

The Singaporean Defense Industry-Market  
Opportunities and Entry Strategies,  
Analyses and Forecasts to 2017



## 1. Introduction

### 1.1. What is this Report About?

This report offers insights into the market opportunities and entry strategies adopted by foreign OEMs (original equipment manufacturers) to gain a market share in the Singaporean defense industry. In particular, it offers in-depth analysis of the following:

- **Market opportunity and attractiveness:** detailed analysis of the current industry size and growth expectations during 2013–2017, including highlights of the key growth stimulators. It also benchmarks the industry against key global markets and provides detailed understanding of emerging opportunities in specific areas.
- **Procurement dynamics:** trend analysis of imports and exports, together with their implications and impact on the Singaporean defense industry.
- **Industry structure:** five forces analysis to identify various power centers in the industry and how these are expected to develop in the future.
- **Market entry strategy:** analysis of possible ways to enter the market, together with detailed descriptions of how existing companies have entered the market, including key contracts, alliances, and strategic initiatives.
- **Competitive landscape and strategic insights:** analysis of the competitive landscape of the defense industry in Singapore, providing an overview of key defense companies (both domestic and foreign), together with insights such as key alliances, strategic initiatives, and a brief financial analysis.
- **Business environment and country risk:** a range of drivers at country level, assessing business environment and country risk. It covers historical and forecast values for a range of indicators, evaluating business confidence, economic performance, infrastructure quality and availability, labor force, demographics, and political and social risk.

## 2. Executive Summary

### **Singapore expected to spend US\$56.5 billion on defense during the forecast period**

Singapore has the largest defense expenditure in the South East Asian region and, in 2012, allocated US\$9.8 billion for defense. This figure is expected to increase to US\$12.1 billion by 2017. Defense expenditure in Singapore is primarily driven by the threat of terrorist organizations such as Jemaah Islamiah, and the country's focus on the protection of important trade routes, such as the Strait of Singapore and the Strait of Malacca, from the threat of piracy. Singapore's army is relatively small, resulting in the country using technology as a force multiplier, another factor that increases its defense expenditure. Additionally, the country's small size renders it unable to provide adequate training facilities for its armed forces personnel. As such, the country relocates army training facilities to foreign countries, a decision that creates the need to purchase training stations and detachments overseas.

The majority of Singapore's defense budget is allocated for capital expenditure, due to the country's concentration on the acquisition of advanced technology in order to enhance the capabilities of its relatively small armed forces. The country also makes regular investments in defense research and development in an effort to constantly develop innovative weapons for its armed forces. The government allocates an average of 3–4% of its GDP towards defense and, in 2012; the country's defense expenditure was equal to 3.6% of GDP. Over the forecast period, Singapore's defense budget is expected to remain at 3.5–4% of GDP.

### **Homeland Security (HLS) expenditure expected to register a CAGR of 4.07% in the forecast period**

The Ministry of Home Affairs is responsible for Singapore's homeland security. In 2012 Singapore spent US\$2.74 billion on homeland security and, during the forecast period, it is expected to record a CAGR of 4.07%, reaching US\$3.47 billion by 2017. The country's homeland security expenditure is driven by a number of factors, including the need to protect its borders from the illegal trafficking of goods and people, the threat from terrorist organizations, the development of improved identification systems for Singaporean citizens, and the reduction of drug abuse cases.

Over the forecast period, the country is expected to invest in advanced technology for its armed forces, including purchases in areas such as stealth technology, unmanned technology, and precision guided systems. Homeland security expenditure is also expected to increase the demand for CCTV, advanced electronic systems, and biometric checking.

### **The country is the world's fifth-largest importer of arms, the majority of which consists of aircraft and maritime equipment**

Singapore procures the majority of its defense equipment from foreign companies, with its defense imports driven by the country's policy of utilizing technology to improve the efficiency of its armed forces. Significant imports include arms, ships, missile systems, and armored vehicles. Historically, the largest supplier of arms to Singapore was the US; however, during the review period, countries such as France and Germany have made substantial inroads into the country's defense industry.

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### **Singapore requires technology transfers without formal offsets and encourages foreign investment in the defense sector**

As Singapore is investing in advanced technology for its armed forces, it requires technology transfer agreements for all defense procurements in order to ensure future repair and maintenance and to enable the customization of equipment in accordance with the country's needs. Additionally, Singapore's FDI (Foreign Direct Investment) policy allows foreign defense companies to establish a fully-owned subsidiary in the country and, in order to further encourage investment, favorable tax laws also exist for foreign companies.

### **Market entry routes include technology transfer, MIPS registration and lease-to-own arrangements**

The Singaporean Government prefers technology transfer agreements for defense equipment acquisitions and, as a result, this is the most common route for original equipment manufacturers (OEMs) to enter the domestic defense industry. In order to procure spare parts and other common equipment, the government also has an online portal, the Ministry of Defense Internet Procurement System (MIPS), through which suppliers registered with the defense ministry are issued with a smart card, and only such companies are allowed to enter the bidding process for defense equipment. Additionally, Singapore has devised an innovative procurement method through lease-to-own arrangements, a policy that substantially reduces initial capital investment, gives Singapore early access to advanced defense equipment, and reduces Foreign Military Sales (FMS) commission. Foreign OEMs can therefore enter Singapore's defense industry by offering equipment through lease-to-own arrangements.

### **The constraints on major factors of production — land and labor — discourage foreign companies from investment, despite lucrative FDI policies**

Singapore is a relatively small country, with a total land mass of 710 square km. This limits the land available for the establishment of manufacturing facilities, a factor that acts as a barrier for foreign companies considering investing in Singapore. The country's declining birth rate, small population and resultant labor shortage also act as barriers to entry. The country's acute land shortage is reflected by the fact that the Singaporean Government trains military personnel at foreign facilities.

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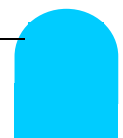
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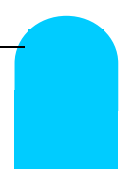
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