

---

FOREIGN MILITARY SALES:  
BENEFITS, TRENDS, AND IMPLICATIONS

By

LT COL CURTIS S. MORRIS, JR., USAF

This paper explores the foreign military sales (FMS) component of the United States security assistance program. It focuses on value, i.e., a review of the benefits accrued to the United States from FMS.

With this focus in mind, some might ask why? Surely, the policy and other benefits of FMS are self-evident. And, if these derived benefits are self-evident, why are they worthy of review? After all, foreign military sales to allies and friendly countries have been a high-visibility component of American security assistance programs for decades. These programs have been used as tools of both US foreign policy and global defense strategy. These points were emphasized by President Reagan on July 8, 1981.

The United States . . . views the transfer of conventional arms and other defense articles and services as an essential element of its global defense posture and an indispensable component of its foreign policy.[1]

While the benefits of FMS may be accepted by elements of the American policy-making community, they are misunderstood or simply not held by a number of Americans. How often have we as members of the Air Force, industry or academia heard that security assistance, if not FMS, is a "give-away" program of questionable value. Others have said that the sale of major weapons systems to foreign countries consistently causes adverse impact on US Air Force readiness or equipment stockpiles. There are many other inaccurate observations such as these; virtually none of them are new. They have been heard and written about in the past.

Significantly, these observations continue to persist. They illustrate confusion over, if not a functional lack of awareness about, the benefits to be derived from FMS programs. They suggest the need for a review of FMS benefits. First, it would provide feedback to those security assistance practitioners and policy makers charged with planning, developing and implementing FMS programs. It would provide an opportunity to reflect on the positive foreign policy, defense, and economic contributions of FMS. Too often there is a tendency to focus on the negative or programmatic aspects of security assistance. Inadvertently, we fail to address just what it is we get from FMS. Second, while professional management of billions of dollars in FMS programs is important, future acceptance of and support for FMS and related security assistance programs by Air Force members, the public, and Congress depends on understanding what the United States gains through FMS. This awareness is crucial.[2]

The primary purpose of this paper is to meet this need by reviewing FMS benefits from both political-military and economic perspectives. Obviously this task could be a highly complex one. However, treatment of the topic has to be limited to essential points in a paper of this length. The paper will point out some limitations to these benefits, identify quantitative gaps in our knowledge, and present implications. This assessment will be divided into several sections: first, FMS -- Primary Benefits and Trends from an Air Force Perspective; second, FMS -- The Secondary Benefits; and third, Implications.

### FMS -- PRIMARY BENEFITS AND TRENDS FROM AN AIR FORCE PERSPECTIVE

A review of the Arms Export Control Act (AECA) as amended, much of the current literature, and government documents concerning security assistance discloses a multitude of political-military goals which the United States seeks to achieve through security assistance and FMS in particular.

When many of these goals are analyzed, it is clear that virtually all fall into two categories: first, the promotion of US foreign policy objectives; second, the enhancement of US defense posture. These two goal categories are the raison d'etre for FMS programs.[3]

This section of the paper will examine these two major goals. At the same time it will identify examples where foreign military sales\* have been used to produce political-military gains, i.e., primary benefits for the United States. This will include a regional view of current FMS trends from an Air Force perspective. FMS trends versus the primary FMS benefits produced will be examined.

Some critics contend that foreign military sales do not consistently promote US foreign policy objectives or enhance the defense posture of the United States. They maintain that the risks to national security far outweigh any benefits produced by FMS. Some of the major arguments include:[4]

- US weapons and technology could be compromised as well as come under the control of hostile powers. For example, F-14 Tomcat fighters with associated Phoenix missile systems were sold to Iran. After the fall of the Shah in 1979, they came under control of Islamic fundamentalists. There is some concern that the Phoenix missile system may have been compromised to the Soviet Union.
- Major weapons systems sold to another country could in the future be used against the United States or at least in a manner damaging to US interests.
- FMS can exhaust US inventories of weapons and equipment or delay acquisitions. The General Accounting Office noted in a 1977 report that the US Army required four years to replenish its inventory of M-113 armed personnel carriers which had been diverted to the Mideast in 1973.

\* Foreign military sales (FMS), as used in this paper, concerns the sale of conventional arms and other defense services and articles to foreign countries. Sales may or may not be financed by the US.

The arguments raised by the critics are supported by examples which bring into question the benefits derived from FMS. Each of these arguments can be individually refuted. For example, it is true the US Army experienced a shortage of M-113 armored personnel carriers due to the 1973 Mideast War diversion. However, US national leadership judged this to be an acceptable price in order to meet American security requirements in this region. While counter-arguments could be raised for the remaining major arguments mentioned, they have already been given by others. In essence, these counter-arguments are not the central focus of this paper.

The important point is that over the long term foreign military sales have produced significant political-military benefits. Since World War II, benefits to the United States have far outweighed the debits. Foreign military sales have helped to achieve foreign policy goals. The more important ones follow:[5]

- Major element of foreign policy and national strategy since World War II, thereby providing a system of collective security.
- The Marshall Plan (military assistance portion) and FMS provided a major contribution to the defense capability in Europe.
- In the 1950s European Rearmament continued with reliance on military aid and FMS.
- Central to allied cooperation in Southeast Asia in the 1960s and 70s.
- Key to Camp David accords in the 1970s.
- Resulted in stability on Korean peninsula for 30 years.
- Now helps countries in Persian Gulf, Indian Ocean and Caribbean Basin to strengthen their security.

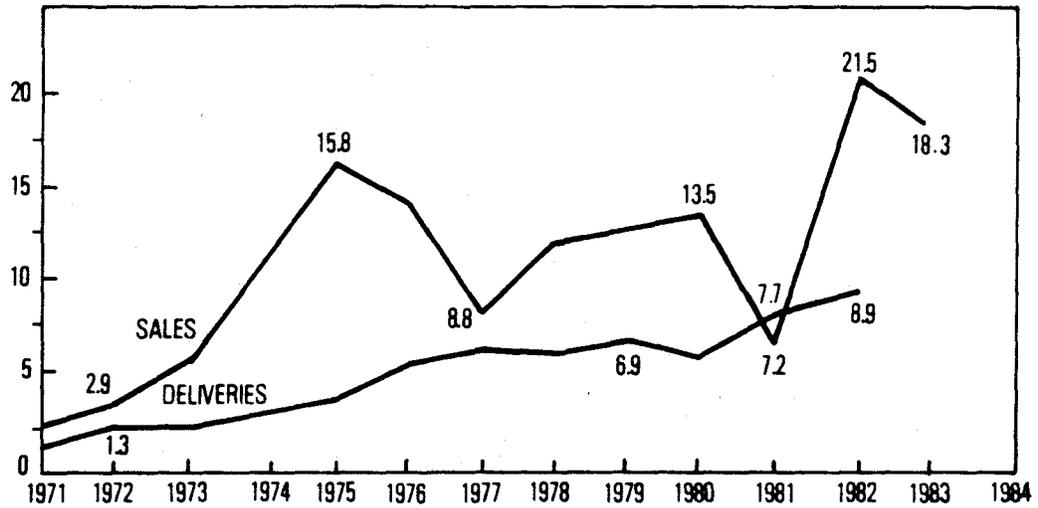
Realization of these foreign policy goals has been complemented at the same time by an enhanced US defense posture. Foreign military sales have been used to build this defense posture. A brief review shows foreign military sales are continuing to produce benefits:[6]

- Improves force projection and coalition defense capabilities, e.g., Latin America, Japan.
- Helps allies and friends maintain external and internal stability, thereby preserving their independence and contributing to regional stability, e.g., Korea.
- Provides quid pro quo for US base, overflight and other rights in country.
- Promotes access to and cooperation with friendly militaries through training, for example programs in Egypt and Latin America.
- Furthers concept of defense burden-sharing and reduces requirement for large standing US forces.
- Lessens the chances for direct US involvement in conflicts.
- Promotes interoperability with friends and allies; NATO munitions and C<sup>3</sup> are examples.
- Contributes to standard logistics support.
- Provides alternate mobilization bases; note special basing in Kenya and Somalia.

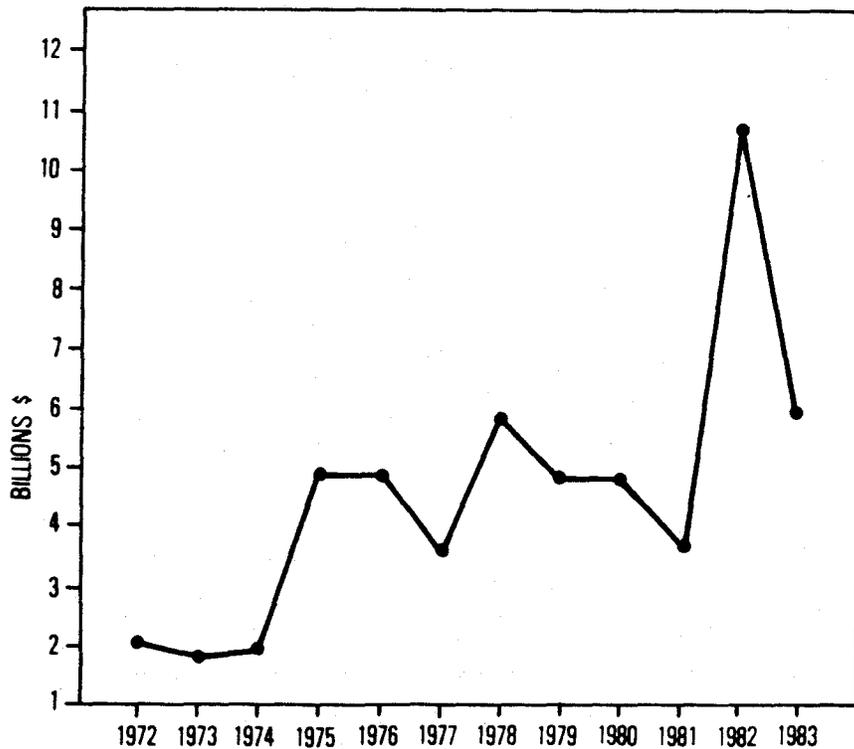
US Air Force FMS figured prominently in the achievement of these political-military benefits. Currently, the USAF manages over 4,147 active FMS cases worldwide in 65 countries and international organizations. These

sales are valued at over \$51 billion dollars.[7] The USAF-managed portion of total FMS in recent years has ranged from one-third to one-half of total annual sales. From 1971 through 1983 the trend in total foreign military sales agreements value, as well as the value of delivered goods, has increased. The first chart depicts total FMS sales, while the second shows the Air Force portion for much of the same period.[8]

U.S. FOREIGN MILITARY SALES AGREEMENTS/DELIVERIES



FMS TRENDS  
USAF



The value of FMS-produced, political-military benefits on a worldwide regional basis appears to be significant. Support for this view is strengthened when the FY 1983 value of USAF accepted FMS cases is contrasted against the benefits produced from FMS. The following regional comparisons were made: [9]

#### FMS/The Americas and Canada

- Western Hemisphere (\$76M).
- Typical systems: A-37, F-5, C-130, F-16
- Benefits: coalition defense, creates opportunities for access and communication, deters Soviet/Cuban adventurism, promotes hemispheric stability/security, critical materials access.

#### FMS/Middle East and Africa

- Middle East and Africa (\$7B).
- Typical systems: F-5, C-130, F-15, F-16, E-3
- Benefits: Regional security, strengthens key NATO Southern Flank ally, base access, overflight, sea lanes of communication (SLOC) security, critical materials access, deters Soviet aggression in Middle East, Africa and Persian Gulf.

#### FMS/Asia and Pacific

- Asia and Pacific (\$681M).
- Typical systems: F-5, F-15, F-111, F-16
- Benefits: Base access, overflight, SLOC security, Pacific defense, deters Soviet aggression

#### FMS/Europe

- Europe (\$1.7B)
- Typical systems: F-16, E-3A, C<sup>3</sup> programs
- Benefits: Strengthens Atlantic alliance militarily, politically and economically; Rationalization/Standardization/Interoperability (RSI); base rights/access; overflight rights; SLOC security, deters Soviet aggression.

### FMS -- THE SECONDARY BENEFITS

As noted in earlier sections of this paper, the raison d'etre of FMS is the promotion of US foreign policy objectives and enhancement of US defense posture. However, an important by-product is the host of economic benefits that accrue to the United States as a result of FMS. Survey of the literature and various DOD documents disclosed 12 economic benefits. The list is not all inclusive: [10]

#### FMS/Secondary Benefits

- Recoupment of non-recurring costs for: research, development, test and evaluation (RDT&E); production, and asset use.
- Procurement economies of scale
- Surcharges -- salaries, overhead, etc.
- Industrial base
- Production costs (start-up/continuities)
- Contribution to the Gross National Product (GNP)

- Creates private sector jobs
- Generates tax revenues, royalties, interest
- More favorable balance of payments
- Imputed savings
- Corporate profits and personal income
- Skilled work force

While the list is qualitatively descriptive, if not impressive, the availability of quantitative data in all categories is limited. There appears to be no single US government focal point for the regular collection, analysis, and dissemination of data produced by secondary FMS benefits. A methodology to collect and evaluate data on a periodic basis is similarly lacking. However, the Defense Security Assistance Agency (DSAA), the US Air Force and the other services have already initiated efforts to quantify some of the FMS-produced secondary benefits, i.e., cost savings from FMS on major weapon systems programs.

Understanding these quantitative constraints, this section of the paper will review some of the DOD cost savings data; highlight the economic benefits that accrue to the US private sector; and summarize some economic facts that underscore the value of FMS-produced secondary benefits.

Some critics maintain that unit cost savings and the recoupment of research and development costs for DOD-procured items intended for FMS are minimal.[11] Review of actual cost savings from FY 1978 to FY 1982 for a number of major weapons systems suggests this is not the case. At the same time, insufficient information is available to really quantify total DOD cost savings for all FMS-furnished weapons systems and other military equipment. A mechanism to continuously collect, analyze, and disseminate this data does not appear to exist. However, a cost savings chart was adapted from a study done by the USAF on key major weapons systems/components.[12]

USAF Cost Savings from Foreign Military Sales  
(Dollars in Millions)

FY	F-15	E-3A	GBU -15	F-16*	F-100 CIP	NRC	Total
78	0	0	0	.2	0	0	.2
79	10.8	33.0	0	1.0	0	10.4	55.2
80	44.2	70.0	1.2	8.4	4.3	27.5	155.6
81	61.9	68.0	1.2	8.4	8.3	72.6	220.4
82	24.1	43.0	1.3	30.0	14.0	160.8	273.2
	<u>141.0</u>	<u>214.0</u>	<u>3.7</u>	<u>48.0</u>	<u>26.6</u>	<u>271.3</u>	<u>704.6</u>

\* Excludes EPG F-16 (European co-production)  
NRC = non-recurring costs

Similar studies were completed by the Army and Navy for the same FY 1978 - FY 1982 period. Total estimated cost savings for major weapons systems procured by DOD for FMS were conservatively estimated to be \$3 billion.[13] While this figure is impressive, the actual value is probably higher, as all FMS savings have not been included.

Besides cost savings to the USAF and DOD, economic benefits also accrue to major US corporations. Aircraft sales under FMS have generated sizeable earnings.[14]

FMS 1972 - 1981: Benefits US Corporations  
(Dollars in Millions)

<u>Corporation</u>	<u>Weapon System</u>	<u>FMS Value</u>
Boeing	AWACS	3476.0
General Dynamics	F-16	885.6
McDonnell	F-4E	2142.0
	F-15	240.0
Northrop	F-5E/F	1683.6

Obviously, these sales have generated jobs and been a factor in US economic growth as measured by the annual GNP. As an example, the 1977 sale of 110 F-5 aircraft to Saudi Arabia benefited a major US corporation as well as a sizeable portion of the US economy at large. The results can be graphically depicted.[15]

Weapon System Sale Geographic Impact

<u>FMS Sale/Date</u>	<u>Corporation</u>	<u>Generated Revenue/ Location</u>	<u>Jobs Supported/ Location</u>
(110) F-5 Saudi Arabia/1977	Northrop	\$1.3B/ 41 States	37,025 Jobs/ 31 States

When the security assistance program as a whole is considered, it is clear that US-provided FMS loan guarantees and grants generate revenue. A recent US Army study examined the total FY 1982 security assistance program and found that the United States received a \$33.8 million dollar net return after paying all costs.[16]

Security Assistance Generates Revenue  
Cost of Security Assistance Program  
(Dollars in Millions)

<u>Total FY 82 Program</u>	<u>Cost to US Govt</u>	<u>Revenue* Generated</u>	<u>Net Gain or Loss to US Govt</u>
FMS Loan Guarantees \$3,083.5	0	2081.4	+ 2081.4
FMS Direct Loans (Grants) \$800.0	800.0	540.0	- 260.0
MAP (Grants) \$178.5	178.5	120.5	- 58.0
IMET \$42.0	42.5	28.4	- 13.6
Economic Support Fund \$2999.1	2699.0	1124.7	- 1574.3
Peacekeeping Operations \$141.7	141.7		- 141.7
<b>TOTAL</b>	<b>\$3861.2</b>	<b>Net Return</b>	<b>+ 33.8</b>

\* Multiplier/Tax Receipts effect.

As noted earlier, a mechanism and methodology to quantify all FMS-produced secondary benefits does not exist. The benefits which have been quantified have been done as the result of separate DSAA, USAF, DOD, GAO, CBO, etc., studies. Some of the key quantified benefits are:[17]

- Over \$3 billion in cost savings to DOD, FY 1978 - FY 1982.
- Over \$700 million in USAF cost savings, FY 1978 - FY 1982.
- Each \$ billion in FMS creates \$2.5 billion in secondary business.
- 10¢-15¢ of each dollar obligated for DOD contracts is paid for by FMS customers.
- Ban on FMS could lower GNP by up to 1 percent.
- 90 percent of security assistance is FMS.
- Foreign military sales pay for over 23,000 man-years of DOD manpower in support of security assistance.
- Foreign military sales of \$5-10 billion annually create over 350,000 private sector jobs in the United States.
- \$8 billion annual average in FMS generates over \$560 million in cost savings (R&D, economies of case, production benefits, etc.).

### IMPLICATIONS

This paper has focused on value, i.e., a review of the benefits accrued to the United States from FMS. In a paper of this length the approach has necessarily been an overview of the primary benefits (political-military) and secondary benefits (economic). It is clear from the work presented that foreign military sales do produce significant benefits, but more research needs to be done in the area of qualitatively documenting and quantifying these benefits. Gaps in our knowledge do exist.

First, it is essential that the Air Force and DOD continue to expand efforts to qualitatively and quantitatively document FMS-produced benefits. In particular, efforts to quantify more secondary benefits, in addition to major system cost savings, is necessary. This implies the development of a tri-service methodology and focal point to organize and control the effort. The collection and analysis of data should be on a recurring basis with findings periodically being made available to the military departments. Preliminary work completed under the aegis of DSAA could serve as the foundation for these more advanced efforts.

Second, documented qualitative/quantitative benefit findings need to be reviewed by security assistance practitioners from the standpoint that they provide needed feedback. This information is critical to realistic FMS program planning, development and implementation. Facts on benefits will enable those of us charged with the management of security assistance to better implement and publically support future FMS programs. Dissemination of this information to members of the Air Force and DOD communities will serve to dispel some of the inaccurate but persistent security assistance "myths." More importantly, it will contribute to the creation of a more informed Air Force and public. Americans should be aware of the need for FMS and the benefits that accrue to the United States.

## REFERENCES

1. US, Department of State, Department of State Bulletin, "Conventional Arms Transfer Policy," Reagan Administration Policy Statement (September 1981), p. 61.
2. Report of the Commission on Security and Economic Assistance, by Hon. Frank C. Carlucci, Chairman, (Washington, D.C.: US Department of State, November 1983), p. 2-9.
3. The Arms Export Control Act (AECA), as amended, secs. 1-4 (1976).
4. Roger P. Labrie, John G. Hutchins, and W. A. Peura, US Arms Sales Policy Background and Issues (Washington, D.C.: American Enterprise Institute, 1982) pp. 39-40, 58-60.
5. Department of the Army Logistics Office, Security Assistance Agency, Information Paper: Need for Foreign Military Sales (FMS) and Military Assistance Program (MAP), 4 May 1983.
6. Defense Security Assistance Agency (DSAA) information obtained by the author, November 1983; "FMS Benefits - An Air Force Perspective" briefing developed by the author, November 1983.
7. Ibid.
8. Ibid.
9. Ibid.
10. Ibid.; Information sheet entitled: "Benefits of Security Assistance Program Identified by USALEA," US Army Logistics Evaluation Agency, (New Cumberland Army Depot, PA, 3 November 1983).
11. Roger P. Labrie, John G. Hutchins, and W. A. Peura, US Arms Sales Policy Background and Issues (Washington, D.C.: American Enterprise Institute, 1982) p. 59.
12. US, Department of the Air Force, Headquarters, memorandum, "Cost Savings from FMS and Nonrecurring Costs," 3 February 1983.
13. Ibid.; US, Congress, House, Secretary of Defense Caspar Weinberger testimony before House Foreign Affairs Committee (HFAC), 22 February 1983; US, Department of the Army Logistics Office, Security Assistance Agency, memorandum, "Cost Savings from Foreign Military Sales -- Information Memorandum," 3 February 1983; US, Department of the Navy, Chief of Naval Operations, memorandum, "Cost Savings from Foreign Military Sales," 3 February 1983.
14. George L. Getchel, Colonel, USAF, et al, US Military Security Assistance: Economic Considerations and Policy Implications (Maxwell AFB, AL: Air University) Research Report No. RA003-81, p. 110.
15. Ibid., p. 105.

16. US, Department of the Army, Logistics Evaluation Agency Study, "Benefits Derived by the Army from Security Assistance Program," 1983, p. 3-1a and Appendix C.
17. George L. Getchel, Colonel, USAF, et al, US Military Security Assistance: Economic Considerations and Policy Implications, (Maxwell AFB, AL: Air University) Research Report No. RA003-81, pp. 23-24 and 98-104, 116; Secretary of Defense Caspar Weinberger, testimony before HFAC, 22 February 1983; US, Department of Defense, Defense Institute of Security Assistance Management (DISAM), "Security Assistance Overview Briefing," undated; US, Congress, Congressional Budget Office Study, 23 July 1976; US, Department of Defense, DISAM, The Management of Security Assistance (Wright-Patterson AFB, OH, 1982), pp. 2-30; US, Department of the Air Force, Headquarters, memorandum, "Cost Savings from Foreign Military Sales," 3 February 1983; US, Department of the Army, Headquarters, memorandum, "Cost Savings from Foreign Military Sales," 3 February 1983; and US, Department of the Navy, Chief of Naval Operations memorandum, "Cost Savings from Foreign Military Sales," 3 February 1983; US, Congress, Congressional Budget Office Staff Working Paper "Foreign Military Sales and US Weapons Costs," 5 May 1976.

Lieutenant Colonel Curtis S. Morris, Jr., USAF, is an International Politico-Military Affairs Officer assigned as the Chief of the International Programs Special Projects Section of the Directorate of International Programs, Deputy Chief of Staff, Programs and Resources, Headquarters United States Air Force. He has had various command and staff assignments in the United States, Viet Nam and Iran. From 1982 to 1983 he was an Air Force Research Associate and Visiting Fellow to the American Enterprise Institute (AEI) for Public Policy Research -- a "think tank" in Washington DC. Col Morris is the author of The United States - Caribbean Basin Military Connection: A Perspective on Regional Military-to-Military Relationships, published by AEI. He is a graduate of Squadron Officers School and Air Command and Staff College and is a senior service school nominee. He was a distinguished graduate of AFROTC and the Air Force Institute of Technology. Col Morris holds a Bachelor of Arts degree in Political Science from the University of Utah and a Master of Arts in Latin American Studies from the University of Florida.