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The Political Economy of The United Arab Emirates' Defence Industry

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Since 2014

The Political Economy of The United Arab Emirates' Defence Industry

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The Defense and industrial capabilities of the United Arab Emirates are relatively small – until fairly recently – and represented a nascent industry; only coming into shape in the previous decade as a response to extraneous economic and political factors. The emerging US political consensus of limiting Middle East interventions in conjunction with the 'pivot to Asia' of the Obama administration resulted in doubts over the American role as the regional security guarantor amongst the US's Gulf allies. The policies of the larger Gulf states began to shift accordingly, with the UAE taking an increasingly proactive role regarding its defense, implementing – to a more significant degree – a policy of greater security autonomy.[1] Furthermore, as part of the more comprehensive Abu Dhabi Economic Vision 2030, the UAE views the development of an indigenous defense industry as a vital aspect of its economic diversification project and local employment generation.[2] Thus, with the objectives of achieving greater strategic autonomy, and economic diversification, this paper will analyse the economic and political pressures for autarky, the concessions for efficiency, and the ramifications that the UAE's approach to Moravicsk's dilemma has on the structure, conduct, and performance of its defense industry and market.

The UAE government is essentially the sole determinant of the country's defense industry and market structure, with the UAE bucking the trend of privatisation observed in the last 30 years in

1. Ibish, H., 2017. The U.A.E.'s Evolving National Security Strategy. The Arab Gulf States Institute in Washington, p. 7
2. Tawazun Economic Program [online], 2019. [online]. Tawazun

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Europe. The Industry is best described as a government-owned and funded enterprise with start-up characteristics embedded within the State's incubator project for economic diversification. The State's strategy for inducing and enhancing its defense-industrial base can be summarised as intense consolidation, acquisitions, joint ventures, and offset contracts.

In 2014, the UAE merged sixteen companies into the Emirates Defense Industries Corporation (EDIC), making it the country's largest arms manufacturer and related services provider. Four years later, in 2019, the Tawazun Economic Council, formerly known as "The Office of the Economic Offset Program," initiated the second major restructuring of the indigenous arms industry: launching the Defense and Security Sectors Development Fund in February and further consolidating Emarati defense firms by combining 25 subsidiaries intoEDGE Group, a state-owned private joint stock company in November of that year. This new entity absorbed the former holdings of EDIC and notably only excluded two major Emirati firms: Calidus and Aquila Aerospace.[3] This high consolidation of the Industry into what is essentially a monopoly allows for the UAE firm to boast higher financial strength and more significant opportunities for economies of scale. It enables EDGE Group better to bear the high cost of research and development. This, in turn, compensates the State with reduced unit costs even at the smallerscale of overall production while agglomerating the relatively small pool of skills and levels of experience at the UAE's disposal. Moravicsk said such consolidation allowed France's aerospace industry to outpace Britain's in the early post-war period, despite the latter's technological advantage.[4] Furthermore, Kagan, Setter, Shefi, and Tishler suggest that concentration into one firm could

3. Béraud-Sudreau, L., 2019. What the new EDGE in the U.A.E.s defence-industrial development could mean

4. Moravcsik, A., 1991. Arms and Autarky in Modern European History. Dædalus, 120 (4), pp 33-34

minimize net defense costs and result in maximal Industry operating profits for a small country.[5] While their study is fixated on the Israeli case study, the qualifications by which the work distinguishes Israel and Singapore – advanced economy, high GNI score, outsized defense budgets, and insistence on greater self-reliance – all apply to the UAE Furthermore, both Israeli and Emirati industries are characterized by a paternalistic involvement of their respective Ministries of Defense.[6]

Regarding industry and market conduct, owner demands, customer demands, and the regulatory regime are closely concentrated in the same actors and institutions in the UAE EDGE Group was partially established in order to enter into joint ventures and partnerships with significant defense firms while allowing for the necessary capital, through the Defense and Security Sectors Development Fund, to purchase smaller ones.[7] The UAE's shares in Italian Piaggio Aerospace were increased to 100% in 2015, while French Manurhin was purchased in 2018.[8] Moreover, through its subsidiary ADSB, EDGE Group invested in European shipyards like CMN of France, while Tawazun itself acquired a 50% stake in VR Technologies, a unit of "Russian Helicopters."[9] Additionally, EDGE Group has entered into strategic partnerships and joint ventures with General Atomics; Boeing, composing EDGE Group Precision Industries; Northrop Grumman, of which EDGE Group's ADBS was a heritage company later being fully bought out; and Raytheon Technologies, which operates

5. Kagan, K., Setter, O., Shefi, Y., and Tishler, A., 2010. The case of Israel. In: S. Markowksi, P. Hall, and R. Wylie , eds. Defence Procurement and Industry Policy: A Small Country Perspective, p. 250

6. Ibid

7. Military industrialization and defence exhibitions in the U.A.E. [online], 2021. [online]. U.A.E. Ministry of Defence: Al Jundi

8. Béraud-Sudreau, L., 2019. What the new EDGE in the U.A.E.s defence-industrial development could mean

9. Military industrialization and defence exhibitions in the U.A.E. [online], 2021. [online]. U.A.E. Ministry of Defence: Al Jundi

Raytheon Emirates, a landed company integrated into the ecology of the emirates defense industry.[10] Collaboration is the principal manner through which the UAE addresses the autarky efficiency dilemma. Collaboration enables the UAE access to new technologies and products while reducing overhead costs by consolidating business activities and production capacities with other actors. Finally, the UAE implements offset contracts to encourage local investment, induce technological transfers, and increase local knowl EDGE Group and expertise. Raytheon Emirates is integrated into local universities and, along with Boeing, offers Emirati citizens internships and work opportunities[11] However, as per the US International Trade Administration, companies have difficulty finding qualified Emiratis, affirming the lower level of human capital the UAE retains.[12] Regardless of hurdles, the UAE has already distinguished itself in terms of Industry and market performance.

As per SIPRI, the UAE's EDGE Group ranks 22nd in the world in the arms industry, enjoying 1.3% of global sales.[13] Much of the focus is on disruptive technologies where the UAE could establish a niche market, particularly integrated systems which act as force multiplier technologies.[14] Exports are particularly important to the nascent Industry, and the UAE has had relative success in terms of proliferation, with sales to Kuwait, Libya, Bahrain, Cameroon, and even Russia and India.[15] Benefiting from little internal political pressure, the UAE

10. Fontenrose, K., 2020. A Prime Defence Contractor's View: Understanding the U.A.E. Defence Sector [online]. US-UAE Business Council.
11. Ibid
12. U.S. Commercial Service Abu Dhabi, 2020. U.A.E. Defence Sector Opportunities [online]. International Trade Administration | Trade.gov
13. lobal arms industry: Sales by the top 25 companies up 8.5 per cent; Big players active in Global South [online], 2020.
14. Soubrier, E., 2021. IDEX 2021: The U.A.E. Confirms Its Shifting Tide in Defence Procurement [online]. Arab Gulf States Institute in Washington.
15. Jo, H., 2021. Can the U.A.E. emerge as a leading global defence supplier? [online]. Defence News.

has enabled itself to sell to customers unavailable to Western firms. Arms exports are vital for achieving economies of scale and economic efficiency. The close relationship between the Industry and market to the State significantly affects the market performance of UAE firms, with non-market strategies being integrated into the ecology of the industry and market performance indicators rendered opaque. As per the UAE MOD, EDGE Group was rewarded with a 1 billion dollar contract for the UAE Air Force, suggesting that the Industry has begun to compensate the State with greater defense self-sufficiency.[16] Moreover, a claimed profit of 5 billion for EDGE Group suggests a healthy trajectory for the defense industrial base and a clear path toward economic efficiency and return on investment.[17]

In analysing the UAE's approach to the autarky-efficiency dilemma, it is clear that the UAE does not aim to supplant the largest Western defense firms. The State-owned quasi-monopoly is an attempt at consolidation, enabling a lower burden of the cost of R&D, easier path towards achieving economies of scale, and the financial breadth to acquire firms with the aim of vertical integration and the ensuring of supply. The UAE industry's heavy reliance on joint ventures and horizontal integration suggests that defense relationships, particularly with the US, are still critical to the alliance politics of the Emirates.[18] Focused on niche product exports, the UAE hopes to integrate itself into the ecology of international defense to contribute to a diversified economy and give itself a greater, yet not absolute, degree of self-sufficiency and freedom of action; EDGE Group's relative achievements speak to the future capacity of the UAE to address its defense needs and capture market

16. Military industrialization and defence exhibitions in the U.A.E. [online], 2021. [online]. *U.A.E. Ministry of Defence: Al Jundi*.
17. Ibid
18. Samaan, J.-L., 2019. The Rise of the Emirati Defence Industry [online]. Carnegie Endowment for International Peace

share. However, the Industry still needs development, particularly in terms of human resources and research & development, if it wishes to mimic the economic dynamic observed in other small country defense industries such as Israel.

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2. Fontenrose, K., 2020. A Prime Defense Contractor's View: Understanding the UAE Defense Sector [online]. US-UAE Business Council. Available from: https://www.youtube.com/watch?v=HRADlF0J_O8

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16. UAE merges more than 25 defense industry firms into EDGE Group [online], 2020. [online]. The Defense Post. Available from: www.thedefensepost.com/2019/11/06/uae-merge-defense-companies-EDGEGroup/ [Accessed 23 Oct 2021].