A Look at Restructuring in the United Kingdom's Defense Industry
J. Paul Dunne

Significantly changed since the end of the Cold War, the Defense Industrial Base (DIB) in the United Kingdom has been restructured to function faster and more efficiently than in years past. Under the new but still evolving system, commercial companies will be more involved in the production of weapon systems as well as the assessment of current and potential threats. Some foresee the reinvention of a powerful but less visible military-industrial complex (MIC), which is increasingly independent of government control, but dependent on government support. They caution researchers and other defense monitors to remain vigilant as the industry continues to change.

Look to the Past to Understand the Present

The seeds of these developments are found in the changes that were taking place as the Cold War drew to an end. The marked decline in military spending saw a global decline of about one-third and resulted in a restructuring of the arms market that has left world production highly concentrated. In 1996, the 10 largest arms producing countries accounted for almost 90 percent of production with sales of about $200 billion (not including China and Russia). This declining trend has stopped, though restructuring continues in the United States and the European Union.

In the United States, concentration peaked in 1998 when four huge arms companies absorbed more than 20 others, and further concentration has been blocked by anti-trust concerns and some problems with the integration of the different companies. Western Europe seems to be heading toward cross-border integration but cross-Atlantic links remain important (Skoens and Weidacher, 1999). This rationalization in response to declining demand has seen no real conversion to civil production, and the internationalization has not created the truly global companies expected.

Not only has the industry restructured but the nature of the major defense companies has also changed. They have moved away from being manufacturing companies over a range of products to become systems integrators, putting the products of other contractors together. This is what Ann Markusen calls “hollowing out.” BAE Systems, previously British Aerospace, is the obvious U.K. example which, in achieving profitability and becoming the apple of financial capital's eye, shed half its workforce and a lot of its production facilities.

In this way subcontracting has become increasingly important for defense contractors, as they outsourced. It also led to more non-traditional companies being involved in work for defense companies, as 'spin in' of civil technologies began to replace 'spin off' from defense technologies. There were clear changes in the nature of the U.K. defense contractors as they took on corporate governance structures common in the private sector. There were also changes in employment relations as, while shedding large numbers of employees on the production side, they have retained many engineers and scientists.

Defense contractors' supply chains extended internationally. This is nowhere clearer than in BAE Systems' move into South Africa (Batchelor and Dunne, 1999). There have also been numerous cross-border equity swaps and purchases, the development of joint ventures, licensed production, and technology transfers, which clearly reflect a strategy of internationalization by the companies. These company-driven developments were well ahead of the national government's willingness to allow control over national defense industrial bases to wane. (Skoens and Weidacher, 1999). The companies have not been globalized, however. They remain tied to their national bases, despite some British Aerospace claims. They continue to require the support of national governments as major
customers, have retained close links with procurement executives and they get considerable support from the
government in exports. There were some differences, however, as they claimed to recognise the importance of
their customers’ perceptions in ways they had not before (Evans and Price, 1999).

At the same time, the process of procurement in the United Kingdom changed. With privatization came a change
in the regulation of the industry both at a formal and an informal level, and with the Levene reforms of 1987
came a clear change in the rules. The prevalence of cost-plus contracts and gold-plating was no more. A more
commercial environment was introduced with competitive tendering, contracts awarded with reference to market
prices, for example. Most importantly, cancellation of the Nimrod and purchase of AWACs from the United
States made foreign procurement a credible threat and represented a sea change in government/industry relations
(Dunne, 1995). One problem was that with competition came failure, and the losers were taken over or closed
down, leaving the government facing single suppliers with monopoly power. With foreign suppliers providing a
credible threat, however, the defense industrial base became much less successful in capturing the government.

**Export Policies Support Local Industry**
This was never a hands-off approach as the government still played an important role in the industry. Its export
policy provided support, encouragement, and subsidies to the local industry to help it reduce costs through
economies of scale. This was policy that was pursued with vigor and led to now well-known scandals as the
government took rather questionable actions. Offsets became increasingly important for foreign sales, and the
government became increasingly involved in helping companies provide them (Martin, 1999). Over time, a
weakening of the government position occurred as ad hoc planning was reintroduced. The first instance was when
Prime Minister John Major favored the domestic Challenger tank over the U.S. alternative preferred by the
forces. The credible threat became less credible. The defense industry started to see the importance of lobbying
government and mounted successful campaigns of a sort not seen before in the sector.

Such developments suggest that the United Kingdom may now be witnessing a reinvention or 'reconstruction' of
the MIC in a more informal, international, and a less visible form. The major defense contractors, no longer the
workshop of the Ministry of Defence, are more commercially based firms with large numbers of contractors that
have to use lobbying to influence government. They do this using their subcontractors and trade unions, local
governments and development corporations, particularly in areas where they are important to the local
economies. Companies need local sales as they provide a solid base and help them to sell abroad. They are more
international and so can use the threat of losing jobs in the United Kingdom as well as being able to influence
domestic procurement through their links abroad, such as through the European Union. Companies are also
involved in determining the threat and the response to it with changes in procurement. Smart procurement,
proposed by the U.K. government in the Strategic Defence Review, provides them with such opportunities.

In addition, the increasing use of civil technology in weapons systems, the development of dual use technologies,
and the increase in intra-company trade, make trade less visible. Despite companies remaining dependent upon
their national governments, they could face problems controlling them in the future. Regulation of the arms
industry -- and trade -- at local and international levels is likely to become an important issue.

These changes present important challenges to researchers. The new architecture of security and the defense
industry has to be understood and the internationalization of the companies tracked. They also present challenges
to government if they attempt to take a rational approach to restructuring the DIB in the interests of the economy.
They need to recognize the changes that have taken place, the defensive power of the vested interests, and that the
military-industrial complex still exists, though in a less visible form, and is still influencing government decision-
making. The government needs to decide what the United Kingdom needs for its defense and how best to get it. Given the problems with arms exports, it would seem reasonable to suggest that if the government produces arms domestically, it should subsidize them directly and not rely on exports. A more realistic target for the United Kingdom is to aim for intelligent customer rather than supplier capability. Finally, they need to recognize the economic costs of the defense industry and the opportunity that still remains to use the country’s resources to produce goods for fast growing civil markets.

If the U.K. government acted in this way it would mean a more rational security policy and improved economic performance. If other countries were to follow, and multilateral controls on the arms trade and production could be achieved, there would be security and economic benefits internationally.

References


Economists for Peace and Security
http://www.epsusa.org