

Issues on the Quality of Security Assistance in Developing Countries

By

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INTRODUCTION

The panel addressed the broad issues related to the quantity of security assistance to developing countries: (1) how to get support for security assistance; (2) how to optimize available funds; and (3) alternative sources with which to supplement security assistance appropriations.

SUPPORT FOR SECURITY ASSISTANCE

Given the prevailing fiscal climate, pressures to reduce security assistance budgets can only increase. For this reason, the panel focused attention on the question of how to gain support--ultimately in the form of appropriations--for this program.

The panel agreed the security assistance program must be effectively presented if it is to receive financial support. Fundamental to such effectiveness is clear evidence the Administration has developed and is committed to a coherent, comprehensive plan. Without support from the White House, security assistance will not be accepted as the vital element of national policy that it is.

Security assistance has no domestic constituency to bring it to the attention of Congress. Administration officials must promote the program not only in formal appearances before committees and discussions with staffs, but also through frequent informal contacts with elected representatives. Agencies within the Executive Branch must ensure a coordinated approach to Congress which reinforces an awareness that security assistance is an integral and vital element of the total national strategy. Briefs must provide convincing rationale and detail for each country's program while placing each within the larger regional and global national strategy. Spokesmen should point to past successes and use past problems to demonstrate what changes have been made.

The ultimate purpose of security assistance is to contribute to U.S. national interests. In articulating its role, however, we must not define "national interests" so narrowly as to imply only defense or short-term economic concerns. Support for free peoples, respect for human rights and welfare, and the encouragement of democratic governments have been identified by every post World War-II U.S. President as among our national objectives. Security assistance plays important roles in strengthening military capabilities and in encouraging the development of governments and societies with social, economic, and political values similar to our own. Spokesmen must emphasize each of these aspects.

The panel addressed the role of the unified commanders as spokesmen for security assistance. There were strong views expressed on both sides of this issue, especially regarding presentations before congressional committees. Some thought CINCs were persuasive advocates for security assistance and should be encouraged in presenting programs to the public and Congress. Others cautioned this could contribute to parochialism and be counter-productive to the program as a whole.

Recommendation: The Administration must demonstrate its strong and constant support for a security assistance program which is cohesive, realistic, and clearly fundamental to national strategy.

OPTIMIZING AVAILABLE SECURITY ASSISTANCE FUNDS

The majority--if not all--of the panel found security assistance to be very inadequately funded. However, all did agree that the issue of how to get the most out of these funds is crucial. In financial terms optimization involves two basic aspects: (1) distribution (where to send the dollars) and (2) efficiency (how to get the most out of the dollars spent). The first is largely a matter of prioritization, the second of administration.

Limited resources will necessitate difficult choices in the distribution of security assistance. Compounding normal problems of prioritization is the fact that security assistance serves a variety of U.S. national interests worldwide. Allocation of limited resources on the basis of a single, albeit rational, criterion runs the risk of overemphasizing one aspect of national strategy at the expense of others.

This issue of prioritization generated significant discussion. Some panel members argued scarce dollars should be targeted on a small number of "critical" nations rather than scattered in penny packets. They felt the latter approach results in amounts too small to have a real impact anywhere. It is also more difficult to convince Congress and the American people that all the recipients of a broadly distributed program are "vital" to U.S. interests. Wide distribution of small amounts of security assistance money may be perceived as a failure to develop a clear national strategy or provide a policy to execute it.

Other panel members argued the need to keep in mind the broad objectives of security assistance. To concentrate all assets on a few countries may condemn the U.S. to a constant posture of "firefighting," while limiting the opportunity to prevent fires from breaking out elsewhere. Additionally, the sums involved are often so small that even if concentrated they would constitute only a small percentage of the existing security assistance budget.

Recommendation: It is unrealistic to establish a rigid formula by which to allocate security assistance. The panel's recommendation can only take the form of two reminders: (1) the need to consider security assistance within the broad context of national interests and (2) the requirement to develop coherent programs correctly perceived as fundamental elements of a logical and well-considered national strategy.

Congressional earmarking of security assistance funds exacerbates difficulties inherent in the distribution of resources. Earmarking reduces the ability to develop a logical program and the flexibility to execute it effectively to meet changing needs. In a time of decreasing resources, its impact is dramatic. For example, worldwide military assistance funding declined 13 percent between FY 1985 and FY 1987. However, because earmarked funds for certain states (notably Israel and Egypt) increased by 18 percent, military assistance to a group of 32 nations engaged in low intensity conflicts was actually reduced by 40 percent.

Despite the impact of earmarks on the availability of security assistance to developing countries, the panel agreed it would be unrealistic to expect them to be dropped. Some suggested that it may be possible, however, to approach this issue from a perspective of "ceilings" rather than "floors." Establishing boundaries in terms of "no more than" rather than "no less than" would allow continued demonstrations of support to targeted nations while permitting a more flexible administration of the total security assistance program. Others pointed out however, that the Congressional Committees know well the difference between ceilings and floors and will continue in their intent to set floors for the allocations to favored nations.

The possibility was also raised of using the Presidential waiver authority under Section 614(a) of the FAA [Foreign Assistance Act] to break the major earmarks to allow more rational distribution of reduced aggregates. The consensus was, however, that in any foreseeable future, this would not be politically feasible for an Administration and, if attempted, would likely lead to Congressional curtailment of 614(a) authority.

Recommendation: While there is no realistic possibility now that the Congress will forego the practice of earmarking programs of special interest and support, the Administration should sustain its formal position opposing this practice and, in its informal dialogue with elected members and staff, should continue strong efforts to reverse the upward trend in the imposition of these statutory allocation requirements.

The imposition of legislative sanctions on the disbursement of security assistance also affects optimization of the program. The panel recognized the rationale for these sanctions as a means to apply leverage to target nations. It limited discussion of their impact to one element of security assistance: the International Military Education and Training program (IMET).

IMET is an effective program which enjoys broad support. At low dollar cost it achieves important objectives. These include training of skills needed for operation and maintenance of U.S.-produced equipment, support for an indigenous training base, and development of expertise and systems necessary for effective management of defense establishments. On a personal level IMET encourages relations between U.S. and foreign military personnel and exposes future national leaders to American values. Sanctions prevent participation in valuable training programs and create resentment among both political and military leaders in the home country.

The irony of sanctions which block IMET funding is that they often cut off precisely those countries and categories of individuals we wish most to influence. The impact can be illustrated by the list of Latin American countries currently under sanctions, which includes Argentina, Brazil, Chile, and Peru. Together, the sanctioned countries in this region constitute approximately 80 percent of the land mass and 70 percent of the population. Since IMET is a people-oriented program which makes a major contribution to developing long term ties with future leadership, it should not be limited by sanctions applied to more materiel-oriented MAP and FMS programs.

Recommendation: The panel recommends a legislative initiative to exempt IMET from the automatic sanctions applied to countries for such things as debt arrearage and nuclear proliferation problems.

Another sanction adversely affecting security assistance involves restrictions against off-shore (non-U.S.) procurement. Wider procurement from non-U.S. sources offers significant benefits. It may expedite the acquisition of equipment which may be cheaper than U.S.-equivalents, more applicable to the needs of the recipient country, and more easily supported locally. It may blend more easily into the surroundings and thereby reduce local resentment of "foreign presence." There are disadvantages to off-shore procurements as well. The potential for fraud and abuse is greater. Long-term support would be more problematic than with goods for

which the USG can provide both service and parts. American industry and labor would be adversely affected to the extent funds were spent outside the United States.

Recommendation: The panel weighed pros and cons and recommends the potential benefits of off-shore procurement merits a judiciously-applied increase in its use.

Another approach to rationalizing security assistance and thus optimizing available dollars is the establishment of multi-year appropriations. The U.S. encourages nations receiving security assistance to develop programs and strategies specifically for the "long haul." Failure to appropriate funds for more than one year and the resulting uncertainty of funding undermines much of this emphasis. Instances abound in which nations prepared long-term plans based on a given level of security assistance, only to discover funding was not available in succeeding years. The effect is to inhibit preparation of consistent plans by developing nations as well as unified commands and other USG agencies while creating confusion and resentment among friends and allies.

Conversely, consistent funding would provide clear evidence of the importance the U.S. attaches to security assistance and to those nations which receive it. This is particularly important for those countries involved in LIC [Low Intensity Conflict], since it not only permits development and execution of a reasoned long-term strategy but also contributes immeasurably to the moral struggle by demonstrating the assurance of U.S. backing. Congress has traditionally been reluctant to provide multi-year appropriations or even multi-year obligation authority because this would reduce oversight, and give the appearance of entitlement programs.

Recommendation: The panel was not optimistic about current prospects for gaining Congressional support for multi-year authorization. Nevertheless, it recommends to a future administration the seeking of such approval, or at least approval for two-year obligation authority, if only to emphasize the importance of consistent, long-term planning for effective security assistance.

The panel considered the feasibility of enhancing the effectiveness of security assistance funds through modification of the Special Defense Acquisition Fund (SDAF). SDAF is a quasi-revolving fund for advance procurement of military equipment in high demand and short supply to enable to United States to respond quickly to foreign requests for support without adverse impact on U.S. readiness requirements. The panel considered, but rejected, a proposal to expand the SDAF's capitalization. Favorable Congressional action on such expansion was considered questionable, and if such action were forthcoming the additional, non-appropriated monies [i.e., from non-recurring cost (NRC) recoupments] would represent a further drawdown in funds otherwise accruing to DOD accounts as outlay offsets. In fact, the OSD Comptroller is unlikely to favor any legislative initiative of this nature. There was, however, general support for an increased annual spending authorization for funds already available, and for extended obligation authority beyond one year. These two changes in current legislation would improve the Fund's ability to contract on optimal economic terms, particularly taking advantage of economies offered by participating in planned U.S. service procurements.

Recommendation: The panel recommends continued pursuit of the legislative initiative (1) to extend obligation authority for SDAF beyond one fiscal year, and (2) to permit larger annual spending authorizations for existing SDAF funds. The panel also recommends continued support within SDAF for Defense Logistics Agency small items which are especially important for LIC country requirements.

One measure which would reduce security assistance to recipients without imposing an additional burden on DOD would be selective conversion of past FMS credits to grants. Obviously, this step would be appealing to nations carrying a large backlog of unused credits and

considerable foreign debt. Once granted for some FMS cases, other nations would certainly clamor for similar relief. Unfortunately, conversion would mean the USG must write off the converted amount.

Recommendation: The panel recommends that blanket conversion of FMS credits to grants be discouraged. On a selective, case-by-case basis the idea has merit, but the loss of funds and the precedent-setting nature of any decision make conversion a risky tool.

The proposal to extend the use of cash flow financing came before the panel. This procedure, which permits nations to procure FMS equipment on time rather than by lump sum payments, allows recipient nations greater flexibility in spending security assistance funds. At present it is limited to selected countries with adequate means to pay for FMS transactions or clear expectations of continued adequate funding from U.S. programs. For most developing countries, however, the availability of funds is too problematic to make multi-year programs feasible. The practical effect of extending cash flow financing would be to lock in large amounts of security assistance funds for cash flow countries through a form of earmarking.

Recommendation: The panel did not view with favor the proposal to increase the present limited use of cash flow financing.

ALTERNATIVE SOURCES TO SUPPLEMENT SECURITY ASSISTANCE APPROPRIATIONS

The panel addressed alternative sources for augmenting security assistance appropriations. The most obvious source for this is the use of DOD resources through greater employment of exercises and training which support both operational and security assistance goals.

Current authority permits unified commanders to conduct combined exercises to enhance and evaluate combined capabilities, to exchange units for mutual training, and to provide limited financial support to the nations involved. Such activities must not be, in effect, security assistance training by another name. The distinction between the two, however, is difficult to define. For example, combined exercises to enhance the technical interoperability of regional forces involves both operational and security assistance objectives. Similarly, the use of Special Forces to train indigenous troops is a valid CINC responsibility. Such training is part of the Special Forces' mission, even though the result improves the capabilities of indigenous forces, which is a security assistance objective.

Panel discussion of what is currently permitted and prohibited in this area revealed differences among USG agencies. Some panel members argued the need for legislative or policy changes to permit an expanded capability for unified commanders to engage in activities which involve both operational objectives and security assistance goals. Others felt sufficient latitude already existed to achieve CINC's objectives. Still others argued the need to maintain strict division between these activities. What was most obvious was the lack of common consensus. This is an important issue because it involves such questions as the place of security assistance within the national strategy, the role of the unified commander in security assistance, and the relationship between security assistance and regional combat capability.

Recommendation: The panel recommends a more detailed evaluation of the need for and feasibility of expanding the authority of the unified commanders to conduct combined exercises and training which support security assistance as well as operational objectives.

Authority currently exists for U.S. military involvement in humanitarian and civic assistance which may contribute to security assistance. There was general agreement that such ongoing activity involving U.S. military forces, especially combat support and combat service support

units, could significantly enhance training for these U.S. units while also contributing to security assistance objectives. The humanitarian and civic assistance benefit can generally be provided at very little additional cost, above that for the DOD training itself. There were, however, different interpretations on the extent to which DOD funds may be used and the nature of such involvement. Additionally, U.S. military forces may be used, on a reimbursable basis, by other USG agencies to provide assistance in disaster relief.

Recommendation: The panel recommends the continued engagement of U.S. forces in humanitarian and civic affairs and to seek a funding increase beyond the amount currently appropriated.

Supporters of increased security assistance and segments of American industry have long argued that the requirement to conduct FMS on a strict "no loss/no profit" basis significantly reduces the value of each security assistance dollar. Accordingly, the panel reviewed several proposals to change this restriction. Common to almost all was the fact that none of them would "do away" with costs. Rather they would transfer these costs, either directly or indirectly, to the Department of Defense. It is an unpleasant fact that "any proposed price reductions for FMS or security assistance translate . . . into costs or foregone receipts which must be borne directly or indirectly by DOD appropriations."

One such proposal was the adoption of a more liberal policy for waiving Non-Recurring Cost (NRC) charges. Inclusion of NRC charges raises prices of U.S. equipment (by as much as 20 percent) and results in unstable price estimates which may change before a case is closed. This generates resentment within the nations we are trying to influence and contributes to declining sales of U.S. equipment.

Adherents of a more liberal but still selective waiver policy for these costs to Third World nations argue that buyers should pay only additional costs associated with production. Waiving of NRC charges would extend the impact of security assistance by as much as \$100 million annually. This would not only allow the purchase of additional FMS assets, but would also reduce resentment generated by what many perceive to be a narrowly selfish policy.

On the other hand, NRCs are part of the total costs of development and distribution of these systems, which would otherwise have to be borne by DOD. Receipts from NRC charges are credited by OMB [Office of Management and Budget] as outlay offsets for DOD. Waiving them would reduce funds available to the U.S. military services. Additionally, the current provision to waive NRC charges in selected cases provides the U.S. a vehicle for negotiating *quids pro quo* which would not be so effective in a generally liberal waiver environment.

Recommendation: Although it recognizes the benefits which would accrue to recipients from reduced prices and to segments of American industry from increased sales, the panel does not recommend waiver of NRC or other charges except, as at present, in specific, limited cases.

Another means of reducing the cost of security assistance to the buyer would be through the establishment of fixed prices. The rigidity imposed by the "no loss/no profit" provisions of the AECA [Arms Export Control Act] make it virtually impossible to stabilize the cost of any purchase in advance. Thus, it becomes necessary to keep cases open for many years and may result in unanticipated additional charges to the recipient nations years after the equipment has been received. Establishment of a fixed price early in the production cycle would make FMS programs more competitive in the world market, enable cases to be closed more rapidly, and would avoid "surprises." However, unrecouped costs which might result from fixed pricing would be borne by DOD, while the supposed savings from reduced accounting would be limited.

Recommendation: Believing that the excessive length of open cases and the resentment that late price changes engender outweigh the occasional loss which might arise, the panel recommends the establishment of procedures for determining and implementing fixed prices for FMS.

Broader use of leased DOD equipment is a theoretical alternative to FMS sales. The Arms Export Control Act currently does not permit in most cases no-cost or low-cost leases, nor does it permit leasing unless items are excess to U.S. force structure needs. There are times when it would be valuable to provide equipment to other nations on a short term basis, as in a request for air defense missiles to protect a meeting attended by heads of state. Short term leasing of equipment could also meet seasonal requirements associated with anti-drug operations (e.g., night vision devices, aircraft and helicopters, and patrol boats needed for short periods related to local cultivation cycles).

There are significant disadvantages to the wide use of this approach. Materials would come from existing stocks and thus not be available to U.S. units for the duration of the lease as well as any repair period. In most cases, employment would result in deterioration, especially in LIC or anti-drug operations. The ability to provide adequate maintenance would be problematic.

Recommendation: Leasing of DOD equipment may be applicable on a limited case-by-case basis. The panel does not recommend a significantly broader application of this practice.

Another proposal considered by the panel was reduction of the International Military Education and Training (IMET) price charged to developing countries. U.S. training pricing is divided into five categories: Foreign Military Sales (FMS) price; FMS/NATO price, FMS/IMET price, FMS/MAP price; and IMET price. The IMET price is the lowest category and reflects only the actual course costs for the training and add-on items such as textbooks. It does not include expenses associated with high cost pricing categories, such as building and equipment amortization, or military instructor pay and benefits. The developing countries we wish to assist are normally IMET participants and eligible for the lowest cost training.

Recommendation: The panel recommends no further IMET price reductions for developing countries eligible for IMET.

Security assistance should not be considered in isolation from other elements of national strategy when searching for ways to supplement funding. Possibilities exist for both direct and indirect burdensharing with allies and friends which would support security assistance objectives. The U.S. has shared interests with third party nations which can be conducive to mutual activity in support of a recipient of U.S. aid or in place of U.S. direct action. The cooperation of the U.S. and France in providing assistance to Chad in its struggle against Libya provides an excellent example.

Moreover, the security assistance the U.S. provides to a given nation may serve regional interests and not strictly those of the U.S. and the recipient nation. For example, the availability of bases in the Philippines contributes to the security and stability of the western Pacific as a whole. Thus, other countries share our interest in Philippines stability and political and economic development. The U.S. should use this situation to seek to persuade third parties to provide financial assistance and political support to the Aquino Government as appropriate.

Recommendation: The panel recommends the U.S. actively seek to increase burdensharing arrangements with allies and friends as a way to augment security assistance.

Finally, the panel noted two other possible funding sources to augment security assistance appropriations. The first is the expansion of EXIM (Export Import Bank) authorities for the purchase of security assistance materials; this would require legislative and policy changes. The

expanded use of commercial financing and/or partial USG guarantees for commercial loans may also provide a feasible source of funds for certain countries. Time constraints prevented a fuller consideration of either proposal, but both merit serious evaluation.

Trends in Foreign Defense Purchases

[The following has been extracted from the *Congressional Presentation for Security Assistance Programs, Fiscal Year 1989*, pp. 413-420.]

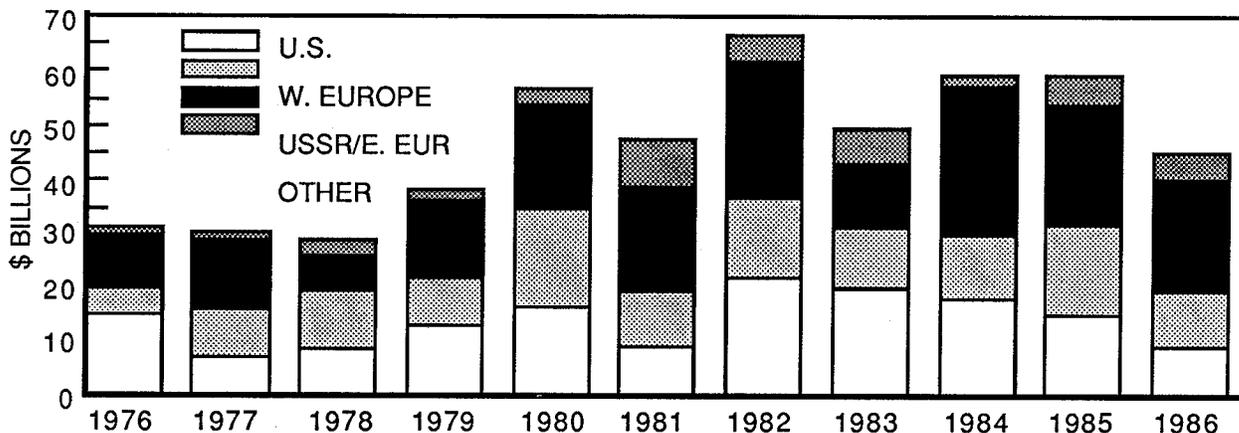
INTRODUCTION

Since World War II, U.S. sales of defense equipment and services to friends and allies have served shared 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 enable them to bear a larger share of the common defense burden.

U.S. defense sales have, however, declined sharply since the early 1980s, both in absolute terms and as a proportion of global transfers. In FY 87, FMS sales agreements hit their lowest level in ten year. U.S. defense sale may increase modestly in FY 88.

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 thereby contribute to diminished Western security.

FIGURE 1
World Defense Trends, 1976 - 1986



WORLD SALES

As Figure 1 illustrates, worldwide defense purchases increased during the late 1970s and early 1980s, peaking at around \$66 billion in 1982. This increase was due mainly to Third World inventory modernization and expansion financed largely by gains in export income, particularly from oil. Transfers fell sharply but briefly in 1983 before recovering to a level around \$58 billion during 1984-85. In 1986, sales dropped significantly, to some \$45 billion. If the impact of inflation is accounted for, the post-1982 fall-off in purchases is more substantial.*

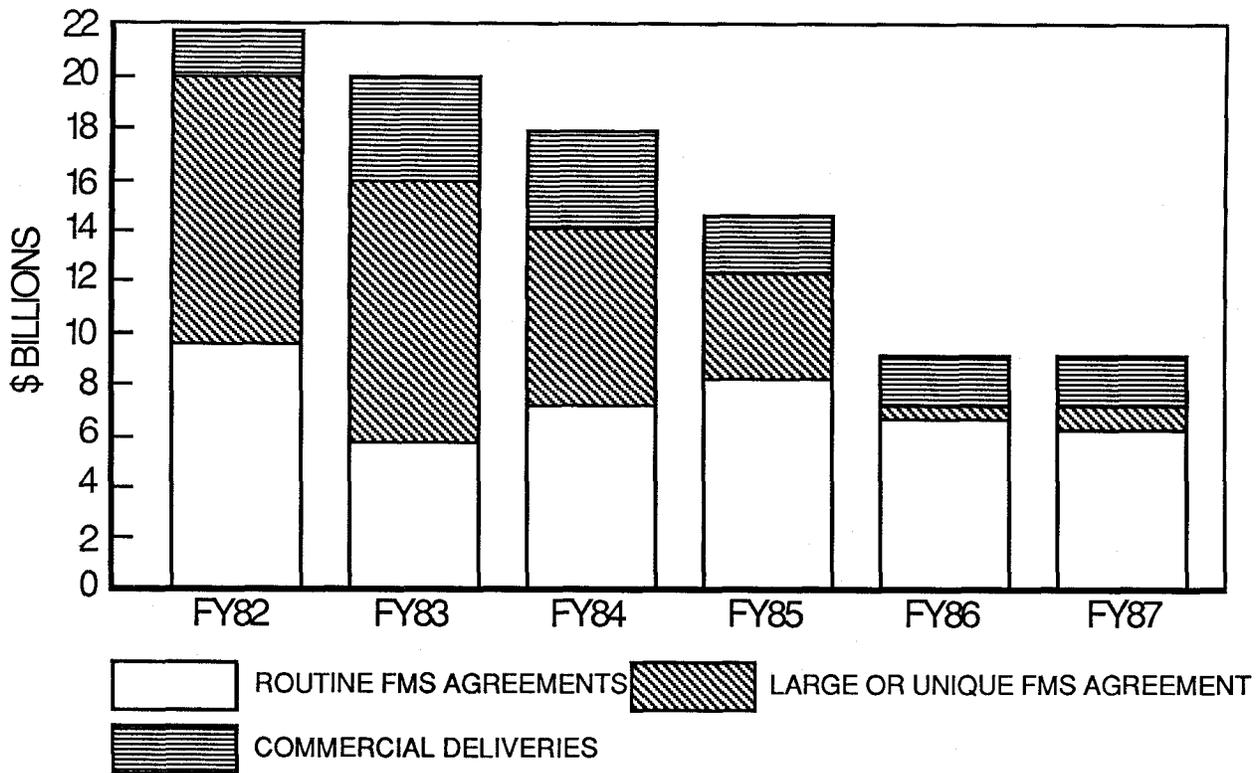
[NOTE: Defense transfer figures are not adjusted for inflation. Non-U.S. purchases refer to sales agreements measured by calendar year. U.S. sales refer to FMS sales agreements and commercial deliveries, and are measured by fiscal year (FY).]

The decline in global defense transfers over the past five years reflects to a large extent many developing countries' reduced export income (particularly in terms of lower oil prices for Middle Eastern oil producers, which have been traditionally large importers of defense equipment and services) and heavy debt burdens. The decline also reflects the completion of major defense modernization efforts undertaken in the late 1970s and early 1980s and/or country difficulties in absorbing these large acquisitions. The downturn would have been sharper had not regional tensions exacerbated by the Iran-Iraq War sustained a higher level of demand by the Persian Gulf states than would have otherwise been the case. Most of that demand has been satisfied by suppliers other than the United States.

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. Unlike the worldwide pattern, however, U.S. sales have dropped sharply and steadily since 1982. U.S. defense-related sales in FY 1986, including both FMS transfers and commercial sales, were only about \$9 billion, the lowest level in almost a decade. FMS sales agreements hit a ten-year low in FY 1987, although somewhat higher commercial deliveries put combined FMS agreements and commercial deliveries above the FY 1986 level. As shown in Figure 2, the decline in sales has been concentrated in large or unique cases, which generally represent major equipment purchases for force modernization. Routine sales cases, mostly for equipment support, represented 88 percent of total FMS agreements in FY 1987, compared to only 48 percent in FY 1982.

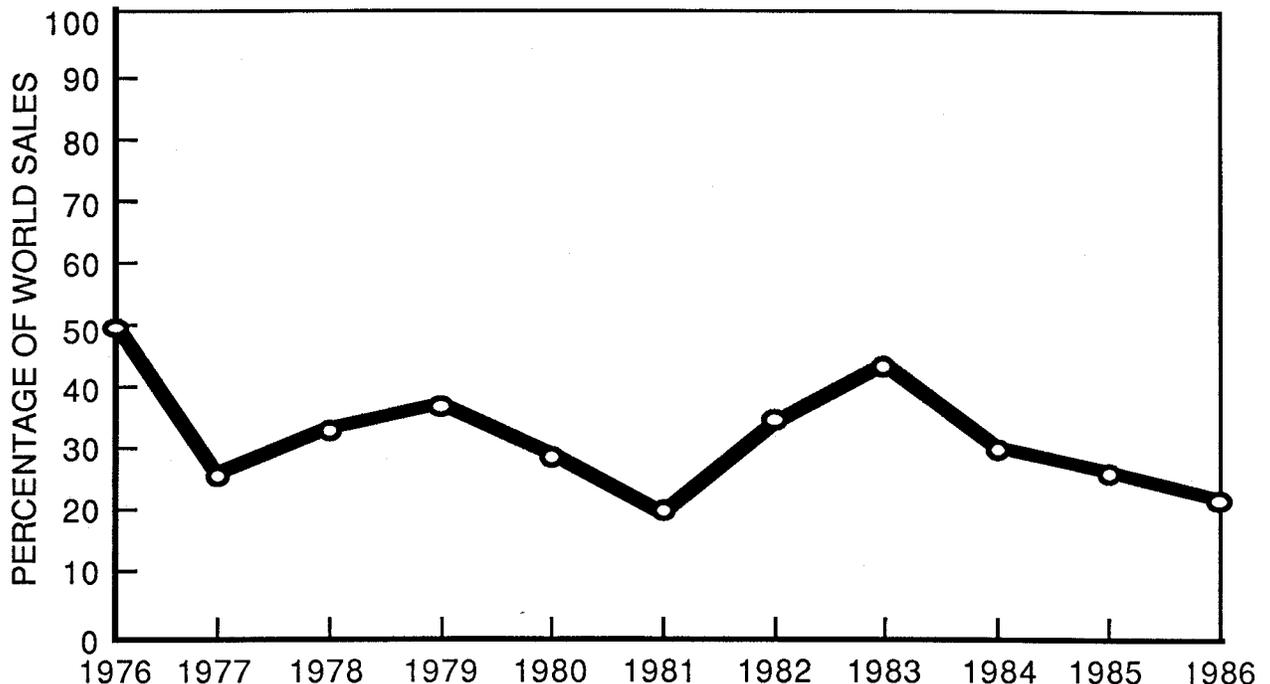
FIGURE 2
U.S. Military Sales, FY 1982 - 1987



The U.S. portion of the world defense market, depicted in Figure 3, also has declined sharply over the last several years, falling from a peak of 41 percent in 1983 to about 21 percent in 1986.

The fall in U.S. sales and share of world defense transfers since FY 1982 reflects both domestic and external factors. Political and technological transfer considerations have caused the United States to turn down certain requests, many of which have been filled by less constrained suppliers. The resulting loss of potential political, economic, and military advantages from these sales has been greatest in the Middle East, where proposed sales to moderate Arab states not directly identified with the Camp David Accords have often been the subject of domestic political controversy and Congressional concern. Reductions in FMS credit and MAP funding in FY 1986 and FY 1987 seriously limited the USG's ability to meet many friends and allies' legitimate defense requirements. Externally, U.S. manufacturers have been affected by the global economic situation, increased competition from other arms exporters, and greater efforts by purchasing states to explore more convenient cooperative marketing arrangements that enhance their domestic industrial and technological development.

FIGURE 3
U.S. Sales as a Percentage of World Sales
1976 - 1986



GROWING COMPETITION

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

Despite the fact that developing and producing a major defense system is more expensive and riskier 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 a perceived drain of national resources abroad and as a vehicle to spur domestic technological development as well as general economic growth. When purchasing from abroad, countries increasingly require extensive offset arrangements as a condition of sale to support indigenous defense industry development and maintenance as well as other sectors of their economy. States are also increasingly turning to joint or multinational ventures to reduce the costs and risks of system development and production.

The expansion of the scope and sophistication of foreign arms production is especially evident in Western Europe. Our NATO allies have been dissatisfied with America's 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 is an irritant in U.S.-NATO relations that has hindered efforts to make NATO defense production more cost-effective and to enhance the standardization and interoperability of alliance forces. It could also portend a long-term trend toward substantially reducing the U.S. presence in the European defense market unless current armaments cooperation initiatives, such as those funded under the Nunn/Quayle Amendment, are successfully pursued and broadened.

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 costs. While developing countries are increasingly displacing the U.S. as a supplier of sophisticated equipment, countries such as Brazil, Israel, South Korea, and the People's Republic of China sell primarily lower-priced, moderately sophisticated systems to states who do not need, cannot afford, and/or do not have access to the most advanced systems.

The governments of other countries generally promote, often vigorously, the export of their arms; the United States government does not market defense articles and services. Other countries and their industries have also proven more willing to enter in barter and countertrade arrangements. Foreign exporters generally operate under fewer political and technology transfer constraints than do U.S. suppliers. The principal advantages 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, at best, limited influence over the sales promotion efforts of other suppliers 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 arms transfer policy and practice in the future:

- First, we must recognize and more fully participate in the growing trend among developed countries to seek increasingly cooperative development and production arrangements in the defense field. The Congress endorsed this concept in the Nunn/Quayle legislation, which increased flexibility for NATO cooperative ventures.
- Second, we must recognize and be responsible to the legitimate self-defense needs of all our friends and allies, including those in the Arab world. The fact that there is an increasingly broad spectrum of alternative sources of defense equipment 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 appreciate 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 must accept less cost-effective U.S. defense production.
- Fourth, we must not lose sight during this period of budget constraints of the importance of providing our developing friends and allies with adequate concessional financing 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 adjust to the challenges of an increasingly diverse international defense supply environment, it is unlikely that the United States will be able to satisfactorily address its friends and allies', and thereby its own, legitimate self-defense needs at an acceptable cost in the coming years. Our military and political influence abroad and our own national security will be diminished as a consequence.