Press Release

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Pages	4

National defenses are facing wide variety of threats and challenges

New PwC global defense map illustrates priorities and postures

National defense organisations are facing complex and dynamic security challenges, ranging from a myriad of modern terrorist threats to tough spending cuts.

PwC's global defense experts have assessed the impact of these challenges on 60 countries worldwide - including the top 50 defense-spending nations – and mapped the results.

The security challenges confronting national defense organisations are both complex and dynamic. Countries now face a range of threats that vary greatly in both scope and scale. Long-standing threats from neighbouring nations, such as the enduring tensions on the Korean peninsula and Indian subcontinent, are the types of traditional challenges that most national defense organisations have been organised to confront.

But, says Tom Modly, PwC's Global Defense Network Leader:

> "Major terrorist attacks such as those of September 11, 2001 and, more recent attacks on schoolchildren in Kenya and French satirical writers in Paris, typify the emergent challenges of 'asymmetrical adversaries'. These groups possess destructive capabilities that are more difficult to detect and defeat through conventional means – and thinking."

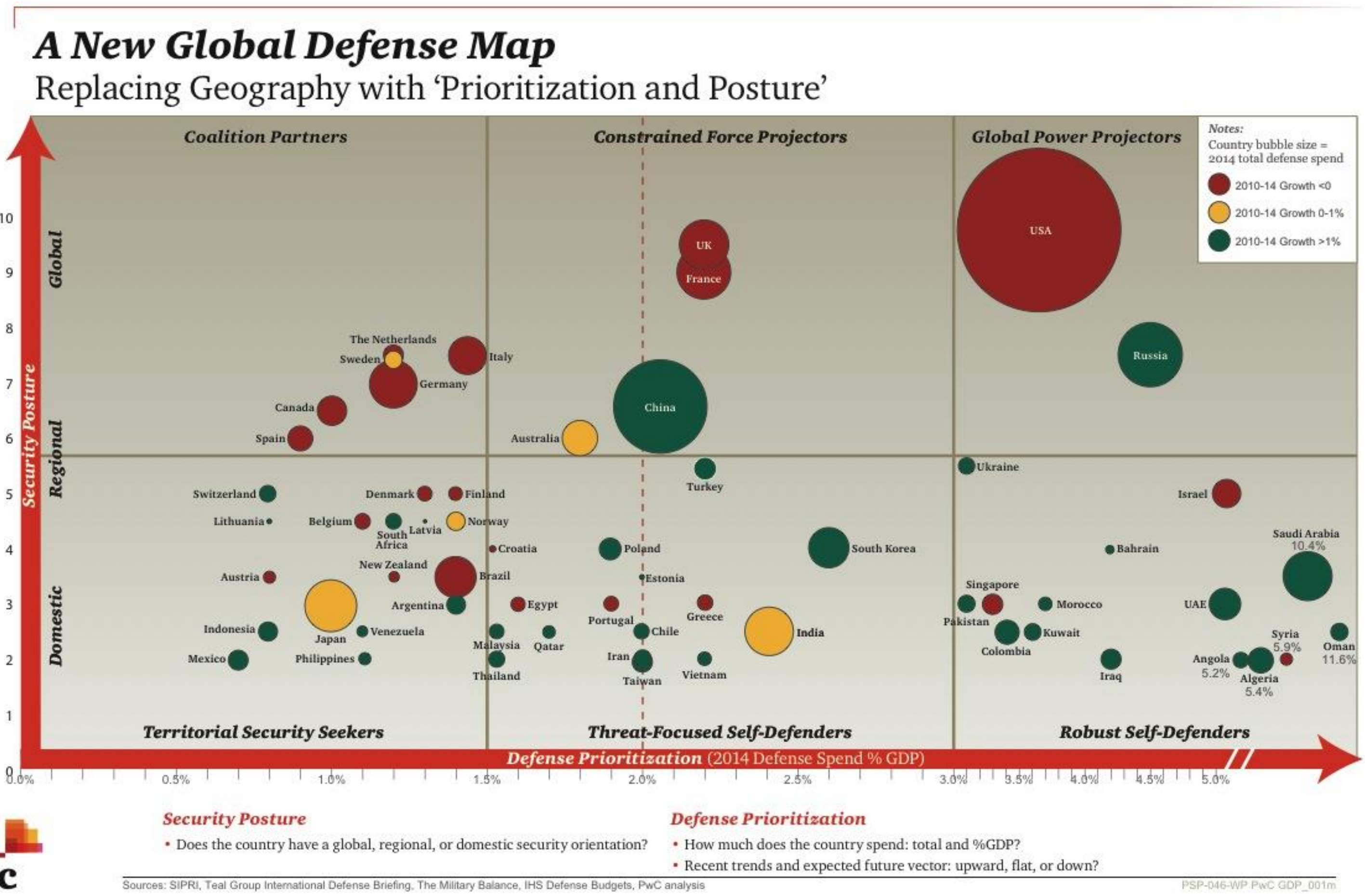
The other challenge highlighted by the PwC report - ***Global Defense Perspectives: Mapping prioritisation and posture in a challenging world*** – is the downward pressure on defense spending. Faced with growing government costs, sluggish economic growth and weariness after a decade of operations in Afghanistan and Iraq, defense budgets for many NATO allies and partners have dropped substantially in recent years.

Many of these countries continue to struggle to modernise outdated systems and maintain readiness as the security environment facing ministries is both uncertain and increasingly complex.

PwC's approach for developing these global defense perspectives looks at recent defense spending trends and the major investment, institutional, structural and strategic priorities and challenges impacting these nations.

Using the insights and unique perspective of PwC's Global Government Defense Network, we have measured and plotted these 60 nations against two dimensions: how they prioritise defense spending, and how they position or 'posture' themselves in the global security environment.

Mapping these nations on the basis of these two dimensions results in a new Global Defense Map.



The six segments in the Map outline distinct profiles, reflecting the respective levels of defense prioritisation and security posture.

Global Power Projectors: *The US and Russia.* These two nations alone spend greater than 3% of their GDP on defense and are very engaged in security efforts around the world. They seek to use their military capabilities and security posture to influence global security issues. Their defense organisations are very large and mature. Although not necessarily nimble, they are capable of deploying forces, managing large complex procurements, and, at least in the case of the US, conducting large scale operations around the world.

Constrained Force Projectors: *Australia, China, France, and the UK.* These four nations spend between 1.5% and 3% of their GDP on defense and are very engaged in security efforts around the world. These nations are among the world's largest defense-spending nations, who prioritise high-end defense capabilities and have militaries that can deploy or exert their influence in most regions of the world. They can selectively deploy forces to key regions around the world, manufacture and integrate complex weapons systems - but, with the exception of China, are also aggressively looking for ways to reduce costs and increase efficiencies in these times of significant fiscal constraints.

Coalition Partners: *Canada, Germany, Italy, the Netherlands, Spain, and Sweden*. These six nations spend less than 1.5% of their GDP on defense, but they are very engaged in security efforts around the world. Despite modest budgets, they readily contribute to UN peacekeeping and multilateral coalition operations around the world. Except for Sweden, these nations are all NATO allies who have a strong track record of operating together. They deploy forces regularly, but have struggled in recent years to maintain readiness as defense budgets have shrunk.

Robust Self-Defenders: *Angola, Algeria, Bahrain, Colombia, Iraq, Israel, Kuwait, Morocco, Oman, Pakistan, Saudi Arabia, Singapore, Syria, Ukraine, and the United Arab Emirates (UAE).* These 15 nations spend more than 3% of their GDP on defense, but are more focused on security efforts in their immediate geographic region. Because of internal or immediate regional threats, they have developed military capabilities centred on directly and aggressively countering those challenges. They generally do not get involved in UN or multilateral coalition operations except when addressing nearby security concerns.

Threat-Focused Self-Defenders: *Chile, Croatia, Egypt, Estonia, Greece, India, Iran, Malaysia, Portugal, Poland, Qatar, South Korea, Taiwan, Thailand, Turkey, and Vietnam*. These sixteen nations spend between 1.5% and 3% of their GDP on defense and are more focused on security efforts in their immediate geographic area. Many of these nations participate in UN peacekeeping or multilateral coalition operations to help build relationships with allies and partners, but the focus of their spending is on countering a specific threat emanating from a single nation.

Territorial Security Seekers: *Argentina, Austria, Belgium, Brazil, Denmark, Finland, Indonesia, Japan, Latvia, Lithuania, Mexico, New Zealand, Norway, the Philippines, South Africa, Switzerland, and Venezuela*. These 17 nations spend less than 1.5% of their GDP on defense and are more focused on security efforts in their immediate geographic area. These nations spend modestly on defense, but many contribute to UN peacekeeping operations or multilateral coalition operations in some fashion.

PwC analysts conclude there are a number of lessons to be learned when looking at the Defense Map:

- **Expect movement:** There is a tremendous amount of growth in the lower half of the Map where 31 nations have seen significant recent growth that is expected to continue in the next five years.
- **Global players under severe pressure:** The preponderance of nations that have a globally-oriented security posture are also under significant budgetary pressure as evidenced by the fact that spending in 10 of the 12 nations in the top half of the Map has declined or remained flat in the past five years.
- **Cost-cutting dominates strategy:** Institutional reform efforts focused on cost-cutting are a major emphasis for most of the nations that have a globally-oriented security posture. Global Power Projectors (such as the United States), Constrained Force Projectors (like the UK), and Coalition Partners (such as Canada) are all undertaking initiatives to increase efficiencies and reduce overhead or personnel expenses.
- **A focus on institutional and national capacity:** Furthermore, institutional reform efforts focused on capacity building are a priority principally in those nations in the lower half of the Map. Robust Self-Defenders (such as the UAE), Threat-Focused Self-Defenders (like India), and Territorial Self-Defenders (such as Japan) are less focused on efficiencies than on building the institutional capabilities of their respective ministries of defense.
- **Collaboration in Procurement:** Cooperative efforts are particularly prevalent among the nations that had lower levels of defense prioritisation. Cooperative procurement efforts, for

example, are much more prevalent among the Coalition Partners and the Territorial Self-Defenders than with the Robust Self-Defenders.

- **Asymmetric threats and cyber 'insecurity' gains prominence:** Regardless of where a nation currently resides on the Map, vulnerabilities to asymmetric threats such as terrorism and cyber crime/attack are driving investment in new, non-traditional defensive and offensive capabilities. Such investment has profound implications for the nature of the future forces with respect to recruiting, training, career development and retention.

Concludes PwC's Tom Modly:

> "The depth and breadth of these current security challenges leave defense leaders with some tough choices. What institutional reform initiatives are needed to posture their ministries for the future? What procurement priorities are needed for the coming years? How do they build the necessary organisational agility in order to address a wider range of threats such as strategic nuclear, conventional, terror, and cyber? And how should they cooperate with allies and partners around the world?"

Notes

1. The nations that the PwC report and mapping focuses on are: **Americas**: Argentina, Brazil, Canada, Colombia, Chile, Mexico, US, Venezuela. **Europe**: Austria, Belgium, Croatia, Denmark, Estonia, Finland, France, Germany, Greece, Italy, Latvia, Lithuania, the Netherlands, Norway, Poland, Portugal, Russia, Spain, Sweden, Switzerland, Turkey, Ukraine, UK. **Middle East and Africa:** Algeria, Angola, Bahrain, Egypt, Iran, Iraq, Israel, Kuwait, Morocco, Oman, Qatar, Saudi Arabia, South Africa, Syria, United Arab Emirates. **Asia Pacific:** Australia, China, India, Indonesia, Japan, Malaysia, New Zealand, Pakistan, Philippines, Singapore, South Korea, Taiwan, Thailand, Vietnam.
   In addition, due to their regional and global significance, other countries have been selected, including: Ukraine, Baltic States, Bahrain, Philippines, Qatar and Vietnam.

2. Methodology: PwC developed a template to analyse specific national defense characteristics. This template had two principal sections that focused on: Recent, current, and anticipated defense spending trends; and the major investment, institutional, structural and strategic priorities and challenges impacting these nations. We used the insights of PwC's Global Government Defense Network as well as publicly available resources to populate the templates and develop insights on the progress made by these defense organisations in adapting to their respective challenges. Using this information, we then measured these nations against two metrics: 1) Prioritisation - how they prioritise defense spending, and 2) Posture - how they posture themselves in the global security environment.

3. The full report, ***Global Defense Perspectives: Mapping prioritisation and posture in a challenging world***, can be downloaded from here.

4. At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 157 countries with more than 208,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.

