
Conventional Arms Transfers to Developing Nations, 2000 - 2007

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Introduction and Overview

This report provides Congress with official, unclassified, background data from U.S. government sources on transfers of conventional arms to developing nations by major suppliers for the period 2000 through 2007. It also includes some data on worldwide supplier transactions. It updates and revises Congressional Research Service (CRS) Report RL34187, *Conventional Arms Transfers to Developing Nations, 1999-2006*.

The data in this report provide a means for Congress to identify existing supplier-purchaser relationships in conventional weapons acquisitions. Use of these data can assist Congress in its oversight role of assessing whether the current nature of the international weapons trade affects U.S. national interests. For most of recent American history, maintaining regional stability and ensuring the security of U.S. allies and friendly nations throughout the world have been important elements of U.S. foreign policy. Knowing the degree to which individual arms suppliers are making arms transfers to individual nations or regions provides Congress with a context for evaluating policy questions it may confront. Such policy questions may include, for example, whether or not to support specific U.S. arms sales to given countries or regions or to support or oppose such arms transfers by other nations. The data in this report may also assist Congress in evaluating whether multilateral arms control arrangements or other U.S. foreign policy initiatives are being supported or undermined by the actions of arms suppliers.

The principal focus of this report is the level of arms transfers by major weapons suppliers to nations in the developing world — where most of the potential for the outbreak of regional military conflicts currently exists. For decades, during the height of the Cold War, providing conventional weapons to friendly states was an instrument of foreign policy utilized by the United States and its allies. This was equally true for the Soviet Union and its allies. The underlying rationale for U.S. arms transfer policy then was to help ensure that friendly states were not placed at risk through a military disadvantage created by arms transfers by the Soviet Union or its allies. Following the Cold War's end, U.S. arms transfer policy has been based on assisting friendly and allied nations in developing and maintaining their ability to deal with regional security threats and concerns.

The data in this report illustrate how global patterns of conventional arms transfers have changed in the post-Cold War and post-Persian Gulf War years. Relationships between arms suppliers and recipients continue to evolve in response to changing political, military, and economic circumstances. Where before the principal motivation for arms sales by foreign suppliers might have been to support a foreign policy objective, today that motivation may be based as much on economic considerations as those of foreign or national security policy.

The developing world continues to be the primary focus of foreign arms sales activity by conventional weapons suppliers. During the period of this report, 2000-2007, conventional arms transfer agreements (which represent orders for future delivery) to developing nations comprised 66.6 percent of the value of all international arms transfer agreements. The portion of agreements with developing countries constituted 67.7 percent of all agreements globally from 2004-2007. In 2007, arms transfer agreements with developing countries accounted for 70.5 percent of the value of all such agreements globally. Deliveries of conventional arms to developing nations, from 2004-2007, constituted 64.7 percent of all international arms deliveries. In 2007, arms deliveries to developing nations constituted 55.6 percent of the value of all such arms deliveries worldwide.

The data in this new report supersede all data published in previous editions. Since these new data for 2000-2007 reflect potentially significant updates to and revisions in the underlying databases utilized for this report, only the data in this most recent edition should be used. The data are expressed in U.S. dollars for the calendar years indicated and adjusted for inflation (see the next few sub-titled sections of this article for more detail). U.S. commercially licensed arms export delivery values are excluded (see the section of this article sub-titled "United States Commercial Arms Exports"). Also excluded are arms transfers by any supplier to sub-national groups. The definition of developing nations, as used in this report, and the specific classes of items included in its values totals are found in the section of this article sub-titled "Definition of Developing Nations and Regions."

Calendar Year Data Used

All arms transfer and arms delivery data in this report are for the calendar year or calendar year period given. This applies to U.S. and foreign data alike. The U.S. government departments and agencies publish data on U.S. arms transfers and deliveries but generally use the U.S. fiscal year as the computational time period for these data. As a consequence, there are likely to be distinct differences noted in those published totals using a fiscal year basis and those provided in this report which use a calendar year basis.

Arms Transfer Values

The values of arms transfer agreements (or deliveries) in this report refer to the total values of conventional arms orders (or deliveries as the case may be) which include all categories of weapons and ammunition, military spare parts, military construction, military assistance and training programs, and all associated services.

Definition of Developing Nations Regions

As used in this report, the developing nation's category includes all countries except the

- United States
- Russia
- European nations
- Canada
- Japan, Australia
- New Zealand

A listing of countries located in the regions defined for the purpose of this analysis, Asia, Near East, Latin America, and Africa is provided in the full report (available at <http://fpc.state.gov/documents/organization/112020.pdf>.)

Constant 2007 Dollars

Throughout this report values of arms transfer agreements and values of arms deliveries for all suppliers are expressed in U.S. dollars. Values for any given year generally reflect the exchange rates that prevailed during that specific year. The report converts these dollar amounts (current dollars) into constant 2007 dollars. Although this helps to eliminate the distorting effects of U.S. inflation to permit a more accurate comparison of various dollar levels over time, the effects of fluctuating exchange rates are not neutralized. The deflators used for the constant dollar calculations in this report are those provided by the U.S. Department of Defense (DoD). Unless otherwise noted in the report, all dollar values are stated in constant terms.

Major Findings

General Trends in Arms Transfers Worldwide

The value of all arms transfer agreements worldwide (to both developed and developing nations) in 2007 was nearly \$60 billion. This was an increase in arms agreements values over 2006 of 9.2 percent.

In 2007, the U.S. led in arms transfer agreements worldwide, making agreements valued at over \$24.8 billion (41.5 percent of all such agreements), up significantly from \$16.7 billion in 2006. Russia ranked second with \$10.4 billion in agreements (17.3 percent of these agreements globally), down from \$14.3 billion in 2006. The United Kingdom ranked third; its arms transfer agreements worldwide were \$9.8 billion in 2007, up from \$4.1 billion in 2006. The U.S., Russia, and the United Kingdom collectively made agreements in 2007 valued at over \$45 billion, 75.2 percent of all international arms transfer agreements made by all suppliers.

For the period 2004-2007, the total value of all international arms transfer agreements (\$208.3 billion) was substantially higher than the worldwide value during 2000-2003 (\$147.6 billion), an increase of 29.2 percent. During the period 2000-2003, developing world nations accounted for 67.7 percent of the value of all arms transfer agreements made worldwide. During 2004-2007, developing world nations accounted for 67.7 percent of all arms transfer agreements made globally. In 2007, developing nations accounted for 70.5 percent of all arms transfer agreements made worldwide.

In 2007, the U.S. ranked first in the value of all arms deliveries worldwide, making nearly \$12.8 billion in such deliveries or 41.3 percent. This is the eighth year in a row that the U.S. has led in global arms deliveries. Russia ranked second in worldwide arms deliveries in 2007, making \$4.7 billion in such deliveries. The United Kingdom ranked third in 2007, making \$2.6 billion in such deliveries. These top three suppliers of arms in 2007 collectively delivered nearly \$20.1 billion, 64.8 percent of all arms delivered worldwide by all suppliers in that year. The value of all international arms deliveries in 2007 was \$31 billion. This is a decrease in the total value of arms deliveries from the previous year (a decline from \$33.6 billion). The total value of such arms deliveries worldwide in 2004-2007 (\$134.9 billion) was lower than the deliveries worldwide from 2000-2003 (\$143.6 billion), a decline of nearly \$10 billion.

Developing nations from 2004-2007 accounted for 64.7 percent of the value of all international arms deliveries. In the earlier period, 2000-2003, developing nations accounted for 65.1 percent of the value of all arms deliveries worldwide. In 2007, developing nations collectively accounted for 55.6 percent of the value of all international arms deliveries.

Worldwide weapons orders increased in 2007. The total of nearly \$60 billion was an increase from \$54.9 billion in 2006, or 9.2 percent. Global arms agreement values for the other years covered here ranged from \$48.7 billion in 2005 to \$32.6 billion in 2003. Of the major arms orders secured in 2007, most were made by the traditional major suppliers. In some instances these orders represented

significant new acquisitions by the purchasing country. In others they reflected the continuation or acceleration of a longer-term weapons-acquisition program.

The increase in new weapons sales can also be explained, in part, by the decision of some purchasing nations to acquire major systems they had deferred buying due to budgetary considerations. Some nations were completing the integration of major weapons systems they had already purchased into their force structures. Some of the growth in arms transfer agreements more recently also reflects contracts related to training and support services, as well as upgrades of existing weapons systems. Individual orders such as these can be expensive and, in given instances, prove to be nearly as costly as orders for new units of military equipment.

Because the international arms market continues to be intensely competitive, several producing countries have focused sales efforts on prospective clients in nations and regions where individual suppliers have had competitive advantages resulting from well-established military-support relationships. Arms sales to new North Atlantic Treaty Organization (NATO) member nations in Europe to support their military modernization programs have created new business for arms suppliers, while allowing these NATO states to sell some of their older generation military equipment, in refurbished form, to other less-developed countries.

There are inherent limitations on these European sales due to the smaller defense budgets of many of the purchasing countries. Yet creative seller financing options, as well as the use of co-assembly, co-production, and counter-trade agreements to offset costs to the buyers, continue to facilitate new arms agreements. It seems likely that the U.S. and European countries or consortia will compete vigorously for prospective arms contracts within the European region in the foreseeable future. Such sales seem particularly important to European suppliers, as they can potentially compensate, in part, for lost weapons deals elsewhere in the developing world that result from reduced demand for new weapons.

Developed nations continue their efforts to protect important elements of their national military industrial bases by limiting arms purchases from other developed nations. However, several key arms suppliers have placed additional emphasis on joint production of various weapons systems with other developed nations as a more effective way to preserve a domestic weapons production capability, while sharing the costs of new weapons development. The consolidation of certain sectors of the domestic defense industries of key weapons-producing nations continues in the face of intense foreign competition. Some supplying nations, meanwhile, have chosen to manufacture items for niche weapons categories where their specialized production capabilities give them important advantages in the international arms marketplace.

Despite the recent upward trend in weapons purchases with the developed world, some developing nations have limited their weapons purchases primarily due to their limited financial resources to pay for such equipment. Other prospective arms purchasers in the developing world with significant financial assets have been cautious in launching new and costly weapons-procurement programs. Increases in the price of oil, while an advantage for major oil producing states in funding their arms purchases, has, simultaneously, caused economic difficulties for many oil consuming states, contributing to their decisions to curtail or defer new weapons acquisitions. A number of less affluent developing nations have chosen to upgrade existing weapons systems in their inventories, while reducing their purchases of new ones. This circumstance may curtail sales of some new weapons systems. Yet the weapons upgrade market can be very lucrative for some arms producers and partially mitigate the effect of fewer opportunities for the sale of major items of military equipment.

Most recently, the nations in the Near East and Asia regions have resumed large weapons purchases in contrast with arms sales activity in the earliest years of this report. These major orders continue to be made by a select few developing nations in these regions. They have been made principally by

India and China in Asia and Saudi Arabia and the United Arab Emirates (U.A.E.) in the Near East. These purchasing tendencies are subject to abrupt change based on the strength of either the threat assessments of individual states or the strength of their individual economies. For the larger group of nations in these regions, the strength of the economies of a wide range of nations in the developing world continues to be the most significant factor in the timing of many of their arms purchasing decisions.

Latin America and, to a much lesser extent, Africa are regions where some nations wish to modernize important sectors of their military forces. Some large arms orders (by regional standards) have been placed by a few states in these two regions within the last decade. Yet in Latin America and Africa, many countries are constrained in their weapons purchases by their financial resources. So long as there is limited availability of seller-supplied credit and financing for weapons purchases and national budgets for military purchases remain relatively low, it seems likely that major arms sales to these two regions of the developing world will be limited to a small number of nations there.

General Trends in Arms Transfers to Developing Nations

The value of all arms transfer agreements with developing nations in 2007 was nearly \$42.3 billion, an increase from the \$38.1 billion total in 2006. In 2007, the value of all arms deliveries to developing nations (\$17.2 billion) was lower than the value of 2006 deliveries (over \$21.4 billion) and the lowest total for the 2000-2007 periods. Recently, from 2004-2007, the U.S. and Russia have dominated the arms market in the developing world, with both nations either ranking first or second for three out of these four years in the value of arms transfer agreements. From 2004-2007, Russia made nearly \$39.3 billion, 27.9 percent of all such agreements, expressed in constant 2007 dollars. During this same period, the U.S. made \$34.7 billion in such agreements, 24.6 percent of all such agreements. Collectively, the U.S. and Russia made 52.5 percent of all arms transfer agreements with developing nations during this four year period. The United Kingdom, the third leading supplier, from 2004-2007, made \$21.3 billion or 15.1 percent of all such agreements with developing nations during these years. In the earlier period (2000-2003), the U.S. ranked first with \$46.4 billion in arms transfer agreements with developing nations or 48.3 percent. Russia made \$25.6 billion in arms transfer agreements during this period or 26.6 percent. France made nearly \$5 billion in agreements or 5.2 percent.

From 2000-2007, most arms transfers to developing nations were made by two major suppliers in any given year. The U.S. ranked first among these suppliers for five of the last eight years during this period, falling to third place in 2005. Russia has been a strong competitor for the lead in arms transfer agreements with developing nations, ranking second every year from 2000 through 2003, and first from 2004-2006. Although Russia has lacked the larger traditional client base for armaments held by the U.S. and the major West European suppliers, its recent successes in concluding new arms orders suggest that Russia is likely to continue to be, for some time, a significant leader in arms agreements with developing nations. Russia's most significant high value arms transfer agreements continue to be with India and China. Russia has also had some success in concluding arms agreements with clients beyond its principal two. Russia continues to seek to expand its prospects in North Africa, the Middle East, and Southeast Asia.

Most recently Russia has increased sales efforts in Latin America, despite having essentially abandoned major arms sales efforts there after the end of the Cold War. Venezuela has become a significant new arms client gained by Russia in this region. The Russian government has adopted more flexible payment arrangements for its prospective customers in the developing world, including a willingness in specific cases to forgive outstanding debts owed to it by a prospective client in order to secure new arms purchases. Additionally, Russia continues to seek to enhance the quality of its follow-on support services to make Russian products more attractive and competitive and to assure its

potential clients that it can effectively provide timely service and spare parts for the weapons systems it exports.

Major West European arms suppliers, particularly France and the United Kingdom, have concluded large orders with developing countries over the last eight years based on either long-term supply relationships or their having specialized weapons systems readily available. Germany has been a key source of naval systems for developing nations. Although it faces increased competition from these other major arms suppliers, the U.S. appears likely to hold its position as the principal supplier to key developing world nations, especially those able to afford major new weapons. The U.S. has developed for decades such a wide base of arms equipment clients globally that it is able to conclude a notable number of agreements annually to provide upgrades, ordnance, and support services for the large variety of weapons systems it has previously sold to its clients. Thus, even when the U.S. does not conclude major new arms agreements in a given year, it can still register significant arms agreement values based on transactions in these other categories.

The principal arms-supplying nations continue to focus their sales efforts on the wealthier developing countries. Arms transfers to the less affluent developing nations are still constrained by the scarcity of funds in their defense budgets and the unsettled state of the international economy. The overall decline in the level of arms agreements with developing nations that began after 2001 and continued through 2003 has halted. Arms transfer agreements with developing countries reached their highest total value in 2007 at nearly \$43.3 billion. From 2004 through 2007, there has been a steady increase in arms transfer agreements with developing countries [and], to an important degree, by sales to the more affluent nations in this group. Those developing nations with notably increased oil revenues have been particularly active in seeking new weaponry most recently.

China, as well as other European and non-European suppliers, appears to have increased their participation in the arms trade with the developing world in recent years, albeit at lower levels and with more uneven results than those of the major suppliers. Nevertheless, these non-major arms suppliers have proven capable, on occasion, of making arms deals of consequence. Most of their annual arms transfer agreement values during 2000-2007 have been comparatively low, although the values are larger when they are aggregated together as a group. In individual cases they have been successful in selling older generation equipment, while they procure newer weapons to upgrade their own military forces. These arms suppliers also are more likely to be sources of small arms and light weapons and associated ordnance, rather than routine sellers of major military equipment. Most of these arms suppliers have not consistently ranked with the traditional major suppliers of advanced weaponry in the value of their arms agreements and deliveries.

United States

The total value in real terms of U.S. arms transfer agreements with developing nations rose from \$9.1 billion in 2006 to \$12.2 billion in 2007. The U.S. share of the value of all such agreements was 28.8 percent in 2007, up from a 24 percent share in 2006.

In 2007, the total value of U.S. arms transfer agreements with developing nations was attributable to a few major deals with clients in the Near East and in Asia. A substantial number of smaller valued purchases by a wide number of traditional U.S. arms clients throughout the Near East and Asia contributed notably to the overall U.S. agreements total. The arms agreements total of the U.S. in 2007 illustrates the continuing U.S. advantage of having well-established defense support arrangements with weapons purchasers worldwide, based upon the existing variety of U.S. weapons systems their militaries utilize. The U.S. agreements with all of its clients in 2007 include not only sales of major weapons systems, but also the upgrading of systems previously provided. The U.S. totals also include agreements for a wide variety of spare parts, ammunition, ordnance, training, and support services which, in the aggregate, have significant value.

Among the larger valued arms transfer agreements the United States concluded in 2007 with developing nations were: with the U.A.E. for 26 UH- 60M Black Hawk helicopters for over \$800 million and for 20 High Mobility Artillery Rocket Systems (HIMARS) launchers and rockets for \$595 million. Other U.S. arms agreements in 2007 were with the following:

- Egypt for co-production of 125 M1A1 Abrams tanks for \$771 million
- Saudi Arabia for 152 GE/Pratt and Whitney jet engines for \$386 million and for F-15 aircraft follow-on services for \$319 million
- South Korea for 58 AN/VRC-90E SINCGAR radio systems for \$427 million and for 210 SM-2 STANDARD Block III missiles for \$210 million,
- Colombia for 15 UH-60L Black Hawk helicopters for \$217 million
- Jordan for a C4SIR system for \$208 million.

Russia

The total value of Russia's arms transfer agreements with developing nations in 2007 was \$9.7 billion, a decrease from \$14.4 billion in 2006, placing Russia third in such agreements with the developing world. Russia's share of all developing world arms transfer agreements increased then fell from 37.9 percent in 2006 to 23 percent in 2007.

Russian arms transfer agreement totals with developing nations have been notable during the last four years. During the 2004-2007 periods, Russia ranked first among all suppliers to developing countries, making \$37.9 billion in agreements (in current 2007 dollars). Russia's status as a leading supplier of arms to developing nations stems from a successful effort to overcome the significant economic and political problems associated with the dissolution of the former Soviet Union. Traditional arms clients of the former Soviet Union were generally less wealthy developing countries valued as much for their political support during the Cold War as for their desire for Soviet weaponry. Several of these Soviet-era client states received substantial military aid grants and significant discounts on their arms purchases. After 1991 Russia consistently placed a premium on obtaining hard currency for the weapons it sold. Faced with stiff competition from Western arms suppliers in the post-Cold War period, Russia modified and adapted its selling practices in an effort to regain and sustain an important share of the developing-world arms market.

In recent years, Russian leaders have made significant efforts to provide more creative financing and payment options for prospective arms clients. They have agreed to the following:

- To engage in counter-trade
- Offsets
- Debt-swapping
- In key cases, to make significant licensed production agreements in order to sell Russia's weapons.

The willingness to license production has been a central element in several cases involving Russia's principal arms clients, India and China. Russia's efforts to expand its arms customer base have met with mixed results. Russia's arms sales efforts, apart from those with China and India, have been focused on Southeast Asia. Here Russia has secured arms agreements with Malaysia, Vietnam, and Indonesia. Most recently Russia has concluded major arms deals with Venezuela and with Algeria. Elsewhere in the developing world, Russian military equipment can be competitive

because it ranges from the most basic to the highly advanced. For less affluent developing nations, Russia's less expensive armaments are particularly attractive.

The sale of military aircraft and missiles continues to be a significant portion of Russia's arms exports. But the absence of major new research and development efforts in this and other military equipment areas can jeopardize long-term Russian foreign arms sales prospects. Although military weapons research and development (R&D) programs exist in Russia, other major arms suppliers are currently more advanced in the process of developing and producing weaponry than in existing Russian R&D programs.

Despite these potential difficulties, Russia continues to have important arms development and sales programs involving India and China, which should provide it with sustained business throughout this decade. Through agreements concluded in the mid-1990s, Russia has sold major combat fighter aircraft and main battle tanks to India and has provided other major weapons systems through lease or licensed production. It continues to provide support services and items for these various weapons systems. Sales of advanced weaponry in South Asia by Russia have been a matter of ongoing concern to the U.S. because of long-standing tensions between India and Pakistan. When India acquires a new weapon system, this typically leads Pakistan to seek comparable weapons or those with offsetting capabilities. A key U.S. policy objective is keeping a potentially destabilizing arms race in this region within check.¹

China has been Russia's other key arms client in Asia, especially for advanced aircraft and naval systems. Since 1996, Russia has sold China Su-27 fighter aircraft and agreed to licensed production of them. It has sold the Chinese quantities of Su-30 multi-role fighter aircraft, Sovremenny-class destroyers equipped with Sunburn anti-ship missiles, and Kilo-class Project 636 submarines. Russia has also sold the Chinese a variety of other weapons systems and missiles. In 2005, Russia agreed to sell China 30 IL-76TD military transport aircraft and 8 IL-78M aerial refueling tanker aircraft for more than \$1 billion. Russia also signed new arms transfer agreements with China for a number of AL-31F military aircraft engines for \$1 billion and agreed to sell jet engines for China's FC-1 fighter aircraft at a cost in excess of \$250 million. Chinese arms acquisitions are apparently aimed at enhancing its military projection capabilities in Asia and its ability to influence events throughout the region. These acquisitions continue to be monitored by U.S. policymakers. The U.S. policy interest is, among other things, ensuring that it provides appropriate military equipment to U.S. allies and friendly states in Asia to help offset any prospective threat China may pose to such nations, while keeping the U.S. military aware of any threat it may face in any confrontation with China.² In 2007 there were no especially large Chinese arms agreements with Russia, possibly because the Chinese military is focused on absorbing and integrating previous arms purchases from Russia into its force structure.

Among the most significant arms transfer deals Russia made in 2007 were [those made] with India. These agreements included the sale of 347 T-90 main battle tanks, 40 Su-30MKI combat fighter aircraft, and a number of MiG-29 fighter aircraft. Also concluded was an agreement for the production of jet aircraft engines and one for long term defense production cooperation. An important portion of Russia's \$9.7 billion arms agreement total for 2007 was with India.

1. For detailed background see CRS Report RL33515, *Combat Aircraft Sales to South Asia: Potential Implications*, by Christopher Bolkcom, Richard F. Grimmert, and K. Alan Kronstadt; CRS Report RL32115, *Missile Proliferation and the Strategic Balance in South Asia*, by Andrew Feickert and K. Alan Kronstadt; and CRS Report RL30427, *Missile Survey: Ballistic and Cruise Missiles of Selected Foreign Countries*, by Andrew Feickert.

2. For detailed background see CRS Report RL30700, *China's Foreign Conventional Arms Acquisitions: Background and Analysis*, by Shirley Kan, Christopher Bolkcom, and Ronald O'Rourke and CRS Report RL33153, *China Naval Modernization: Implications for U.S. Navy Capabilities — Background and Issues for Congress*, by Ronald O'Rourke.

In 2007, Russia also made new arms sales with Indonesia for three Su-27SKM and three Su-30MK2 fighter aircraft for \$355 million and for Mi-17 and Mi35M helicopters for over \$100 million. Iran contracted with Russia for five batteries of the S-300PMU1 air defense system, and Syria purchased the Buk-M1-2 air defense system.

China

The Iran-Iraq war in the 1980s provided China with the opportunity to become an important supplier of less expensive weapons to certain developing nations. During that conflict China demonstrated that it was willing to provide arms to both combatants in the war, in quantity and without conditions. Since that time China's arms sales have been more regional and targeted. From 2004-2007, the value of China's arms transfer agreements with developing nations averaged about \$2.3 billion annually. During the period of this report, the value of China's arms transfer agreements with developing nations was highest in 2007 at \$3.8 billion. A significant portion of that total can be attributed to a significant contract with Pakistan associated with the production of the J-17 fighter aircraft. Generally, China's sales figures reflect several smaller valued weapons deals in Asia, Africa, and the Near East, rather than one or two especially large agreements for major weapons systems.

There have been few developing nations with significant financial resources that have sought to purchase Chinese military equipment during the eight-year period of this report, because most Chinese weapons for export are less advanced and sophisticated than weaponry available from Western suppliers or Russia. China, consequently, does not appear likely to be a key supplier of major conventional weapons in the international arms market for the foreseeable future. China's likely client base could be states in Asia and Africa seeking quantities of small arms and light weapons, rather than major combat systems. At the same time, China has been an important source of missiles in the developing world arms market. China supplied Silkworm anti-ship missiles to Iran. Credible reports persist in various publications that China has sold surface-to-surface missiles to Pakistan, a long standing and important client. Iran and North Korea have also reportedly received Chinese missile technology, which may have increased their capabilities to threaten other countries in their respective neighborhoods. The continued reporting of such activities by credible sources raises important questions about China's stated commitment to the restrictions on missile transfers set out in the Missile Technology Control Regime (MTCR), including its pledge not to assist others in building missiles that could deliver nuclear weapons. Since China has some military products, particularly missiles that some developing countries would like to acquire, it can present an obstacle to efforts to stem proliferation of advanced missile systems to some areas of the developing world where political and military tensions are significant and where some nations are seeking to develop asymmetric military capabilities.³

China, among others, has been a key source of a variety of small arms and light weapons transferred to African states. Although the prospects for significant revenue earnings from these arms sales are limited, China may view such sales as one means of enhancing its status as an international political power and increasing its ability to obtain access to significant natural resources, especially oil. Controlling the sales of small arms and light weapons to regions of conflict, in particular to

3. For detailed background on the MTCR and proliferation control regimes and related policy issues, see CRS Report RL31559, *Proliferation Control Regimes: Background and Status*, by Mary Beth Nikitin, Paul Kerr, Steve Bowman, and Steven A. Hildreth and CRS Report RL31848, *Missile Technology Control Regime (MTCR) and International Code of Conduct Against Ballistic Missile Proliferation (ICOC): Background and Issues for Congress*, by Andrew Feickert.

some African nations, has been a matter of concern to the U.S. The U.N. also has undertaken an examination of this issue in an effort to achieve consensus on a path to address it.⁴

Major West European Suppliers

Beyond the U.S. and Russia, the four major West European arms suppliers are:

- France
- The United Kingdom
- Germany
- Italy

The four are the nations that can supply a wide variety of more highly sophisticated weapons to would-be purchasers. They can serve as alternative sources of armaments that the U.S. chooses not to supply for policy reasons. The United Kingdom sold major combat fighter aircraft to Saudi Arabia in the mid-1980s, when the U.S. chose not to sell a comparable aircraft for policy reasons. These four NATO nations have been allies of the U.S. and generally have supported the U.S. position in restricting arms sales to certain nations during the Cold War era. In the post-Cold War era, their national defense export policies have not been fully coordinated with the U.S. as likely would have been the case at the Cold War's height.

These leading European arms supplying states, particularly France, view arms sales foremost as a matter for national decision. France has also frequently used foreign military sales (FMS) as an important means for underwriting development and procurement of weapons systems for its own military forces. So the potential exists for policy differences between the U.S. and major West European supplying states over conventional weapons transfers to specific countries. Such a conflict resulted from an effort led by France and Germany to lift the arms embargo on arms sales to China currently adhered to by members of the European Union (E.U.). The U.S. viewed this as a misguided effort and vigorously opposed it. The proposal to lift the embargo was ultimately not adopted, but it proved to be a source of significant tension between the U.S. and the E.U. Thus, arms sales activities of major European suppliers continue to be of interest to U.S. policymakers, given their capability to make sales of advanced military equipment to countries of concern to U.S. national security policy.⁵

The four major West European suppliers, France, the United Kingdom, Germany, and Italy, as a group, registered a significant increase in their collective share of all arms transfer agreements with developing nations between 2006 and 2007. This group's share rose from 18.5 percent in 2006 to 32.2 percent in 2007. The collective value of this group's arms transfer agreements with developing nations in 2007 was \$13.6 billion compared with a total of \$7.1 billion in 2006. Of these four nations, the United Kingdom was the leading supplier with \$9.8 billion in agreements in 2007, a dramatic increase from \$4.1 billion in agreements in 2006. A substantial portion of the United

4. For background on China's actions and motivations for increased activities in Africa, see CRS Report RL33055, *China and Sub-Saharan Africa*, by Raymond W. Copson, Kerry Dumbaugh, and Michelle Lau. For background on U.S. policy concerns regarding small arms and light weapons transfers, see CRS Report RS20958, *International Small Arms and Light Weapons Transfers: U.S. Policy*, by Richard F. Grimmett.

5. For detailed background see CRS Report RL32870, *European Union's Arms Embargo on China: Implications and Options for U.S. Policy*, by Kristin Archick, Richard F. Grimmett, and Shirley Kan. It should be noted that members of the European Union, and others, have agreed to a common effort to attempt some degree of control on the transfer of certain weapons systems; but the principal vehicle for this cooperation — the Wassenaar Arrangement — lacks a mechanism to enforce its rules. For detailed background see CRS Report RS20517, *Military Technology and Conventional Weapons Exports Controls: The Wassenaar Arrangement*, by Richard F. Grimmett.

Kingdom's \$9.8 billion agreement total in 2007 is attributable to an order valued in excess of \$9 billion from Saudi Arabia for 72 Typhoon Eurofighter aircraft. Germany's \$1.5 billion in arms agreements in 2007 resulted primarily from an agreement with South Korea for the purchase of an existing Patriot PAC-2 air defense system for \$1.2 billion.

Collectively, the four major West European suppliers held a 32.2 percent share of all arms transfer agreements with developing nations during 2007. In the period from 2004-2007, they have generally been important participants in the developing world arms market. Individual suppliers within the major West European group have had notable years for arms agreements, especially France in 2000 and 2005 (\$2.2 billion and \$6.8 billion, respectively). The United Kingdom also had large agreement years in 2004 (\$4.5 billion), in 2006 (\$4.1 billion), and \$9.8 billion in 2007. Germany concluded arms agreements totaling nearly \$2 billion in 2006 and \$1.5 billion in 2007. In the case of each of these three European nations, large agreement totals in one year have usually reflected the conclusion of very large arms contracts with one or more major purchasers in that particular year.

The major West European suppliers have had their competitive position in weapons exports strengthened over the years through strong government marketing support for their foreign arms sales. As they all can produce both advanced and basic air, ground, and naval weapons systems, the four major West European suppliers have competed successfully for arms sales contracts with developing nations against both the U.S., which has tended to sell to several of the same clients, and with Russia, which has sold to nations [who are] not traditional customers of either the West Europeans or the U.S. But the demand for U.S. weapons in the global arms marketplace, from a large established client base, has created a more difficult environment for individual West European suppliers to secure, on a sustained basis, large new contracts with developing nations.

A few European arms suppliers have begun to phase out production of certain types of weapons systems. Such suppliers have increasingly engaged in joint production ventures with other key European weapons suppliers or even client countries in an effort to sustain major sectors of their individual defense industrial base, even if a substantial portion of the weapons produced are for their own armed forces. The Eurofighter project is one example; the Eurocopter is another. Other European suppliers have also adopted the strategy of cooperating in defense production ventures with the U.S. such as the Joint Strike Fighter (JSF), rather than attempting to compete directly, thereby meeting their own requirements for advanced combat aircraft, while positioning themselves to share in profits resulting from future sales of this new fighter aircraft.⁶

Continuing strong demand for U.S. defense equipment as well as concern for maintaining their market share of the arms trade has led E.U. member states to adopt a new code of conduct for defense procurement practices. This code was agreed to on November 21, 2005 at the European Defense Agency's (EDA) steering board meeting. Currently voluntary, the E.U. hopes it will become mandatory and through its mechanisms foster greater competition within the European defense equipment sector in the awarding of contracts for defense items. The larger hope is that by fostering greater intra-European cooperation and collaboration in defense contracting and the resulting programs . . . the defense industrial bases of individual E.U. states will be preserved and the ability of European defense firms to compete for arms sales in the international arms marketplace will be substantially enhanced.

Regional Arms Transfer Agreements

The markets for arms in regions of the developing world have traditionally been dominated by the Near East and by Asia. Nations in the Latin America and Africa regions, by contrast, have not

6. For detailed background on issues relating to the Joint Strike Fighter program, see CRS Report RL30563, *F-35 Lightning II Joint Strike Fighter (JSF) Program: Background, Status, and Issues*, by Christopher Bolckom.

been major purchasers of weapons, except on rare occasions. The U.S. policymakers have placed emphasis on helping to maintain stability throughout the regions of the developing world. Thus, the U.S. has made and supported arms sales and transfers it has believed would advance that goal, while discouraging significant sales by other suppliers to states and regions where military threats to nations in the area are minimal. Other arms suppliers do not necessarily share the U.S. perspective on what constitutes an appropriate arms sale. For in some instances, the financial benefit of the sale to the supplier trumps other considerations. The regional and country specific arms-transfer data in this report provide an indication of where various arms suppliers are focusing their attention and who their principal clients are. By reviewing these data, policymakers can identify potential developments which may be of concern and use this information to assist their review of options they may choose to consider given the circumstances. What follows below is a review of data on arms-transfer agreement activities in the two regions that lead in arms acquisitions, the Near East and Asia. This is followed, in turn, by a review of data regarding the leading arms purchasers in the developing world.

Near East⁷

The primary catalyst for new weapons procurements in the Near East region in the last decade was the Persian Gulf crisis of August 1990-February 1991. This crisis, culminating in a U.S.-led war to expel Iraq from Kuwait, created new demands by key purchasers such as Saudi Arabia, Kuwait, the U.A.E., and other members of the Gulf Cooperation Council (GCC) for a variety of advanced weapons systems. Subsequently, major concerns over the growing strategic threat from Iran have become the principal driver of GCC states' arms purchases. Because GCC states do not share a land border with Iran, their weapons purchases have focused primarily on air, naval, and missile defense systems. Egypt and Israel, meanwhile, have continued their military modernization programs, increasing their arms purchases from the U.S.⁸

Most recently, the position of Saudi Arabia as principal arms purchaser in the Persian Gulf region has been re-established. In the period from 2000-2003, Saudi Arabia's total arms agreements were valued at \$3.2 billion (in current dollars), less than the levels of the U.A.E., Egypt, and Israel. For the period from 2004-2007, Saudi Arabia's total arms agreements were \$23.2 billion (in current dollars), making it the leading Near East purchaser once again.

The Near East has generally been the largest arms market in the developing world. However, in 2000-2003, it accounted for 42.3 percent of the total value of all developing nations arms transfer agreements (\$33.3 billion in current dollars), ranking it second behind Asia which was first with 46.9 percent of these agreements (\$35.2 billion in current dollars). During 2004-2007, the Near East region accounted for 46.3 percent of all such agreements (\$63.1 billion in current dollars), again placing it first in arms agreements with the developing world. The Asia region ranked second in 2004-2007 with \$57.6 billion in agreements or 42.3 percent.

The U.S. dominated arms transfer agreements with the Near East during the 2000-2003 period with 73.6 percent of their total value (\$24.5 billion in current dollars). Russia was second during these years with 9.3 percent (\$3.1 billion in current dollars). Recently, from 2004-2007, the United States accounted for 32.8 percent of arms agreements with this region (\$20.7 billion in current dollars). The United Kingdom accounted for 27.9 percent of the region's agreements (\$17.6 billion in current

7. In this report the Near East region includes the following nations: Algeria, Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, U.A.E., and Yemen. The countries included in the other geographic regions are listed at the end of the full report (<http://fpc.state.gov/documents/organization/112020.pdf>).

8. For detailed background see CRS Report RL31533, *The Persian Gulf States: Issues for U.S. Policy, 2006*, by Kenneth Katzman.

dollars). Russia accounted for 20.8 percent of the region's agreements in the most recent period (\$13.1 billion in current dollars).

Asia

Efforts in several developing nations in Asia have been focused on upgrading and modernizing defense forces, and this has led to new conventional weapons sales in that region. Since the mid-1990s, Russia has become the principal supplier of advanced conventional weaponry to China, selling fighters, submarines, destroyers, and missiles, while maintaining its position as principal arms supplier to India. Russian arms sales to these two countries have been primarily responsible for the increase in Asia's overall share of the arms market in the developing world. Russia has expanded its client base in Asia, receiving aircraft orders from Malaysia, Vietnam, and Indonesia. India has also expanded its weapons supplier base, purchasing the Phalcon early warning defense system aircraft in 2004 from Israel for \$1.1 billion and numerous items from France in 2005, in particular 6 Scorpene diesel attack submarines for \$3.5 billion. In 2007, India made major purchases from Russia of T-90 main battle tanks, Su-30 MKI fighter aircraft, and MiG-29 fighter aircraft. The U.S. made a multi-billion dollar sale to Pakistan in 2006 of new F-16 fighter aircraft, weapons, and aircraft upgrades, while Sweden sold it a SAAB-2000 based AWACS airborne radar system for over a billion dollars. In 2007, Pakistan contracted with China for production of J-17 fighter aircraft. These transactions have placed Pakistan among the leading major Asian arms buyers of recent years. The data on regional arms-transfer agreements from 2000-2007 continue to reflect that Near East and Asian nations are the primary sources of orders for conventional weaponry in the developing world.

Asia has traditionally been the second largest developing-world arms market. In 2004-2007, Asia ranked second, accounting for 42.3 percent of the total value of all arms transfer agreements with developing nations (\$57.6 billion in current dollars). Yet in the earlier period, 2000-2003, the region ranked first, accounting for 46.9 percent of all such agreements (\$35.2 billion in current dollars).

In the earlier period (2000-2003), Russia ranked first in the value of arms transfer agreements with Asia with 49.8 percent (\$17.5 billion in current dollars). The U.S. ranked second with 19.8 percent (\$7 billion in current dollars). The major West European suppliers, as a group, made 12.5 percent of this region's agreements in 2000-2003. In the later period (2004-2007), Russia ranked first in Asian agreements with 35.9 percent (\$20.7 billion in current dollars), primarily due to major combat aircraft and naval system sales to India and China. The U.S. ranked second with 19.3 percent (\$11.1 billion in current dollars). The major West European suppliers, as a group, made 17.4 percent of this region's agreements in 2004-2007.

Leading Developing Nations Arms Purchasers

India was the leading developing world arms purchaser from 2000-2007, making arms transfer agreements totaling \$31.9 billion during these years (in current dollars). In the 2000-2003 period, China ranked first in arms transfer agreements at \$10.1 billion (in current dollars). In 2004-2007 India ranked first in arms transfer agreements, with a large increase to \$24.2 billion from \$7.7 billion in the earlier 2000-2003 period (in current dollars). This increase reflects the continuation of a military modernization effort by India, underway since the 1990s, based primarily on major arms agreements with Russia. The total value of all arms transfer agreements with developing nations from 2000-2007 was \$217.6 billion in current dollars. Thus India alone accounted for 14.7 percent of all developing world arms transfer agreements during these eight years. In the most recent period, 2004-2007, India made \$24.2 billion in arms transfer agreements (in current dollars). This total constituted 17.8 percent of all arms transfer agreements with developing nations during these four years (\$136 billion in current dollars). Saudi Arabia ranked second in arms transfer agreements during 2004-2007 with \$23.2 billion (in current dollars) or 17.1 percent of the value of all developing world arms transfer agreements. During 2000-2003, the top ten recipients collectively accounted for 66.9

percent of all developing world arms transfer agreements. During 2004-2007, the top ten recipients collectively accounted for 61.6 percent of all such agreements. Arms transfer agreements with the top ten developing world recipients, as a group, totaled \$34.1 billion in 2007 or 80.6 percent of all arms transfer agreements with developing nations in that year. These percentages reflect the continued concentration of major arms purchases by developing nations among a few countries. Saudi Arabia ranked first among all developing world recipients in the value of arms transfer agreements in 2007, concluding \$10.6 billion in such agreements.

India ranked second in agreements at \$5 billion. Pakistan ranked third with \$4.2 billion in agreements. Seven of the top ten recipients were in the Near East region; three were in the Asian region.⁹ India was the leading recipient of arms deliveries among developing world recipients in 2007, receiving \$1.6 billion in such deliveries. Israel ranked second in arms deliveries in 2007 with \$1.5 billion. Egypt ranked third with \$1.5 billion. Arms deliveries to the top ten developing nation recipients, as a group, were valued at \$11.1 billion or 64.5 percent of all arms deliveries to developing nations in 2007. Five of these top ten recipients were in Asia; three were in the Near East. One was in Latin America and one was in Africa.

Weapons Types Recently Delivered to Near East Nations

Regional weapons delivery data reflect the diverse sources of supply and type of conventional weaponry actually transferred to developing nations. Even though the U.S., Russia, and the four major West European suppliers dominate in the delivery of the fourteen classes of weapons examined, it is also evident that the other European suppliers and some non-European suppliers, including China, are capable of being leading suppliers of selected types of conventional armaments to developing nations. Weapons deliveries to the Near East, historically the largest purchasing region in the developing world, reflect the quantities and types delivered by both major and lesser suppliers. On the next page is an illustrative summary of weapons deliveries to this region for the period 2004-2007.

Large numbers of major combat systems were delivered to the Near East region from 2004-2007, specifically,

- Tanks and self-propelled guns
- Armored vehicles
- Major and minor surface combatants
- Supersonic combat aircraft
- Helicopter
- Air defense
- Anti-ship missiles

The United States and Russia made deliveries of supersonic combat aircraft to the region. The United States, China, and the European suppliers delivered many anti-ship missiles. The United States, Russia, and European suppliers in general were principal suppliers of tanks and self-propelled guns, APCs and armored cars, surface-to-air missiles, as well as helicopters. Three of these weapons categories, supersonic combat aircraft, helicopters, tanks, and self-propelled guns are especially costly and are a large portion of the dollar values of arms deliveries by the U.S. Russia, and European suppliers to the Near East region during the 2004-2007 period.

The cost of naval combatants is also generally high, and the suppliers of such systems during this period had their delivery value totals notably increased due to these transfers. Some of the less expensive weapons systems delivered to the Near East are, nonetheless, deadly and can create important security threats within the region. In particular, from 2004-2007, the U.S. delivered 77 anti-ship missiles to the Near East region. China delivered 80, and the four major West European suppliers delivered 80. The U.S. delivered six minor surface combatants to the Near East, while the major West European suppliers collectively delivered three major surface combatants, twenty-seven minor surface combatants, and six guided missile boats. The non-major West European suppliers collectively delivered 70 anti-ship missiles. Other non-European suppliers collectively delivered 560 APCs and armored cars, 88 minor surface combatants, as well as 30 surface-to-surface missiles, a weapons category not delivered by any of the other major weapons suppliers during this period to any region.

United States Commercial Arms Exports

United States commercially licensed arms deliveries data are not included in this report. The United States is the only major arms supplier that has two distinct systems for the export of weapons: the government-to-government FMS system and the licensed commercial export system. It should be noted that data maintained on U.S. commercial sales agreements and deliveries are incomplete and are not collected or revised on an on-going basis, making them significantly less precise than those for the U.S. FMS program which accounts for the overwhelming portion of U.S. conventional arms transfer agreements and deliveries involving weapons systems. There are no official compilations of commercial agreement data comparable to that for the FMS program maintained on an annual basis. Once an exporter receives from the State Department a commercial license authorization to sell valid for four years there is no current requirement that the exporter provide to the Department of State, on a systematic and on-going basis, comprehensive details regarding any sales contract that results from the license authorization, including if any such contract is reduced in scope or cancelled. Nor is the exporter required to report that no contract with the prospective buyer resulted.

Annual commercially licensed arms deliveries data are obtained from shipper's export documents and completed licenses from ports of exit by the U.S. Customs and Border Protection Agency which are then provided to the U.S. Census Bureau. The Census Bureau takes these arms export data and, following a minimal review of them, submits them to the Directorate of Defense Trade Controls in the Political-Military Bureau (PM/DDTC) of the DoS, which makes the final compilation of such data details of which are not publicly available. Once compiled by the Directorate of Defense Trade Controls at the DoS, these commercially licensed arms deliveries data are not revised. By contrast, the U.S. FMS program data, for both agreements and deliveries, maintained by the DoD, are systematically collected, reviewed for accuracy on an on-going basis, and are revised from year-to-year as needed to reflect any changes or to correct any errors in the information. This report includes all FMS deliveries data. By excluding U.S. commercial licensed arms deliveries data, the U.S. arms delivery totals will be understated.

Some have suggested that a systematic data collection and reporting system for commercial licensed exports, comparable to the one which exists now in the Department of Defense, should be established by the Department of State. Having current and comprehensive agreement and delivery data on commercially licensed exports would provide a more complete picture of the U.S. arms export trade, in this view, and thus facilitate Congressional oversight of this sector of U.S. exports.

United States

- 557 tanks and self-propelled guns
- 587 Armored Personnel Carriers (APCs) and armored cars
- 6 minor surface combatants
- 94 supersonic combat aircraft
- 29 helicopters
- 748 surface-to-air missiles
- 77 anti-ship missiles

Russia

- 230 tanks and self-propelled guns
- 260 APCs and armored cars
- 30 supersonic combat aircraft
- 30 helicopters
- 1,640 surface-to-air missiles

China

- 60 other aircraft
- 80 anti-ship missiles

Major West European Suppliers

- 20 tanks and self-propelled guns
- 60 APCs and armored cars
- 3 major surface combatants
- 27 minor surface combatants
- 6 guided missile boats
- 20 supersonic combat aircraft
- 10 helicopters
- 80 anti-ship missiles

All Other European Suppliers

- 130 tanks and self-propelled guns
- 1,280 APCs and armored cars
- 10 minor surface combatants
- 9 guided missile boats
- 320 surface-to-air missiles
- 70 anti-ship missiles

All Other Suppliers

- 560 APCs and armored cars
- 88 minor surface combatants
- 20 helicopters
- 30 surface-to-surface missiles
- 20 anti-ship missiles

United States and the United Arab Emirates Joint Statement

By
Office of the Spokesman
Department of State, Washington, D.C.,
November 17, 2008

The United States (U.S.) and the United Arab Emirates (U.A.E.) have an enduring partnership and share a common vision for a secure, stable, and prosperous Middle East. They share a belief in peace, respect for the sovereignty, independence, and territorial integrity of all states and a belief that religious tolerance and moderation will prevail over violence and extremism. It is these commonly held tenets that have brought the United States and the U.A.E. to a new level of friendship and cooperation.

Our two nations have enjoyed close relations since the U.A.E.'s federation that have grown stronger in recent times. The United States and the U.A.E. collaborate as like-minded partners on regional issues such as the Arab-Israeli peace process, ensuring peace and stability in Lebanon, and supporting Iraq's increasing engagement with its neighbors. The U.S. and U.A.E. also work closely to bring peace and stability to Afghanistan and to strengthen the economy of Pakistan.

The U.S. and U.A.E. are allies and partners in the continuing struggle against terror and extremism. The U.A.E. provides the U.S. and coalition forces access to its ports and territory and other critical and important logistical assistance. The U.A.E. and the U.S. continue to work together to undercut the violent ideology used to justify extremism and prevent terrorist attacks against our people and common interests and the terrorist financing that supports terrorist organizations. The U.A.E. also enhances global security by actively participating in various initiatives to counter illicit shipments of dangerous goods and materials. The U.S. and the U.A.E. share a deep concern over the proliferation of weapons of mass destruction (WMD), their delivery systems, and related materials, as well as WMD financing, and reaffirm the importance for all nations to comply with United Nations (U.N.) Security Council Resolutions and cooperate with the International Atomic Energy Agency (IAEA).

The U.A.E. has played a positive role in advancing democratic reforms in the region and has helped lead the Broader Middle East and North Africa Initiative, including hosting the *Forum for the Future* in 2008. Ongoing efforts to increase cooperation in the fields of education and cultural exchange will not only deepen our bilateral relationship, but also promote shared values of tolerance and moderation throughout our societies.

In the area of human rights, the U.S. and U.A.E. share a common purpose in the fight against human trafficking, in expanding opportunities for women, and in improving standards for workers. The U.S. continues to work with the U.A.E. as it reforms its education system so that U.A.E. students can lead lives as life-long learners and responsible citizens in a global society.

The U.A.E. and the U.S. continue to work closely together in assuring the stability and security of energy supplies and their unhindered transit through international waterways. The U.S. recognizes that the U.A.E. has been a responsible and reliable supplier of energy to world markets, with the sustained involvement of U.S. companies in the U.A.E. oil and gas industry for more than forty years. This cooperation has increased transparency in the energy sector and promoted investment and exploration. The U.A.E. also welcomes greater U.S. participation in its significant efforts to become a leader in alternative energy research and development.

The U.S. welcomes the U.A.E.'s decision to pursue the development of peaceful uses of nuclear energy. The U.A.E. has committed to complete operational transparency and to pursuing the highest

standards of non-proliferation safety and security. The U.S. and the U.A.E. have recognized their partnership in this important effort through the signing of a Memorandum of Understanding on April 21, 2008 and the pursuit of an Agreement Concerning Peaceful Uses of Nuclear Energy.

The U.S. and the U.A.E. reaffirm the importance of collaboration on international financial, trade, and investment issues. With the U.A.E. having been the top Arab destination for U.S. exports in 2007, the U.S. and U.A.E. commercial ties represent a key component of the bilateral relationship which we hope to strengthen further. Investors from the U.A.E. have been responsible and reliable investors in the U.S. for more than thirty years. Investors from the U.S. have been welcome in the U.A.E. for as long. Both countries reaffirm our common interest in an open and stable international financial system and to maintaining the free flow of cross-border investment. Investments should be made on the basis of economic and financial risk and return-related considerations. Recipient countries should ensure predictable investment frameworks. Both countries welcome the work of the International Working Group of Sovereign Wealth Funds and the Organization for Economic Co-Operation and Development (OECD) to establish multilateral frameworks for positive interaction between Sovereign Wealth Funds and recipient countries.

The U.S. and U.A.E. also wish to highlight the close and expanding cultural and educational ties between the two countries. The U.S. Department of Education and the U.A.E. Ministry of Education have formally established a direct relationship. The U.A.E. participates in International Visitor Programs, and the U.S. and the U.A.E. exchange Fulbright scholars. Major U.S. higher education, health care and arts institutions are involved in initiatives in the U.A.E. The U.A.E. student enrollment in U.S. universities continues to grow. The U.A.E. looks forward to opportunities [in] joint research and development (R&D) in the area of education.

The U.S. and the U.A.E. continue to explore the benefits of increased engagement by regular meetings at the Ministerial-level, chaired by the Foreign Minister and the Secretary of State. These meetings would provide an opportunity to exchange views on security cooperation, regional political issues, and the common interests they increasingly share.