Asian Naval Spending and Industry Outlook 2010-2029

Hot News periodically features assessments and forecasts from AMI's Advisory Services. In this July 2010 edition, Advisory Services looks at the Asian Regional market in preparation for IMDEX Asia 2011. As IMDEX nears, Asian naval market prospects remain strong, despite the global economic downturn.

Key Points

- The Asia-Pacific region has now moved into second place behind the United States as the No. 2 naval market for new construction ships over the next 20 years. The non-US NATO market has fallen to third place.
- The IMF predicts strong economic growth in Asian countries in the near-term (next 2-3 years). Positive Gross Domestic Product (GDP) growth has a strong correlation with naval spending, which bodes well for naval procurements in the region.
- India outpaced China as AMI's forecasted top spender on new construction naval ships and systems, with a predicted expenditure of US$39.35B (forecasted China new build naval spending is US$24.93B). However, open source information on Chinese naval spending remains limited, so real Chinese naval new construction spending may well be higher than India's.
- The third top naval buyer in the Asia Pacific region is South Korea. Japan and Taiwan round out the top 5 forecasted naval shipbuilding budgets in the region.
- Asian navies are investing in a broad range of capabilities. Growth is particularly strong in patrol craft for maritime security, multi-mission frigates, and larger amphibious ships (10000-20000 tons full load displacement) for a broad range of support and disaster relief missions.
- Submarine spending in the region will also be substantial over the next 2 decades, with AMI projecting 111 new hulls worth a total of US$53B to be built.
- Given the strong prospects for continued naval market growth in the Asia-Pacific region, European shipbuilders will look to the region to boost growth amidst declining domestic markets. The current decline in the Euro's value will help make Euro naval products more price competitive for export in the coming 1-2 years.

Asian Naval Market Remains Promising

The 2010 IMF forecast shows positive signs for the Asia-Pacific region. IMF expects GDP to grow by 7.75 percent in 2010 before falling to about 6.75 percent in 2011. This should be good news for Asian naval spending.

A declining European naval market has helped move Asia into second place in market value and numbers of new construction naval ships. Leading the way is India, which is projected to spend US$39.35B between 2010 and 2030. China continues a major naval recapitalization effort. However, a lack of transparency into its pursuits makes it difficult to project spending accurately. In third place is South Korea with a projected bill of US$24.735B. Japan (US$20.34B) and Taiwan (US$18.95B) are in fourth and fifth places respectively.

Smaller Becomes Bigger

AMI continues to see transition navies and coast guards moving into larger surface vessels such as corvettes, frigates and OPVs. Further, there is a growing demand for multi-role support ships to deliver supplies and conduct humanitarian assistance/disaster relief missions for navies of varying sizes.

Indonesia is moving forward with plans to build new tank landing ships (LSTs). AMI research reported that in January the Indonesian government was close to signing a deal with PAL Indonesia to build an undisclosed number of the LSTs. AMI predicts Indonesia will build at least 10 of the new amphibious ships to replace its fleet of aging LPDs. If construction begins this year, the first ship could be commissioned by 2013. Malaysia plans to launch an estimated US$4B new procurement program to buy three Multi-Role Support Ships (LPD or LHD) and three new construction "Littoral Combat Ships" (likely to be six new Kedah-class OPVs). Inland, Kazakhstan plans to buy three fast attack craft and three smaller patrol boats to replace its aging 10-ship Caspian Sea-focused force.

In the next 20 years, navies in the Asia-Pacific region will spend approximately US$11.3B on amphibious vessels and US$36.4B on frigates. Destroyers are estimated to garnish another US$32.2B, while patrol craft account for about US$4.1B. Aircraft carriers – produced solely by India and China – will consume about US$5.3B of the market.

Conclusion

Asia is a large and growing naval market. Ties to the flailing European marketplace could both help and hinder the success of new procurements in the coming decades. As China and India seek to bolster their growing forces and smaller navies such as Malaysia and Indonesia recapitalize their fleets, ship production should go up in the region. Nonetheless, budget pressures are present globally and, in places such as Japan, large procurement efforts could face delays. The Asian threat environment remains a potent one in light of North Korean actions earlier this year and the perpetual tensions between China and Taiwan, which helps maintain a higher profile for naval forces in this part of the world.

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