

The Economic Evolution of the Romanian Defense Market in the Context of the World Crisis (Post-pandemic) and the Imbalance of International Security (Military Conflict in Ukraine)

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Abstract. *The analysis of crisis management shows that any crisis will generate risks and opportunities for certain industrial sectors. The current security crisis overlaps today with other crises (climatic, economic, energy, and medical crises generated by COVID-19). The medical crisis generated by the COVID-19 pandemic has recorded considerable profits for the pharmaceutical industry and companies in the medical equipment manufacturing industry. (John A. Parnel). The defense market and armaments production industry has been steadily growing at national and international levels due to the imbalance in international security caused by Russia's military conflict. An economical inside perspective is provided due to an internal study case based on the evolution of this industry's key sector. As per the analyzed data, the market demand is currently higher than the production capacity, both at European and national levels. The industry cannot meet the requirements of the defense market. Nonetheless, the turnover of the profile companies experienced significant increases with positive effects on the recorded profit rates. After conducting a thorough evaluation of the domestic defense industry, the solution might be to privatize state-owned companies in the security industry, which may involve merging companies with similar activity profiles. Also, financial incentives, such as tax measures like those granted to personnel working in the IT industry, can help overcome the human resources issue that the Romanian defense industry is currently facing.*

Keywords: crisis management, economy, risks, industry, security.

Introduction

Before the Revolution of 1989, the Romanian defense industry had ownership of about one hundred enterprises with about 130,000 employees, and arms exports exceeded 670 million USD. (Virgil BALACEANU, The Reconstruction of the National Defense Industry, a Historic Opportunity, The Market for Ideas).

Our country was one of the top ten states that exported military equipment. After successive reorganizations occurred in the last 30 years, currently there are twenty-two enterprises with full state capital, of which 15 belong to the national company ROMARM S.A. subordinated to the Ministry of Economy. There are also, several private-owned companies present in the Romanian defense market, numbering a total of about twenty. None of them engages in military armaments production capability, only sub-suppliers of military technique systems and demilitarization processes.

The traditional market inherited by our defense armament industry was lost by more than 80 % which led to a decrease of 50 % of the production capabilities. This ended up being closed after failing to meet the demands of the market. Poor management, lack of flexibility, and no adaptation to the requirements of the international arms market have led us from the top ten producers to an economic downscale of more than half a billion USD lost per passing year. The actual Romanian defense production capability is represented by a continuous production of the ex-Soviet systems and ammunition, based on expired licenses with no engagement of a transition to the standardization agreement document specific to the agreement taken by the member nations

of NATO. This should have been already implemented in new capability lines of armament production, which after 20 years, since joining NATO have had no improvements. The increase in defense spending to 2.5% of the gross domestic product, taken out of the public statements of the Romanian officials points to the opportunity for this industry to grow if the modernization of the armed forces includes the industry capabilities development and the offset law is applied. The development of the Romanian armament industry should be done in correlation with the developments at the NATO and EU levels.

The Ministry of Defence should have close cooperation with the public and private defense companies registered in Romania, furthermore, the MoD defense planning should support the development of public-private partnerships with local and affairs defense companies, especially with NATO and EU member countries, in achieving advantageous offset contracts in the process of acquisition/modernization of their military technique. Circular economy principles might be of help.

Literature review

Defence crisis management

The literature review defines defense-applied crisis management to be affected by the European and US administrations.¹

It turns out that the equation is intricate: We must investigate the tripolar political and economic ties between Europe/the EU, the US, and the UK. All economic poles' relative relationships are impacted when one moves closer to the other. The triangle relationship between crisis management and defense also suggests that, whether the US, UK, or Europe like it or not, the external environment will have a significant impact on the growth of these needs. In terms of defense and crisis management, the triangle link emphasizes that, whether the US, UK, or Europe agree or not, the external environment as a whole will have a noteworthy influence on the impact of growth development in this key sector. We will use the style scenarios to offer a spotlight on the causes that might drive the development of their results. The objective is to raise awareness of the importance of these matters that directly influence our future and the demand and supply rule.

An important scenario outlines the possible futures and addresses the value of transatlantic cooperation for European security. The following key uncertainty defines the content of the scenario: The future role of Romania (What role will Romania play as a political-economic framework for security and defense-related issues, especially the question of whether it can meet the demands of the market and be integrated as a defense industrial partner within the leading actors. If the security of the environment in Europe deteriorates, an increase in the security and defense budget is mandatory.

The defense production industrial dimensions component is of crucial importance not because of the large quantity/ volumes in defense procurement but because many European countries (Romania is included) are dependent on US supplies and cooperation and may look to change if political ties deteriorate. When purchasing US goods, many European countries sought to buy US commitments. (Claudia Major, Christian Molling, *Defence and crisis management: scenarios and future development*).

¹ Swedish Institute of International Affairs | Number 5/2017

Significant economic potential of the defence sector

Analysis of existing public data, provided by SIPRI² shows a huge increase in global armaments production in recent years driven by the Russian Federation's armed engagement in Ukraine (Keown, C., 2023). The market for arms continues to expand in response to the ongoing or future international wars. The increasing and constant growth of the armaments market follows the active trend of potential ongoing conflicts at the international level with most of the global states deciding, after analyzing the risks and significant economic potential to invest financial resources actively in their defense industries.

Methodology

This research article discusses the crisis management perspective on the economic defense industry opportunity based on the risks and current security international imbalance, which led to considerable profits for the defense industry and companies in armament manufacturing. After conducting a thorough evaluation of the domestic defense industry nationally and internationally it is clear that substantial investments both European and national will follow in the production of military equipment and armament. Simply, the demand is higher than the production capabilities and the markets are willing to pay the price for the products.

The literature review helped me define that the defense applied crisis management had to be investigated by the tripolar political and economic ties between Europe/ the EU, the US, and the UK. This was the basis for setting up an important scenario for analyzing the future role of Romania in the defense-production market.

After a first selection of the one hundred largest arms-producing and military services companies that were taken and a comparative analysis conducted for the last 10 years, we conclude that exports of military technique and armament at a global overview increase annually by more than 15%.

It has been discovered that the armament industry production dimension component is of vital importance not because of the large quantity/ volumes in defense procurement but because many European countries (Romania included) are dependent on US supplies and cooperation and may look to change if political ties deteriorate.

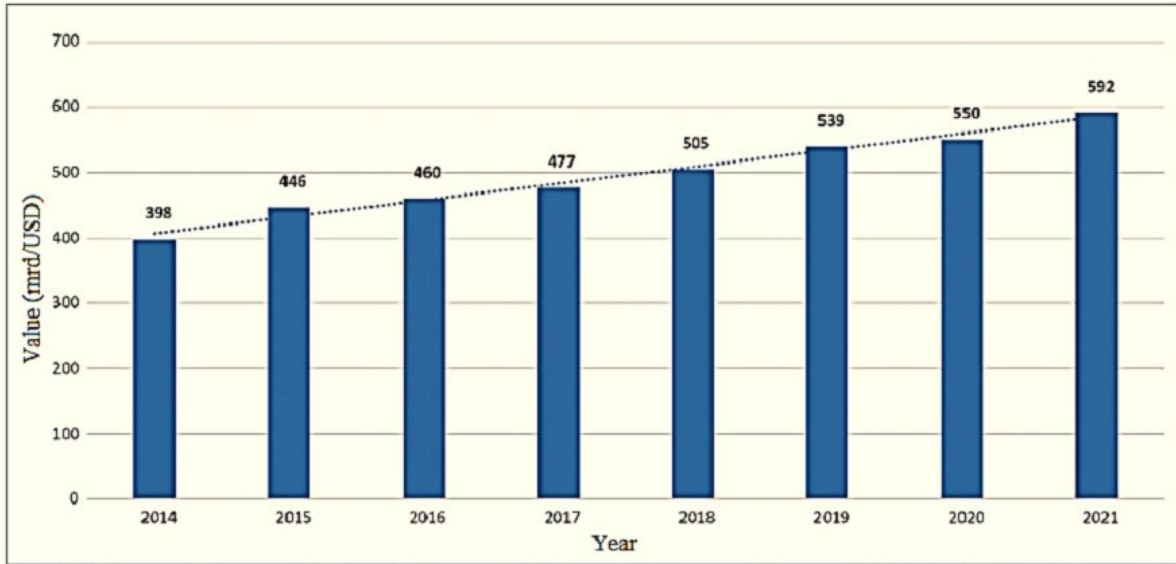
A deeper Analysis of the Romanian Control Department export numbers helped in achieving and understanding the defense industry exports by value, and their destination (end-user).

Results and discussions

The demand and supply of armament worldwide and nationwide

The steady growth of the armament market follows the demand given by active and potential conflicts at the international level. Due to the solid financial background of Orient Countries, their investments in the defense sector increased dramatically.

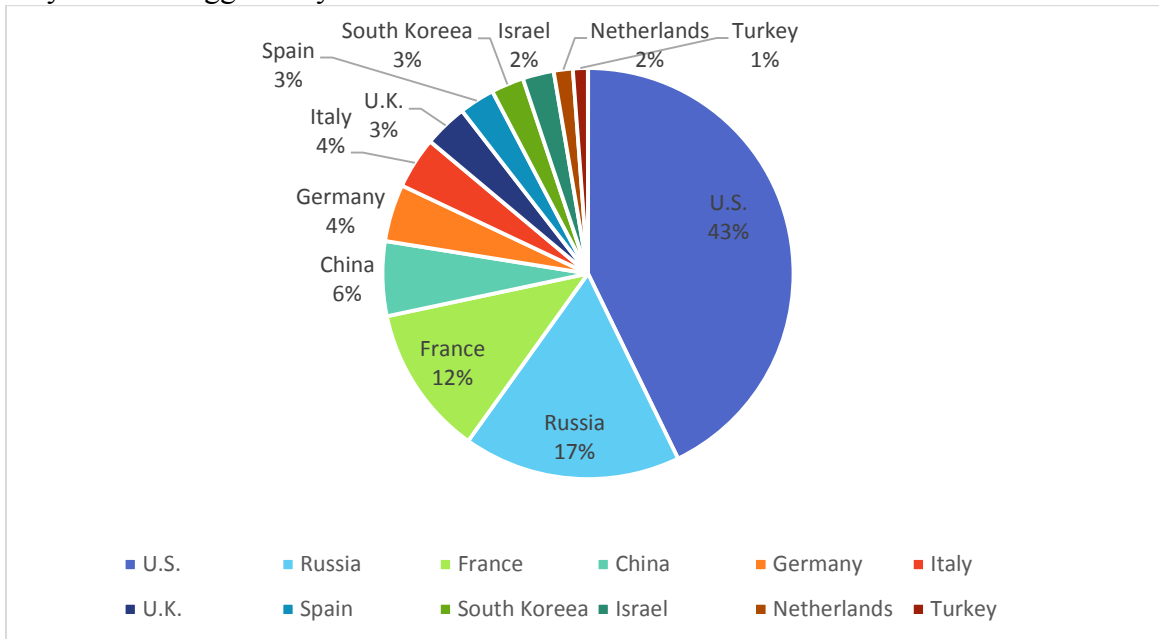
²Stockholm International for Peace Research Institute



Graphic 1. Export evolution of the top one hundred largest arms-producing and military services companies

Source: www.sipri.org.

Given the details presented in Graphic 1. we can affirm firmly that there is a linear increase in exports of military technique and armament at a global overview. Although there is no available data yet from 2023, arms exports have increased against the background of the demand for modern military conflict triggered by the Russian Federation in Ukraine.

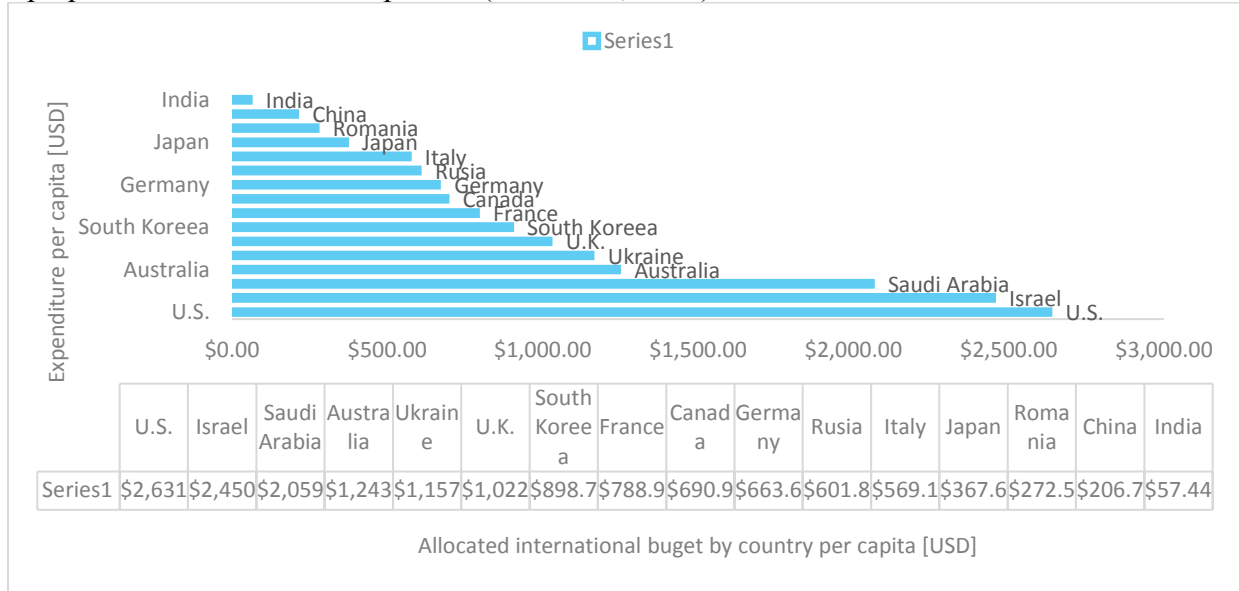


Graphic 2. Percentage distribution of military technique and armament exporting states in 2023

Source: www.statista.com.

As seen in graphic two. the leading military technique and armament exporting state is the U.S. having 43% of the international market share. The second largest supplier of armament

worldwide position was held by the Russian Federation, which marked 17% of the worldwide market, followed by France. The following states that exported arms internationally were also the superpowers of the Cold War period. (Statista -1, 2023).



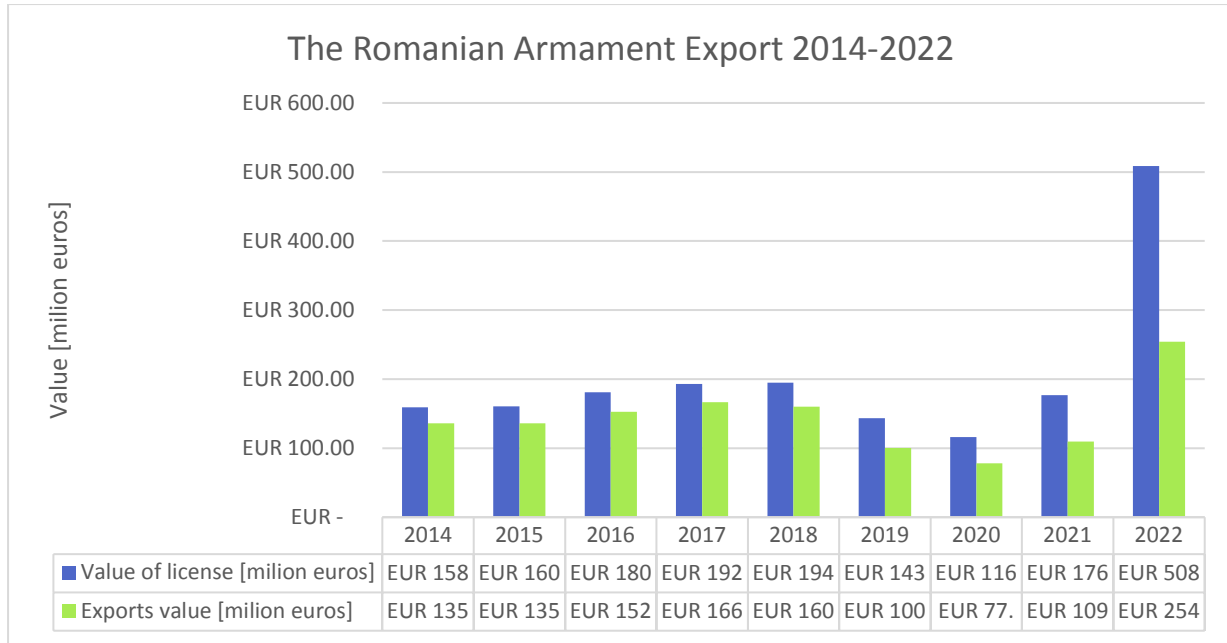
Graphic 3. Allocated international budget per country per capita.

Source: Authors own research.

From the analysis of the data presented in Graphic 4. we can affirm that in the global hierarchy of military spending per inhabitant, the top three are the U.S., Israel, and Saudi Arabia. Romania is ranked before China and India, in the 14th position.

The Evolution of the Romanian Armament Export

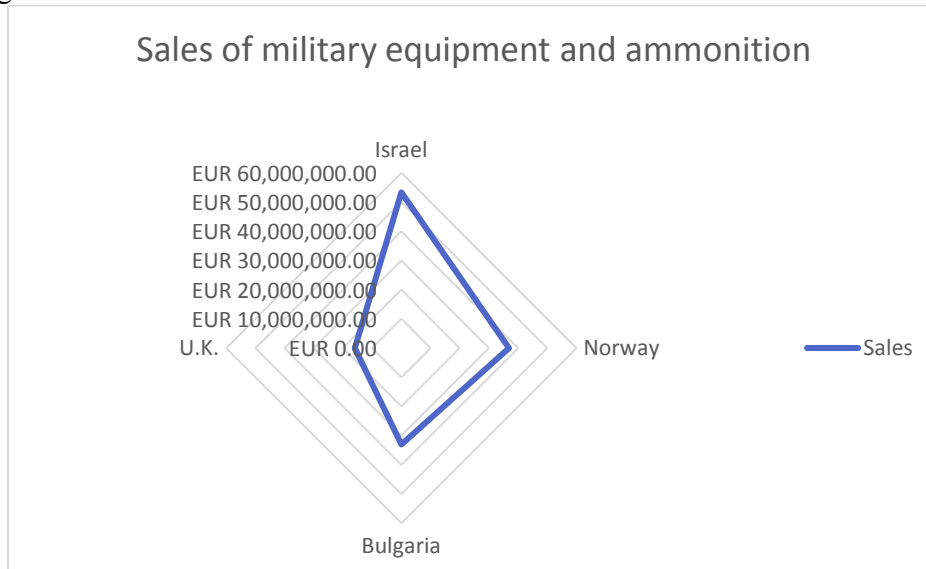
The year 2022 was the trigger of the war in Ukraine which eventually led to a major increase in exports of arms, respectively with approximately 123% (+144.75 million EURO). This growth of armament export made the Romanian Defence industry reveal the potential of the industry, including through the production and delivery of necessary military equipment and ammunition in the current geopolitical context marked by the military conflict in Ukraine. (see graphic 4. below).



Graphic 4. The evolution of the Romanian Armament Exports (Source: www.ancex.ro)

Source: www.ancex.ro].

From the point of view of opportunity of the industry, the main beneficiary (contractor) of military equipment produced by the domestic industry profile should be the Romanian Armed Forces. Unfortunately, only 10% of the Romanian Defence products find the internal market and end up being contracted.



Graphic 5. The main four destinations of the Romanian defense industry exports by value [euro]

Source: www.ancx.ro.

An analysis published by the ANCEX Control Department of the Ministry of Foreign Affairs (www.ancex.ro) reveals that the first four states beneficiary of exports of Romanian military products are Israel (53.312.766,00 Euro), Norway (36.872.667,00 Euro), Bulgaria (33.037.224,00 Euro) and United Kingdom (15.918.864,00 Euro), (see Graphic 5).

Conclusion

The conducted paper demonstrates throughout the analysis that in the coming period, the Romanian Defence Industry will have an extraordinary development, given the geostrategic position in the southeast flank of the Nord Atlantic Alliance. Emerging markets are likely to increase exports to certain states with financial potential. Given the compliance with all international treaties in the field of military products and technologies, and embargoes, Romania complies with all Eu regulations in the field of export control of products and military technologies.

The Romanian Defence Industry is facing also systematic problems, due to a lack of leadership, it hasn't met its real potential. It is necessary to invest consistently in the research and development sector, while expanding strategic partnerships with relevant companies in the Euro-Atlantic area, that can contribute to the assimilation of new technologies by the Romanian Defence Industry.

An important key factor will be the assimilation of the transfer of technology by the industry by implementing the offset law when military equipment is bought by the Romanian Armed Forces. Currently, the absorption rate is roughly 10%, well below the average for member states of the European Union (70%). This will help in making the transition from ex-Soviet licensed ammunition production to NATO calibers and ammunition. Thus expanding the export countries' variety of potential clients.

A further study paper will be needed, to reach a comprehensive evaluation of the Defence Industry management process and economic sustainability, starting with the scenario of privatization of state-owned companies related to the defense industry, including merging companies with the same activity profile. Also, noncompetitive companies that do not meet the market demands, nor the Romanian Army's demands, should be dismantled. (free market economy) Another alternative to privatization might be a reorganization by moving the coordination of the production capabilities under the Ministry of Defence, thus undertaking what the State deems necessary to maintain under its control the production. (Israeli model)

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