



MIDEAST ARMS DEALS IN DOUBT AMID SPREADING TURMOIL

Stepped up social spending at home, bans on sales in Europe likely to weigh on exports

The unrest that has brought down two Middle Eastern leaders and threatens a host of others could be bad news for the global arms industry, which regards the region, with its security issues, deep pockets and little domestic manufacturing, as a choice market.

Faced with demands for more political pluralism and economic policies that spread the wealth, government across the region have stepped up subsidies for basic commodities and promised make-work schemes, all of which will put pressure on their defense budgets. Meanwhile, violent crackdowns in Bahrain and Libya have given European government's cold feet about doing arms deals.

Iraq, which has undertaken such consumer purse-pleasing steps as 1,000 kilowatts-hours of free electricity a month and increased food rations, announced February 14 that it had diverted the money previously allocated for U.S.-made Lockheed Martin F-16 fighter jets to save it the \$900 million it needs.

"If the internal pressures of civil discontent in Iraq continue and percolate, I can definitely see more of that money going the way it has gone ...diverted toward food and relief for the most poverty stricken Iraqi," Dan Darling, Middle East Defense analyst for Forecast International, told The Media Line.

Arms sales to the Middle East rose nearly 40% in the last five years, according to the Stockholm International Peace Research Institute (SIPRI). As late as mid-January, industry analysts predicted that defense spending in the region would continue to grow dramatically. Forecast International said spending on modernization programs would expand 14%, with Iraq alone investing an average of \$12.5 billion every year through 2015 to bolster internal-security challenges.

But in the space of a month, those forecasts have been dashed. Egypt faces a fiscal squeeze as its economy slows and the government has promised pay raises and other handouts. Jordan has taken similar measures to calm the streets. Oman where police shot dead as many as six demonstrators on Sunday, the government ordered a monthly allowance of 150 riyals (\$390) for each registered job seeker and announced 50,000 new jobs.

Even countries like the United Arab Emirates (UAE), which has remained calm so far and has considerable wealth from oil and trade, may be looking to save money by shopping around for cheaper weaponry.

Last week, the UAE announced that it had stopped talks with the Italian firm Aermacchi over a \$1.37 billion deal to buy 48 M-346 jet trainers. It is now expected that they will return to talks with the South Koreans to purchase the T-50 trainer, a move that manifested a greater readiness to engage in deals with the Far East nations. The current annual UAE trade with the U.S. is \$13 billion, but it is \$25 billion with China, according to Defense News.

Iraq, which faces serious security issues both domestically and on its border, may return to the arms market but look for cheaper tanks, guns and jets. "Iraq is going to have some serious security issues in terms of border security and their position in the Middle East," he said, adding they may seek cheaper alternatives for arms with France or even Russia.

Thousands of weapons dealers were in Abu Dhabi last week for IDEX 2011, the Middle East's largest arms fair. It drew over 1,060 companies from 53 countries. A spokesperson for IDEX told The Media Line that the arms fair saw a "wealth of deals" and that the UAE armed forces alone said it had signed deals worth about \$4 billion.

Despite a hefty public relations campaign, participants told The Media Line that the fair was greatly toned down from previous years, particularly since the delegations from Egypt, Tunisia, Libya and Yemen never showed up. "The opening ceremony was very short and a lot of people left early," said one, who declined to be named.

As demand falls, arms makers are also being pressured from the supply side, as their host governments clamp down on weapons sales to countries that have used their lethal weapons against protestors. Hundreds were killed in Egypt and Tunisia before their leaders were toppled and the death toll in Libya, where Mu'amar Al-Qaddafi, has used bombers and helicopter gunships against rebels has probably passed 1,000.

British Prime Minister David Cameron, who visited Egypt and the Gulf last week, to urge on democratic also had a group of arms executive in his entourage, provoking controversy back at home with the mixed message he was sending the region. Britain, which exports some \$6.5 billion in arms annually, suspended sales to Libya and revoked

44 licenses to sell arms to Bahrain, where at least seven have been killed.

The U.S. was sending mixed signals, too, after The Wall Street Journal reported that the Obama administration had launched a review of military assistance and prospective weapons sales to countries experiencing popular revolts.

"I don't think that in the short term we are going to see any interruption in arms trade at least from the U.S. Europe probably will review each country. They are a little more hesitant. They don't seem to feel they are shaping the Middle East the way the U.S. does," Forecast International's Darling said.

Such hesitancy is unlikely to be felt by China and other emerging arms-export powers in Asia. China advertised its ambitions at IDEX 2011, where it set up a large and glitzy pavilion. Besides its heavy arms, the state-owned Chinese companies were also hawking at the IDEX their sophisticated avionics and shipbuilding expertise.

"This has been an excellent business opportunity for us," said Yuan Jun, marketing director for China North Industries, which produces rocket launchers, tanks and artillery. "We will certainly have a presence at every event for the foreseeable future."

The U.S., by far the world's largest weapons producer, sells about a third of its arms exports to the Middle East, and a drive by China into the region would be a serious loss, "China is interested in seeing the geo political order become more multi-polar and not one of U.S. hegemony," said a senior Israeli official told The Media Line.

The political turmoil is also a headache for Russia's arm industry as long-time client regimes, like Libya, fall to the opposition, Defense Minister Anatoly Serdyukov admitted this week. "There's a chance we might lose something," he said on a visit to Russia's Pacific port city of Vladivostok. "But I hope that the main weapons and military equipment agreements will be fulfilled."

Russia stands to lose some \$3.8 billion of orders contracted or under negotiation to Libya after the United Nations Security Council declared an embargo on Libya, Russia's Interfax news agency quoted a military source as saying. Nevertheless, Russia is going ahead with a \$300 million deal to sell anti-ship Yakhont cruise missiles to Syria.

But Russia isn't the only country whose weapons sales are threatened by regime change. Political uncertainty is likely to grip the Middle East for some time, as transition governments struggle to win support and gain legitimacy. Some of them may fall, raising concerns that sophisticated arms could find themselves in the hands of anti-Western governments possibly controlled by Islamic radicals, as happened when the Shah of Iran was overthrown in 1979.

"This is definitely on the minds of a lot of people in Congress, probably some people in the Pentagon and I have no doubt within the administration. I imagine it is a bit of a wait-and-see approach," Darling of Forecast International said. "Egypt is definitely something to keep an eye on. We sold an awful lot of equipment to them in the past."

By Arie O'Sullivan on Tuesday, March 01, 2011
