

August 27, 2020

Dear BGA Clients,

Our report this week is on the effects of Covid-19 on defense issues across the Asia-Pacific. This report will highlight the broader trends and how a wide range of responses are reflected in five markets: Australia, India, Indonesia, Taiwan and Thailand.

The markets highlighted this week reflect an array of responses to the pandemic. Some have refused to cut defense spending amid Covid-related budgetary shortfalls, while others have dialed back their expenditures and postponed much-needed capital investments. Across the region, countries have used the uncertainty of the pandemic to reevaluate their strategic calculus, with some coming to very different conclusions.

While some of the countries surveyed have redoubled their ties with each other and the United States, considering China's newly assertive posture, others have been dismayed by Washington's response to the disease. Countries have relied on their militaries to enforce checkpoints, provide aid and coordinate disaster relief, expanding the use of the "soft" capabilities of military power and raising the prominence of the military. Almost uniformly, however, the countries of the region have used the crisis to boost their domestic defense capabilities, often in the form of increased domestic production and reduced dependence on foreign suppliers.



In **Australia**, an increasingly adverse strategic environment has led the government to move to increase the kinetic power of the Australian Defence Force in the short-term, despite its Covid-19 economic constraints. As a traditional defense partner of the United States with heavy economic linkages to China, Australia has moved to both shore up its ties with Washington while developing its own defense capabilities due to increasing pressure from Beijing. Australia's evolving approach to national security includes both increasing its offensive military capabilities and securing its economy and supply chains from outsized pressure from potentially hostile powers, reflecting a growing consensus across the globe that national security and the economy are inextricably linked.



In **India**, the coronavirus pandemic had no impact on the budgetary support for defense, due to the ongoing border tensions with China and Pakistan. Nevertheless, India has accelerated domestic and foreign defense acquisitions. In May 2020, at the height of the pandemic, the government decided to increase foreign direct investment in defense while declaring a progressive embargo on the direct import of 101 items to be manufactured in the country. Both decisions were targeted at driving investment in the production capacity and capabilities of domestic defense supply



chains. The current geopolitical context has also led India to strengthen ties with like-minded democracies such as the United States, Australia and Japan in the Indo-Pacific to counter the influence of China.



In [Indonesia](#), the pandemic has changed the focus of the Ministry of Defense from “hard” security issues to a broader set of national security issues. This includes ensuring food security and accelerating the national effort to mobilize available resources to produce critically needed health equipment such as ventilators. While Indonesia has made cuts to defense spending relative to pre-pandemic projections, it has also moved to insulate the military from the harshest cuts, in large part due to the substantial role the military has played in coordinating and handling the pandemic response.



[Taiwan](#) is proactively approaching the instability in both the region and the world as an opportunity to continue developing its defense planning and procurement capabilities. The military pressure Taiwan faces remains significant because the Chinese military continues to hold regular air and naval exercises in areas around Taiwan. While the pandemic has inflicted substantial economic costs on the trade-dependent island, the government has maintained its procurement plans and is moving ahead to ensure greater self-reliance in defense manufacturing. Taiwan has also accelerated its medium-term plans to reduce economic dependence on China, which is viewed as an inextricable part of its defense strategy.



Though [Thailand](#)’s defense budget has been cut amid the pandemic, the military has continued to play a vital role in the kingdom’s disaster response and has continued to deepen ties with foreign partners. After a few years’ hiatus due to the 2014 coup, strong bilateral defense relations between Thailand and the United States have continued their rehabilitation — even throughout the pandemic. While the political opposition has decried the state’s heavy-handed approach to social media regulations amid the pandemic as well as proposed procurement plans amid the economic downturn, the military has remained at the forefront of the pandemic response.

Questions and comments are welcome and can be directed to BGA Head of Research Murray Hiebert at mhiebert@bowergroupasia.com.



Best Regards,

Murray Hiebert
Director of Research, BowerGroupAsia



Social Intelligence Spotlight: **Thailand**

This week's Social Intelligence Spotlight examines conversations in Thailand's digital space on defense. Online chatter was categorized as follows: discussions on defense spending; general discussion on defense; and discussion on defense as it relates to Covid-19, China and the United States. Thailand's ongoing plans to purchase two submarines from China dominated coverage during the reporting period. In particular, reporting focused on a second House sub-committee meeting that was convened in response to public outcry over the THB 22.5 billion (\$718 million) deal.

The sub-committee approved the purchase on August 21, though one of its members, Pheu Thai Party member of Parliament Yutthapong Jarassathian, has been among the most vocal in his opposition to the submarines. Yutthapong claims that the memorandum of understanding signed with China was not a government-to-government purchase agreement and therefore does not obligate Thailand to honor it — an allegation the Royal Thai Navy has since refuted. Criticism of the deal echoed across social media, emblemized by the hashtag #ThePeopleDon'tWantSubs (English translation). Facebook and Twitter users took issue with the purchase, particularly as Thailand grapples with the economic impact of Covid-19.



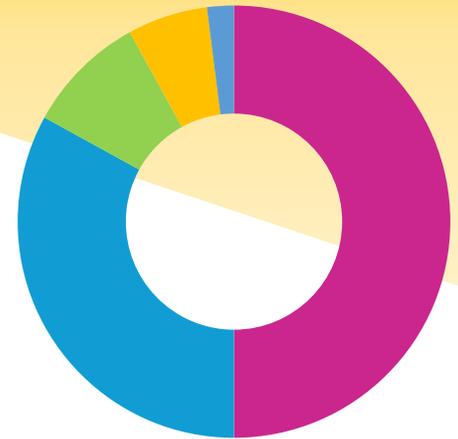
Chinese Type 039 submarine: Diesel-electric attack, NATO Reporting Name: Yuan Class.

A significant portion of news coverage reflected the justification of naval officials for the submarine purchase. Vice Admiral Teerakun Kanchana clarified that the purchase falls within the budget financing of military upgrades from 2020-2026. Due to Covid-19, the Navy will delay the first installment one year, beginning in 2021, and repurpose THB 4.1 billion (\$132 million) of the budget for the response to Covid-19. Vice Admiral Thalerngsak Sirisawat explained that Thailand needs to bolster its defenses and protect its trade routes, especially as other coastal nations already have submarines.

In particular, naval officials emphasized the need to maintain the maritime balance of power in the South China Sea, arguing that submarines will enhance Thailand's strategic deterrence and help preserve peace in the region. A limited number of social media users defended the submarine purchase, suggesting it would allow Thailand to avoid reliance on China or the United States in a new Cold War. Reporting on this issue spurred discussion about the rising tension in the South China Sea following U.S. aerial reconnaissance missions over China's no-fly zones.

Beyond discussion of the submarine purchase, there was limited coverage on the southern Thailand insurgency,

Social Media Discussion Topics in Thailand August 20 to 26



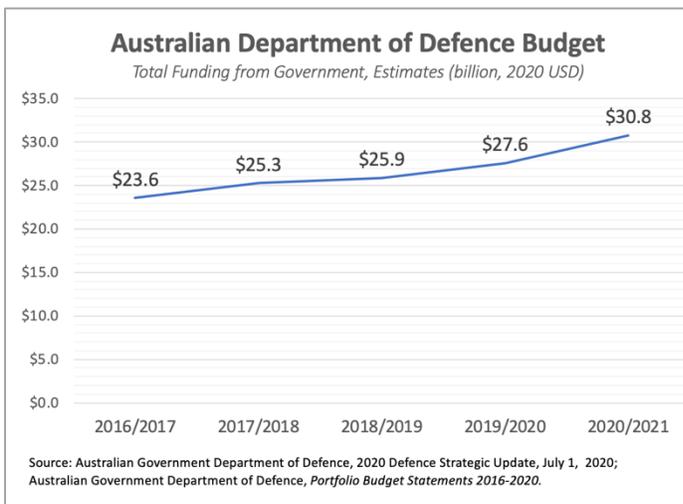
- Defense (50%)
- Defense Spending (33%)
- Covid-19 (9%)
- China (6%)
- United States (2%)

in which reports spoke about the importance of maintaining Thailand's territorial integrity. Separately, there was support for constructing the long-discussed Kra Isthmus canal, which some said may strengthen Thailand militarily and economically — cutting transportation time and costs for naval ships and fishers — as well as furnish much-needed public works projects to tackle unemployment during the Covid-19 pandemic.



Australia

Prime Minister Scott Morrison released the defense strategic update and force structure plan in early July, declaring that Australia is entering a post-Covid-19 world that is “poorer, more dangerous and more disorderly.” Morrison said the region is far less benign than it was during the golden period between the fall of the Berlin Wall and the global financial crisis; as such, his government strives to become more resilient and self-reliant.



Reflecting the increasingly fraught strategic environment, the government has committed to maintain the spending growth promised in the 2016 Defence White Paper. The government announced AUD 270 billion (US \$190 billion) in the force structure plan to expand Australia’s military capabilities. The spending includes AUD 800 million (\$576 million) to purchase the AGM-158C Long-Range Anti-Ship Missile (LRASM) from the U. S. Navy. A large underwater surveillance system using high-tech sensors is one of the major purchases. Australia’s spending plan also allocates up to AUD 23.7 billion (\$17 billion) from 2025 to 2040 for

the defense of deployed forces against ballistic and high-speed missiles. This represents the single largest new procurement program in the document and one of the largest for defense overall.

The strategic update declares Australia’s intention to become more self-reliant on deterrent effects and acquire major new offensive military capabilities, which it will use to put the forces of potential adversaries “at risk from a greater distances and therefore influence their calculus of costs involved in threatening Australia’s interests.” This has been prompted mainly by China’s increasingly coercive international behavior and aggressive posture toward Australia.

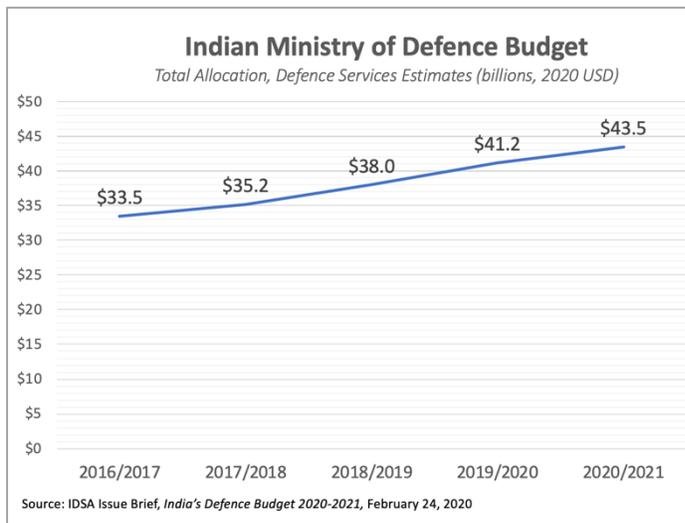
Earlier this year, Australian Treasurer Josh Frydenberg led the push for regular discussions with the “Five Eyes” partners on a coordinated strategic economic response to the Covid-19 crisis. The “Five Eyes” network hopes to “swap notes about the various economic initiatives each country is undertaking in response to the crisis.” The purpose of the security alliance has been broadened amid the strategic tensions that have emerged during the pandemic. Due to supply chain vulnerabilities, security has become top of mind in Australia’s economic relationships in a way not seen for decades. Nevertheless, China remains a major trade partner; half of Australian exports to East Asia go directly to China, and Australia exports ten times the amount of goods to China as it does to the United States.



India

Border tensions with China along with renewed tensions with Pakistan during the Covid-19 pandemic have dominated India’s geopolitical space. As the standoff with China shows no sign of abating, there is a focus on enhanced measures in all security dimensions including cyber and conventional. The Indian Armed Forces have banned the use of almost all social media apps for their personnel due to cybersecurity risks. The Indian Computer Emergency Response Team, an agency of the Ministry of Electronics and Information Technology that handles cybersecurity threats, has issued several advisory warnings of attacks targeting Indian critical infrastructure and vital facilities.

India has maintained its defense spending levels throughout the pandemic. In fact, the government has given wider financial powers and budgetary support to the armed forces for emergent procurements to fill the gaps in defense material preparedness including imports from friendly nations. The delivery of all weapons under contract has been fast tracked, including the Rafale fighter jets from France, MiG 29s from Russia, orders for unmanned aerial vehicles from Israel and P8 maritime aircraft from the United States. The Ministry of Defence also recently approved proposals worth INR 80 billion (\$1.1 billion) in capital acquisitions for indigenous equipment required by the Indian Armed Forces.



The government has pushed for reforms to build up domestic supply chains. In May, the government hiked the foreign direct investment limit on the automatic approval route to 74 percent in the defense production sector. In a move to boost indigenous defense manufacturing and production, the Ministry of Defence announced an embargo on imports of 101 items the armed forces uses. Imports of these items will be progressively banned from December 2020 to December 2025, in a bid to bolster domestic defense production in the private and public sectors.

The continuing geopolitical tension in the subcontinent has led to increased cooperation between India, the United States, Japan and Australia — commonly referred to as “the Quad” — to counter China’s expansion in the Indo-Pacific region. India’s defense cooperation with the United States has also increased. India recently conducted joint naval exercises with the U.S. Navy, and the U.S. base in Diego Garcia has seen increased activity. India and the United States are also scheduled to hold virtual 2+2 talks in September between the Foreign and Defense ministries.

The government has increased investment of resources for border security and paramilitary forces. Upgrading technology has also been a priority, with the Border Security Force receiving micro drones for border surveillance. More recently, Prime Minister Narendra Modi announced the expansion of the National Cadet Corps to coastal and border districts of the country, with plans to train over 100,000 cadets for careers in the armed forces.



Indonesia

Budget constraints caused the defense budget to be reduced by 7 percent from its pre-pandemic allocation; however, the budget after the cut is still higher than last year. Additionally, the cut is moderate when compared to other agencies such as the Ministry of Public Works and Public Housing, which lost 20 percent, and the Ministry of Research and Technology, which faces a cut of more than 90 percent. It is important to note that even after the budget cut, the Ministry of Defense will still have the single largest allocation in the budget.

The pandemic has caused the Ministry of Defense to postpone weapon purchases other than critically needed equipment, including the planned purchase of eight Boeing MV-22 tiltrotor aircraft. Recent controversy over interest in purchasing Eurofighter Typhoons from Austria, which Parliament rejected and experts and several retired generals criticized, has since died down. The Ministry of Defense is also prioritizing buying local-made weapons as a way to support the domestic defense industry, which includes scaling up purchases in an array of armored personnel carriers, medium tanks and tactical vehicles.

There is increasing concern about food security issues after the pandemic, which has only reinforced the existing nationalistic perspective on the food industry. In a major shift a month ago, President Joko Widodo inaugurated a food estate program as part of the food security strategy under the Defense Ministry's supervision. The pandemic has brought the Indonesian government closer to China, especially since China is considered more open to cooperation in vaccine development than international drug companies. Additionally, the chaos in the United States has increased skepticism among policy makers on America's global role in the future.

What is unclear is how the pandemic will change the Association of Southeast Asian Nations (ASEAN) grouping. Before the pandemic, political stability in some ASEAN countries was already tenuous, and the pandemic with its economic consequences has just worsened the situation. If the pandemic creates an economic crisis on the same scale or even worse than the 1997 Asian financial crisis, the consequences for ASEAN may be significant. Member countries will focus on the internal political and economic crisis and withdraw from improving regional cooperation.

Although there has been growing awareness of increasing biodefense security in defense circles, it will take serious investment in infrastructure and expertise across all stakeholders to enhance Indonesia's biodefense capabilities. Nonetheless, the pandemic has also reinforced the armed forces' traditionally dominant role in military operations other than war, including in disaster relief operations and counter-terrorism operations; it has now come to include pandemic relief, attracting some controversy and criticism about the government's reliance on the military.



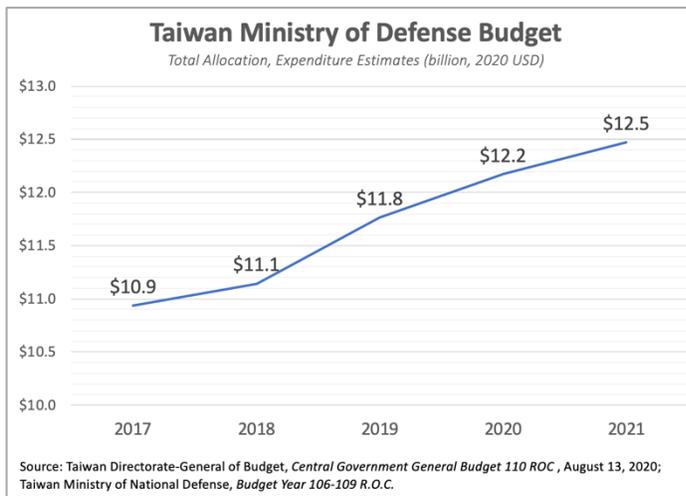
President Joko Widodo



Taiwan

Taiwan’s President Tsai Ing-wen continues to adopt a stern and cautious attitude toward Beijing amid pressure beginning with the inauguration of her second term in May 2020. Both the defense and foreign ministers of Taiwan remained unchanged into Tsai’s second term. An overall defense concept is under development by the Ministry of Defense, but Taiwan still lacks a regularly published defense strategy. The Ministry of Foreign Affairs continues to fend off Beijing’s efforts to poach countries that recognize Taiwan, especially strategically significant ones in the Pacific.

Taiwan continues to develop capacity in several areas. The Taichung-based Aerospace Industrial Development Corporation (AIDC), which developed the F-CK-1 indigenous defense fighters throughout the 1990s, is currently working to retrofit existing F-16s and will launch an F-16 maintenance center in partnership with Lockheed Martin in late August 2020.



The National Chung-shan Institute of Science and Technology (NCIST) continues to develop prototypes and modernize Taiwan’s technology. NCIST developed several anti-ship and anti-air missiles currently in use by the military and is attempting to introduce advanced prototypes of autonomous reconnaissance drones and anti-radar weapons.

The administration is also attempting to improve capacity through arms purchases from the United States. In 2019, it made purchases of new F-16s, Abrams tanks and munitions. Taiwan is considering the

purchase of MQ-9 Reaper autonomous drones from the United States. Newly appointed Washington-based Taipei Economic and Cultural Representative Office representative Hsiao Bi-khim, a longtime confidant of Tsai, will likely make these deals high priorities.

Taiwan has also set a priority on reviewing the policy on Chinese investment as a national security focus, as became evident through the appointment of former Financial Supervisory Commission chairman Wellington Koo to the post of National Security Council secretary-general. The Central Epidemic Command Center is the organ responsible for health-related national security policies after its activation in January 2020.

Overall, defense policy remains a highly partisan issue in Taiwan, and little consensus exists between the ruling Democratic Progressive Party and the opposition parties. Former President Ma-ying Jeou of the Kuomintang party, the largest opposition party, issued strong criticism when the Tsai administration rejected Beijing’s “One China Principle” in a panel hosted on August 22, a day before the anniversary of the start of the second Taiwan Strait crisis. In sum, Taiwan is strengthening measures to address non-conventional security threats. But work also continues on conventional security issues like restructuring the reserves, arms purchases and arms development.



Thailand

The Thai government has proposed a 2021 defense budget of THB 223.4 billion (\$7.2 billion). This figure represents a decline of 3.6 percent compared to the original 2020 military expenditure of THB 231.7 billion (\$7.4 billion) due to Covid-19. Within the three branches of the armed forces, the Thai Army cut its budget by 56 percent, the Navy by 33 percent and the Air Force by 23 percent. Arms deals have been suspended due to budget cuts and reprioritizing to tackle the pandemic. The suspension of arms deals ranges from submarines to aircrafts.

While the government emphasized the importance of cybersecurity and personal data protection during remote working, invoking the Computer Crime Act and the Cybersecurity Act has often been tied to security concerns. The intensive crackdown on social media posts and online content seen as “illegal,” “distorted” and “a threat to the national security” based on these laws was strongly criticized by the public as tools to suppress political dissidents, the opposition and freedom of expression.

Thailand maintains rigid disease control measures at all points of entry with some exceptions but has not reopened the border to international tourists due to health security concerns. The government is in the process of drafting safety and disease control procedures for handling inbound tourists in controlled areas to prepare for reopening.

The defense budget has been highly politicized as the government’s priority turns to tackling the pandemic and preparing preventive measures against a Covid-19 second wave. Recently, the plan to purchase submarines from China worth THB 22.5 billion (\$718 million) came under the political spotlight. It has met heavy criticism and opposition from the public, which could further delay the procurement process. The prime minister defended the purchase saying it is for marine strategic security enhancement and not for combat use.

Defense engagement between the United States and Thailand, which was once strained due to the 2014 military coup, has now been restored through arms deals for armored personnel carriers and light attack helicopters. The recent visit of the U.S. Army Chief of Staff to Thailand, the newly drafted “Strategic Vision Statement” and \$2 million in U.S. aid to counter the Covid-19 pandemic reaffirm the strong bilateral ties. Joint trainings that were postponed earlier due to health concerns are expected to resume soon, which may enrich the military partnership between the United States and Thailand.



Prime Minister Prayut Chan-o-cha