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NEW DIRECTIONS AND NEW PROBLEMS FOR ARMS TRANSFERS POLICY

by

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The climate for the transfer of American arms to other countries has changed in the year since Ronald Reagan became President. In the first months of President Carter's term there was a commitment to constraint. But it was undermined by events during the last two years of Mr. Carter's Presidency. Just as substantial obstacles prevented President Carter from restraining the sale of arms as much as he would have liked, so too will President Reagan confront many obstacles in his plan to increase arms transfers.

The assumptions of President Reagan and his key advisors about the role of weaponry for maintaining peace are different from those held initially by President Carter. Principally, the Reagan administration appears committed to containment as a major foreign policy objective, to the strengthening of America's allies, and to a greater American presence throughout the world.

The administration's view of the value of arms sales to accomplishing these objectives is reflected in the testimony of Secretary of State Alexander Haig before the Senate Foreign Relations Committee.

> As we strengthen these states, we strengthen ourselves, and . . . we do so more effectively and at less cost. Friendly states can help to deter threats before they escalate into world shaking crises. The issue is not whether a local state can singlehandedly resist a Soviet assault. Rather, it is whether it can make that assault more costly, more complicated, and therefore politically less likely to occur.[1]

The Carter Legacy. President Jimmy Carter, convinced that containment was no longer a valid basis for the conduct of American foreign policy,[2] was determined to limit the use of arms sales as an instrument of policy. He assumed that the ever-increasing flow of arms to the developing world, rather than contributing to the deterrence of Soviet-based aggression, seriously threatened international peace.[3] While there were many views within his administration on the impact of arms transfers as an instrument of policy, his high-ranking assistants perceived the arms sales policies of Nixon and Ford as indiscriminate and, if continued, likely to have prodigious potential for global instability and violence in the developing world.

The two trends they viewed as most dangerous were the growing technological sophisrication and military capability of the arms transferred to the developing nations and the aggregate volume of worldwide arms sales, which was increasing at about 20 percent a year and in 1977 totaled approximrely $17 billion. At the very least, arms sales were seen as hurting rather than helping the ability of the United States to control events in economically and strategically important areas. President Carter was intent on redirecting a trend which he perceived as moving in a way potentially damaging to U.S. national security interests. To counter this trend, he embarked upon an ambitious program of unilateral and multilateral iniriatives aimed at controlling arms sales worldwide.[4]

The Reagan Approach. Although arms rransfer restraint was not an issue in the 1980 presidential campaign, as early as January, before he took the oath, it was widely believed in Washingron thar President Reagan would be less concerned about the possible dangers of arms rransfers than his predecessor, and would focus instead on rheir possible benefits. As one official in the Office of the Secretary of Defense rold the authors: " . . . there will be less hand wringing about the moral consequences of arms sales." Added a staff member of the House Foreign Affairs Committee: "I think you can expect the Reagan people to try to crank up sales the way the Carter people tried to crank them down."

These early expectations of the new administration's approach to arms transfers were confirmed in March. As Secretary of State Alexander Haig and Under Secretary of State for Security Assistance, Science and Technology James L. Buckley stated before the Congress, the rotal program authority which the administration was requesting represented a 30 percent increase over that for the year before.[5] Indeed, the budget authority requested represented a 57 percent increase over that year's levels. For the new fiscal year, 1982, which began last fall, the administration requested $1.48 billion to support the financing of $4.05 billion to be furnished to 38 countries. The salient feature of Reagan's proposed program consisted of three major components: First, $2.573 billion for loans from the Federal Financing Bank wirh Departmenr of Defense guarantees of repayment; second, $500 million in credits for Israel; and third, $981.8 million in credits to 15 countries at reduced interest rates. In addition, the President asked Congress to permit him greater flexibility by aurhorizing $100 million in unallocated funds for the Military Assistance Program (MAP). And in a major shift from previous requests to Congress, the administrarion asked for a special defense acquisirion fund of $350 million for FY 1982 with which to procure emergency equipment quickly without diverting U.S. service stocks.

On 8 July, President Reagan signed a directive which was to govern the country's new approach to arms transfers. He established six objectives for arms transfers: (1) ro deter aggression through better preparedness on the part of friends and allies, (2) to improve U.S. power projection capabilities, (3) to strengthen mutual security relarionships, (4) ro improve credibility for U.S.

commitments to friends and allies, (5) to enhance regional and regime stability, and (6) to improve U.S. defense production capabilities and efficiency.[6]

Expanding Security Assistance: Obstacles and Constraints. Regardless of President Reagan's intentions, it is unlikely that security assistance can be expanded easily as there are several obstacles, both international and domestic, which prohibit extensive expansion. Outside our borders, these include: the modest funds most recipients have, high interest rates, concern of international lending institutions about growing Third World indebtedness, and expanded sales efforts of European competitors. Domestic constraints on the expansion of arms transfers include: continued congressional doubt concerning the advisability of such transfers, congressional and executive interest in limiting foreign aid costs, increasing industrial opposition to increased use of coproduction arrangements, and the opposition of the Armed Services to the exports of top-line equipment until their own procurement needs are fulfilled.

International payments deficits, the need to generate jobs, the necessity of finding means to offset development costs, concerns about the length of production runs, and general economic pressures, have compelled most industrialized nations to reduce their military grant aid to Third World countries in favor of reimbursable assistance.[7] Thus over the past few years, no matter how great the demand for arms by many nations, few have the resources to purchase vast quantities. With few exceptions, the largest importers of arms in 1978 were the oil rich countries such as Iran, Libya, Iraq, and Saudi Arabia.[8] Moreover, the OPEC nations have increased international payment pressures on those poor nations which have to import oil. Soaring oil prices have often been an enormous burden on developing countries, leaving them with precious little capital for either domestic services or greater defense. Morgan Guaranty Trust Company estimates that increased OPEC prices are the major contributor to the $85 billion international payments debts of non-oil Third World countries.[9]

The soaring cost of interest is related to the fact that capital for arms imports among Third World nations is hard to get. The U.S. Government is charging 15 percent interest on loans processed through the foreign military sales financing program. These interest rates make the procurement of any major weapon system a heavy burden for most developing economies. Increasingly, Third World borrowers are realizing that high interest rates are consuming ever more of their export earnings. Rimmer de Vries, senior vice president at Morgan Guaranty Trust Company, estimated that ten years ago the 12 largest Third World borrowers needed only six percent of their export earnings to pay the interest owed on debts abroad, "but by 1980 interest took 16 per cent of such earnings and this year could jump to 20 per cent."[10]

A third obstacle to expanding arms transfers to the developing countries is that international banking experts fear Third World debt has grown to dangerous levels. Morgan Guaranty Trust estimates the developing countries' debt at $500 billion. Banking officials are concerned that any large default could, as a Lloyds Bank spokesman stated, "have a domino effect that could lead to a catastrophe."[11] While the foreign military sales finance program does provide guarantees for loans issued to developing countries by private institutions, lending officials feel all indebtedness must be reduced in the near future.

The seriousness of the problem is revealed by the case of Israel. In 1978 that country, a major purchaser and recipient of arms from the United States, agreed to buy $2 billion in arms and, in 1979, over $1 billion worth. Since 1974 part of its annual purchase costs have been waived. For example, in each year, 1978 and 1979, Israel received $500 million in waived financing. Even with these favorable and unique exceptions for financing of arms purchases, Israel has found any further purchases to be too great a burden on its economy. Israel's present debt payment schedule is $700 million a year. The Israelis are reported to have rejected an offer by the Reagan administration of an additional $600 million in credit for arms purchases because their economy cannot sustain any further debt burden.[12]

An expanded American arms transfer effort will also face more competition from Europe than before. At the same time the Carter administration was limiting the activities of U.S. industry and government representatives abroad,[13] the European governments were assisting their industries to expand their arms exports to the Third World.[14] One result of elaborate government-sponsored sales drives in the Third World has been a major expansion of European exports. By 1980 it was apparent, for example, that foreign military sales had become France's biggest growth industry. Ten years earlier, in 1970, total French arms deliveries abroad were only $600 million, but by 1979 arms exports grew to $4.76 billion.[15] British sales efforts are no less ambitious. A comparison of U.S. and European exports to the Third World since 1976 reveals how rapidly and extensively the Europeans are capturing a sizable proportion of the Third World market.

Table 1 shows the extent of European expansion of its exports to the developing world since 1976. While U.S. arms exports to the developing nations have remained fairly constant at about $10 billion since 1976, European exports have more than tripled from $2.2 billion to $7.2 billion. European sales were expected to be even greater in 1981. Any expanded arms transfer program of the Reagan administration will confront, then, what one Defense Department official referred to as "fierce competition from our NATO allies."

TABLE 1—U.S. AND EUROPEAN ARMS EXPORTS TO DEVELOPING NATIONS
(In Billions of Dollars)

Year	United States	Europe*
1976	10.7	2.2
1977	9.9	6.5
1978	11.3	7.9
1979	10.4	7.2

Source: Compiled from data provided in *U.S. Conventional Arms Transfer Policy,* Report to the Senate from the Committee on Foreign Relations, U.S. Senate, June 1980.

*Includes France, the United Kingdom, West Germany, and Italy.

One should also think about Soviet aid activities when considering arms transfer prospects, though there are only a few arms-receiving nations in which the United States and the Soviet Union are competitors.[16] It can be argued that Soviet aid activities stimulate arms transfers from the United States to a region rather than reduce them. Yet, as Third World recipients attempt to reduce their dependence upon sole-supply relationships,[17] the United States and the Soviet Union may find themselves increasingly in competition. Table 2 compares total U.S. and Soviet Union arms transfers from 1969 to 1978. It shows clearly that while U.S. arms transfers measured in constant dollars remained fairly stable, Soviet arms transfers expanded extensively, from only $1.7 billion in 1970 to $6.6 billion in 1978.

Finally, an expanded U.S. arms transfer program will have to compete with an ever-growing number of major Third World arms producers. Presently, more than 30 developing nations produce weapons. The rapid growth of Third

World producers may be illustrated by comparing aircraft production in 1965 with that in 1975. In 1965 only seven countries in the Third World produced military aircraft. By 1975, however, there were 17 such countries.[18] The U.S. Arms Control and Disarmament Agency estimates that the money value of armaments produced in the Third World has increased from less than one billion dollars in 1970 to over five billion in 1977, not including the production of the People's Republic of China.[19]

TABLE 2—ARMS EXPORTS OF THE UNITED STATES AND THE SOVIET UNION, 1969-1978 (Millions of Constant 1977 Dollars)*

Year	United States	Soviet Union
1969	5685	1786
1970	4788	2317
1971	4997	2355
1972	5787	4093
1973	6542	7076
1974	5489	5001
1975	5233	4453
1976	6242	5607
1977	6900	6500
1978	6237	6609

Source: United States, Arms Control and Disarmament Agency, *World Military Expenditures and Arms Transfers, 1969-1978* (December 1980).

*ACDA Figures are much lower than other arms transfer statistics, such as those in Table 1, owing to ACDA's most restricted definition of arms sales. Particularly, only deliveries are estimated, and construction, training and technical services as well as other items which are deemed to have dual role or possible civilian applications are excluded. This practice, in the authors' view, is peculiar: an F-15 fighter, for example, is lethal only if it has proper runways, if pilots have proper training, and if ground crews have been provided with major technical services.

Many of these weapons are produced under license or coproduction arrangements with industrial states. It is clear, however, that once a developing country can make its own arms, it sees the same advantages to exports as do the industrialized nations. Brazil, Taiwan, Argentina, Israel, and Yugoslavia have ambitious plans to export weapons. These weapons are primarily at the intermediate level of sophistication and for the most part have relatively simple maintenance and operational requirements. The demand for such equipment in Latin America and Africa is high. Reflecting that demand, Third World exports increased from $49 million in 1969 to $707 million in 1978.[20] The proliferation of arms exporters and the expanded production facilities of such exporters, plus the desire of many countries to avoid heavy dependence upon sole suppliers will probably, then, also limit the expansion of arms transfers from the United States.

There are also domestic constraints on arms transfers. Many members of Congress are still reluctant to spend on military assistance. For the five years ending in 1977, Congress intervened increasingly often in arms sales decision-making and imposed a variety of restrictions on the security assistance program. These included lists of which nations could receive grant assistance, which could purchase weapons, and which could receive military credit assistance. Congress placed limitations on credit availability for weapons coproduction agreements. Prescriptions were provided as to how the United States could transfer weapons. Specific types of regimes, such as violators of human rights or supporters of terrorism, were prohibited from receiving security assistance. Restrictions were placed on the dollar volume of total sales which could be made to Latin America and Africa. The numbers of U.S. military personnel who could be assigned to security assistance functions in each recipient nation were limited specifically, and their activities were severely proscribed. Recent debates in Congress over aid to El Salvador or concerns about possibly expanded arms aid to Saudi Arabia and other Middle East nations reveal that the Congress will remain a major restraining force.[21] Thus, it can be seen that over the years the Congress has established a lengthy list of restrictions[22] which Reagan's administration, as was Carter's, will be "bound by law to implement."[23]

As a consequence of limited capital and credit, only oil-rich nations will be capable of acquiring large amounts of equipment from the United States. For example, who but Saudi Arabia could seek to purchase $8.5 billion of AWACS and other high-technology equipment? Any increase in the U.S. security assistance program in the immediate future will almost certainly be attributable to transfers to friendly nations in the Middle East. Most other nations would need sizable grants (nonreimbursable aid) or very favorable credit to acquire major weapon systems. Yet, the Congress has a long history of opposing major military grant assistance programs. Recently, excepting Israel,[24] the Congress has been very reluctant to provide grant aid to arms recipients. The Military Assistance Program has not exceeded one billion dollars since 1964. In 1979, Congress authorized only $213 million for it. As have past presidents, Reagan will find it extremely difficult to convince the Congress to accept an expanded grant assistance program.[25]

Another major domestic constraint on an expanded arms transfer program is industry opposition as well as congressional and other opposition to coproduction arrangements. It is clear that, increasingly, Third World recipients will demand coproduction arrangements as a special condition for receiving arms from industrial suppliers. Officials are concerned that if the United States does not agree, recipients will turn to Europe. Said a State Department official involved in the issue:

> We will have to be more flexible on this one. If we don't grant coproduction, France and Britain will. They won't want to, but I think they will see coproduction arrangements as a way of penetrating traditional U.S. markets.

The pressures for coproduction agreements are further revealed by the fact that of the controls established by President Carter, this was the one with the most exceptions. In March 1980, Under Secretary of State for Security Assistance, Science and Technology Mathew Nimetz testified that there had been 17 exceptions to the proscription against coproduction agreements with developing nations.[26] Subsequently, the Committee on Foreign Relations has recommended that the coproduction prohibition be reviewed and modified.

Both industry and the services are alarmed by this trend. Industry is concerned about the possibility of creating new competitors by providing recipients technical data and construction skills that permit an export capability such countries could not develop through their own effort. As one Lockheed executive said to the authors:

> We really are nervous about officials negotiating coproduction MOU's [Memoranda of Understanding]. One of these days we are going to wake up and discover they have given away the store!

The Defense Department also is not enthusiastic about the growing demand from Third World nations for coproduction agreements. Said the former Director of Technology and Arms Transfer Policy:

> . . . there is growing concern from some quarters, particularly Defense, about where present and future coproduction agreements might take us. I see little enthusiasm among the Services, for example, for having major components for U.S. systems produced by non-NATO countries, both for the effects that foreign coproduction is likely to have on the U.S. mobilization base and

for the political risk of a disruption of supply in the event of political pressures, crisis or actual hostilities. And yet, to make any economic sense, coproducing repients will probably have to find some markets for the items they produce beyond what are likely to be their small indigenous requirements. That leaves only two alternatives; either sell back to the U.S. or to find Third country markets.[27]

Coproduction, then, leaves the Reagan administration with several undesirable future options: (1) risking alienation of Third World nations by refusing to reach coproduction arrangements, with a possible loss of markets; (2) risking dependence upon Third World production of items needed for the U.S. military inventory; and, (3) risking new competitors.

Finally, the Services are not always as keen about arms exports as is often alleged. Despite the fact that arms exports often help to offset development and procurement costs, many officers are increasingly distressed by long U.S. acquisition delays that are caused by exports. As one officer in the Air Force sales office stated:

> Each time we find a new buyer for the F-16 the requirements of the U.S. Air Force are delayed because we have to share limited production schedules with the new recipients.

Said a naval officer speaking of a U.S. arms sales program for Saudi Arabia:

> The Saudi Naval Expansion Program is marvelous. It is the kind of Navy we could have if we just had the money and were allowed to get in line.

As the Reagan administration commits itself to a rapid expansion of U.S. conventional forces, it is likely there will be growing conflict between that goal and the goal of providing major armament packages to other nations.

The central argument of this paper has been that the high demand environment of the international system, as well as extensive comperition for markets, influence, or penerration prevented the Carter administration from implementing its arms transfer restraint policies or realizing its arms transfer restraint objectives. Yet, an expanded security assistance program will confront an equally large number of constraints in the international and current domestic environment.

BIOGRAPHIC SUMMARIES

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With Paul Y. Hammond and Norman A. Graham, they are completing a book entitled *The Reluctant Supplier: U.S. Decision-Making for Arms Sales* to be published this summer by Oelgeschlager, Gunn and Hain, Cambridge. Both are Senior Consultants to the Analytical Assessments Corporation, Marina del Rey, California.

NOTES

1. Alexander Haig, Statement before the Senate Foreign Relations Committee, 19 March 1981.

2. For an analysis of President Carter's views as well as the views of his key advisors, see Carl Gershman, "The Rise and Fall of the New Foreign Policy Establishment," *Commentary*, July 1980, pp. 13-24.

3. For an examination of the restraint policy, see Paul Y. Hammond, David J. Louscher and Michael D. Salomon, "Controlling U.S. Arms Transfers: The Emerging System," *Orbis*, Summer 1979, pp. 317-352; and "Growing Dilemmas for the Managemeot of Arms Sales," *Armed Forces and Society*, Fall 1979, pp. 1-21.

4. An analysis of some of the problems encountered by the Carter administration in implementing its policies may be found in David J. Louscher and Michael D. Salomon, "Conflicting Trends for Arms Transfer Restraint," *Naval War College Review*, November-December 1980, pp. 82-88; Michael D. Salomon, David J. Louscher and Paul Y. Hammond, "Lessons from the Carter Approach to Restraining Arms Transfers," *Survival*, September/October 1981, pp. 200-208; Michael D. Salomon and David J. Louscher, "Conventional Arms Sales in the Carter Administration: Dilemmas of Restraint," *Arms Control Today*, September 1980, pp. 6-9, and the "Interview with Leslie Gelb," pp. 1-6 also in that issue.

5. Mr. Buckley's statement was to the House Foreign Affairs Committee; Secretary Haig's to the Senate Foreign Relations Committee.

6. Directive from the White House, Office of the Press Secretary, 9 July 1981.

7. For an expanded assessment of these pressures see David J. Louscher, "The Rise of Military Sales as a U.S. Foreign Policy Instrument," *Orbis*, Winter 1977, pp. 933-964; and Stephanie Neuman and Robert Harkavy, eds., *Arms Transfers in the Modern World* (New York: Praeger, 1979).

8. United States Arms Control and Disarmament Agency, *World Military Expenditures and Arms Transfers, 1969-1978* (Washington: December 1980), p. 11.

9. Richard F. Janssen, "Third World Debts, Totaling $500 Billion May Pose Big Dangers," *The Wall Street Journal*, 28 January 1981, pp. 1 and 19.

10. *Ibid.*

11. *Ibid.*

12. "U.S. May Sell Saudis Radar Fuel Planes," *The New York Times*, 3 April 1981, p. 1.

13. Hammond, et al., "Growing Dilemmas for the Management of Arms Sales."

14. Edward A. Kolodziej, "Determinants of French Arms Sales," in Pat McGowan and Charles W. Kegley, Jr., eds., *Threats, Weapons and Foreign Policy* (Beverly Hills: Sage, 1980), pp. 137-175.

15. Felix Kessler, "French Arms Exports Mount as Paris Seeks to Counteract Oil Bills," *The Wall Street Journal*, 10 November 1980, p. 1.

16. The exceptions from 1967 to 1978 include these cross-bloc recipients: Peru, Libya, Northern Yemen, Afghanistan, Pakistan, Nigeria, and Zambia. United States Arms Control and Disarmament Agency, *World Military Expenditures and Arms Transfers, 1969-1978* (Washington: 31 March 1980).

17. See Michael Mihalka, "Supplier-Client Patterns in Arms Transfers," in Neuman and Harkavy, eds., pp. 49-77.

18. Michael Moodie, "Defense Industries in the Third World: Problems and Promises," in Neuman and Harkavy, pp. 294-314.

19. United States Arms Control and Disarmament Agency, p. 19.

20. *Ibid.*, p. 21.

21. See Bernard Gwertzman, "U.S. Said to Prepare Major Weapons Aid to Mideast Nations," *The New York Times*, 8 March 1981, p. 1.

22. See U.S. House, Committee on International Relations, *United States Arms Transfer and Security Assistance Programs*, 95th Congress, 2d Session, 21 March 1978.

23. Robert H. Trice, Director, Technology and Arms Transfer Policy, International Security Affairs, "The Future of U.S. Arms Transfer Policy," October 1980.

24. Israel has had about $4 billion in FMS financing waived.

25. For a historical review of congressional attitudes toward grant assistance see Hammond, et al., "Controlling U.S. Arms Transfers: The Emerging System."

26. Mathew Nimetz, Under Secretary of Security Assistance, Science and Technology, Statement before the Senate Foreign Relations Committee, 6 March 1980.

27. Trice.