Trends in Foreign Defense Purchases

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

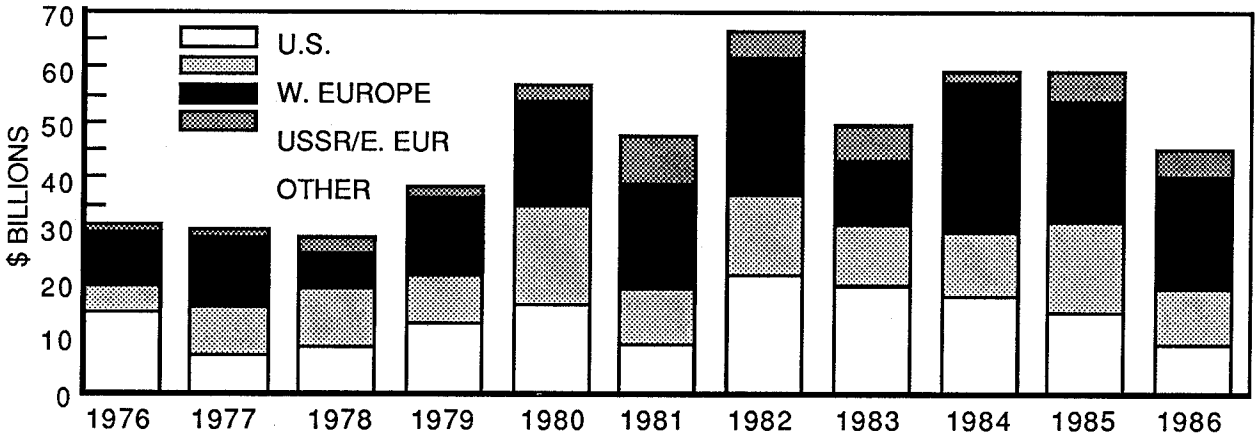
INTRODUCTION

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 commercials 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, particulary 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.*

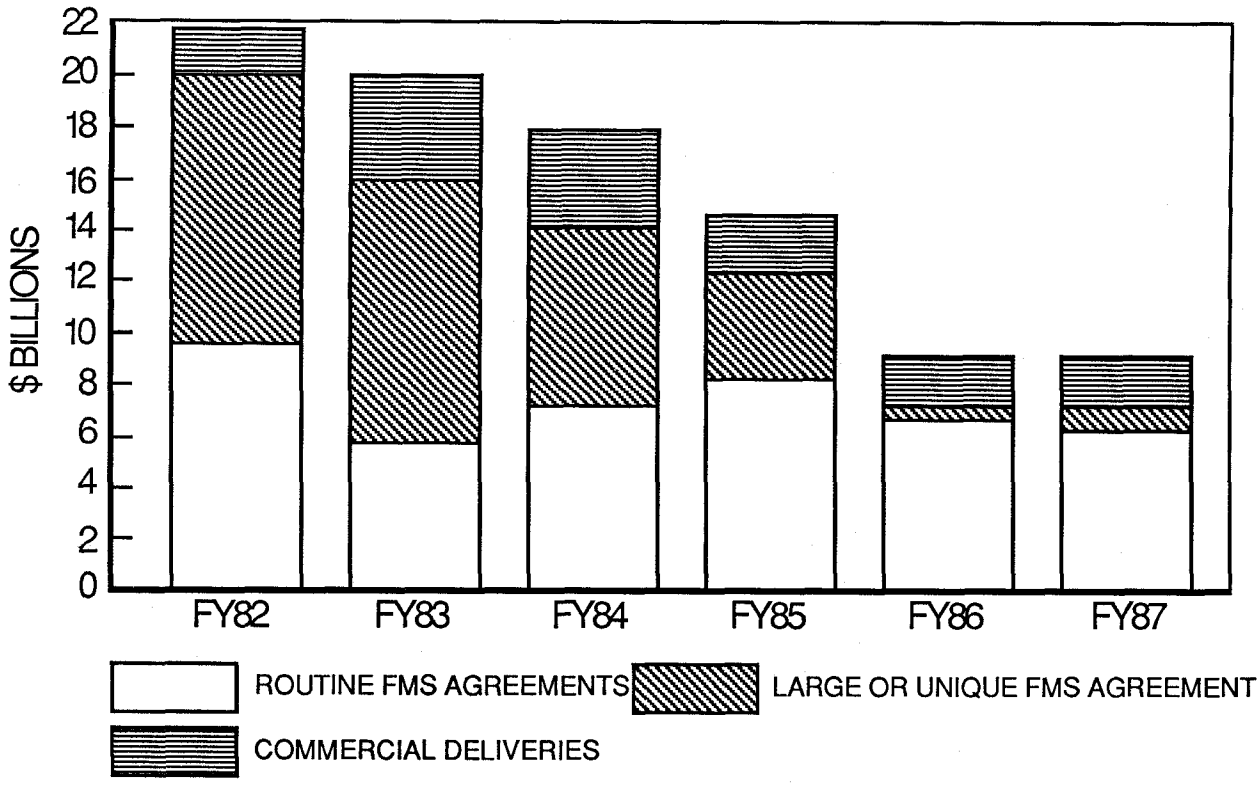
[NOTE: Defense transfer figures are not adjusted for inflation. Non-U.S. purchases refer to sales agreements measured by calendar year. U.S. sales refer to FMS sales agreements and commercial deliveries, and are measured by fiscal year (FY).]

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.

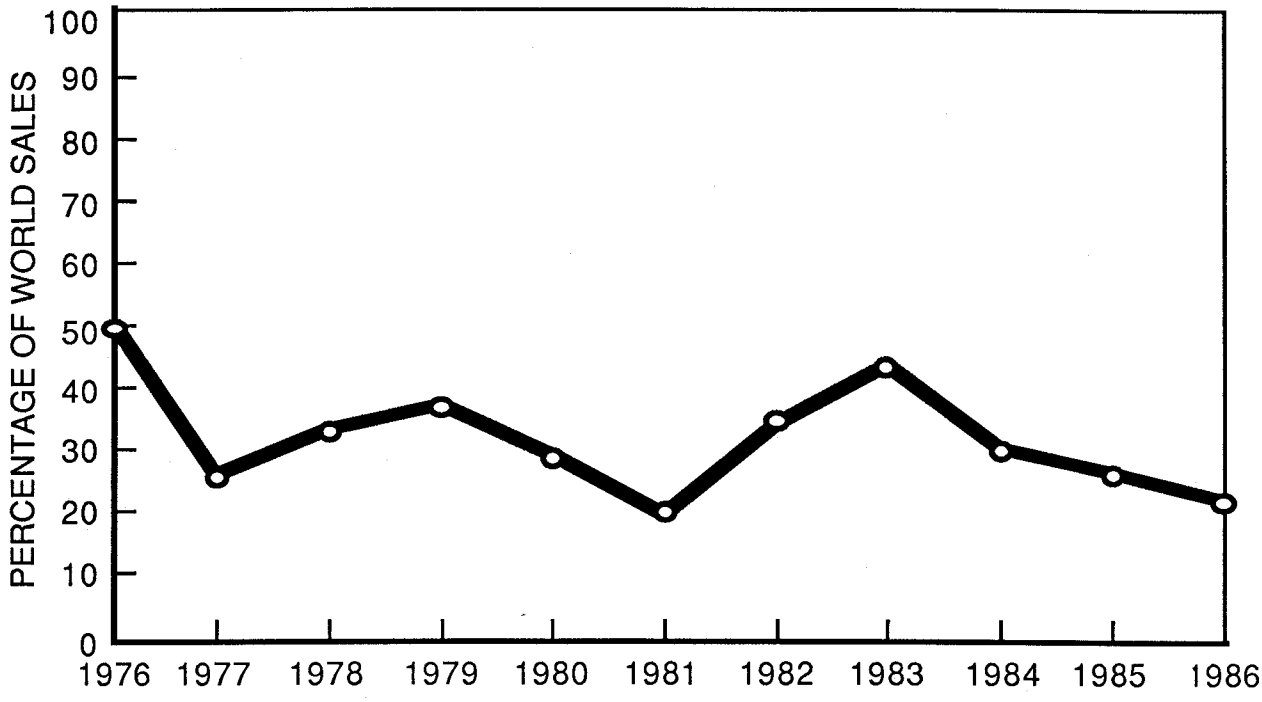
FIGURE 2
U.S. Military Sales, FY 1982 - 1987



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 is 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 suppler 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 responsibe 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.