

Recent Trends and Current Objectives in Security Assistance

By

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INTRODUCTION

Good afternoon ladies and gentlemen. It is a pleasure to address you today in my first public appearance since being confirmed as the Director of DSAA. I am new to the position but no stranger to the program and to the role and concerns of U.S. industry concerning the security assistance program.

I'm coming to this position from three and a half years directing Army Security Assistance. I have obtained much insight into the issues that the director, DSAA, copes with, through constant contact with the previous director, DSAA, and participation in frequent meetings and trips. Today I'd like to discuss recent trends in the security assistance business and our security assistance objectives.

THE BUSINESS IN REVIEW

Overall our worldwide sales continue to decline, a development which has both public and private sector implications. In FY 1987, FMS sales hit a new low, around \$6 billion. The decline has been greatest in the large major systems sales. Indeed, most of our business today is routine support cases. From a U.S. government perspective, we are concerned that declining sales could signal a diminution of the U.S. national image, or a weakening of U.S. foreign policy, or an undermining of our national defense strategy. These in turn could increase defense establishment costs, strain U.S. influence, and place severe pressure on pro-U.S. leaders from anti-American factions. We are also concerned that our inability to satisfy our friends and allies' legitimate defense needs is causing them to turn to other suppliers, especially the Soviet Union. From the private sector's perspective, in addition to the implications just mentioned, there is the danger of losing a market in the Middle East because of Congressional restrictions.

To a certain extent, the factors behind declining sales are cyclical or economic and hence are largely beyond our control. Large purchases in the late 1970s and early 1980s by many of our friends have limited new major system purchases. The economic problems of many countries with large debt burdens is another factor in falling sales. Other important causes of this decline are tougher international competition from other suppliers and a trend towards increasing indigenous military production--mostly at the low end of the market such as small arms and ammunition. However, newly industrialized countries like Brazil, Korea, and Taiwan are also producing more sophisticated items like tanks and other armored vehicles, missiles, and patrol boats.

Military assistance funding has also been declining. While the decline in sales preceded the decline in funding by several years, these funding cuts have deepened the slump and will continue to be a depressing factor. Appropriations for military aid increased steadily through 1984. In FY 85, we went all "on-budget" so we could offer more MAP and concessional loans. We got Israel and Egypt to agree on a temporary reduction so they could get all grants and we could get the program all on budget. But then Gramm-Rudman kicked in in FY 86, and with Israel and Egypt concurrently being restored to full funding levels (less 4.3 percent in sequestration), the rest of the world was squeezed.

In FY 87, aggregate funding took a 13 percent cut while Israel and Egypt were restored to pre-sequester levels. After earmarks for Israel, Egypt, Pakistan, Greece, and Turkey, funding for the rest of the world was cut by more than 45 percent. Several countries had to be zeroed out, while most of the rest were reduced to sustainment-only levels. In many cases, these countries have no financing options other than U.S. aid. Therefore, these funding reductions mean that their legitimate defense needs go unmet.

A PREVIEW OF FY 1988.

Over the last ten years, international affairs funding, of which security assistance is a part, has had its ups and downs, but has averaged around 1.7 percent of the Federal budget. The FY 88 budget resolution takes it to its lowest level in at least the last decade. While Gramm-Rudman naturally dominates the scene, budget issues consume most discussions on the hill and strategic issues take a distant second place.

Indeed, we may see further military assistance funding cuts in FY 88, but with the same major earmarks, plus some new ones. The House Appropriations Committee, Foreign Operations Subcommittee (HACFO) has passed an appropriations bill that would cut aggregate FMSCR/MAP funding by \$400 million vice the FY 87 level. It would allow funding for only about 10 of the more than 40 countries funded in FY 87. The HACFO's Senate counterpart, the SACFO, has not yet acted, but we are hopeful that it will vote for a more adequate funding level. However, since the best predictor of the Senate/House Appropriations Conference outcome is a splitting of the difference between the House and Senate bills, even a Senate bill near the freeze level would still produce a conference result about \$200 million or 4 percent below the inadequate FY 87 level. At this level, a number of programs could be zeroed out, while many of the rest would be lucky to be funded even at sustainment levels.

If we get these further cuts, we may see severe programmatic effects. This inevitably affects our relations and our ability to have strategic dialogues. Countries may seek separate arrangements we do not like. Additionally, we could lose access to facilities, and our forces may be restricted in transits or overflights, or exercises.

We have also seen an increase in Congressional restrictions in current draft legislation. Congress is particularly sensitive to the issues involving Turkey on Cyprus; Pakistan's nuclear program; operations in Central America; and corrective measures for easing country debt when U.S. domestic debt is such a problem. In addition, Congress seeks even more information about programs through the reprogramming process and shows an even stronger impulse to micromanage.

In addition we still have great trouble with Congress about arms sales to the Arab states of the Middle East. Although we get some sales through, such as Bahrain, any Saudi sale runs into immediate opposition. Moreover, the Biden-Levine bill, if it should become law, would require a positive vote before any major weapons sales [could be made] to non-consensus countries.

Furthermore, earmarks by Congress have given us even less flexibility. The results for

countries are that some countries are protected. For others, like the base rights countries which enjoy Congressional interest, we work hard to preserve them, and still we encounter difficulties in sustaining previous programs and in some cases face cessation of modernization efforts. Finally, the troubled middle countries who provide us access to facilities or are coping with conflicts, face being zeroed out.

SECURITY ASSISTANCE OBJECTIVES--WHY WE'RE IN THE BUSINESS

Within the framework of what I've just laid out to you and at the risk of sounding idealistic, let me talk a bit about objectives. Simply stated, our objectives are to help countries defend themselves and to help build coalition partners to provide support to U.S. forces, and, in some instances, access to bases and facilities. The programs that serve these two different sets of objectives are not always compatible. However, whether the programs serve to strengthen deterrence or to cope with either small or large conflicts when they occur, the objectives are the same. An example of how the security assistance program contributes to our objectives is in the maturing of foreign political infrastructures, like some of those found in Central America.

Our country relations can progress from mundane realities of programs on the ground to strategic objectives, but the path between the two is not always straight and is sometimes disrupted by budgetary or political factors. For instance, when we have a solid, reliable military assistance program, the ambassador gets more access and the unified commander can carry on an expanded strategic dialogue. These things can lead in turn to a more professional military, out of politics, concerned with defense, and to greater cooperation with U.S. forces.

All of us here understand that the primary virtue of the security assistance program is that it allows us to maintain peace by helping countries defend themselves. In helping countries defend themselves we bolster military-to-military relations. And through our program, we contribute to world stability and support greater world trade.

Our relationship with countries is not a buyer-seller relationship, meaning that there is a policy component to what we do. However, when it comes down to the sale of arms or services, we support FMS and commercial sales equally to carry out our policy objectives. Thus, if we are effective in what we do, a by-product should be a more hospitable market for U.S. companies.

CONCLUSION

Despite recent successes, there are some bad signs in front of us, almost all of which stem from basic budgetary shortfalls. Nonetheless, we will do our best to keep the program alive, in as many countries as possible. Inevitably, we will have to set priorities.

With programs on the decline, pressures from friends and allies to do more, and new complex approaches to defense armaments cooperation, it is essential that we, DOD and industry, keep the channels of communication open. ALESA is in a unique position, as a private sector organization in support of U.S. defense equipment exports, to add to the level of understanding of the real need for adequate resources for military assistance.

We will certainly strive to increase funding for military assistance. In the meantime we will continue to press for and make the most of the increased concessional rates for military assistance.

On defense cooperation in armaments, we are working hard to expand cooperation in Europe, to find a way into the EFA [European Fighter Aircraft] program without giving away unique technology, and discussion with our Asian friends as to what constitutes the most sensible decisions on their new aircraft.

Finally, our basic needs should not be forgotten: to preserve our military-to-military relations, and thus our alliances and other forms of defense cooperation where it is essential to our strategic posture.

We face some tough challenges. But we should remember that American technology and American assistance are still highly prized--in many countries, prized above all others. For my part as director of DSAA, I am looking forward to productive and creative cooperation with American industry to work together. Thank you for the opportunity to talk to you today.