

The US Army War College Quarterly: Parameters

Volume 21
Number 1 *Parameters* 1991

Article 6

7-4-1991

US ARMS TRANSFERS: NEW RULES, NEW REASONS

Stephen C. Daffron

Follow this and additional works at: <https://press.armywarcollege.edu/parameters>

Recommended Citation

Stephen C. Daffron, "US ARMS TRANSFERS: NEW RULES, NEW REASONS," *Parameters* 21, no. 1 (1991), doi:10.55540/0031-1723.1587.

This Article is brought to you for free and open access by USAWC Press. It has been accepted for inclusion in The US Army War College Quarterly: Parameters by an authorized editor of USAWC Press.

US Arms Transfers: New Rules, New Reasons

STEPHEN C. DAFFRON

Recent events have raised a number of controversial questions about the costs and benefits of US arms transfer policy. The decision to enter into a codevelopment program with Japan for the FSX, the sale of the M1A2 tank to Saudi Arabia, and the raucous debate over the reallocation of military aid all revolved around the transfer of weaponry by the United States. Were these decisions based on US security interests or were they economically motivated? According to the State Department, the decision to sell the FSX to Japan was a matter of promoting strategic military interdependence—but the transfer was opposed and almost overridden by Congress based on the perception that it would have a detrimental effect on US competitiveness in the international aerospace market. The estimated \$3.1 billion price tag for the Abrams tank and accompanying equipment, as well as the thousands of US jobs entailed, undoubtedly had something to do with the Saudi sale—but the transfer also demonstrated US evenhandedness and a commitment to moderate Arabs, even before Iraq's invasion of Kuwait. The increase in military aid to Latin America promised by President Bush was aimed at reducing the drugs flowing into the United States—but the increase was opposed by some members of Congress because of its high cost in these times of budgetary crisis.

How did we reach this level of convoluted complexity? In the bad-old good-old days, US arms transfer policy was defined in the simple terms of the East-West political equation. Now questions of what the weapons cost and where they are made seem to weigh as heavily as whom they are meant to be used against. Part of the answer lies in the realization that US arms transfer policy is only one component in a not-so-simple equation called the international arms transfer regime.¹ This regime consists of rules and norms generated as a function of the political and economic interests of the the United States, its allies, and its clients. As those varied interests evolve,

so does the regime. The aim of this article is to trace the evolution of these rules and norms as reflected in US arms transfer policies over the past 30 years. Only if we know how we reached this point can American policymakers hope to shape the continuing evolution of the regime in the service of our national interests.

Vietnam and the Third World: An Old Weapon in a New Arena

The original postwar focus of the US-created arms transfer regime was to provide weapons to the states that served the preeminent goal of US foreign policy—the containment of the Soviet Union. The vast majority of US arms and assistance during the first 20 years following World War II was therefore lavished on Western Europe. Beginning with the success of Castro's revolution, however, the United States changed the geopolitical focus of the arms transfer regime from the developed to the developing world. While opposing Soviet expansion remained the theme, the principal arena for that expansion and the US response to it became the Third World (see Table 1, on the following page).

In an address before the Corps of Cadets at West Point in 1962, President John F. Kennedy identified the new challenge: "Subversive insurgency is another type of war, new in its intensity, ancient in its origins. . . . It requires a whole new kind of strategy . . . a wholly different kind of force."² A large part of this new strategy revolved around the transfer of arms. The crucible for testing this new direction was Southeast Asia. By 1963, Vietnam dominated US foreign aid and defense spending. East Asia and the Pacific region ranked first throughout this period in terms of the funds expended under the Military Assistance Program, garnering more than \$3.8 billion. Yet that sum was dwarfed by the \$15 billion provided under the auspices of a special fund called the Military Assistance Service Fund, created for the purpose of supplying arms and military assistance to US allies in Southeast Asia.

Despite this huge outlay of funds, the results of military assistance in Vietnam were, to say the least, disappointing. These results led US policymakers to doubt the efficacy of military policies in general, and arms transfers in particular, in countering the threat posed by insurgencies in the Third

Dr. Stephen C. Daffron is Vice President of the New York Mercantile Exchange and formerly an Army Major and Assistant Professor in the Department of Social Sciences at the US Military Academy, West Point, N.Y. He is a 1978 graduate of the Military Academy and holds three master's degrees and a Ph.D. in political science from Yale University. In 1989 Dr. Daffron received a Ford Foundation Fellowship for the study of defense economics at Yale. In 1981-83 he commanded a troop of the 12th Armored Cavalry Regiment in Buedingen, Germany. He subsequently served as a staff officer with the 3d Armored Cavalry Regiment, Fort Bliss, Texas, as a strategic analyst in the Office of the Secretary of Defense, and as an analyst with the Strategic Defense Command.

Table 1: Regional Rankings of Recipients of US Arms
(millions of current US dollars)

Fiscal Years 1950-1963	
Europe/Canada	18,400
East Asia/Pacific	8,970
Near East/South Asia	1,570
American Republics	600
Africa	93
Fiscal Years 1964-1973	
East Asia/Pacific*	19,170
Europe/Canada	2,770
Near East/South Asia	582
American Republics	426

*All Military Assistance Service Fund appropriations are included in this regional total.

Source: *Defense Security Assistance Agency Annual Presentation to Congress, 1986.*

World. Even before the full effect of the larger political and military failures in Vietnam had become evident, the Johnson Administration began turning toward economic and social development as a complement to, if not an outright replacement for, military assistance. This development led the United States to reduce the numbers and sophistication of the weapons being offered to other Third World states. This new attitude was evident in the State Department's encouragement of Asian and Latin American military leaders to lend their managerial and technical assistance to civilian development efforts, accompanied by pointed suggestions that they reduce their requests for expensive weapons which would absorb funds and manpower needed for economic modernization.

Many Third World leaders, both military and civilian, deeply resented such thinly veiled paternalism. For example, when Peru decided in 1965 to replace its obsolete F-86 fighter-interceptors with a modern supersonic aircraft, the United States refused to allow the export of the Northrop F5A Freedom Fighter because the request represented "a prime example of wasteful military expenditures for unnecessarily sophisticated equipment . . . when generous US credits are being extended for economic development."³ Angrily denouncing the US interference, the Peruvians turned to Europe to satisfy their demands, with the French only too happy to help. Other Latin American states quickly followed suit, and soon the British, Italians, and Germans, as well as the French, had reentered the Latin American market. The United States reacted strongly to such blatant violation of the rules of the

regime—at one point threatening to suspend all economic aid to Peru because of its ill-advised purchase. But the threat was never carried out. The rules of the regime had changed. Both “recipient” or “purchasing” states like Peru and allied supplier states like France had discovered that they could violate certain aspects of the US-defined rules with relative impunity.

The change in rules did not mean, however, that the regime was not worth maintaining—just that some of the rules were being rewritten. Even while the tragedy of Vietnam was still center stage, the Six Day War of 1967 highlighted the continuing utility of the arms transfer regime to both the subscribing states and the United States. The weapons transferred to Israel were focused directly on a regional conflict which was linked only indirectly to the larger East-West confrontation. The overwhelming success of the US-supplied Israeli military was seen by other recipient states as a revalidation of the essential rules of the regime—but without the overarching East-West political constraint. The memory of this third-party success in the closing days of the direct US involvement in Southeast Asia brought the changed norms into sharp focus and gave them *de facto* legitimacy.

Emergence of the Nixon Doctrine

In 1969, the United States made the changes official policy—christening them collectively the Nixon Doctrine. This new set of norms and rules recognized the limitation on the US use of force, and said that the United States, which could no longer act directly using its own military forces in the Third World, would instead act indirectly to achieve its security interests. This would be accomplished using the forces of friendly states, which would be generously armed and supplied by the United States. The subtext of the policy said that the absolute control previously exercised by the United States would now be tempered by US acceptance of its own limitations.

It is worthwhile noting that the new rules promulgated by the United States under this policy also included a sharply worded requirement for subscribing states to pay for, rather than receive as aid, the material assistance provided by the United States. This new encouragement of “self-sufficiency” was to be modified only as absolutely necessary, based on specific policy objectives of the United States in terms of access to bases and reinforcement of endangered allies.⁴

The most illustrative and famous example of the Nixon Doctrine was the relationship that developed between the United States and Iran. Iran had long been considered an important ally of the United States, but it took on even more prominence with the British announcement that the presence of the Royal Navy in the Persian Gulf would end in 1971. While British military forces in the Gulf were hardly awe-inspiring, the United States had generally relied on London to serve as the guardian of Western interests in that vital

region. With the British out of the picture, and the ability of the United States to use military force severely limited by its heavy commitments in Southeast Asia, a new strategy had to be developed. Henry Kissinger, then the National Security Advisor to President Nixon, ordered a review of the policy options. The results of this review as approved by Nixon were reflected in National Security Decision Memorandum Number 92 (NSDM-92), issued on 12 July 1969. The essence of this strategic decision was a formal application of the Nixon Doctrine to the Persian Gulf. The memorandum recognized the new limitations on American power and identified the corresponding requirement to bolster Iranian power in order to guard Western interests in the Gulf region.

This transformation led to a series of significant departures from the old rules of the regime. While the Shah was more than willing to serve as a regional gendarme, he fully expected to acquire the military resources befitting such a change in the rules of the regime. No longer would Iran simply accept the secondhand weapons supplied by the Military Assistance Program; it insisted on being supplied with the most sophisticated arms in the US arsenal. One of the first changes the Shah demanded was a complete upgrade of the Iranian air force with the Grumman F-14 Tomcat. This request was a shocking departure from the old rules. Never before had the United States transferred such an advanced weapon to a Third World nation, and never before had a Third World state been so adamant about its demands. The Shah himself stated the case clearly: "Western Europe, the United States, and Japan see the gulf as an integral part of their security, yet they are not in a position to ensure that security. That's why we're doing it for them."⁵ When doubts surfaced in the Pentagon about the ability of Iran to safeguard the advanced technology contained in such weapons, the transfer of the Tomcat was delayed. The Shah reacted angrily to the delay, criticizing the US refusal to support him in his attempts to contain communism and protect Western interests in Southwest Asia.⁶ President Nixon and Secretary of State Kissinger thereupon visited the Shah to soothe his ruffled feathers, following which the President directed that in the future "Iranian arms requests are not to be second-guessed."⁷

In the years following Nixon's *carte blanche*, Iran ordered staggering numbers of US weapons. The backlog of Iranian arms ordered but not delivered climbed from \$500 million in 1972 to \$2.2 billion in 1973 to \$4.3 billion in 1974. Table 2, on the following page, lists the major weapons the United States agreed to supply to Iran during this period.⁸

By the mid-1970s, critics of the arms transfer regime within the United States were becoming much more vocal. Members of Congress and the press charged that the Nixon and the Ford Administrations had lost sight of the underlying logic for US arms transfers. Despite these complaints, the United States continued to expand its share of the international arms market.

Table 2: US-Iranian Arms Agreements 1972-1974

<i>System</i>	<i>Number Ordered</i>	<i>Estimated Cost</i>
F-14 Fighter	80	\$2 billion
F5F Fighter-Interceptors	169	\$480 million
F-4 Fighter-Bombers	209	\$1 billion
F-16 Fighter	116	\$3.2 billion
Helicopter Gunships	202	\$367 million
Transport Helicopters	326	\$496 million
Destroyers	4	\$1.5 billion

Source: US Congress, Senate, *U.S. Military Sales to Iran*, Committee on Foreign Relations Staff Report, 94th Cong., 2d sess., 1976.

Kissinger, the architect of the policy, saw the economic situation and the post-Vietnam political imperatives as making these massive transfers more compelling than ever before.⁹ The balance-of-payments problem was far larger than the paltry sums that had caused alarm during the Kennedy era, and it was being accelerated by the rapid increase in the price of oil. As the red ink mounted, the United States scrambled to recover as many of the hemorrhaging petrodollars as possible. Deputy Secretary of Defense William Clements testified before Congress that the arms transfers to Iran, Saudi Arabia, and other Gulf states strengthened “both free world security and the US balance of payments position.”¹⁰ Congress, however, was not convinced. In a much publicized report, the staff of the Senate Foreign Relations Committee declared bluntly that the executive branch had lost control of the arms being transferred to the Middle East and that US arms transfer policy in that region should be reevaluated.¹¹

While the Middle East was the primary focus of the Nixon Doctrine, US sales to Europe had continued during this period. Unlike the early postwar years, however, the European aerospace industries—not only French and British but also Swedish, Dutch, Italian, and German—were unwilling to concede lucrative European sales to the American defense industry. Doling out promises of subcontracts, industrial offsets, and commercial spin-offs, European corporations like Dassault, Saab, Fokker, and Messerschmitt lobbied their governments for support and attempted to use that support to leverage other European governments. Dassault was undeniably the most aggressive in such efforts—though the French government needed little persuasion to see the benefits of a French-produced European fighter. By August 1974, French Prime Minister Jacques Chirac was calling the selection of a European aircraft “a test of political will for a united Europe.”¹²

In the United States, General Dynamic's new lightweight fighter-interceptor, the F-16 Falcon, had won the Air Force's competition to supplement the heavier and more expensive F-15 Eagle, which was designed for the air superiority mission. The US Department of Defense, under the leadership of Secretary of Defense James Schlesinger, felt it was essential to standardize NATO fighters on the American model, thereby cutting per-unit F-16 procurement costs for the US Air Force. The Pentagon made no attempt to disguise its efforts to convince the European militaries that the F-16 should also be their choice. In an ironic bit of teamwork, congressional critics of increased defense spending were also aware of the increased cost of defending Europe and made pointed references in the American press to the dollars being wasted on the inefficient procurement projects necessary to arm NATO. Even President Ford got into the act by specifically addressing the question with Belgian Prime Minister Leo Tindemans during a 1974 NATO summit.

At first, American pressure seemed to have no effect. Every American move was met by a series of European countermoves; by the spring of 1975, no European state had yet made a commitment to buy the F-16. Secretary of Defense Schlesinger then offered to sweeten the deal by arranging generous coproduction contracts and assuring the Europeans they could recoup their investment by selling additional planes to the Third World. Focusing on Belgium as the key state, he also offered to offset the cost by purchasing \$30 million worth of Belgian machine guns. Apparently the sweeteners worked: at the Paris air show in June, the Belgians, Dutch, Norwegians, and Danes announced that they would buy the F-16 in what was called the "arms deal of the century" in *Newsweek*.¹³

Arms Transfers Reined In: Idealism and the Carter Era

By the last year of the Ford Administration, the executive branch's apparent loss of control over US arms transfers had led Congress to pass the International Security Assistance and Arms Control Act over President Ford's veto.¹⁴ This theme was seized upon up by Jimmy Carter in his campaign for the presidency. Addressing the Foreign Policy Association he said, "I am particularly concerned by our nation's role as the world's leading arms salesman. . . . [T]he United States cannot be both the world's leading champion of peace and the world's leading supplier of the weapons of war." Nor was his interest only a campaign issue. In one of his first actions following his inauguration in January 1977, President Carter ordered Secretary of State Cyrus Vance to review all aspects of US arms export policies and to develop recommendations for modifying these policies and practices. Four months later, after extensive bureaucratic negotiation involving the White House, the State Department, the CIA, and the Department of Defense, the new guidelines were adopted as Presidential Directive Number 13 (PD-13).

These guidelines again altered the basic rules of the arms transfer regime. The changes ensued largely from the introduction of two basic assumptions reflective of Carter's skeptical view of arms transfers: first, that the spread of conventional weapons threatened international stability, and second, that the United States had a special responsibility as the world's leading military power to shape the regime so as to restrain arms transfers. According to Carter, this dual imperative meant that the United States would henceforth "view arms transfers as an exceptional foreign policy implement, to be used only in instances where it can be clearly demonstrated that the transfer contributes to our national security interests."¹⁵

The guidelines were immediately attacked from both sides. Arms exporters condemned the controls as unfair and too restrictive, while arms control proponents thought them too weak and too full of loopholes to have a significant effect. Both were right, to some extent. As the arms merchants and their lobbyists anticipated, the guidelines caused significant changes in the way the bureaucracy managed the export of arms, but loopholes permitted a selective application of the rules. The net effect was that the rate of US arms transfers was reduced in some regions of the world but continued to balloon elsewhere.

Carter's unilateral restriction had no noticeable effect on the arms transfers of US allies. European arms exporters simply were not interested in restricting arms exports. While they mouthed platitudes on restraint, they were also busily grabbing the sales no longer being pursued by the Americans. Citing the health of their arms industries and the necessity of maintaining their economic and political interests in the Third World, the French, British, Italians, and increasingly the Germans and Japanese actively competed for the newly available slice of the international arms market.¹⁶ The marketing blitz mounted by these states made the US suggestion of multilateral restraints by Western producers look ridiculous. In their defense, the Europeans suggested to the Carter Administration that before the smaller exporters could begin effectively to restrict their arms exports, the superpowers must first come to some agreement on restricting their own arms exports.

Taking his cue from the Europeans, President Carter ordered discussions with the Soviets on the subject, prompting the Conventional Arms Transfer Talks of 1977. But the effort faltered. While the delegations met four times and it seemed initially that real progress was possible, the US delegation became embroiled in a bureaucratic dogfight and the talks soon broke down completely.¹⁷

Although never officially rescinded, the arms export guidelines were renounced *de facto* during the last two years of the Carter Administration. Secretary Vance later explained the Carter Administration's change of heart as a function of Soviet and Cuban adventurism in the Third World and the

cynical unwillingness of other nations to even attempt multilateral restraint of weapon sales.¹⁸ The idealism of the Carter restraints on arms transfers had come in with a bang, but it went out with a whimper.

Reaganism, Pragmatism, and Changes in the Regime

The Reagan Administration approached arms transfers with a philosophy exactly opposite to President Carter's. During their first six months, the Reaganites abandoned nearly all the Carter initiatives and offered instead practices designed to facilitate the use of arms transfers as a foreign policy tool. US military and embassy staffs were instructed to provide all "courtesies and assistance to firms that have obtained licenses to market items on the United States Munitions List as they would to those marketing other US products."¹⁹ In a speech to the Aerospace Industries Association, Under Secretary of State for Security Assistance James Buckley criticized Carter's arms transfer policy as having "substituted theology for a healthy sense of self-preservation." He pointed out the increase in military power of the Soviet Union relative to the United States which had occurred during the Carter presidency and indicated that the primary function of US arms transfer policy under the Reagan Administration would be an attempt to reverse that trend. This purpose, he explained, was obstructed by congressional limitations on arms transfers over concerns such as human rights violations or nuclear proliferation. "While these well-intentioned efforts have had little detectable impact on such behavior or intentions, they did lead at times to the awkward result of undercutting the capabilities of strategically located nations in whose ability to defend themselves we have the most immediate and urgent self-interest."

Reagan's guidelines were announced as formal policy on 8 July 1981 in a directive specifically superseding Carter's PD-13. Focusing on the "challenges and hostility toward fundamental US interests," the new guidance said the United States must "in today's world not only strengthen its own military capabilities, but be prepared to help its friends and allies to strengthen theirs through the transfer of conventional arms and other forms of security assistance." Noting the absence of interest in restraining arms on the part of other arms-producing countries, the directive declared, "The United States will not jeopardize its own security needs through a program of unilateral restraint." The

The idealism of President Carter's restraints on arms transfers had come in with a bang, but it went out with a whimper.

document listed in some detail the advantages that the Reagan Administration expected to derive from this change in policy, including helping to deter aggression, improving effectiveness of US armed forces, increasing interoperability and standardization of allied forces, demonstrating American commitment, fostering regional and international stability, and helping to “enhance US defense production capabilities and efficiency.”²⁰ Citing *realpolitik* as the only significant justification for the arms transfer regime, Reagan’s policy held that the only criterion to be uniformly applied was a transfer’s “net contribution to enhanced deterrence and defense” of the United States.

The repeal of the Carter guidelines and the new strength of American defense spending presaged a surge in US arms transfers. All the bureaucratic signs pointed to increased support by the US government for military exports. Approvals that had been delayed for weeks under Carter were now approved in a day.²¹ Even before the new policy was announced, the Reagan Administration had approved several weapon sales that had been repeatedly denied by the previous Administration. For example, Reagan offered Pakistan’s General Zia the advanced version of the F-16, minimizing the nuclear proliferation problems attendant upon the sale. Completely reversing the refusal to sell sophisticated arms to Latin America, the United States also agreed to sell two squadrons of F-16s to Venezuela despite opposition within the Pentagon and the Organization of American States. Cobra helicopters with TOW antitank missiles were requested by Jordan’s King Hussein and quickly approved for sale. M-60 tanks and anti-insurgency OV-10 planes were sold to Morocco to aid in its struggle against the Polisario in the Spanish Sahara. During his first three months in office, President Reagan offered more than \$15 billion in weapon transfers to governments around the globe—a record that in constant dollars exceeds even the volume of contracts following Nixon’s *carte blanche* to Iran. During Reagan’s first two years in office, contracts negotiated under the Foreign Military Sales and Foreign Military Construction Sales programs grew from \$7.6 billion in FY 1981 to \$20.3 billion in FY 1982.²²

One such decision proved to be the most politically controversial decision of the first Reagan Administration. In February 1980, Saudi Arabia formally requested permission to purchase the E-3 AWACS. The Reagan Administration agreed, deciding to offer the AWACS in a package that included Sidewinder missiles, long-range fuel tanks for the F-15, and aerial refueling tankers. The resulting firestorm of opposition from Congress, the American Israeli Public Affairs Committee, and the press initially blocked the transfer in the Senate. Only after an intense and politically costly lobbying campaign was the Administration able to uphold the sale on a narrow 52-48 vote.

Outside the Middle East, Reaganism opened up new markets for American arms. Thailand, Singapore, and Indonesia contracted to buy the F-16, which had become the world’s most popular fighter aircraft. In 1985,

During his first three months in office, President Reagan offered more than \$15 billion in weapon transfers to governments around the globe.

Algeria, a traditional customer of the French arms industry, after wooing by the Reagan Administration, requested permission to buy US arms. India, which had not purchased a major piece of US weaponry since 1965, signed an agreement in late 1985 to purchase US weapons.

The most significant of these new customers in terms of the old East-West rules was the People's Republic of China. In March 1980, soon after the Soviet incursion into Afghanistan, the Department of State officially sanctioned the export of certain non-lethal defense material to the PRC.²³ The liberalization process continued in 1981 when China was removed from the list of nations routinely denied US munitions exports and was instead classified as category V—covering nations that were not allies but were considered as “friendly to US national interests.”

Dealing in a Buyer's Market

Despite these new customers, the total dollar value of US arms transfers fell following the initial burst of sales. This decline was not restricted to US arms transfers; the amount of weapons sold worldwide fell off by 28 percent in 1983. However, when the global level of arms transfers began to rise again in the middle of the decade, the US trend line remained relatively flat. The international market for US arms seemed to be drying up, especially in the Third World. Analysts pointed out the increasing awareness in these developing states of the link between their debt to Western banks and the weapons ordered from Western countries. The response of the arms exporting nations was to compete even more keenly for the sales that were still available.

Competition was especially fierce at the upper end of the technology scale—products such as aircraft, missiles, and avionics. Britain and France had long been powerful in this high-tech market; now other European states like Sweden and Italy expanded their capabilities so that they too could compete for the big prizes. At the lower end of the scale, newly industrializing states like Brazil and Spain began to make significant inroads in the international market. Brazil, in particular, became a global competitor in armored personnel carriers, military trucks, and medium tanks. The Brazilians also competed, with somewhat less success, in the global market for short-range missiles and trainer aircraft.

The US market share eroded as the competition heated up. From its peak of 36 percent in 1982, the US share dropped to less than 30 percent in 1987.²⁴ In a landmark deal, Saudi Arabia, America's premier cash customer in the Middle East, agreed in June 1988 to buy an estimated \$10 billion in aircraft and military equipment from the British. While the loss of the Saudi sale was not in itself catastrophic, the implications of the loss of the Middle Eastern market are far from trivial. Paul Nisbet, an analyst for Prudential Bache, estimated in 1989 that the weapon orders shifting from US to European sources in the Middle East alone would total more than \$100 billion over the following 12 to 15 years.²⁵

To compete in this buyer's market, US defense exporters were forced to share more of the profits, jobs, and technology associated with the arms deals. The necessity to compete in terms of coproduction rights, financing, and technology transfer rather than just the capability of the weapons and the purchase price was a new and unpleasant experience for the American defense industry. American weapons had traditionally been the most sought-after in the world because of their reliability and the prestige associated with the American military. By the mid-1980s that was no longer the case. As the Defense Science Board concluded in a 1987 report: "For the past 40 years, America has assumed that globalization was a one-way street; we had the superior technology . . . [and] allies were expected to rely on our advanced systems for equipping their forces. Today, because of the evolution of the world economy, that is no longer true."²⁶

Offsets have become another obstacle to traditional US transfers in this new, more complicated international arms market. Not content with simply acquiring the best weapon system at the best price, purchasing states, both developed and developing, insist that the cost of importing the weapon be offset by exports of its products or an accompanying transfusion of technology.²⁷ Direct offsets occur when the seller purchases something from the purchasing state which is used in the production of the weapon system. Indirect offsets are more complicated arrangements involving a reciprocal purchase of goods unrelated to the acquisition of the weapon system. In the case of indirect offsets, the US contractor must use or market the goods that it acquires as part of the deal. Barter or countertrade is simply that—acceptance of a quantity of some other good in exchange for an agreed-upon number of weapons.

While the US government refuses to become officially involved in negotiating offsets, most sales of American weapons during the Reagan era included some form of these agreements.²⁸ According to a study conducted by the Office of Management and Budget, \$22.4 billion of military contracts between 1980 and 1984 included acknowledged offset agreements equaling \$12.3 billion. While countertrade and barter agreements are generally associated with Third World sales, most direct and indirect offset agreements

by US defense exporters are with the more industrialized allies and involve primarily the transfer of technology in coproduction schemes. To compete successfully for the sale of the F/A-18 fighter in Switzerland, McDonnell Douglas negotiated an offset package that was actually larger than the \$1.8 billion the Swiss agreed to pay for the aircraft. Likewise, Boeing's AWACS sale to Britain was closed only after the American corporation agreed to spend \$1.30 in Britain for every \$1 in revenue generated by the purchase of the surveillance aircraft. The debate over the sale of a modified form of the F-16 fighter to be produced in Japan (called the FSX project for Fighter Support Experimental) hinged primarily on questions of technology transfer and the long-term economic effect of the offset package. In each of these agreements the economics of the sale was considered more important than the political consequences as defined in terms of the then-prevailing East-West conflict.

Conclusion

When we look back on the evolution of the US arms transfer regime over the last 30 years, two trends stand out clearly. First, the rules and norms of the regime are no longer defined in Cold War terms, nor are they ordained solely or even primarily by the United States. Instead, the rules and norms of contemporary arms transfers are an amalgam of compromises among the political and economic interests of the United States, its allies who are also arms suppliers, and the purchasing states. The norms and rules of the Cold War arms transfer regime were composed primarily of political restrictions enforced and underwritten by the predominance of US economic and political power. The erosion of that predominance has led to changes which make the current regime seem more cooperative than hegemonic in nature. While the United States remains the strongest player in the arms transfer game, it can no longer make or change the rules on its own.

Second, the relative importance of politics and economics in the regime has changed. Before and during the Vietnam War, the United States transferred weapons in exchange for nothing more substantial than a clear signal of political allegiance in the East-West conflict. Today, the United States, while still supporting its indigent and oppressed allies with military aid, also seeks economic advantage from the transfer of its weapons. The heated competition for sales between the United States and its allies, the increasing importance of offsets and countertrade, and the relative decline of ideological commitment as the determining factor are indisputable evidence that the political allegiance of a state is no longer the last word in the arms it transfers or acquires. Arms deals between countries are no longer invariably seen as a clear signal of political obligation; they may indicate nothing more than a bargain price or an overstocked warehouse. This conclusion is not an argument for ignoring the security concerns which still form the basis for US

arms transfers, but an acknowledgment that those concerns are no longer definable in simple terms of political allegiance.

These are not unimportant trends. We live in a rapidly changing age when arms transfers—and the power and wealth that flow from them—significantly affect the security and welfare of the globe. The United States is, and is likely to remain, the premier arms supplier in the world. Arms transfers are an undeniable part of the US presence on the world stage in both its political and economic roles. Our provision or denial of military hardware and know-how affects the makeup of many governments, the course of our foreign policy, the strength of our alliances, and hence to a large degree the social and political climate in which a large part of the world's people live. It also affects billions of dollars in public spending every year and therefore the economic well-being of those same people.

An understanding by American policymakers of the complexity and importance of the current arms transfer regime is critical if we are to guide its continuing evolution in directions that serve American interests. We must deal with the complex, evolutionary nature of the arms transfer regime as it now exists: *The current demand for US weaponry is a function of complex calculations based on the interdependent economic and political interests of many states and not on simple ideological allegiance defined within a hegemonic structure.*

If we accept this conclusion, the philosophy and the process that have generated our current arms transfer policies need to be rectified. Despite recent changes, contemporary US arms transfer policies are still derived largely from the ideological alignment of purchasing states without regard for the changes in the rules of supply and demand which dominate the new regime. Given the changes in the Soviet Union and Eastern Europe, whatever residual East-West ideological rivalry that remains is certain to shrink even further. Purchasing states no longer seek arms based on simple ideological factors; accordingly, we should not be predisposed to supply them on that basis, nor should we expect our allies to do so. Arms transfers are a powerful political and economic tool in the foreign policy of the United States. In order to use that tool effectively, the United States must craft its policy in accordance with the factors that drive the supply and demand for weapons in the 1990s, not the 1960s.

NOTES

1. The term "regime" is used here in the sense of the larger "rules, norms, and decisionmaking procedures around which [international] actor expectations converge." Stephen D. Krasner, *Structural Conflict: The Third World Against Global Liberalism* (Berkeley: Univ. of California Press, 1985), p. 4.

2. Theodore C. Sorenson, *Kennedy* (New York: Harper and Row, 1965), pp. 632-33.

3. Luigi Einaudi et al., *Arms Transfers to Latin America: Towards a Policy of Mutual Respect*, Rand Corporation Report R-1173 (Santa Monica, Calif.: Rand, 1973), pp. 2-4.

4. Defense Institute for Security Assistance Management, *The Management of Security Assistance* (Washington: GPO, 1986).
5. "Being Strong and Being Wise," *Newsweek*, 21 May 1973, p. 44.
6. The strength of the Shah's hand in this negotiation can be seen in the clause in the delivery contract for the F-14s which said "technical improvements of the airframe, the avionics, and the missile system would continue until the date of delivery." The Shah would accept no obsolete technology. Anne Hessing Cahn et al., *Controlling Future Arms Trade* (New York: McGraw Hill, 1977), p. 31.
7. Henry Kissinger, *The White House Years* (Boston: Little Brown, 1979), p. 1264.
8. Secretary Kissinger also agreed during this period to sell Iran the nuclear-capable Pershing surface-to-surface missile but was subsequently dissuaded by the Department of Defense. Andrew J. Pierre, *The Global Politics of Arms Sales* (Princeton, N.J.: Princeton Univ. Press, 1982), p. 48.
9. "State Department Doubts Arms Limit Success," *Aviation Week and Space Technology*, 4 October 1976, p. 16.
10. US Congress, House, Committee on Foreign Affairs, *Hearings on Mutual Development Act of 1973*, H.R. 13323, 90th Cong., 2d sess., 2 February to 23 April 1973.
11. US Congress, Senate, *U.S. Military Sales to Iran*, Committee on Foreign Relations Staff Report, 94th Cong., 2d sess., 1976.
12. "A Test of Political Will," *Le Monde*, 24 August 1974.
13. "F-16: A \$2 Billion Winner," *Newsweek*, 16 June 1975, pp. 66-67. *International Herald Tribune*, 7 August 1976.
14. US Congress, Senate, Committee on Foreign Relations, *International Security Assistance and Arms Export Control Act of 1976*, Report on S.3439, 94th Cong., 2d sess., 14 May 1976, p. 10.
15. Congressional Research Service, *Changing Perspectives on U.S. Arms Transfer Policy* (Washington: GPO, 1981), pp. 122-23.
16. Lawrence Franko, "Restraining Arms Exports to the Third World, Will Europe Agree?" *Survival*, 21 (January-February 1979), 14-25.
17. While it is unfair to say that the failure of the Conventional Arms Transfer Talks was due solely to bureaucratic infighting, it is appropriate to note that the US negotiating position during the talks changed several times as a direct result of a "savage bureaucratic struggle" between Leslie Gelb, the US negotiator, and Zbigniew Brzezinski, President Carter's National Security Advisor. Andrew J. Pierre, *The Global Politics of Arms Sales* (Princeton, N.J.: Princeton Univ. Press, 1982), pp. 286-90.
18. George C. Wilson, "President Calls Off Program to Trim Foreign Arms Sales," *The Washington Post*, 29 March 1980, p. A4.
19. Ronald Reagan, "Arms Transfer Policy Directive," Office of the White House Press Secretary, 9 July 1981.
20. Congressional Research Service, *Changing Perspectives on U.S. Arms Transfer Policy* (Washington: GPO, 1981), pp. 127-28.
21. "Reduced Time for Export Approvals," *Aviation Week and Space Technology*, 29 June 1981, p. 29.
22. Defense Security Assistance Agency, Office of the Secretary of Defense *Congressional Presentation for Security Assistance Programs* (Washington: GPO, 1984).
23. Henry J. Kenny, "Underlying Patterns of American Arms Sales to China," in US Arms Control and Disarmament Agency, *World Military Expenditures and Arms Transfers 1986* (Washington: GPO, 1986), pp. 39-40.
24. *Stockholm International Peace Research Institute Yearbook, 1987* (New York: Oxford Univ. Press).
25. Interviews with Paul Nisbet, an analyst for Prudential Bache specializing in defense procurement and exports, 27 February 1989 and 5 September 1989.
26. Richard W. Stevenson, "No Longer the Only Game in Town," *The New York Times*, 4 December 1988, sect. 3, pp. 1, 7.
27. While there are a number of names for this practice, offset is the broad generic term. For an explication of the terminology and practices of offsets and countertrade in the arms transfer regime, see Stephanie G. Neuman, "Coproduction, Barter, and Countertrade: Offsets in the International Arms Market," *Orbis*, 29 (Spring 1985), 183-213.
28. The government has not always refused to become involved in offset deals. Before 1978, DOD arranged all offset agreements connected with FMS contracts. In 1978 a document known as the Duncan Memorandum was passed by Congress reversing this policy. The Duncan Memorandum requires that DOD not be directly involved in offsets either as a participant or a guarantor, and that FMS credits not be used to directly finance coproduction or licensed production abroad. The corporations themselves thus became solely responsible for negotiating and executing the terms of the offset agreements with the purchasing state—a position that many defense companies says puts them at a distinct disadvantage.