

A BRAVE NEW SOUTH AFRICAN DEFENCE INDUSTRY?

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Little research has been done on the state of the South African defence industry since 1994. From an industry perspective, two related factors served it with a virtual death sentence in the late 1980s. The first factor was the end of the Cold War which left the world with considerably more capacity and capability to develop and produce arms than it needed or could afford. The second factor was the end of Apartheid in South Africa and the concomitant decline in the National Party government's need for an independent arms industry.

In the 1990s, the industry therefore not only lost its primary customer, the South African Defence Force (SADF), and all kinds of state protection, but was also forced to commercialize and integrate into a global industry that was itself faced with massive oversupply and restructuring. At the time, hundreds of thousands of defence workers were being retrenched in the advanced arms-producing countries. In the subsequent years the global industry underwent an unprecedented restructuring. The number of major defence firms has now declined dramatically. Companies have either merged or purchased the military assets of other corporations. During the 1990s, these mergers and acquisitions began to cross national boundaries as the emerging defence giants sought new partners and subsidiaries. At the same time, the importance of exports as a source of compensatory revenue grew.

These developments did not threaten what some refer to as the first-tier of arms-producing countries. This tier includes states such as the United States, the United Kingdom, France, Germany and Italy who collectively account for roughly 75% of global armaments production.

Together with a number of countries in the developed world, such as Australia, Canada, the Czech Republic, Norway, Japan and Sweden, the South African defence industry entered the 1990s as part of the second-tier of arms producers that was hit hard by the changes in the global context. This tier includes a number of developing or newly industrialized countries with modest military-industrial complexes such as Argentina, Brazil, Indonesia, Iran, Israel, South Korea, Taiwan, Turkey, China and India.

South Africa was therefore not alone in having to cancel ambitious indigenous programmes, retrench employees and drastically re-orientate its arms industry. Writing for the International Institute for Strategic Studies, Richard Bitzinger, whose categorization of first and second tier arms producing countries is used here, has described the subsequent development of a new division of labour: that of a 'hub-and-spoke' model. This involves a few large first-tier firms at the core, serving as centres of excellence for weapons design, development and systems integration, with global supply chains extending out to second-

tier states on the periphery. Although hierarchically integrated as part of the global ladder of production, second tier arms producers are subordinate players, largely and increasingly responsible for supplying niche systems or low-tech items, such as structural components.

As the costs of developing defence systems have risen and the justification for self-sufficiency declined in many countries, second tier countries have had to rationalize their defence industries through reductions in the workforce, plant closure and company mergers and acquisitions. They have also had to halt certain kinds of defence work; pursue defence conversion or commercial diversification; leverage dual-use technologies; and globalize their defence industries by increasing exports or international production.

By the end of the 1980s the South African defence industry employed an estimated 131,750 people, constituting some 8,3% of the total employed in South Africa's manufacturing sector. Then, in the period 1989 to 1994, South African defence procurement expenditure declined by 60%: from R5,5 billion to R2,2 billion at 1990 prices, only marginally offset by an increase in arms sales from R236 million to about R600 million over the same period. Whatever the extent of bribery and corruption that may have accompanied the South African strategic arms procurement package, recent research conducted by David Botha for the Institute for Security Studies (ISS Paper no 78, September 2003) would indicate that the national defence industry was largely able to survive and retain a position within the second tier of the hub-and-spoke model in the period after 1994. It survived because of the benefits from the defence industrial participation component, painful adjustments and exports.

Now the defence industry sees its future as firmly part of the global defence industry, while simultaneously again enjoying the full support of the South African government. But it has been a painful process. The industry has identified core products worth maintaining, such as the G-5 and G-6 artillery systems, and the manufacture of airframe sections by Denel Aviation, but has had to discontinued many

others, such as shipbuilding in general, and the manufacture of personal weapons.

Exports have grown steadily since 1994. According to the Directorate of Conventional Arms Control, export approvals worth R1,384 million were granted in 2000, rising to R1,736 million in 2001 (nominal rand figures). The strategy of focusing on competitive products and exporting aggressively is clearly paying off. Some companies such as Eloptro (Denel), Grintek aviation, and Fuchs (Reunert) already export virtually their entire output. Many others, such as Alvis-OMC, Grintron (Grintek) and RDI (Reunert) do more than 50% of their business with partners abroad.

Another strategy inherent to the second tier industry is an increase in partnerships between South African and international companies. For this reason, state-owned Denel sold 51% of Airmotive to Turbomeca of France in February 2002, and SAAB of Sweden holds 49% of Grintron. Denel alone had as many as 13 key international partnerships in 2002. The private sector component of the South African defence industry has many more. However, most efforts to convert defence technology to commercial use have failed and been terminated. Denel's turnover, after adjusting for inflation, has remained remarkably stable considering the substantial decline in defence spending and the major restructuring that the group has undergone. It would appear as though the worst is now behind Denel, and there is a realistic possibility that it will return to profitability and continue growing its order book.

Botha's research indicates that the South African arms industry appears to have turned around early in 2001, driven by the strategic defence packages (SDPs) and the defence industrial participation projects that followed. The SDP included the controversial purchase of 4 corvette's, 3 submarines, 28 fighter aircraft, 24 trainer aircraft and 30 helicopters in 1999. Today the industry is much smaller than it was in 1989 in terms of turnover, employment and range of products. However, the products are competitive, they are reaching international markets and turnover is growing. Botha concludes thus: "The arms industry has therefore repositioned itself as a supplier of sophisticated products like components or

subsystems to first-tier clients in Europe or the USA, and of complete products to second-tier clients like countries in the Middle East and South and South-East Asia.”

It would therefore appear that the South African defence industry survived the challenges of the 1990s. Richard Bitzinger warns that “Second-tier arms-producing states around the world face a challenging—and in some cases—a grim future.” He notes that “the growing resource requirements of acquiring sufficient technological capabilities to move forward in armaments production almost guarantee the continued plateauing—or even the regression—of these countries’ defence industrial bases on the ladder of production.” Modern defence equipment demands massive amounts of money and technology. Without either substantial investment by government in defence research and development, or the benefit of a robust high technology manufacturing industry in the civilian sector, the South Africa defence industry faces an uncertain future. The global arms industry will probably become smaller, and more concentrated in the hands of fewer, large companies and also become more integrated. It is debatable whether the evolving global architecture

presents a more or less stable model. Like the move from a balance of power to an imbalance in global matters in the interests of a single dominant power, time alone will tell.

Integration may appear to offer many benefits, but as a sub-contractor on sub-systems it will further solidify the stratified and hierarchical relationships already evident within the core-periphery concept of the global political-economic system. The present status of the South African defence industry is undoubtedly the most cost-effective way to preserve and maintain a core capacity, as well as the associated jobs. At the same time, the world will soon be hostage to a few huge multinational companies (most based in the US or with substantial US shareholding) for the production of a vast array of defence systems. What is not being asked or discussed is the role of the South African defence industry as an instrument of foreign and defence policy in Africa with all the risks associated with such a role. This could open opportunities for the industry in lower technology markets in which there is possibly not the same amount of competition, but where South Africa is well positioned to play a role that may garner it additional strategic leverage.