Emerging Choices for the Soviets in Third World Arms Transfer Policy

By

Professor William H. Lewis
George Washington University

[The following is a reprint of an article which originally appeared in the U.S. Arms Control and Disarmament Agency's *World Military Expenditures and Arms Transfers, 1985*, pp. 30-34.]

INTRODUCTION

The Soviet Union has enjoyed important advantages in its competition with the United States and other suppliers of military equipment to the Third World. However, Moscow also confronts a number of policy choices and dilemmas in its efforts to maintain or enlarge its share of the arms transfer market. Pressures on the Soviet Union to adjust its traditional policies to the changing market environment are not likely to abate as new arms suppliers enter the market and buyers become more demanding. As a result, Moscow may have to reexamine the calculus of policy on which it has operated in the Third World.

BACKGROUND

The transfer of military weaponry from one country to another--by gift, loan, or sale--has been an accepted foreign policy transaction almost from the inception of the nation-state system. The United States assumed a commanding position in the field during World War II, when it became the industrial arsenal for such diverse allies as the Soviet Union, Great Britain, China, and others. By comparison, the Soviet Union did not become a principal player until the mid-1950s. The devastation to the Soviet industrial base as a consequence of the war precluded meaningful competition with the United States for at least a decade. Moreover, in Moscow's evaluation at that time, the primary beneficiaries of reinvigorated defense production programs, of necessity, were to be the Soviet armed forces and those of the other Warsaw Treaty Organization members, followed by the forces of the People's Republic of China and North Korea.

With extensive decolonization as the decade of the 1950s came to a close and as wars of liberation erupted in southeast Asia, southern Africa, and elsewhere, the Soviet Union made adjustments in its scale of priorities. By the late 1960s, it was in a position to accommodate growing demands on Soviet defense industry resources. The elaboration, development, diffusion, and implementation of appropriate technologies had taken place in such key sectors as aircraft, naval, artillery, and armored weapons production. Substantial investments in capital equipment and qualified staff ensured a steady output capable of meeting new demands for military goods and services. In terms of sheer quantity at least, the Soviet Union had achieved a comparative advantage vis-a-vis the West.

SOVIETS REACH PREEMINENCE

The Soviet arms supply program to third World nations gained momentum during the 1970s and early 1980s. By 1982, the Senate Committee on Foreign Relations concluded that the "Soviet Union is the leading supplier of weapons to the Third World."[1] For the period 1979-1983, the

Soviet Union provided $51.3 billion, or over 37 percent of the $137.4 billion, in arms delivered to developing countries.

It is clear that the Soviet Union has commanded a number of advantages as a weapons supplier. Speed of delivery--on the average less than 12 months from contract to delivery of major systems, as compared to 24-36 months for the United States--is a significant factor in the competition for the Third World market. This comparative advantage is a product of the Soviet Union's substantial defense production base and its flexibility in making policy choices with respect to needs of Warsaw Pact consumers and Third World markets. The U.S. Department of State underscored this advantage in a 1982 report:

> The USSR can deliver significant amounts of weaponry very quickly as it showed recently in Ethiopia and Vietnam and is now doing in Cuba. Moscow also can offer much more attractive loans than can Western suppliers. For nations not desiring the latest equipment, the USSR has kept open the production lines for selected arms, such as the MIG-21 fighter, which is no longer in first-line Soviet units; it also maintains large quantities of older, refurbished weaponry. . . .[2]

From a marketing perspective, other advantages have accrued to the Soviet Union vis-a-vis Western suppliers.

> The Soviets have developed variations of many first-line weapons specifically for export. Other suppliers, in contrast, often must choose between providing new equipment to their own forces or risk losing a sale by being unable to deliver until the weaponry comes off the [production] line 2-4 years later. Moreover, most suppliers do not have large pools of used but still effective arms--as the United States once had--which can be provided quickly to their security assistance partners without adversely affecting the capability of their own front-line or reserve forces.[3]

Moscow led Washington in the transfer of all categories of weapons to developing countries during the 1979-1983 timeframe. The lead was 4:1 for supersonic aircraft and nearly as great for tanks. For comparative purposes, the Soviet advantage in competition for access to Third World markets may be illustrated by the following data [based upon Table IV, *World Military Expenditures and Arms Transfers, 1985*, p. 135]:

Soviet and United States Arms Deliveries to Developing Countries, 1979-1983, as a Percent of Total Arms Deliveries to Developing Countries

Item	USSR	US
Tanks	48	13
Anti-Air Artillery	39	3
Field Artillery	27	19
Armored Personnel Carriers	40	29
Major Surface Combatants	24	19
Surface Combatants	23	14
Submarines	21	0
Missile Attack Boats	46	0
Supersonic Combat Aircraft	56	14
Subsonic Combat Aircraft	33	31
Other Fixed-Wing Aircraft	17	5
Helicopters	50	9
Surface-to-Air Missiles	57	23

Moscow, in short, had become the major arms merchant in the Third World.

A MIXED BLESSING

The Soviet Union must regard these gains in arms transfers as a mixed blessing, however, for, by virtue of its achievement, it has propelled itself into the world economy, which could allow world market forces to have a growing influence on Soviet defense sector policy and plans. The world market operates under certain "laws" which conflict with traditional Marxist-Leninist economic principles. Unwillingness to adjust to changing market conditions would diminish the comparative advantages of the Soviet Union, making it less competitive with other suppliers in the Third World market. It also would present other disadvantages, including: (1) diminution of Soviet prestige among potential recipients, (2) shrinkage of influence in the policy-making councils of Third World nations, and (3) undercutting of efforts to reduce United States influence in regions deemed of high strategic value to Moscow. Failure to compete in the world economy would reduce the Soviet Union's ability to encourage the correlation of forces to shift to the disadvantage of the West.

The Third World market for weapons has several other characteristics that are likely to prove increasingly vexing to the Soviet Union. Principal among these is the emergence of Third World producers capable of providing relatively sophisticated equipment that is competitive in effectiveness, cost of maintenance, and price with Soviet offerings. The Soviet Union today finds itself in competition for hard currency with a host of Third World arms suppliers, and many potential buyers have been dismayed to find that the Soviet Union has actually increased its prices for selected military equipment to levels roughly comparable to Western suppliers. At the same time, traditional Soviet clients--impressed by the advantages that accrued to Israel and, however briefly, Argentina during their armed conflicts in 1982--seek ever more sophisticated military equipment. In some instances, their desires extend into the realms of technology transfers and offset arrangements.

A considerable calculation from the Soviet perspective relates to domestic economic factors that must be weighed. Among the most significant are unit costs for defense production and foreign exchange considerations. Arms transfer programs for the Third World now account for a growing percent of total defense production in the Soviet Union. Although enhancing competition with the civilian sector for resources, in absorbing a substantial part of defense output, the arms transfer program becomes an important source of recouping R&D outlays, reducing unit costs through longer production runs, and earning hard currency. The importance of hard currency arms export earnings for the Soviet Union may be seen from comparison with the United States--approximately one-quarter of total Soviet trade earnings versus only about 5 percent for the United States.

CONCESSIONAL TERMS

The main problem for the Soviet Union at present on the demand side is adjustment to a market situation in which potential recipients have acquired a greater appreciation of their bargaining position, and in some cases a need to redress imbalances in their trade with the Soviet Union. Pressures are mounting on the Soviet Union to move beyond traditional concessional terms--e.g., low interest rates and long repayment periods. Hard-pressed Third World governments are increasingly compelled, under conditions of economic stringency, to bring into equilibrium economic and national security needs. This impels many customers for weaponry, particularly those not economically and militarily dependent on the Soviet Union--to seek to find the most advantageous trade arrangements available.

In the past, the primary vehicles for improvement have been the following:

- **Barter Arrangements.** Local commodities are offered in exchange for Soviet weaponry. Ethiopia, which has mortgaged its future coffee crops for $3 billion in arms, provides the most clearcut example of this neo-colonial type of contract.

- **Triangular Trade.** To meet repayment schedules, particularly where hard currencies are involved, some nations re-export foreign-acquired commodities. In the instance of India, chemical imports from Western nations and some advanced technology have been made available to the Soviet Union.

- **Political/Military Concessions.** In exchange for advanced military equipment, some Third World nations have been prepared to accede to military access agreements. Traditionally, these agreements have involved rights to overflight and landing, port visitation, or bases and prestockage (prepositioning of military material).

OFFSETS

This general pattern of political-military and economic relationships has begun to undergo significant change, however. Increasingly, Third World nations are demanding different and greater forms of economic benefit from their arms purchases. Nations making significant purchases of sophisticated military equipment tend, with greater regularity than in previous periods, to base their purchase on receipt of commercial or investment benefits from foreign suppliers. These arrangements are designed to "offset" the budgetary or associated costs resulting from the foreign purchase. While there is some disagreement regarding the definition and nature of the term "offset," the following types of arrangements are generally associated with the term: (1) coproduction, (2) licensed production, (3) subcontract production, (4) overseas investment, (5) technology transfer, and (6) countertrade.

Countertrade has been an especially significant element in Soviet arms supply relationships with some Third World governments, notably, Libya, Ethiopia, Cuba, and Mozambique. It involves, *inter alia*, the purchase of goods from the buyer country as a condition of the arms sales agreement. The purchase may involve products for the Soviet military or defense industry as well as for civilian sector use. Countertrade has become increasingly important in the overall trade of the Soviet Union and Eastern Europe with both the West and with the Third World, reaching some 20-30 percent according to some estimates.

From a domestic political perspective, the countertrade approach has served to mitigate some consumer dissatisfaction with Soviet arms supply contracts with Third World countries. Countertrade in coffee, tropical fruits, and sugar is presented by Soviet officials as inherently advantageous in meeting consumer demand for agricultural commodities. While also recognizing the superpower prestige element in the global expansion of arms supply relationships, a significant portion of the Soviet citizenry still views these relationships as redounding to its disadvantage since the terms are frequently concessional and such orders detract from efforts to expand the consumer sector production base. (A number of Soviet industries produce goods for both defense and consumer sectors, with the highest priority generally assigned to the former.)

POLICY DIFFICULTIES FOR THE SOVIETS

The offsets that involve long-term ties, e.g., technology transfers, coproduction, and special licensing arrangements, pose significant policy problems for the Soviet Union. Political turbulence involving oscillations in alliances and relationships pose special hazards. While the Soviet Union can refuse proposals to sell advanced technologies, it must weigh the negative consequences of denying requests of client states and other potential customers. Pressure upon Soviet policymakers is compounded when Western suppliers are prepared to negotiate offset agreements that meet the essential needs of purchasing nations in such areas as:

- Aircraft avionics and electronic countermeasures
- Computerized instrumentation for target (air and ground) acquisition
- Production of microcircuits having military and non-military applications
- Sensitive night-vision and other infrared devices
- Plants for semi-conductor production
- Enhanced factor computerization capabilities.

The Soviet Union's scientific and military research community is sensitive about requests for turnkey or other types of technology transfer agreements with Third World countries which might reveal existing state-of-the-art capacities (or lack thereof).

One stratagem of the Soviet Union, as already noted, has been to develop and to maintain military production lines for export purposes only. They include such diverse items as BRDM-2 and BTR-60 armored personnel carriers as well as the bulk of Soviet-produced self-propelled ZSU-23-4 radar-guided anti-aircraft guns. In addition, most MIG-21 aircraft and Foxtrot class submarines are produced for export. Because virtually all of this equipment is obsolescent, the Soviet Union is prepared to make it available at cut-rate prices.

This approach has not always been welcomed by Third World customers, however. They have increasingly found that such obsolescent equipment is no match for armaments in the possession of potential adversaries. Third World buyers reportedly find light tanks and reconnaissance vehicles manufactured by the Soviet Union inferior to comparable products offered by Austria, Brazil, and Switzerland. Even the mass-produced, highly touted BMP-2 infantry fighting vehicle is said to be matched in the most exacting design tests by fighting vehicles currently under manufacture by Argentina, France, and Switzerland.

A large number of Third World countries are in a position to compete with Moscow because of technology transferred by Western suppliers under special license. These arrangements range from co-assembly to full production. In several countries, licensing extends to the manufacture of components for guns, range-finders, power plants, and electronics. Production in these sectors is an important element in Third World efforts to reduce local defense costs. Another imperative is the need to compete for a share of the international military equipment market in order to secure hard currency to cover their international debt burdens.

The inescapable conclusion is that the Soviet Union will have to make significant adjustments in its arms export policies if it wishes to compete for new markets as well as retain its pre-eminent position with old customers. Policy, in brief, will have to accommodate itself to a changing arms market. To do so successfully, the rigidity of the Soviet military and economic bureaucracy would have to be reduced. Hard choices will have to be made between national needs and global opportunities, security of sensitive technology and market opportunities, high technology exports and exports of obsolete military equipment. The latter choice could be addressed in part by providing add-ons to basic equipment supplied under life-cycle sales agreements of the type the United States has concluded with some of its best Third World customers.

SOVIET ADJUSTMENTS

There are clear indications that the Soviet Union already is making adjustments in its sales approach. For example, Moscow is now pushing its new generation MIG-29 (Fulcrum) fighter plane to Third World countries. It has been sold, with an add-on license production agreement, to India and is being urged on Libya and Syria, among others. The MIG-29 is being presented to potential customers as a modern, state-of-the-art "image maker." It is significant that these Soviet offers have been made before the fighter is available to other Warsaw Treaty Organization member states.

In the area of tank exports, Moscow continues to underscore the value of the T-72. On the other hand, it has resisted queries about the availability of the T-64, particularly the "B" anti-armor series in production. Nor has the Soviet Union proffered widely the T-80 infantry support series.

In pushing its export program, the primary Soviet targets have been India and a number of oil-exporting countries in the Third World. Even with these prime target countries, recently the contractual terms have tended to be exceedingly "hard headed;" higher prices and Western currencies have been demanded over an abbreviated repayment period. Occasionally, this approach has exacerbated bilateral relationships. With Libya, for instance, the Soviet Union reportedly is refusing to accept oil to cover a substantial portion of the anticipated $4 billion in additional equipment planned for Libya's future force modernization program. Nonetheless, India is now permitted to make payments with rupees, a recent change in policy that is being followed with interest by other arms importing countries confronted with serious debt burdens.

Some Soviet customers have made persistent efforts to prestock spare parts and other replacement items. On the whole, the Soviet Union has resisted such urgings on the grounds that its own forces are kept under tight restrictions. The Soviets normally make little effort at first- or second-echelon repair or maintenance for front-line forces. The latter tend simply to replace equipment, *in toto*, from main production centers.

Compounding Soviet difficulties have been the poor quality of logistics training personnel assigned to Third World countries. All too frequently, Soviet advisers and training personnel have limited familiarity with life-cycle standards of equipment operation and maintenance. The result frequently is a lengthy list of complaints by disgruntled customers.

Recognition has grown in Moscow, however, that some modification in servicing policy is necessary to overcome the dissatisfaction of Third World military establishments. In relations with India, far-reaching adjustments have been made in the form of Soviet-sponsored overhaul, maintenance, and coproduction facilities. And, in the case of Peru, Moscow has agreed to arrangements for the in-country overhaul of SU-22 engines.

THE FUTURE

How the Soviet Union responds to the constantly changing Third World environment in allocating its national resources, particularly its military resources, should provide added insights concerning Soviet intentions in the Third World. A limited response in making resource allocations to the needs of foreign customers would suggest that Moscow finds the terms of competition unattractive. If, however, the export sector received high priority allocation and if the Soviet Union were prepared to enter into new types of offsets, the outlook for competition would be heightened commensurately.

From the perspective of Moscow, there are formidable disincentives to entering such competition. At minimum, it could enlarge existing distortions in their production system, one that is already encumbered by technological lag and organizational inertia. It could also inhibit the production of consumer goods, thus adding to public dissatisfaction with the poor quality of nonmilitary goods and services. Moreover, it could compel planners and technicians to deal with uncharted and time-consuming challenges relating to the diffusion of military and production technology to foreign cultures that can often assimilate Soviet approaches only with the greatest difficulties. In measuring its return on such foreign investments, however, the Soviet Union may regard political considerations as overshadowing economic risks.

In summary, the Soviet Union appeared to have achieved a pre-eminent position as a supplier of military equipment to the Third World during the decade of the 1970s. However, this comparative advantage has begun to decline in recent years as market circumstances have undergone significant change. The emergence of Third World nations that produce equipment competitive with products available from Moscow, together with a market that emphasizes offset agreements, may lead to a decline in Soviet competitiveness. To the extent that some Third World arms producers enhance their capabilities, the future market situation may become even more competitive. In these circumstances, the Soviet leadership will have to weigh carefully domestic consumer and Warsaw Treaty Organization needs, the imperative of supporting Third World client states, and the strategies adopted by other arms suppliers.

NOTES

1. U.S. Senate Foreign Relations Committee Report, April 1982.

2. *Conventional Arms Transfers in the Third World, 1972-1981*, Special Report No. 102, U.S. Department of State, August 1982, p. 8. [This report, in its entirety, was reprinted in *The DISAM Journal*, Fall, 1982, pp. 1-21].

3. Ibid., p. 8.