

# CRS Report for Congress

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## Conventional Arms Transfers in the Post-Cold War Era

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### OVERVIEW

Conventional arms transfers in the post-Cold War Era are likely to be notably different from those that occurred prior to the collapse of the former Soviet Union, the dissolution of the Warsaw Pact, the reunification of Germany, and the subsequent outbreak of ethnic and regional conflicts. This report reviews some of the recent changes in conventional arms transfer patterns, discusses some of the possible near term trends in conventional arms transfers, and notes some implications of these prospective trends.

### IMPACT OF THE COLD WAR'S END

The major political and economic transitions wrought by the end of the Cold War have had a significant impact on conventional arms transfers, particularly in the Third World. The formal dissolution of the Soviet Union has contributed to a sharp fall in Russia's arms agreements, while the United States has become the undisputed leader in arms sales to the Third World, accounting for nearly one-half of the value of such arms transfers since 1990.<sup>1</sup> The continuing major reductions in domestic defense spending in many nations has become a matter of acute concern to their weapons industries. This factor has resulted in intense competition among suppliers for new arms deals throughout the globe, particularly in the Third World, where demand still exists although at a lower level. Developed countries are seeking to retain their domestic defense industrial bases, despite spending cutbacks, which makes it unlikely they will make many major weapons purchases from arms producers of other developed countries. The Third World, therefore, is the primary focus of their marketing.

In the aftermath of the Persian Gulf war, many inside and outside Congress called for dramatic new approaches to controlling conventional arms transfers, especially in the Near East region to reduce the likelihood of another massive weapons buildup such as had occurred in Iraq. In May 1991, the Bush

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<sup>1</sup>For details regarding the conventional arms trade with the Third World from 1985-1992 see Richard F. Grimmett, *Conventional Arms Transfers to the Third World, 1985-1992*, CRS Report for Congress 93-656 F, July 19, 1993.



Administration launched an initiative centered on curtailing the size and nature of arms sales to the Near East region. For more than a year meetings and discussions were held among the five permanent members of the United Nations Security Council (the U.S., the United Kingdom, Russia, France, and China), aimed at achieving agreement on a mechanism for the Permanent Five nations to notify one another in advance of their prospective arms sales to the Near East. An American goal was to establish an on-going consultation mechanism among the Permanent Five, following such advance notifications, which might result in curtailment of destabilizing arms sales to the Near East region. Subsequent meetings did not lead to such an agreement. By the fall of 1992, the Permanent Five discussions had effectively collapsed when China ended its participation following the announcement by the United States of the sale of 150 F-16 fighter aircraft to Taiwan.

Despite the setback in the Permanent Five talks, some members of the U.S. Congress have continued to support additional efforts to advance a wide range of initiatives aimed at controlling the conventional arms trade and the United States role in it. Others in Congress and outside it are making renewed efforts to secure U.S. Government loan guarantees for American weapons exports to enhance their prospects and thereby aid American defense industries faced with declining domestic orders and increased foreign competition. These efforts occur as the Clinton Administration begins to formulate its yet undefined approach to the broad issue of conventional arms sales policy. The conventional arms marketplace, meanwhile, is proceeding through a major period of transition. During this period, policymakers confront great pressures as they seek to reconcile the economic interests of domestic defense industries with the objective of limiting destabilizing arms transfers to Third World states.

## **RECENT DEVELOPMENTS**

The new Russian leadership seems committed to strengthening its domestic non-military industrial base and developing a market economy. Efforts are underway to transform Russia's political system as well. The transition from a communist system to one based on democratic and market concepts has been very difficult. Arms exports have been one of the few vehicles that Russia has had to obtain hard currency and shore up its severe foreign exchange shortage and debt servicing problems, as Moscow undertakes efforts to reduce domestic defense spending and to promote conversion of its defense industry to civilian applications.

### **Russia**

In an effort to increase income, and hard currency wherever possible, the Soviet Union, and now Russia, ended its grant military aid program with most of its Third World arms customers. At the same time, Russia has sought weapons contracts with countries such as Iran that can pay either in hard currency or a marketable commodity such as oil. Russia has also sought to increase its arms sales with China, a former adversary that needs Russia's advanced weapons and will pay to obtain them. Moscow further seeks arms deals with traditional Western customers such as Malaysia and the United Arab Emirates. Russia has also sought to maintain an arms supply relationship with

India, a key client in the past, even though to do so may require providing weapons on concessional terms. Nonetheless, a hallmark of Russian arms sales policy currently, and for the foreseeable future, seems likely to be the general absence of deep discounts and grants for most of its former Cold War era clients--such as Cuba, Vietnam, and Syria--adherence to United Nations sanctions by refusing to sell to Iraq, and possible use of barter arrangements with traditional Western clients as a means of securing new arms customers.

Despite its efforts to offer advanced weapons systems at competitive prices, Russia currently suffers from concerns by potential buyers that the industrial and political turmoil it has gone through during the breakup of the Soviet Union, and still in prospect, may have made it an unreliable supplier of the spare parts and support services required to maintain its weaponry. Given the option of selecting a Russian or a Western-produced weapon, many prospective buyers may conclude that it is more risky to purchase from Russia.

### **United States**

At the same time, the United States has become the principal arms supplier to most regions of the Third World for each of the last three years. The reputation of American weapons was enhanced by their overwhelming success on the Persian Gulf War battlefield. As a consequence, several Near Eastern countries have sought to purchase advanced U.S. weapons systems in the period since the war, as have nations in Asia. United States arms clients in these regions have included Saudi Arabia, Kuwait, Egypt, Israel, Taiwan, South Korea and Singapore.

Further, because of reductions in defense procurement in the United States resulting from the Cold War's end, American arms producers are focusing greater attention on obtaining additional foreign arms sales contracts to compensate, to the degree possible, for lost domestic orders. United States weapons systems have traditionally been built primarily for the American armed services, with only secondary consideration being given to foreign sales. As a result, these arms are more advanced, complex, and costly than those of most other suppliers of arms to the Third World, a fact that may place them beyond the reach of some prospective purchasers. But U.S. weapons producers seem likely to make more of their products attractive and competitive on a price basis to a wider range of foreign buyers.

### **Other Suppliers**

Notable reductions in national defense spending have also occurred in both major and minor arms supplying countries in Europe and elsewhere since the Cold War's end. At the same time, these nations have attempted to maintain or expand their traditional foreign arms sales programs. In most cases these supplier countries face difficulties in concluding large new arms deals even though they have historically placed greater emphasis on foreign arms sales than the United States--because of the importance of such exports to maintaining their respective defense industrial bases. Problems for these suppliers stem from significant reductions in orders for weapons by traditional

major clients and an overall increase in competition for available arms sales contracts.

From 1990 onward, Third World arms sales have been comprised of three general tiers of suppliers. In the first tier is the United States whose position far surpasses that of any other arms supplier to the Third World. In the second tier are France, the United Kingdom and Russia whose positions are notably below those of the United States, but distinctly above the positions of the remaining arms suppliers to the Third World. The four nations in the first two tiers have historically had the means and willingness to supply the most advanced weapons systems to favored clients in the Third World in quantity and on a continuing basis. But as competition for a declining Third World arms market increases, some of them may have difficulty sustaining the market shares they have held in the past.

In the third tier are China, other European suppliers, and other non-European suppliers--that have generally been marginal or sporadic participants in the Third World arms trade. Countries in this third tier are likely to change over time, especially at its lower end, since some of these nations lack the means to be major suppliers of advanced military equipment on a sustained basis. Some of them, however, are capable of having an impact on potential conflicts within Third World regions because of their willingness to supply weapons based almost exclusively on commercial considerations, including types of weapons that other suppliers would refuse to provide.

China's arms transfer agreements with the Third World fell sharply in 1991 and 1992 because Russia displaced China as Iran's preferred arms supplier. Iraq, another important Chinese client, was barred from arms purchases by the U.N. embargo after August 1990. Beyond the Near East region, China has not had many arms clients with large financial resources or major weapons purchasing programs, that could provide significant offsetting revenues. China seems ill-placed to sustain a high level of arms sales to the Near East region now that Beijing faces stiff new competition from arms suppliers such as Russia that can provide more modern and sophisticated weaponry.

Despite the decline in the volume of arms transfers, China's missiles and its willingness to sell them has been of continuing interest to certain Third World purchasers. In the latter half of the 1980s, China sold and delivered CSS-2 Intermediate Range Ballistic Missiles to Saudi Arabia, Silkworm anti-shiping missiles to Iran, and anti-tank and other surface-to-surface missiles to various Third World purchasers. China's position on its willingness to abide by the guidelines on missile transfers set out in the Missile Technology Control Regime (MTCR) is ambiguous at best. Given China's need and desire to obtain hard currency, it seems prepared to pursue arms sales opportunities it deems appropriate wherever they present themselves.

#### **PROBABLE NEAR TERM TRENDS**

Collectively, these recent political and economic developments in the post-Cold War era suggest several trends in conventional arms transfer activity that

are likely to continue or emerge in the near term. Among these are the following:

- There will likely be a continued reduction in domestic defense spending on conventional weapons by major weapons producers and a greater focus on seeking foreign arms market shares by United States companies and an accelerated effort at gaining greater shares of this market by non-U.S. weapons producers.
- It is likely that there will be an increasing emphasis by both major and minor arms suppliers on arms contracts with nations that can pay in cash or in commodities that can be sold for hard currency. This effort will lead to intense competition for deals with a relatively small number of arms buyers, as few have the wealth sufficient to procure the most expensive and advanced weapons systems. Some leading arms suppliers may not be in a position to supply credit for arms purchases, or may only be prepared to supply it to the most creditworthy customers. Consequently, most major suppliers may well focus their foreign arms sales activities on wealthier clients in the Near East and Asia. Most of the smaller arms suppliers are likely to compete successfully only for sales of medium and lower technology items to Third World states for whom the lowest price for a basic weapon system is the most critical consideration. The collective effect of these circumstances, however, may be a continuing decline of the Third World arms trade, and overall arms sales in general.
- The reduction in domestic weapons demand is likely to lead to greater consolidation within both U.S. and foreign defense industries, while some defense industries may seek, where feasible, to convert from defense to non-defense production activities. There are also likely to be increased efforts to launch cooperative weapons production ventures among some supplier nations for some classes of weapons in order to reduce overall costs and to enhance the competitiveness and marketability of the arms thus produced.
- Due to cost considerations, it is probable that several nations, particularly those with limited resources, will seek to upgrade and modernize their older weapons systems rather than purchase new versions. These upgrade programs may produce significant sales opportunities for weapons producers, especially those with more sophisticated equipment to sell. Potential upgrade programs, for example, might involve, but not be limited to, such areas as avionics, smart weapons, radar systems, and a wide range of electronic components.
- Some weapons purchasing nations may also seek to finance their upgrade programs by selling some of their older military equipment to other less wealthy countries, who for their part may seek such equipment as a means to upgrade their own weapons holdings. A cascading of weapons transfers down the scale of technological sophistication may thus occur because the respective buyers and sellers

in such cases believe such transfers serve their mutual interest of achieving a greater military capability at a lower cost.

- There are likely to be greater efforts by weapons buyers to obtain weapons production know-how as part of a new arms sale agreement in order to enhance their ability both to produce weapons domestically, to reduce their overall costs, to create jobs domestically and to gain greater independence from foreign arms suppliers for basic weapons systems and components. Nations that can pay cash for their weapons will have greater opportunities to secure such agreements.

### **SOME IMPLICATIONS OF PROSPECTIVE TRENDS**

In the post-Cold War era, the above noted trends are likely to have some important implications. Prospective buyers and sellers will be affected in varying ways. With financial considerations being a far greater factor than ideology in conventional arms transactions, wealthy buyers will have enhanced ability to obtain concessions they seek from weapons producers, confronted with major reductions in domestic demand for their products. The intense competition to close sales with cash paying purchasers will likely result in greater numbers of transfers of weapons production technology than has been the case in the past. In the longer term, this increased emphasis on transfer of production technology will enhance some weapons-buyers capability to become more independent of sellers. It will take time for such buyers to maximize their capabilities from this knowledge transfer, but in the longer term there will be a proliferation of weapons production capability throughout the world, and increasingly so in the Third World.

Those selling nations with the greatest technological capabilities will have the greatest advantages in arms sales competition because they have the weapons and knowledge most buyers are seeking. New associations are also likely to emerge from these trends. Former adversaries may find it mutually advantageous to trade with one another--weapons sales by Russia to China and by Russia to Iran are but the most obvious examples. Western suppliers may also engage in marketing efforts with former Eastern bloc foes.

Poorer Third World nations are likely to have fewer opportunities to obtain weapons they seek due to lack of cash and will have to settle for earlier generation items from re-transfer sales or through up-grades of existing systems they hold. As a result a multi-tier arms market is likely to emerge.

In the short-run, the Third world arms market is likely to continue to contract due to lack of cash by would be buyers or the availability of credits for purchases. There are likely to be only a handful of very large new sales in the near-term. However, there are likely to be many more upgrade sales in prospect. Some Third World nations may also seek some forms of un-conventional weapons (such as chemical or biological weapons) if they feel threatened by neighbors, and are otherwise not capable of securing the conventional weapons systems they believe they need.