Arms Sales to the Third World, 1977

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Key Judgments

Arms sales to the Third World[1] reached an estimated $22.4 billion in 1977 as sizable orders by Iran and other Middle East clients reversed a two-year slump. In terms of constant US dollars (with Soviet sales being valued on a comparable basis), 1977 sales, although still 10 percent less than 1974 sales, were about 10 percent above the 1975-76 level.

	Billion US $	Billion 1976 US $ Constant Prices
1974	21.3	25.6
1975	19.5	21.1
1976	19.5	20.9
1977	22.4	22.9

On the buyers' side, Iran and Saudi Arabia continued to dominate the market in 1977, purchasing about 45 percent of the arms sold to Third World countries. Algeria, Iraq, Ethiopia, India, and Argentina accounted for another 20 percent.

As for suppliers, the USSR, France, and West Germany substantially increased their Third World arms sales in 1977, in both absolute and percentage terms. The United States, while retaining its lead as the single largest supplier, saw its market share decline by 8 percentage points. US sales are characterized by proportionately larger support and associated services provided clients. In the support category, US sales in constant prices surpassed those of the USSR (the second-largest arms supplier) by 75 percent; in services, the ratio was 8 to 1. As for weapon systems, the spread between US and Soviet sales was narrower, with US sales only 12 percent higher.

[1] For the purpose of this report, the Third World refers to the following: (1) all countries of Africa except South Africa; (2) all countries of East Asia except Hong Kong and Japan, and Cambodia, Laos, and Vietnam, which became Communist in 1975; (3) Greece and Turkey in Europe; (4) all countries in the Middle East and South Asia; and (5) all countries in Latin America except Cuba.

Deliveries of military items to the Third World continued their rise of recent years, in both current prices and constant prices (with Soviet deliveries valued comparably):

	Billion US $	Billion 1976 US $
1974	7.9	9.8
1975	8.9	10.3
1976	11.7	12.7
1977	13.8	14.1

Once again the USSR responded more quickly than other suppliers in following up sales with deliveries. At the end of 1977 the backlog of Soviet orders stood at about $5 billion, while the backlog of other suppliers had mounted to $45 billion, including $30 billion for the United States (fiscal year data). The five top Third World recipients of foreign arms in 1977 were Iran ($2.7 billion), Saudi Arabia ($2.0 billion), Israel ($1.1 billion), Iraq ($1.0 billion), and Libya ($0.8 billion).

Looking ahead for the next several years, we expect the Third World arms market to level off and drift downward: (a) the leading clients have huge backlogs of orders and, in some instances, find it hard to digest the existing flow of arms; and (b) a number of Third World countries face increasing financial problems—for example, in managing their debts and marketing their raw materials at good prices. We note that the USSR and West European suppliers are taking vigorous steps to maintain sales in what may well prove to be a stagnating market.

[redacted]

PREFACE

This report describes the sale and delivery of foreign military equipment and services to the Third World in 1977. It identifies trends in the distribution of arms transfers by supplier, recipient, and type of weaponry, and it looks briefly at near-term prospects for the Third World arms market. The report describes some of the complications in assigning dollar values to these arms flows and attempts to eliminate some of the differences in estimating sales for various suppliers. We have refined our estimates of the costs to LDCs of Communist-supplied support items and have expanded our definition of arms sold by Communist countries to include the same categories covered in US Department of Defense sales data. We recognize that West European sales remain somewhat understated, because we do not always have full reporting, particularly for support and associated services.

To increase the comparability of our estimates of military sales and deliveries of the various suppliers, we have made the following specific adjustments:

- US fiscal year data were adjusted to a calendar year basis for comparability with other supplier data, which are for calendar years. US calendar year data, however, are not broken out by recipient.
- Soviet data are given both in actual export prices and US cost equivalents, with the latter measure providing a basis for direct comparison of US and Soviet military aid.[2] The revised data are not broken out by recipient.
- Coverage of Communist military sales and deliveries was expanded to include associated technical services and military-related construction and more comprehensive estimates of support costs. This broader coverage, however, applies only to total sales; the breakdown by recipient is in accord with the narrower definitions used in earlier publications.

The adjustments in coverage and the use of US costs increase our estimates of Communist military sales and deliveries for earlier years—as presented in previous reports in this series—by about one-third.

The data described in this paper thus encompass the categories of arms sales and deliveries that in the United States would be grouped under the

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Military Assistance Program (MAP), Foreign Military Sales (FMS), and commercial transactions. Included are:

- Weapon systems (and initial spare parts), including small arms.
- Support: (a) items such as trucks and other general purpose vehicles and equipment, communication systems, and radars; (b) maintenance support, including spare parts, supplies, tools for servicing and repair of weapon systems, and overhauls and repairs in the supplier country; and (c) ammunition, bombs, mines, grenades, and military explosives.
- Associated services, such as training, technical assistance, and construction of military facilities.

The data on US sales and deliveries used in this paper were provided by the Defense Security Assistance Agency and the Office of Munitions Control. For some purposes, the data have been converted to calendar years and are expressed in 1976 dollars; in these cases the data do not match actual US budget authorizations, appropriations, or outlays.

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Arms Sales to the Third World, 1977

Recovery of Sales in 1977

In a pronounced rebound from a two-year slump, world arms sales to the Third World in 1977 reached $22.4 billion (see table 1). The comeback reflected (a) record sales of modern aircraft to Iran, (b) renewed orders by other large Middle Eastern clients, and (c) the general willingness of Western and Communist suppliers to sell.

In constant dollars (and with Soviet sales valued at US costs), French, West German, and Soviet sales in the Third World market reached near-record heights in 1977, while British sales fell off from their 1976 peak, and US sales continued to slip (see table 2). Market shares in 1977 (in 1976 dollars) were as follows:

	Percent
Total	100
United States	45
USSR	26
France	11
United Kingdom	6
West Germany	4
Other	8

The reduction in US sales in 1977 was not a direct consequence of the US arms restraint policy announced in May 1977, nor did the new policy appreciably affect the volume of arms

Table 1

Third World: Arms Purchases, by Supplier [1]

Million US $

	1974-77	1974	1975	1976	1977
Total [2]	**82,600**	**21,250**	**19,465**	**19,455**	**22,430**
Non-Communist	**64,360**	**15,480**	**16,335**	**14,925**	**17,620**
United States [3]	42,600	10,350	10,435	10,925	10,895
	(42,860) [4]	(11,400) [4]	(8,340) [4]	(12,205) [4]	(10,910) [4]
France	7,925	2,390	2,365	615	2,550
United Kingdom	5,025	765	1,165	1,565	1,530
West Germany	3,245	705	990	425	1,125
Other	5,565	1,270	1,380	1,395	1,520
Communist [5]	**18,240**	**5,770**	**3,130**	**4,530**	**4,810**
Of which:					
USSR [6]	14,540	4,685	2,295	3,190	4,370

[1] Because of rounding, components may not add to the totals shown.
[2] Including Greece and Turkey and excluding Spain and Portugal.
[3] Fiscal year data adjusted to a calendar year basis, which cannot be broken out by recipient.
[4] Fiscal year data.
[5] Including Cuban, North Korean, Vietnamese, and Yugoslavian sales.

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Third World Arms Sales

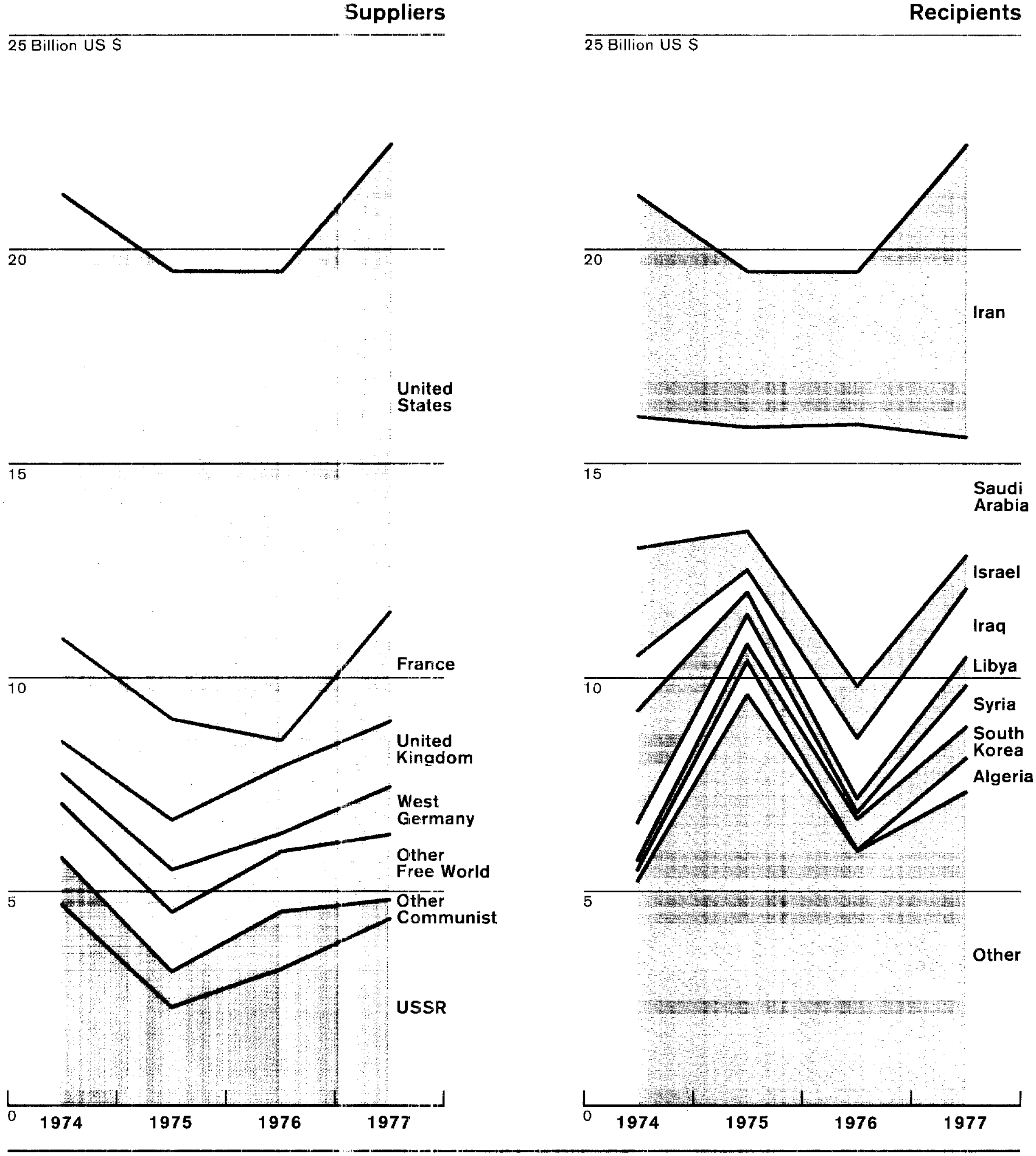

Table 2

Third World: Arms Purchases, by Supplier [1]

Million 1976 US $

	1974-77	1974	1975	1976	1977
Total [2]	**90,475**	**25,645**	**21,055**	**20,865**	**22,915**
Non-Communist	**66,030**	**17,860**	**16,740**	**14,925**	**16,510**
Of which:					
United States [3]	44,285	12,090	11,000	10,925	10,275
France	8,060	2,725	2,250	615	2,475
United Kingdom	4,950	925	1,155	1,565	1,305
West Germany	3,240	825	1,010	425	985
Communist [4]	**24,445**	**7,785**	**4,315**	**5,940**	**6,405**
Of which:					
USSR [5]	19,810	6,355	3,180	4,355	5,925

[1] Because of rounding, components may not add to the totals shown.
[2] Including Greece and Turkey and excluding Spain and Portugal.
[3] Fiscal year data adjusted to a calendar year basis.
[4] Including Cuban, North Korean, Vietnamese, and Yugoslavian sales.
[5] Valued at what it would have cost LDCs to buy Soviet military equipment in the United States, using prices charged by the US Department of Defense for US military exports. Services, not usually included in estimates of Soviet military exports, have been included.

sales by other countries. The policy came too late to affect US sales patterns markedly for 1977; at the same time, the Soviets and the West European suppliers had previously been making an even more determined effort to build up their shares of the LDC market. The Third World, which now accounts for about 75 percent of global arms trade, has been helping West European armament industries keep their order books full and maintain the momentum of recent levels of production. In terms of actual weapon systems, LDCs account for a somewhat smaller share of the world market, primarily because US sales are heavily weighted by support and associated services (60 percent in 1977).

The Supply Picture

Despite Washington's policy of reducing arms sales to the Third World, the *United States* continued as the largest single LDC arms supplier in 1977. Hefty Iranian orders, totaling about $6 billion, kept US sales high in the face of a 70-percent decline in sales to Saudi Arabia and a fall in orders from several other large clients, such as Israel, Taiwan, and Jordan (see table 3).

Although US arms sales (in 1976 prices) were 73 percent above Soviet arms sales last year, the value of the weapon systems sold by the United States exceeded such sales by the Soviets by just 12 percent. This situation represents a decrease from the US-Soviet ratio in 1974-76 of almost 2½ to 1 in total arms sales and a US lead over the USSR of 35 percent in weapons systems.

In terms of physical units of equipment, the *USSR* in 1974-77 sold and delivered to LDCs more fighter aircraft, tanks, and artillery pieces and antiaircraft guns than did the United States (see table 4). The Soviets also provided ships of greater aggregrate value, although fewer in number. The United States in this four-year period provided many more trainer and transport aircraft, helicopters, armored personnel carriers, and self-propelled artillery pieces than the Soviets provided.

The largest differences between US and Soviet sales occur in the support and associated services categories. In 1977, US sales included 75 percent more support than did Soviet sales; US personnel services (technical assistance and training LDC armed forces) outran Soviet services 4 to 1; and US military-related construction services, 72 to 1.

Table 3

United States: Arms Sales to the Third World [1]

Million US $

	1974-77	1974	1975	1976 [2]	1977
Total	**42,858**	**11,402**	**8,338**	**12,206**	**10,912**
East Asia and Pacific	5,801	1,637	1,459	1,390	1,315
Taiwan	889	129	192	368	200
Philippines	230	23	54	71	82
South Korea	1,966	199	337	714	716
South Vietnam	1,302	759	543	0	0
Thailand	380	53	45	154	128
Other	1,034	474	288	83	189
Middle East and South Asia	35,861	9,486	6,619	10,394	9,362
Greece	1,115	487	219	159	250
Iran	14,458	4,192	2,545	1,796	5,925
Israel	5,333	2,482	888	1,205	758
Jordan	947	106	147	521	173
Saudi Arabia	11,784	2,035	1,997	5,907	1,845
Turkey	476	109	94	135	138
Other	1,748	75	729	671	273
Sub-Saharan Africa	453	30	42	263	118
Ethiopia	200	18	34	146	2
Zaire	29	1	2	14	12
Other	224	11	6	103	104
Latin America	743	249	218	159	117
Brazil	181	75	31	56	19
Peru	114	43	24	29	18
Other	448	131	163	74	80

[1] Fiscal year data.
[2] Including five quarters, because of the change in the beginning of US Government fiscal year.

Table 4

United States and USSR: Supply of Selected Weapon Systems to the Third World, 1974-77

Units

	Sales		Deliveries	
	United States	USSR	United States	USSR
Aircraft				
Jet fighters	1,092	1,846	1,352	1,376
Trainers	196	9	229	8
Transports	227	69	92	58
Helicopters	506	311	471	247
Ships				
Patrol boats and landing craft	282	114 [1]	216	88 [1]
Land armaments				
Tanks	2,168	5,634	2,246	3,955
APCs and armored reconnaissance vehicles	7,658	6,012	6,209	4,513
Antiaircraft guns and artillery	649	4,047	424	3,044
Self-propelled guns	1,896	92	1,763	83

[1] Including other naval vessels such as destroyer escorts and minesweepers.

Again in 1977 a few large sales dominated the Soviets military supply picture. Sales to four traditionally large clients (Algeria, India, Libya, and Syria) and massive new support to Ethiopia pushed Soviet weapon sales to a near-record $4.4 billion [redacted] this total includes a revised estimate for support items and introduces an estimate for associated services [redacted] Calculated on a US cost-of-production basis, the sales would be valued at nearly $6

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billion in 1976 prices. Only in 1974, when Moscow was restocking Middle East inventories, did the USSR post higher sales. As before, Soviet decisions to supply arms to LDCs were motivated by political considerations; the substantial hard currency earnings from the sales (an estimated $1.5 billion in 1977) were a highly attractive secondary consideration.

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most LDCs that were not involved in confrontation situations and had moved into the lead as the largest Third World buyer in 1973. Since then, Tehran has bought $19.2 billion worth of weapons or almost one-fourth of total Third World arms purchases in 1974-77. Saudi Arabia had a later start than Iran, trailing the Iranians in arms purchases in every year except 1976. More than any other LDC, the Saudis have focused on infrastructure and logistic support, rather than weapons themselves. Thus about 80 percent of Saudi arms purchases in 1974-77 have been for military infrastructure (such as base construction, air fields, roads, vehicle maintenance facilities, and warehouses) and technical services such as training in the operation and maintenance of weapons systems.

In 1977, Iranian arms purchases, which had slipped in 1976, shot up to $6.8 billion, as Iran once more bought advanced aircraft. Its 1977 purchases were the largest ever recorded for an LDC in a single year, and its $1.4 billion order for F-16 fighter aircraft was its largest single arms agreement. (Iran is the first LDC customer for the advanced F-16.) Tehran [redacted] purchased advanced aircraft missiles and radar from the United States, and ordered four support ships from the United Kingdom. Despite these massive orders and sustained technical support, Iran remains dependent on foreign technical assistance; in the past several years, it has

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The Market

As for recipients, *Iran* and *Saudi Arabia* accounted for 43 percent of LDC arms purchases in 1977, up from their 27-percent market share in 1973 (see table 7). Iran had begun to modernize and build its arms inventories earlier than

Table 7

Third World: Arms Purchases, by Recipient [1]

Million US $

	1974-77	1974	1975	1976	1977
Iran	19,213	5,167	3,642	3,563	6,841
Saudi Arabia	14,359	3,072	2,424	6,102	2,761
Israel	5,369	2,498	908	1,205	758
Iraq	4,824	1,291	528	1,412	1,593
Libya	4,134	2,625	519	331	659
Syria	2,674	880	690	145	959
South Korea	2,074	223	384	739	728
Algeria	1,853	260	778	15	800
Greece	1,796	876	414	200	306
Egypt	1,008	22	221	463	302

[1] Including fiscal year data for the United States and prices for Communist aid, which we estimate were actually charged clients. It does not include support and services, which we could not allocate by client.

expended $850 million a year for these services in the United States alone. The United States, with an 87-percent share of the Iranian market, remained the largest supplier in 1977, while West European countries, especially Italy, continued to make headway.

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In 1977, practically all of Saudi Arabia's $2.8 billion worth of contracts were for logistic support and services, with continuing dependence on outside sources—especially the United States—for most services. [redacted]

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French inroads into the Saudi market have been reported recently. Possible French sales of advanced aircraft in 1978 and US sales of the F-15, approved in 1978, may point to an increasing Saudi interest in expanding the military hardware component of its arms procurement.

Altogether, other North African and Middle Eastern states bought $6 billion worth of arms in 1977. Most of these orders were placed by the radical Arab states in the USSR.

Middle East countries also received the largest share of 1977 deliveries (see table 8). [redacted]

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[redacted]

Table 8

Third World: Arms Deliveries, by Recipient [1]

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Million US $

	1974-77	1974	1975	1976	1977
Iran	6,640	885	1,185	1,895	2,675
Saudi Arabia	4,460	510	530	1,370	2,050
Israel	3,842	1,052	715	945	1,130
Iraq	3,055	645	565	825	1,020
Syria	2,225	1,025	320	460	420
Libya	2,320	235	475	780	830
Greece	1,250	105	255	425	465
South Korea	1,025	140	255	360	270
India	1,080	185	170	285	440
Egypt	815	155	355	160	145
Ethiopia	534	10	34	55	435
Argentina	160	40	30	50	40

[1] Including fiscal year data for the United States and prices for Communist aid, which we estimate were actually charged clients. It does not include support and services, which we could not allocate by client.

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Moscow dominated arms transactions in *sub-Saharan Africa* for the third consecutive year. Its heavy military support to the victorious MPLA in Angola, which captured headlines in 1975, and its subsequent help to established governments and insurgent groups throughout sub-Saharan Africa underscored Moscow's new commitment to the region. Rising international criticism did not deter the USSR from further military adventures on the continent in 1977 or from signing $840 million worth of new agreements, six times the 1975 level.

The record-setting transactions reflected a major shift in Soviet policy in the Horn, where Moscow abandoned its former client Somalia in favor of Ethiopia. The Soviet-Ethiopian accords moved Addis Ababa into third place among Soviet arms recipients in 1977 and accounted for 15 percent of the USSR's weapons sales to the Third World. The sales provide Ethiopia with a substantial arsenal of modern equipment, including MIG-23s and naval and ground equipment.

Growing concerns over national security also intensified demands for arms from southern African countries, which had never before accounted for more than 5 percent of global LDC weapons purchases. Tanzania, for example, ordered [redacted] Soviet medium tanks, field guns, surface-to-air missiles, radar, and other equipment.

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France and the United Kingdom have dominated the Free World share of the sub-Saharan market, with France chalking up 12 percent of sales in 1977, mainly to Nigeria and the Ivory Coast. [redacted]

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Latin America, never a leading arms market, still made record purchases of $1.4 billion in 1977. As in most recent years, Argentina, Peru, and Ecuador were the principal buyers; West Germany (for the first time) and France were the chief suppliers. Latin American countries, which had begun to shift their procurement to Western Europe from the United States in the late 1960s, bought less than 10 percent of their arms from the United States, while 70 percent came from West Germany and France in 1977.

In *South Asia*, India continued its long dependence on the USSR with record purchases of Soviet weapons and arms manufacturing facilities in 1977. The agreements included India's largest single arms accord with the USSR, [redacted]

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Record Deliveries

Deliveries to Third World clients have grown more rapidly than sales in the past several years, as suppliers have worked off accumulated orders (see table 9). Deliveries of $13.8 billion in 1977 were 76 percent above deliveries in 1974; in contrast, sales in 1977 were slightly less than 6 percent above sales in 1974. For the 1974-77 period as a whole, deliveries totaled about $42 billion. We estimate outstanding orders at the end of 1977 at about $50 billion, up 10 percent from the previous year.

The spread between US and Soviet deliveries was narrower than for sales. There are two principal reasons for the higher Soviet-US ratio for deliveries than for sales: (a) the average lead time between sales and deliveries is much longer in US programs (about three years) than the Soviets' (12 to 18 months) and (b) US sales data reflect built-in inflation allowances—not contained in Soviet estimates—for expected cost increases in the period between sale and delivery of items. Because of faster delivery schedules, Soviet sales and deliveries have run more closely together, with about 80 percent of total commitments delivered at the end of 1977. The US backlog is estimated at about $30 billion (fiscal year data).

In 1977, US deliveries (in 1976 dollars) comprised 44 percent of total arms delivered to

LDCs; Soviet deliveries (in US costs) were 31 percent, and French deliveries, 6 percent (see table 10). Deliveries of Soviet weapon systems were especially impressive, actually surpassing US deliveries in three of the past four years. In 1977 their value exceeded the value of US deliveries by more than 10 percent. The USSR delivered more fighters and tanks, while the United States shipped a larger number of jet trainers and helicopters. The United States also maintained an overwhelming lead in armored personnel carriers and armored vehicles. The widest spread between US and Soviet deliveries, however, was in the services category. As in the

Table 9

Third World: Arms Deliveries, by Supplier

Million US $

	1974-77	1974	1975	1976	1977
Total [1]	**42,350**	**7,865**	**8,900**	**11,740**	**13,845**
Non-Communist	**29,065**	**5,015**	**6,215**	**8,090**	**9,745**
United States [2]	19,645	3,465	4,385	5,240	6,555
	(20,600) [3]	(4,135) [3]	(4,575) [3]	(5,215) [3]	(6,680) [3]
France	2,345	405	360	685	890
United Kingdom	1,955	410	340	505	700
West Germany	1,585	185	315	530	550
Other	3,540	545	820	1,125	1,050
Communist [4]	**13,285**	**2,850**	**2,685**	**3,650**	**4,100**
Of which:					
USSR [5]	11,085	2,625	2,135	2,805	3,520

[1] Including Greece and Turkey and excluding Spain and Portugal.
[2] Fiscal year data adjusted to a calendar year basis, which cannot be broken out by recipient.
[3] Fiscal year data.
[4] Includes deliveries by Cuba, North Korea, Vietnam, and Yugoslavia.

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Table 10

Third World: Real Arms Deliveries, by Supplier

Million 1976 US $

	1974-77	1974	1975	1976	1977
Total	**46,880**	**9,810**	**10,300**	**12,700**	**14,070**
Non-Communist	**29,430**	**5,795**	**6,480**	**8,090**	**9,065**
Of which:					
United States [1]	20,100	4,050	4,630	5,240	6,180
France	2,355	465	340	685	865
United Kingdom	1,930	495	335	505	595
West Germany	1,555	220	325	530	480
Communist [2]	**17,450**	**4,015**	**3,820**	**4,610**	**5,005**
Of which:					
USSR [3]	14,775	3,720	3,070	3,610	4,375

[1] Fiscal year data adjusted to a calendar year basis, which cannot be broken out by recipient.
[2] Including deliveries by Cuba, North Korea, Vietnam, and Yugoslavia.
[3] Valued at what it would have cost LDCs to buy Soviet military equipment in the United States, using prices charged by the US Department of Defense for US military exports. Services, not usually included in estimates of Soviet military exports, have been included.

case of sales, the United States included a much larger services component in deliveries than the USSR—a ratio of 5 to 1 in 1977.

Among the recipients of arms delivered in 1977, seven of the top 10 were Middle Eastern and North African countries. Again, Iran and Saudi Arabia led the way. Prominent shipments to the Middle East included:

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First-time deliveries to LDCs in 1977 included Soviet SU-22 fighter-bombers to Peru and US delivery of 16 F-5E fighters to Chile. MIG-21 Bis aircraft to Ethiopia were the first such jet fighters provided sub-Saharan Africa. The USSR also delivered three IL-38 antisubmarine and maritime reconnaissance aircraft and two Nanuchka-class guided-missile patrol boats to India, not only the first of these craft exported to the Third World but also the first patrol boat to carry the SS-N-4 short-range missile system.

Supply Prospects, 1978-80

We foresee no significant change in the willingness of suppliers to sell a full range of weapons and support to LDCs in the next several years. Indeed, competition probably will heighten as market opportunities fall off to around $20 billion (in 1976 dollars) a year. The French and British, each capable of producing a complete array of conventional military equipment, will press their sales campaigns to maintain full order books. The Soviets will sell where they see an appreciable political payoff. Sales by these major suppliers will be supplemented by the West Germans, who specialize in naval equipment and armored vehicles; the Italians, in naval equipment; Belgium, in ordnance; and Brazil and Argentina, in small arms and armored cars.

Even though arms exports represent a small share of Western Europe's total exports, rising costs, domestic economic problems, and large trade imbalances will continue as incentives to expand sales of weapons.

For the USSR, arms sales to LDCs are the most direct and fastest means of asserting and maintaining a presence in the Third World, as illustrated by the most recent Soviet political-military ventures in Africa. On occasion, Moscow has withheld arms as a political weapon and in some cases may have turned sales down because of Soviet or East European defense requirements. Security and technological considerations also have inhibited sales of certain weapons, such as IRBMs and ICBMs.

Paris rarely has refused to sell arms for political reasons. The French Government has few inhibitions about exporting arms, in part because of a desire to hold down unit costs for the French military by extending production runs. The government maintains strict control over all aspects of arms production and sales and itself directly produces one-fourth of the industry's output; nationalized industries account for another one-fourth. Foreign military sales are considered important enough to have been assigned priority on occasion over France's own requirements, that is, the delivery of new equipment to French forces may be postponed to fill a priority need of a foreign client. In recent years, French arms sales have accounted for about 5 percent of its exports and twice that share of its finished industrial exports. Not only does the French Government wish to maintain its political influence and market share in traditional areas of the Third World, but also it is sensitive to the need to maintain employment in the weapons industry where militant leftwing labor groups are especially influential. About 300,000 workers are employed in the French armaments industry.

Successive British Governments have actively promoted arms exports within carefully formulated political and financial guidelines. As a general rule, they have forbidden sales to countries engaged in military hostilities and have denied arms to countries with highly repressive political systems, such as rightwing dictatorships. In the case of South Africa and Rhodesia, for example, even economic benefits were not allowed to override political considerations. In weighing foreign arms sales, British Government and industry officials pay close attention to domestic economic and defense needs, even though the arms industry is a relatively small employer, with only about 300,000 workers (about 1 percent of the total work force). Arms exports account for slightly less than 3.5 percent of total British exports.

Until recently, West Germany's arms export policy has been the most restrictive among major suppliers. Pressures from business interests and labor groups to liberalize controls have resulted in minor policy concessions, which have contributed to the recent expansion of Bonn's Third World arms sales. In the past two years, Bonn increasingly has succumbed to pressure for larger sales. In April 1975 the brief ban on delivery of military hardware to Greece and Turkey was lifted, [redacted]

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Economic considerations—such as slack in its steel and shipbuilding industries and a high rate of unemployment—are leading to a reconsideration of the remaining export restrictions. The Germans are especially concerned about maintaining employment in the arms industry, which reportedly employs about 240,000 workers. Arms exports now account for less than 1 percent of total West German exports.

We expect other smaller suppliers (such as Brazil, Argentina, and Italy) whose arms production is largely dependent on licensing arrangements to try to expand their shares of the shrinking market. The only probable constraint would be limitations on transfers of equipment produced under license, especially those produced under arrangements with US companies. Questions that might arise over the security aspects of proposed sales could easily become muddled by the economic importance of the transaction to the would-be seller.

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The author of this paper is [redacted] *Office of Economic Research. Comments and queries are welcome and should be directed to* [redacted]

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