibras Astros II multiple rocket launch systems, which will allow the army to equip a second regiment.

Political turmoil during 2008, which has seen the parliamentary opposition dramatically strengthened, appears to have temporarily curtailed major procurement after opposition criticism of previous defence equipment contracts (notably that covering submarines). Nevertheless, the Ninth Malaysia Plan (covering 2006-10) allocates US\$4.4bn for military upgrading and important

contracts are pending. Most importantly, Malaysia has already signed a letter of intent for two British-built Jebat-class frigates, which are intended to enter service by 2015. In November 2007, the government asked for tenders to supply as many as 36 medium-lift helicopters for troop transport and SAR to replace the existing aging and accident-prone S-61A *Nuri* fleet which has been in service for 40 years. Other equipment likely to be ordered within the next one to two years includes new ATGWs and a battlefield management system integrated with command post AFV variants. In the longer-term, probably under the Tenth Malaysia Plan (2011-15), Malaysia's armed forces plan to acquire three LPD-type multi-role support ships, additional combat aircraft (either additional Su-30MKKs or F-18E/Fs), AEW aircraft, and new armoured vehicles.

Limited procurement budgets continue to limit the capabilities of **Indonesia's** armed forces. Stronger economic performance allowed a significant increase in defence spending in 2007 (to IDR 32.6 trillion), partly to compensate for the government's success in reining in the armed forces' non-budgetary income from businesses. However, rising oil costs and inflation forced the government to reduce the original 2008 defence budget (IDR 36 trillion) by 15% to IDR 30.6 trillion (US\$3.3 bn). The proposed defence budget for 2009, announced in August 2008, amounts to IDR 35 trillion (US\$3.7 bn). Though this budget is considerably higher than the meagre funding allocated earlier in the decade, it is still inadequate for major procurement, whether domestic or international, which can usually only be funded after the negotiation of loans. The most militarily significant equipment being brought into service during 2008 is the Indonesian Armed Forces' first *Kobra* integrated low- to medium-level air defence unit, comprising a 50 km-range search radar, command vehicles, *Poprad* mobile anti-aircraft missile systems and ZUR-23 anti-aircraft guns. A second unit will be delivered in 2009. Between June and October, the army is scheduled to accept a further six Mi-35P attack helicopters, part of a US\$1 bn defence equipment package to be funded by Russian credit that then-President Putin and Indonesian President Susilo Bambang Yudhoyono agreed in September 2007. Under the same agreement, 20 BMP-3F IFVs for the Marine Corps will be delivered in 2010, funded by a loan from Russian state banks. However, there are apparently still no firm financial arrangements covering procurement of additional Mi-17 helicopters and two *Kilo*-class submarines included in the deal, or for six Su-30MK combat aircraft which come under a separate arrangement.

Other significant Indonesian procurement pending in late 2008 also largely depends on satisfactory financial or counter-trade arrangements. South Korea has indicated interest in supplying Indonesia with two ex-Korean navy Type 209 *Chang Bogo*-class submarines, as well as additional KT-1

training aircraft (a variant of which could also replace OV-10F counter-insurgency aircraft already withdrawn from service). There could be an element of technology transfer to Indonesia, which would provide crude oil and CN-235 maritime patrol aircraft for South Korea's coast guard in return. When he visited Jakarta in February 2008, US Defense Secretary Robert Gates offered Indonesia six F-16C/D combat aircraft and C-130J transports to be paid for through FMF or FMS mechanisms. However, Defence Minister Juwono Sudarsono said in April that Indonesia's defence budget was insufficient for such a purchase. Indonesia requested US\$15.7m in FMF funding in 2008: this would provide only for the purchase of surplus US equipment such as helicopters. The following month, the minister argued that the procurement emphasis should be on transport aircraft, ships and vehicles that would equip Indonesia's armed forces better for disaster relief operations.

Funding shortages mean that even procurement from Indonesia's state-owned domestic aviation and defence industry depends on the availability of loans to fund production. For example, of 16 NAS-332 Super Puma helicopters initially ordered as long ago as 1989, only seven had been delivered by 2008. Under an agreement reached in mid-2008, the relevant state companies will receive bank loans allowing them to accelerate production of five more NAS-332s (most of which are supposed to be delivered by the year's end) and 150 APCs, and to begin upgrading four C-130s. There may also be additional orders for CN-235 and NC-212 transport and maritime patrol aircraft.

Following the economic damage inflicted by the financial crisis of 1997, **Thailand's** armed forces were until recently in a 'make do and mend' phase, with significant procurement mainly limited to second-hand equipment. Evidence of how hard-pressed Thailand's armed forces were - in terms of funding - partly as a result of the need to fund operations in the south of the country - was seen in the original requirements set out for competitors in the programme to procure 16 new fighter aircraft. As well as paying in rice or frozen chicken, Bangkok required at least 100 per cent industrial offsets as well as provision for local assembly. Unsurprisingly, international defence suppliers showed little interest in receiving Thai poultry in exchange for combat aircraft. Despite Thailand's economic recovery earlier this decade, Thaksin Shinawatra's governments (2001-6) kept defence spending down. However, one important impact of the September 2006 military coup which overthrew Thaksin was major defence budget increases: by 34% in 2007 and 28% in 2008. Despite the preoccupations of the Thai army with attempting to maintain internal security in the face of a major insurgency from 2004 in the country's three Muslim-

dominated southernmost provinces, while simultaneously reassuming its role as political arbiter in Bangkok, the armed forces' leaders have used their substantially expanded resources (approximately 30 percent of which are available for procurement) to resume efforts to strengthen conventional as well as counter-insurgency capabilities. A US\$1.1bn package agreed with Sweden's Defence Materiel Administration approved by the Thai Cabinet in October 2007 covers acquisition of not just 12 JAS-39C/D *Gripen* multi-role combat aircraft and two Saab 1000 *Erieye* AEW aircraft, but also a new national air defence system based on the Swedish air force's *Air Force 2000* concept. Other equipment purchases approved by the military-appointed interim government in its last months covered 50 Chinese C-802 naval cruise missiles, 96 BTR-3E1 amphibious APCs, and Israeli machine-guns and rifles.

In advance of democratic elections in December 2007, Thai military leaders argued the case for a defence procurement budget of at least THB317 bn (US\$9.3 bn) over the 2009-18 period, to provide for the purchase of a submarine for the navy, additional combat aircraft, as well as new army equipment. The advent in February 2008 of a democratically-elected government in which Samak Sundaravej was prime minister and defence minister did not undermine the armed forces' budget or procurement plans. In June 2008, Samak's government – apparently accommodating the military leadership's wishes - proposed that the defence budget for the 2009 fiscal year (starting 1 October 2008) should increase by 17.8% over 2008 to THB169.1 bn (US\$4.9bn).

Some Southeast Asian armed forces have not fared so well. In **the Philippines**, chronic funding shortages have prevented implementation of the AFP Modernization Act, which is supposed to have guided development of the armed forces since 1995. At around US\$1.2bn annually, Manila's defence spending is by far the smallest of any of the larger Southeast Asian states (that is, excluding Brunei, Cambodia, Laos and Timor-Leste).

In support of President Gloria Macapagal Arroyo's aim to eradicate her country's insurgencies by the time she leaves office in 2010, the Philippine government is attempting to implement an ambitious Capability Upgrade Program (CUP) for the armed forces. Procurement priorities under the CUP include infantry weapons, land vehicles, modern communications equipment, and missile-armed fast attack craft. However, recent defence budget increases – by more than 20% to PHP 56.5bn in the 2008 Fiscal Year (with a further 9.6% expansion proposed in 2009) – and occasional extra-budgetary funding allocations – are still inadequate to provide the scale of procurement funding the AFP envisaged for the Program (PHP 30bn in 2007-12; PHP 60bn in 2012-18; PHP 120bn in 2018-24). In essence, successful

execution of the CUP will require rapid economic growth. Moreover, inflation running at 12% in 2008 is undermining the impact of recent budgetary increases.

Though the CUP prioritises army requirements, during 2008 there has been particularly emphasis on renewing the capabilities of the Philippine Air Force, which plays a key supporting role in the continuing counter-insurgency campaign in the south but has long suffered from low serviceability. Eighteen SF-260F primary trainers were ordered in May. A tender is expected in October for utility and attack helicopters, up to five additional C-130 transports may be ordered to supplement the three remaining aircraft of the type (two of which were expected to return to service by early 2009 following refurbishment), and three light transport aircraft are needed to replace ageing N-22B Nomads. Twenty UH-1H helicopters are being refurbished in the US, and South Korea has donated 15 T-41D trainers, which will be delivered in late 2008. The air force has stated a requirement for a revived fighter capability from 2011-12, but special funding outside the CUP would be needed to finance this project.

Because of the nature of their political systems and economies, it is difficult to estimate defence spending by Myanmar and Vietnam with great accuracy. However, it is clear that despite their overall national poverty neither of these states has opted out of modernizing its conventional forces. Both Myanmar and Vietnam – looking towards deterring potential challenges from Thailand and China respectively - have, for example, taken delivery of advanced Russian combat aircraft since 2003. **Vietnam**, increasingly concerned over Chinese pressure on its claims in the Spratly Islands in the South China Sea, is putting particular effort into modernising its maritime forces, ordering new Russian naval vessels and Polish maritime patrol aircraft earlier in the decade. After collapsing with the withdrawal of Soviet military aid in the late 1980s, Hanoi's defence spending has increased significantly during the current decade with the fast growth of Vietnam's economy. However, in May 2008 rising oil prices and troublesome inflation led Vietnam's government to announce budget restrictions, which seemed certain to affect the armed forces. In any case, the annual military procurement budget - thought to be approximately US\$500m – was hardly lavish. Funding has apparently still been insufficient to permit an order for the eight Su-30MK combat aircraft that Vietnam's air force requires to supplement the four aircraft of this type delivered in 2004. In general, Hanoi sees Western defence equipment as unattainably expensive. Nevertheless, the US government's amendment of its International Traffic in Arms Regulations in April 2007 allows it to consider non-lethal defence exports to Vietnam on a case-by-case basis, opening the way for preliminary discussions over the possible sale of CH-47D

Chinook helicopters. In April 2008, the French company Arianespace launched Vietnam's first satellite, Vinasat-1, from its base in Korou, French Guiana. Vinasat-1 will play an important military part in boosting the independence and security of Vietnam's military as well as civilian satellite communications.

*Procurement and capability: not synonymous*

In general, throughout Southeast Asia, the emphases seen during the 1990s on developing navies and air forces, and to a lesser extent army rapid deployment forces, have continued. But *militarily significant* new capabilities have been slower to develop than might have been expected. Singapore has made the most progress. Leveraging its key advantages of a highly-developed economy and a relatively well-educated population, reinforced by increasingly intense interaction with the armed force, defence industries and R&D establishments of the United States and other advanced industrial states, the city-state's defence ministry has made overt efforts to transform the military. Notably, it has established a Future Systems Directorate and a Singapore Armed Forces Centre for Military Experimentation, and has formulated new doctrines emphasising the role of technology in future warfare. The Singapore Armed Forces have increasingly fielded sophisticated command, control, communications and computer systems, and also intelligence, surveillance and reconnaissance capabilities that far surpass those of regional neighbours. Singapore has also stressed joint-service operations and robust logistic support, and has made considerable investments in simulators for training, and in infrastructure. Almost 10% of Singapore's military budget is channelled to R&D, information technology procurement and experimentation: these allocations are separate from other procurement spending.

But there is little sign of similar developments elsewhere in Southeast Asia. All too often, major defence procurement by Southeast Asian states seems to be based on prestige and other irrational factors. The only potential peer-competitor for Singapore in terms of military transformation is Malaysia, but the trend of recent Malaysian military procurement has indicated a dominant interest in acquiring major, expensive, high-profile systems which may not necessarily improve effective military capability: the apparent preference for main battle tanks over AEW aircraft hardly indicates a forward-looking defence mind-set. Joint-service cooperation remains rudimentary in most Southeast Asian states apart from Singapore. However, Singapore's technological superiority would by no means assure victory in any conflict with regional adversaries. Singapore's armed forces rely on conscripts and reservists for the bulk of their personnel, they almost totally lack combat experience, their leadership is effectively untested, and their potential adversaries might

deploy asymmetric capabilities with great effectiveness. Nevertheless, in recent years some observers elsewhere in Southeast Asia as well as in Singapore have asked if the city-state's defence programmes, highlighted by its recent procurement, are in danger of provoking reactive efforts by neighbours and ultimately proving counterproductive for its security.

### *Conclusion*

To sum up: Southeast Asia's larger armed forces have modernised their equipment significantly over the last decade and this process is set to continue. Air forces and navies have become more important components of regional militaries, receiving increased shares of both overall and procurement budgets. The impact of the 1997/98 economic crisis and, in some cases, the demands of low-intensity challenges, slowed down military modernization. Nevertheless, Indonesia, Malaysia, Thailand and Vietnam have significantly revived their military spending over the last several years and have started again to upgrade their armed forces in earnest.

Meanwhile, tiny Singapore has continued quietly to build the most technologically-sophisticated armed forces in the region. Whether or not other Southeast Asian states are able to improve their military capabilities as thoroughly as Singapore depends in large part on their continued economic progress and – in some cases – on the extent to which they are able to manage successfully the internal security challenges that continue to demand considerable military attention. However, successful upgrading of conventional capabilities will also depend on other factors: the extent to which they emphasise procurement of low-visibility, unprestigious equipment for command, control and communications, and for intelligence, surveillance and reconnaissance; their development of doctrine which integrates their armed forces; the competence of their national defence industry and defence R&D efforts in terms of integrating systems from diverse sources and tailoring them to specific local requirements; and last, but hardly least, how effectively and efficiently these states manage their defence procurement.

Nevertheless, however well-managed the procurement process, there is often still scope for factors extraneous to military, technical and financial considerations to play key roles in particular procurement choices. Most important among these extraneous factors are political considerations connected with regional prestige and with geopolitical balancing, and with corruption. It is in terms of questioning the rationality of the procurement process and the part played by such factors that parliaments may have a particularly useful role to play in ensuring that defence procurement contributes to national defence capability.