

From Defense to Development

by Ann Markusen

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If there is a single turn-of-the-century trend that gives us hope from household to world scales, it is the phenomenon of conflict resolution and its companions -cooperation, education and investment - in place of war, destruction and privation.

The 1990s was a period of remarkable progress in peaceful transition in the world, from South Africa to the former Soviet Union to, somewhat more tentatively, Northern Ireland and the Middle East. Spending on the military plummeted almost 40% worldwide. Although tensions and a worrisome rise in militarism are still percolating in the world, our knowledge and practice of conflict resolution has expanded enormously. Almost all people, even our military leaders, would agree that investments such as clean water, agricultural productivity and above all, education, are far more powerful in achieving human welfare than spending on war and defense.

Countries around the world responded to the 1990s window of opportunity in very different ways and with quite divergent results. We spent several years studying how a group of defense industrial economies - India, South Korea, China, South Africa, Israel, Argentina, Poland, Russia, Spain, Germany, France and the United States - succeeded in or failed to re-orient their resources towards peaceable economic activities in the 1990s. In our just-published book, *From Defense to Development*, we explain how and why. Focusing on defense industrial transformation, we found two types of causal forces to be crucial to success - internal structures/strategies and external pressures. The former encompass extant industry structure and product mix (degree of enterprise and firm defense dependency, degree of conglomeration, platform versus component production), and public versus private management arrangements. The latter include national security threats, US and NATO defense policies and the internationalization of the defense industry.

The extent to which firms and enterprises were dedicated to military production was a major factor in determining their managements' ability to survive cuts in defense expenditures, their willingness to accept defense reduction goals and their success in shifting into civilian markets. In the US, large contractors' defense dependence increased through a spate of "pure play" mergers and the exit of less defense-dedicated and smaller firms from the military market. The large survivors then lobbied the US government for increases in procurement and an easing of arms export restrictions - with considerable success. On the other hand, German defense firms, which were much less defense dependent than their American counterparts, were less resistant to defense cuts and more successful at converting resources to commercial use. Similarly, South Korean companies were highly diversified, viewed their military industrial obligations as an opportunity cost, welcomed the reduction of military orders and compensated by increasing their civilian output. In other second tier countries where firms were highly defense dependent (Argentina, India, South Africa), the military industrial complex either strenuously resisted cuts in defense expenditures or faced severe disruption.

Most of the second tier arms-producing countries studied had built domestic defense industries that were wholly or partially owned by the state. In those countries where governments simply maintained the status quo (India) or in cases where governments opted for rapid privatization without regard to resource conservation (Argentina), the results were very disappointing. On the other hand, where governments took the time and care to develop strategic conversion plans involving gradual privatization (Spain, Israel), organizational restructuring (China, Poland, South Africa) and focused conversion policy (Israel, South Korea, Spain), defense conversion has achieved positive results.

We expected to find that countries embroiled in regional conflicts and concerned about the territorial ambitions of neighbors would be less apt to reduce military production capacity, while those enjoying a cessation of regional

tensions would rethink their defensive requirements and reallocate scarce resources to civilian production and social welfare. But the relationship between security policy and commitment to defense conversion is not so straightforward. Those nations that have arguably achieved the greatest success in reducing military industrial capacity (Israel and South Korea) are located in regions marked by sustained high levels of tension and conflict. China provides another exception. Chinese officials initiated an extensive conversion strategy in the 1970s - at the height of regional conflicts with India, the Soviet Union and Vietnam. Although the Chinese government was concerned with protecting its borders, it was also concerned with internal economic instability. Defense conversion formed a key element in a larger strategy to improve economic efficiency and increase the Chinese standard of living. On the other hand, some nations experiencing a reduction in regional tensions have moved very slowly in dedicating redundant defense industrial resources to other economic sectors.

The decisions of second tier governments vis-à-vis their defense industrial capacity are not made in a national vacuum. The activities of the US government, NATO, and American and European defense firms have played an important role in restructuring choices and outcomes, often making it hard for second tier producers to cash in their peace dividend. Their governments would be well-advised to consider the opportunity cost of maintaining defense industrial capacity in a stagnant world market when resources might be more productively devoted to development in other spheres of the society. Among the countries studied, India, Poland, South Africa and South, in particular, could benefit from shifts in this direction. Spain and Israel have already demonstrated how a mixed approach works better, where military offsets and returns to military market niches have been used skillfully to develop and expand civilian product lines.

Evaluations of country's success in securing and re-investing peace dividends cannot be successfully conducted solely at the macro-economic level. Our studies demonstrate that the tracking of labor, capital and technology released from redundant defense industries can only be adequately understood on a firm-by-firm, sector-by-sector, region-by-region basis, taking into account the various structures and constraints within which policymakers and managers work. The conversion of a potential peace dividend into real economic growth in civilian sectors requires a concerted and smart investment of time and money on the part of national governments. Without a coherent, strategic, and consistently supported defense restructuring policy, second tier nations are apt to either abruptly dismantle defense industries without regard to the re-use of national assets (Argentina) or cling to an outdated, inefficient and resource-consuming complex that acts as a drag on national development (India). What can arms producing nations do to free up more defense-related resources for development? First, they should take a hard-headed look at their position in global arms markets and determine whether heightened dependence on foreign (and superior) arms imports is worth the savings in domestic resources. Second, they should assess side-by-side the advantages of future development paths in which they specialize in arms-producing sectors, on the one hand, versus specializing in civilian markets with greater growth potential on the other. Countries could also follow the lead of Spain and Israel in planning for commercialization and privatization of defense industries with adequate transitional assistance and ample time for adjustment. Finally, from each other, countries can learn strategies and policies for encouraging greater local and regional involvement in the conversion process.

What can international agencies and aid donors do to reinforce these pro-development actions? International aid agencies should develop policies that discourage the maintenance and proliferation of platform production around the world. They should, instead, provide resources and technical assistance to help second tier nations capture the technologically sophisticated and commercially viable components of production for use in subsystems and civilian markets. Countries that dismantle military capacity should be rewarded with resources and technical assistance to aid in the adjustment of workers and communities to defense downsizing. Countries who persist in investing in antiquated defense industries and/or selling into regions of conflict could be discouraged through aid and loan decisions. Since the reduction of military capacity benefits the world as a whole, rewarding nations for

conversion efforts and success sends an important message and would encourage more countries to follow suit.

From Defence to Development: International Perspective on Realizing the Peace Dividend. Ann Markusen, Sean DiGiovanna and Michael Leary. London: Routledge, 2003 Routledge Studies in Defence Economics

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