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The Current Situation and Opportunities in the Middle East and the North Africa Military Market

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Abstract: The research aims to analyze the current state of the military market in the countries of the Middle East and North Africa and identify possible ways to strengthen competitive positions in this market. The authors used marketing analysis, competitive analysis, system analysis, and comparative analysis to determine the role of this region in the world trade of military products (MP) and analyze the opportunities for exporters of these products. The considered region accounts for about half of the world's arms exports. This trend is steady due to the large number of armed conflicts and the problem of terrorism in the region with an underdeveloped military industry. To increase competitiveness in this market, it is proposed to organize jointly with local firms the assembly, maintenance, and repair of supplied military equipment, transfer of technologies, and implementation of training programs. The paper provides a brief analysis of conflicts in the studied region and the general state of its military industry, lists the main military supply contracts concluded in 2019–2022, and shows real examples of industrial participation, confirming the validity of the conclusions about the need to involve local companies into participation in the production and repair of supplied weapons systems.

Keywords: Middle East, arms market, military equipment, industrial participation, military conflicts

JEL codes: F4, F5, H5, N4, N7, O3

The military market of the Middle East and North Africa has been the most capacious one. It accounted for about half of the world market. This trend may change in the near future under the influence of events occurring in Ukraine; this trend is difficult to predict. Simultaneously, the Middle East and North African countries can remain the main importers of military products with a high degree of probability.

The situation in the Middle East is characterized by a considerable number of unresolved conflicts. Military operations in Syria and Yemen do not stop; negotiations have not brought significant results (SIPRI, 2022).

Iraq, Jordan, and Syria face threats from the Islamic State even as it has weakened due to the loss of control over eastern Syria.

Terrorist acts in the straits of the Persian Gulf pose a potential threat to the development of trade. Maritime incidents have escalated tensions between the USA, Saudi Arabia, Israel, and Iran, which has led to attacks on merchant ships and seizures of tankers. Despite all accusations of these crimes, Iran refuses to admit its responsibility.

One of the main confrontations in the Middle East is between the Gulf Cooperation Council and Iran. Iranian troops, as well as Iranian-backed militias, confronted a military group allegedly backed by Saudi Arabia in Syria, while Saudi Arabian troops fought against rebels in Yemen, allegedly supplied by Iran.

Israel and Iran are hostile to each other. Iran regularly promises to destroy Israel. The unresolved Arab-Israeli conflict does not make it possible to normalize relations between Israel and the countries of the Persian Gulf. Nevertheless, there is currently no tough confrontation between them.

Prolonged confrontations between the region's countries impede the formation of effective interstate institutions capable of ensuring regional security. Existing organizations (e.g., the League of Arab States), for the most part, are ineffective in resolving political problems. The Gulf Cooperation Council has achieved significant results but has recently been mired in internal divisions between Qatar and some other members caused by disagreements with its foreign policy. Saudi Arabia, Bahrain, the UAE, and Egypt accuse Qatar of interfering in their internal affairs by supporting Islamic fundamentalism. Qatar denies the allegations and enjoys the support of Turkey and Iran.

The main terrorist organization in the Middle East, Hezbollah, created with the support of Iran, is an instrument of its foreign policy through deploying missiles in Lebanon and providing armed forces to support the Syrian government. Another terrorist organization is the already mentioned Islamic State, which is expanding its influence in West Africa. The Taliban and Al Qaeda are also powerful terrorist organizations.

The economies of many countries in the region are directly dependent on energy prices. The fall in energy prices in 2014 led to a serious economic downturn. Further difficulties arose in 2020 due to the COVID-19 pandemic, which led to a recession in the region. As a result, many economic reforms to develop the high-tech sector have been delayed, and energy dependence has persisted.

The conflicts indicated above and terrorism, which, in addition to standard acts (car bombing, hostage-taking, etc.), suggests the possibility of capturing and holding entire territories, will continue in the foreseeable future. Simultaneously, the Middle East has key transshipment points for international maritime trade. Additionally, this region is a supplier of energy carriers. This has led to the fact that the armed forces in the region are numerous and well-armed; each country is trying to keep up with its neighbors in terms of military potential.

Methods

Features of marketing analysis of military markets, as well as the specifics of industrial participation and offset activities, are considered in detail by Artyakov (2003); Artyakov and Chemezov (2004); Chemezov and Svechnikov (2006); and Stepashin et al. (2002).

Factual information on the volume of arms supplies to the countries of the Middle East and North Africa, major exporters and importers, and projects for industrial participation and technology transfer is contained in Russian and foreign periodicals, including the SIPRI Yearbook (SIPRI, 2022), the Center for Analysis of World Arms Trade Yearbook (CAWAT, 2022), Forecast International (2021), CTO Data Services (2021a, 2021b, 2021c).

Marketing analysis, competitive analysis, system analysis, and comparative analysis made it possible to form a general idea of the military market in the Middle East and North African countries (MENA countries).

The USA is a key arms exporter to the Middle East. According to the Center for Analysis of the World Arms Trade, from 2014 to 2021, the region accounted for 43.77% ($112.570 billion) of the total US arms transfers ($257.170 billion). During the same period, the Middle East was the second most important region for Russia. The volume of supplies to this market amounted to 21.28% ($19.687 billion) of the total volume of supplies of military products (CAWAT, 2022). Detailed share distribution of supplier countries in the Middle East military market is presented in Figure 1. Key importers of military goods in the Middle East and North Africa are indicated in Table 1.

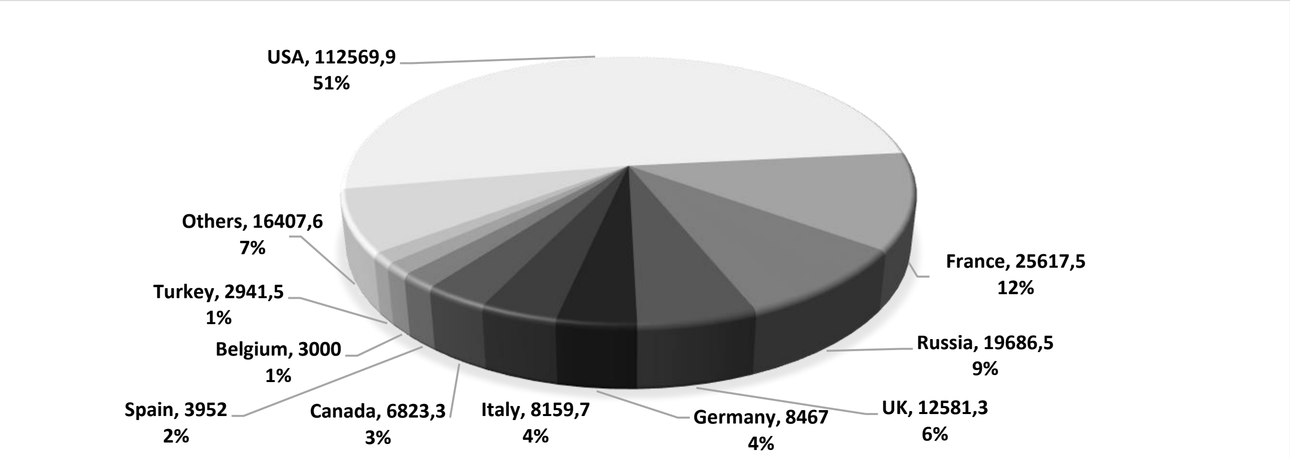

Figure 1

Share distribution of supplier countries in the Middle East market by the actual volume of military exports to this region in 2014–2021

Source: Developed and compiled by the authors based on the Center for Analysis of World Arms Trade (CAWAT, 2022, p. 167)

Table 1

Rating of importing countries by the actual volume of imports of military products of the MENA region in 2014–2021 ($ million)

No	Country	2014	2015	2016	2017	2018	2019	2020	2021	2014-2021
1.	Saudi Arabia	5901.1	11061	8452.5	10304.9	10285.4	10287.7	10778.7	6798.1	73869.4
2.	Egypt	2256.6	4329.3	3150.3	6523.9	4300.6	2613.4	2198	3946.7	29318.8
3.	Qatar	228.2	1248.4	4251.1	2654.9	2656.4	7771.2	3516.1	4750.2	27076.5
4.	Algeria	1567.2	2469.6	4500.3	5125.1	3262.1	657.6	3904.8	3688.3	25175
5.	UAE	1444.7	4770.4	4637.3	1189.5	2316.5	1365.8	3976.3	3663.7	23364.2
6.	Iraq	2301.3	3962.7	4191.1	2070.1	2026	3628.5	540.5	527	19247.2
7.	Israel	1496.3	1139	1715	1820.8	1234.9	2017.8	1774.7	3109	14307.5
8.	Turkey	2132.3	1160.6	1058.9	1029.7	879	2649.9	603.9	596	10110.3
9.	Oman	1260.8	863.6	1256.3	3473.6	1749.5	236.2	193.1	244.7	9277.8
10.	Kuwait	1710.8	623	478	395.4	190.4	145.2	340.4	2157.2	6040.4
11.	Morocco	860	99.4	410	610	1090	165.1	463.1	451.1	4148.7
12.	Jordan	310.7	350.1	500.3	755.6	376.1	209.8	291.5	65.6	2859.7
13.	Bahrain	5	80	79.2	102.9	113.5	104	181.1	2053.6	2719.3
14.	Iran	70	50	1000	55	50				1225
15.	Tunisia	153	46	88.7	264.8	443.6		19.2	100.2	1115.5
16.	Lebanon	26.7	35	74.5	87.5	146.5	157.2	73	18.9	619.3
17.	Yemen	52.8	41							93.8
18.	Syria			39.5	38.1					77.6
Total		21778	32329	35883	36501.8	31120.5	32009.4	28854.4	32170	250646

Source: Compiled by the authors based on the Center for Analysis of World Arms Trade (CAWAT, 2022)

As we have seen in Figure 1, Saudi Arabia, Egypt, Qatar, the UAE, Algeria, and Qatar are key importers of military goods in the Middle East. Most of these countries are oil-producing, accordingly, demand for military equipment in the Region seriously depends on the oil market situation.

Results

The total military spending of the Middle East in 2021 was $131.89 billion (7.5% of global spending). Large military spending is typical for Saudi Arabia, Israel, Iran, and the UAE. The Middle East accounts for 51.5% of the world's military trade due to the insufficient development of the national defense industry (Forecast International, 2021).

The exception is Israel, which has a powerful military industry and is one of the world's key arms exporters. Egypt has a rather strong defense industry capable of meeting most of its armament needs for the ground forces, alone or in partnership. The UAE has occupied a niche in producing armored vehicles and UAVs, delivering them to neighboring countries. Under the pressure of sanctions, Iran had to develop its military industry. Turkey has made great strides in creating communications, radar and information technology, guided and unguided missiles, electronic warfare, military power supplies, and UAVs.

Thus, the region’s countries produce armored vehicles, UAVs, small arms, and ammunition. Some shipyards may build large warships, usually under license. The production of aviation equipment is limited. The production of missile weapons is mainly concentrated in Israel. Consequently, the need for the development of local industry remains high, as does the dependence on arms exports.

As is known, deliveries of military products directly determine the level of the country’s national security and, in some cases, even the military-political situation in the entire region (Chemezov & Svechnikov, 2006).

For Saudi Arabia and the UAE, military equipment imports can be described as security imports. More than half of arms supplies to these countries come from the USA, which provides political support and certain guarantees of non-interference in the internal affairs of these countries.

Simultaneously, one of the tasks facing Middle East countries is to reduce dependence on defense product suppliers by developing local industries. For these purposes, approaches such as industrial participation and offset are used.

Offset in foreign military sales is compensation by the exporter to the importer of part of the costs related to the purchase of military products or high-tech civilian products carried out in accordance with the regulations of the importing state governing offset activities (Artyakov, 2003).

Industrial participation assumes that part of the work related to the execution of the contract for the supply of military equipment will be carried out with the involvement of local firms (arrangement of the final assembly at the facilities of the company of the customer’s country and the purchase of locally produced components with their subsequent integration into the supplied weapons systems).

The following Middle East countries have offset legislation: Bahrain, Israel, Morocco, the UAE, Oman, Saudi Arabia, and Turkey. As for Algeria, despite the absence of the term offset, there are requirements for investment by foreign suppliers when conducting international tenders for the supply of military products (Artyakov & Chemezov, 2004).

Under the framework of the supply of tactical reconnaissance UAVs to Morocco, the Israeli company BlueBird Aero Systems (a subsidiary of IAI) plans to create an offset center for the development of UAVs in Morocco (CTO Data Services, 2021b, p. 7).

The Saudi defense concern SAMI signed an agreement with the Airbus group of companies to establish a joint venture that will deal with the repair and maintenance of aircraft, including A330 tanker aircraft and C295 transport aircraft (CTO Data Services, 2021c, p. 9).

The University of Arizona shall train Omani specialists under the offset in the framework of the supply of Bear Cat armored vehicles to Oman by the American company

Lenco Armored Vehicles. For these purposes, a training center is being created at the Omani Civil Service Institute, where 230 local students shall be trained, and 15 persons shall be trained directly in the USA (CTO Data Services, 2021a).

Despite the desire to develop local industry, imports of military products, especially sophisticated military equipment, will be significant; the region will continue their purchase. The leading suppliers are the USA, the EU, Russia, and China. Turkey is also increasing its ability to import military products in the region. The most important military sales contracts to the Middle East and North African region for the period from 2019 to 2022 are indicated in Table 2.

Another trend is the desire to diversify suppliers, which is due, among other reasons, to the desire to reduce costs. In some cases, tenders make it possible to achieve the most favorable offer by reducing the cost, strengthening the offset, increasing the share of industrial participation, arranging the assembly or production of spare parts, service, and repair centers for the supplied equipment, and providing training programs. Simultaneously, the diversification of suppliers sometimes leads to the problem of interfacing complex weapons systems from different manufacturers. Countries such as Saudi Arabia and the UAE prefer contracts that provide for the maintenance of the supplied equipment throughout its entire life cycle.

Table 2

Summary of major contracts for the MESA region for the period from 2019 to 2022

Fixed-wing aircraft 	In January 2021, the USA and the UAE signed an agreement to supply more than 50 F-35 aircraft and up to 18 combat drones. The estimated delivery date is 2027. The contract value is $23.27 billion. In April 2021, it was confirmed that Egypt would purchase 30 Rafale aircraft from France. The contract value is $5 billion. Israel has agreed with the USA to supply additional F-35s; three F-35s have already been delivered in April 2021. The UAE has received the third Saab Global Eye airborne early warning and control system, allowing air, sea, and ground surveillance. The delivery took place in February 2021.
Helicopters 	In total, 24 Leonardo AW149 helicopters were delivered to Egypt at the end of 2020. The contract value is $1 billion. Israel and the UAE reportedly seek to procure V-22 tiltrotor aircraft for their armed forces. Potential helicopter sales to both countries gained momentum after the August political normalization.
UAVs 	The UAE has acquired the MQ-9 Reaper due to a deal with the USA that includes the F-15 in the main contract. Saudi Arabia has announced a $266 billion agreement with Saudi company Science Technology to produce a new Eagle UAV that will focus on COIN, SAR, ISR, and DAS missions. In January 2021, there were reports that Egypt could be in talks with

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	China about a potential deal to buy one or more Type 039s.
Surface warships 	In April 2021, Egypt launched its first ThyssenKrupp Marine Systems MEKO A200EN frigate. According to numerous reports in 2020, the Saudi Arabian Navy plans to purchase amphibious assault ships from European shipyards. Iran plans to build more Mowj-class frigates to accompany the commissioning of the Dena (tail number 75). The ships are planned to be built in the country. In 2020, Qatar signed a contract with Fincantieri to build four Doha-class corvettes. The deal was announced in 2021.
Submarines 	In September 2020, ThyssenKrupp Marine Systems launched the S44, the fourth and final Type 209 submarine for the Egyptian Navy. It was delivered to the Alexandria Naval Base in Egypt in August 2021. Italian shipbuilder M23 is building a new mini-submarine M23 SRL for Qatar. The announcement was made during a conference in Italy in May 2021.
Military Vehicles 	In January 2021, Iraq received at least three South Korean Promoter DAPC-2s, a 4x4 armored vehicle used primarily by law enforcement and special forces. Saudi Arabia received an undisclosed number of Kozak-5s from Ukraine in August 2021. The US Department of Defense approved a potential $445 million sale of heavy tactical vehicles to Kuwait in July 2021.
Missiles 	Egypt received ASTER 30 missiles and Vulcano guided munitions for its FREMM frigates. The USA approved the sale of precision-guided missiles to Israel in May 2021. The contract value is $735 million. However, the amount has not yet been agreed. The UAE purchased $130 million worth of RIM-116C RAM2 missiles from the USA. In 2022, Saudi Arabia entered into contracts with China worth about $1.3 billion for the supply of 15 sets of YJ-21E anti-ship ballistic missiles and Silent Hunter laser systems.
Ordnance 	In June 2021, Qatar confirmed that it was importing new Russian AK-12 assault rifles.
Electronics 	The US approved Egypt's request for a Maritime Domain Awareness system (detection system) in October 2020 as Cairo seeks to improve security in the eastern Mediterranean and Red Seas. SAMI acquired Advanced Electronics Company (AEC) in a December 2020 agreement in Saudi Arabia.

Note: The pictures were downloaded from – CNChub (n.d.)

Source: Developed and compiled by the authors based on Forecast International (2021)

Table 2 gives evidence of demand for all types of military equipment in the Middle East and North African Region. Additionally, despite of the USA domination as the main military exporter in the Region, other exporters as France, Italy, China, Russia and even the Ukraine deliver its military products to the Middle East. Factual information on the volume of arms supplies.

Discussion

Despite efforts by countries in the Middle East and North Africa to strengthen their military industries to meet local demand, it is impossible to achieve this goal in the near future. In this context, considering the economic opportunities of the Gulf Countries, this military market shall be attractive.

Although the USA is the key military supplier in this region, other countries have opportunities to sell military equipment to the Middle East and North Africa. Techniques such as flexible pricing, compensation arrangements, and industry participation are used to win the competition.

Conclusion

Thus, the military market of the Middle East and North Africa is very promising for suppliers of military products because it accounts for about half of the world's military sales. Many countries in the region have the need and ability to purchase expensive weapons systems with insufficient ability to meet demand through the capabilities of local industries. There is a desire to diversify suppliers and develop the national military industry. One of the possible ways to increase competitiveness in this market seems to be the arrangement, together with local companies, of the final assembly of the proposed military equipment, with the subsequent upgrade of the established facilities for the performance of maintenance and repair. This will ensure high-quality of after-sales service and enlist the assistance of representatives of local industrial companies to promote the final product.

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