

Trends in Foreign Defense Transfers

[The following has been extracted from pages 362-367 of the *Congressional Presentation Document (CPD) for Security Assistance Programs, Fiscal Year 1988*, prepared jointly by the Department of State and the Department of Defense.]

INTRODUCTION

Since World War II, U.S. defense transfers have served the common security objectives of the United States and recipient governments. Under government-to-government programs and through commercial sales, U.S.-origin equipment and services have strengthened our friends and allies and enabled them to bear a larger share of the common defense burden.

U.S. defense transfers have, however, declined sharply since the early 1980's both in absolute terms and as a proportion of global transfers, reaching a nine year low in 1986. These transfers are unlikely to increase significantly during the rest of the decade.

This Administration supports the goal of a balanced reduction in world arms transfers if global and national security are not imperiled. The current decline in U.S. transfers does not serve this objective. Other countries' growing displacement of the United States as a supplier of defense articles and services is likely to increase the numbers and proportion of world transfers made with inadequate concern for the impact on regional and global stability and contribute to diminished western security.

WORLD SALES

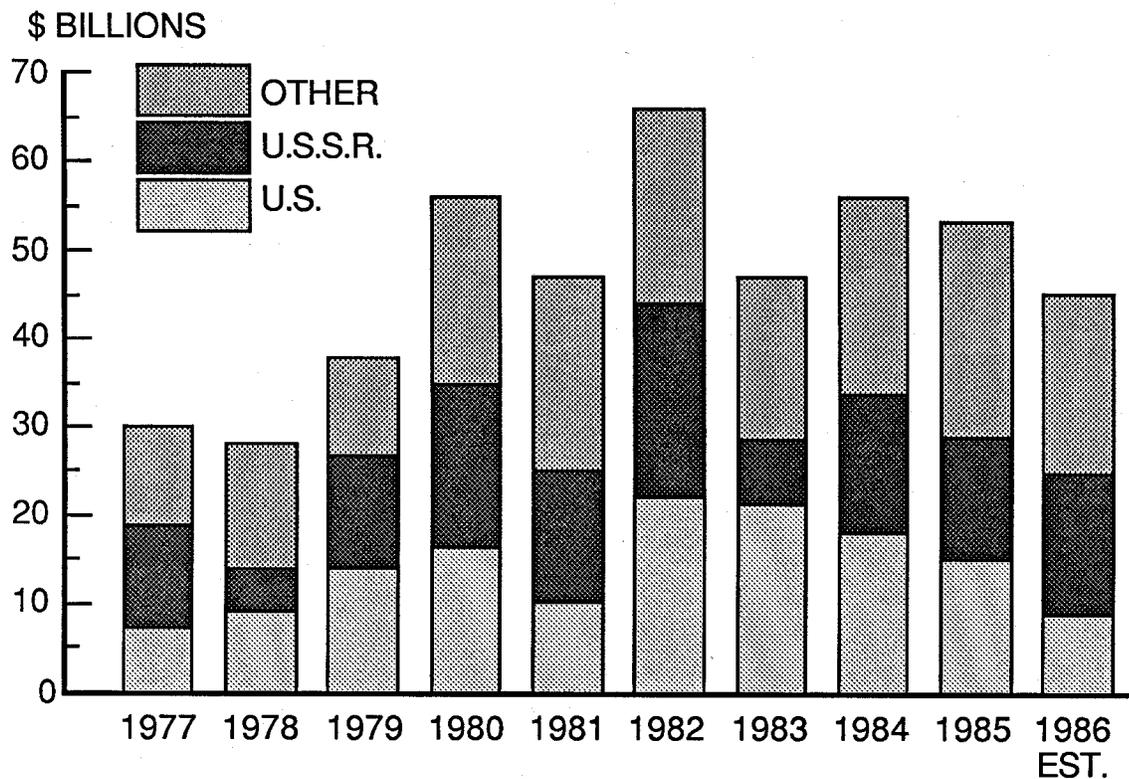
Figure 1 on the next page shows that worldwide defense purchases increased during the latter 1970s and early 1980s, an increase due mainly to Third World modernization and expansion financed primarily from gains in export income, particularly from oil. These military purchases rose to a peak of approximately \$66 billion in 1982, fell in 1983, but recovered to a level near \$55 billion during 1984-85. Final totals for 1986 are estimated to have fallen to about \$45 billion.[1] If the impact of inflation is accounted for, the post 1982 decline in purchases is far more substantial.

Important factors that have contributed to the recent decline include the general slowdown in the world economy, especially reduced oil prices, the continuing world debt crisis, and either the completion of major defense modernization efforts, or country difficulties in absorbing large equipment acquisitions. The decline would have been sharper had not regional tensions exacerbated by the Iran-Iraq War sustained a high level of demand by the Persian Gulf states. Most of that demand has been satisfied by Soviet and Western European sales.

Analysis indicates that most countries are not likely to significantly increase purchases in the next few years. Although the industrial West has benefited significantly from reduced prices of oil and other commodities and can afford new systems on a regular basis, the Third World's purchases will be constrained by these low prices as well as by its continuing problems with accumulated debt.

1 All sales are shown in then-year dollars. Non-U.S. purchases refer to sales agreements measured by calendar year. U.S. sales refer to FMS sales agreements and commercial deliveries, and are measured by fiscal year.

**FIGURE 1
WORLD DEFENSE TRANSFERS
1977-1986**



U.S. SALES OF DEFENSE ARTICLES AND SERVICES

Boosted by the same factors that increased world demand, U.S.-origin sales climbed in the latter 1970s and peaked in 1982 at \$22 billion, as shown in Figure 2. Unlike the worldwide pattern, however, U.S. sales have dropped sharply and steadily since 1982. U.S. defense-related sales in fiscal year 1986, including both FMS transfers and commercial cash sales, were only about \$9 billion, the lowest level in almost a decade. *The U.S. portion of the world defense market, depicted in Figure 3 on the next page, also continued to decline from a peak of approximately 43 percent in FY 83 to a point where in FY 86 it probably will be less than 25 percent.*

The fall in total U.S. sales since FY 82 reflects both domestic and external factors. Self-imposed political and technology transfer constraints have caused the U.S. to turn down certain requests, many of which have been filled by less constrained suppliers. The political and military value lost for these policy considerations has been greatest in the Middle East due to bias against sales to moderate Arab states who are not directly identified with the Camp David Accords. Reductions in FMS credit and MAP funding in FY 86 also limited the USG's ability to meet friends and allies' legitimate defense requirements. Externally, U.S. manufacturers have been affected by increased competition from foreign arms production and greater efforts by developed states to explore more convenient cooperative marketing arrangements that enhance their domestic industrial and technological development.

FIGURE 2
U.S. DEFENSE TRANSFERS
FY82 - FY86

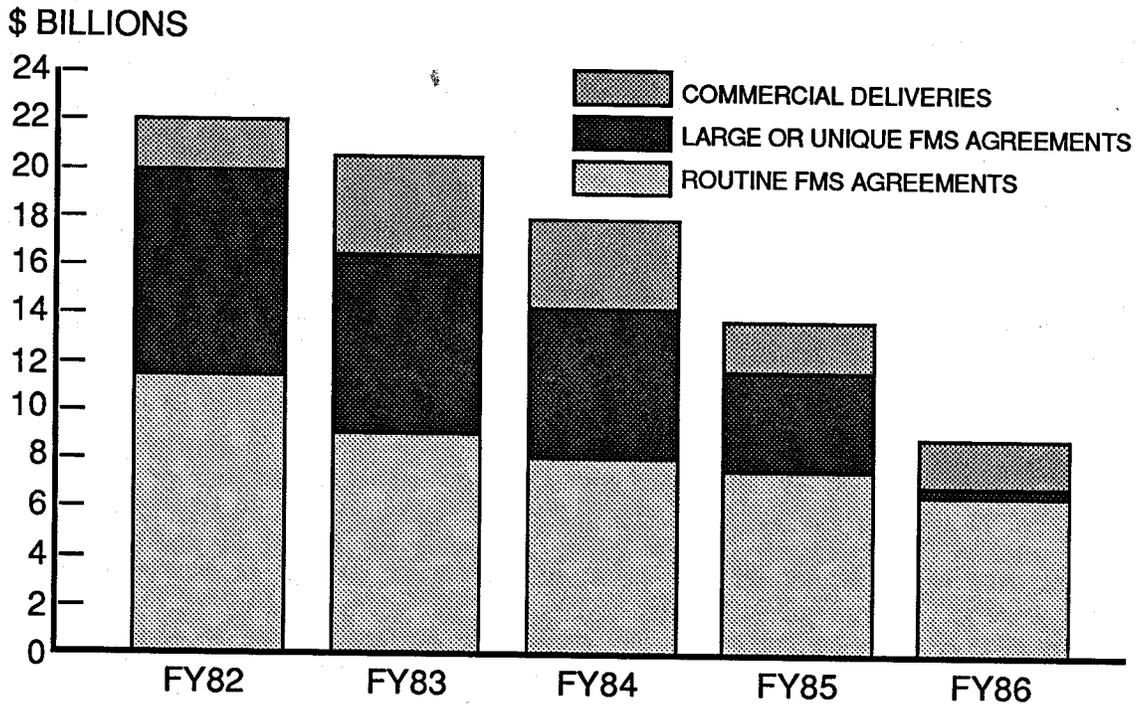
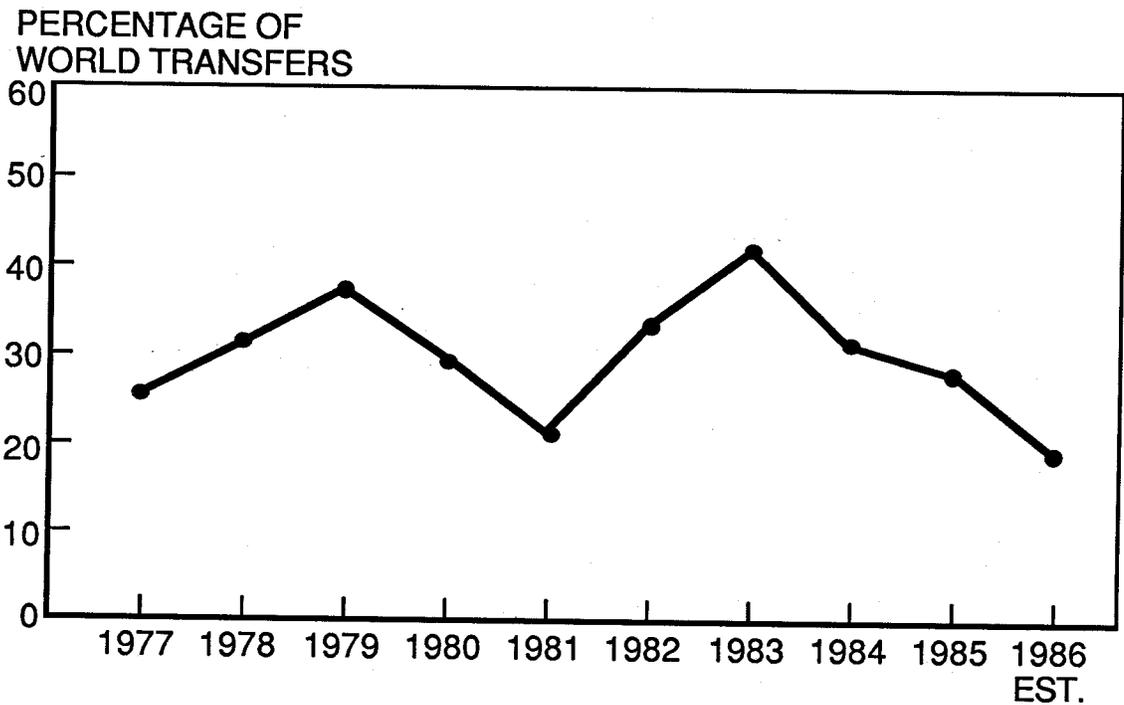


FIGURE 3
U.S. PORTION OF WORLD DEFENSE TRANSFERS
1977-1986



OTHER TRENDS

Arms production outside the United States, especially in Western Europe, and in the industrialized Third World is increasing both in scope and sophistication. While the expansion of arms production has been quite extensive in the Third World since the end of the Second World War, the expansion of the developed world's, and especially Western Europe's, arms production has had even a greater impact on the level of U.S. sales. The developed states have increased the sophistication of their arms production, turning out systems that compete favorably with American products' performance.

Despite the fact that developing and producing a major defense system is expensive and more risky than purchasing one from an established supplier, many states continue to expand their own arms production efforts, viewing such production as a means of reducing the perceived drain of resources abroad and as a vehicle to spur general domestic development. To mitigate the costs and risks associated with system development, these states are increasingly turning to joint or multi-national ventures.

The expansion of the scope and sophistication of foreign arms production is especially evident in Western Europe. Our NATO allies have been unhappy with the American dominance of the intra-NATO trade in defense articles and services. To relieve this perceived drain on their economies, especially in terms of domestic jobs, our European allies are producing more of their own systems, often cooperatively, as a substitute for buying from the U.S. Our allies' perception of the one-way street in armaments cooperation and their reaction to it has strained U.S.-NATO relations and has hindered efforts to enhance the standardization and interoperability of alliance forces. It may also portend a long-term trend toward substantially reducing the U.S. presence in the defense market.

Figure 2 on the previous page depicts the latest five-year trend in U.S. defense transfers.

To address NATO concerns, and provide evidence of a two-way street, the United States has taken the lead in promoting expanded armaments cooperation. In the forefront of this effort have been the cooperative projects launched with funds appropriated specifically for this purpose under the Nunn Amendment. Expanded cooperation should also reduce NATO security assistance requirements by increasing the recipients' ability to provide a larger share of their defense needs. This further serves one of the key objectives of the U.S. security assistance program--self-sufficiency.

Increased indigenous arms production is also resulting in efforts by more countries to export more military systems. Export sales are seen as essential by many of these states to their ability to maintain a domestic arms industry at acceptable cost. While developed countries are increasingly displacing the U.S. as a supplier of sophisticated equipment, countries such as Brazil, Israel, South Korea, and China, sell primarily low-priced, moderately sophisticated systems to states who do not need or can not afford the most advanced systems.

The governments of other countries generally promote, often vigorously, the export of their arms, while the United States does not market products. Other countries and their industries have also proven more willing to enter into barter and countertrade arrangements. Foreign exporters generally operate under fewer political and technological transfer constraints than do U.S. suppliers. The principal advantage the U.S. enjoys as a supplier are its state-of-the-art technology, comprehensive and reliable system support, and for a few selected recipients, an all grant aid financing program.

CONCLUSION

The U.S. has limited influence over the sales promotion of European, Soviet bloc, and Third World sources of military equipment. Furthermore, the U.S. cannot control the decisions of sovereign nations regarding either the types of defense systems purchased or the choice of supplier.

There are several things, however, which the U.S. should consider in assessing future arms transfers.

First, we must recognize the growing trend among developed countries of the world to seek increasingly cooperative arrangements which maximize the benefits to their industrial and technological base. The Congress endorsed this concept in the recent Nunn/Quayle legislation, which increased flexibility for NATO cooperative ventures.

Secondly, we must recognize and respond to the legitimate self-defense needs such as those of moderate Arab states. The fact of an increasingly broad spectrum of alternative sources to meet requirements ensures that some other country will sell major systems when the U.S. refuses, depriving the U.S. of any influence over the use of these systems.

Third, we need to recognize and react to the corrosive effect that declining foreign defense purchases have upon the U.S. industrial base. As foreign purchases decline, the U.S. must bear a greater share of research and development costs and accept less cost-effective U.S. defense production.

Fourth, the U.S. must continue to provide MAP funding or concessional financing to our developing friends and allies to enhance their security, foster their development, and more securely bind them to the West.

Unless the U.S. Government and U.S. defense industries are able to deal with domestic constraints and external challenges, it is unlikely that the United States will be able to satisfactorily address its friends and allies' legitimate self-defense requirements during the rest of this decade. Foreign military and political influence will be affected adversely.