Globalization of the Arms Industry

By

Jayantha Dhanapala

Under-Secretary-General for Disarmament Affairs

United Nations

8 July 1999

Clearly, the global arms industry is going through a major transition. Even the definition of this sector is difficult. It now consists of private sector entities that are producing and/or exporting arms, weapon-related technology, materials, and services, including dual-use goods -- but it also includes government-run entities engaging in commercial activities. Stagnant or declining defence budgets, combined with rising costs of revolutionary new weapons systems, are creating powerful incentives to expand cooperation among defence firms in development and production activities around the world. I intend to address many of the implications of these developments in my remarks today.

The prospects for international peace and disarmament have in many respects improved since 1961, when President Dwight Eisenhower warned against what he called "the acquisition of unwarranted influence, whether sought or unsought, by the military-industrial complex." After all, the Cold War is over. Arms budgets have dropped. Multilateral treaties have banned all chemical and biological weapons, outlawed the proliferation of nuclear weapons (while requiring negotiations to eliminate all such weapons), and prohibited all nuclear test explosions.

Yet controlling the arms industry globally and pursuing what President Eisenhower also called the "imperative of disarmament" remain very much on the agenda of mankind on the eve of the new millennium. This imperative refers to a global public good, one that applies both to "weapons of mass destruction" -- that is, nuclear, chemical, and biological weapons -- and to conventional weapons, ranging from the most sophisticated to basic small arms acquired beyond the legitimate defence needs of countries. This agenda remains unfinished for several reasons.

The treaties banning chemical and biological weapons are not yet universal in membership. Meanwhile, over 30,000 nuclear weapons reportedly remain in military arsenals around the world -- some maintained on alert; some ready for "first use" in accordance with recently reasserted war-fighting doctrines; some being continually improved by scientific research and testing; and some proliferating to
the Middle East and South Asia. Tests of long-range missiles, unilateral deployments of ballistic missile defence systems, and growing dangers of the weaponization of outer space further aggravate this state of affairs.

With respect to conventional arms, the good news is the gradual long-term decline in military expenditures, including a drop in investments in military research and development, and in some military exports. But the bad news is alarming indeed. Let us consider some of the facts.

- The post-Cold War adjustments in military expenditures and defence conversion have not been smooth in many countries. While the so-called "peace dividend" remains elusive, television coverage of modern warfare has effectively created an "advertising dividend" for the manufacturers of high-tech weaponry and the countries and alliances that use such weapons. During recent wars in the Persian Gulf and the Balkans, for example, tiny video cameras enabled hundreds of millions of viewers to experience vicariously the flights of attacking missiles through the doors, windows, and chimneys of their intended targets. Whatever the rationales for such wars, such imagery contributes to a "demonstration effect" encouraging the proliferation of such weapons and, potentially, to new arms races.

- Unfortunately, there are already signs that the global arms trade is once again on the rise. According to the International Institute for Strategic Studies, this trade grew in real terms by 36 percent between 1995 and 1997. This compares with a decline of 11.2 percent in the decade before 1995. Ongoing efforts to expand NATO and to modernize existing arsenals will no doubt encourage further increases. According to SIPRI, the five permanent members of the UN Security Council continue to dominate the global arms market, accounting for 83 percent of the world’s exports of major conventional arms in 1998. Many of these exports went to the Middle East, which accounted for 40 percent of the world’s arms imports in the 1990s. East Asia remains a large potential arms market as well, though it has recently contracted due the regional financial crisis.

- SIPRI also estimates that total annual sales of major conventional weapons continue in excess of $20 billion in recent years. And while trade involving these specific weapons systems has been gradually declining throughout the 1990s, such arms are becoming more powerful, improved through miniaturized components, more reliable, easier to field, and more accurate. In 1997, the UN’s "World Economic and Social Survey" also noted that this decline has paradoxically "been accompanied by a proliferation of the ability to produce weapons and equipment."

- The global arms industry -- particularly in the Atlantic area -- has also been undergoing a wave of mergers and acquisitions, as the industry continues its post-Cold War consolidation. The publication, Defense Mergers & Acquisitions, has recently estimated that worldwide defence and aerospace companies either announced or completed M&A deals worth nearly $60 billion just in the first half of 1999 -- this is already well over the total for all of 1998. And just yesterday, a senior Pentagon official reportedly predicted that recent regulatory changes will lead to a wave of
new mergers in the coming months involving US, European, and Asian defence firms.

- Cooperation among OECD countries will also likely increase in the field of research and development given further consolidation of the European defence sector, a trend that could deepen if other countries follow the US and expand R&D on missile defence. The Bonn Center for International Conversion reports that OECD countries accounted for 85 percent of the estimated $60 billion spent in global military R&D in 1997. Meanwhile, official development assistance continues to lag far behind compelling development needs -- in a speech on 6 July, Secretary-General Kofi Annan called the level of this assistance "now at its lowest level in half a century."

- Trade in small arms and light weapons appears to be increasing in recent years, as discussed in last January’s special edition of the *Bulletin of the Atomic Scientists*. The use of such arms typically produces large numbers of civilian casualties, including women, children, relief workers, UN peacekeepers, journalists, and tourists. Intrastate conflicts, ethnic wars, civil wars, terrorism, and weapons proliferation remain continuing challenges for those concerned about controlling both legal and black market arms.

- As the national capabilities to produce a wide variety of arms have continued to grow faster than domestic markets can absorb, exports become ever more attractive to arms suppliers. Customers for these arms are increasingly facing a "buyer’s market." In such a market, the buyer can often dictate terms under which the arms trade is conducted. Some buyers are demanding so-called "offsets" -- requirements upon the seller to channel some portion of their contracts into the arms production sector of the buyer countries, in some cases this may involve technology transfers, joint ventures, co-production deals, and cash investments.

- Other buyers are benefiting from bargain prices as excess stocks of weapons go off to market, a trend analyzed in "Arsenals on the Cheap," a recent study by Human Rights Watch.

- Because the arms industry is also a source of jobs and foreign exchange, governments continue to assist their national firms to find new business. Late last month, Nobel laureate Oscar Arias wrote an Op-Ed in the *New York Times* calling for an end to such assistance, which he termed a form of "corporate welfare." Several NGOs, like the National Commission for Economic Conversion and Disarmament, have noted that certain civilian exports offer far greater prospects to create jobs, especially in sales of environmental technologies. In Germany, the Bonn International Center for Conversion has documented for many years the economic gains to be made from shifting defence resources into civilian pursuits.

- The information revolution has contributed to a so-called "revolution in military affairs" involving extremely lethal weapons systems that rely upon advanced information technologies and specialized materials. The complexities of these weapons have helped to expand the unit costs of such weapons, which has led firms to seek partners to reduce those costs. Anne
Markusen, who is directing a study for the U.S. Council on Foreign Relations on the global arms industry, has argued in a recent issue of Foreign Policy that this growing reliance on co-production, offsets, foreign licensing, joint ownership, and consolidation will (in her words) "shift the balance of power in the arms market away from governments and toward business." She notes that the F-16 fighter is made with parts and expertise from nine countries on three continents. What her recent article did not mention is that this aircraft is capable of delivering nuclear weapons.

She concludes that the post-Cold War world needs to move toward a transnational defence-industrial base, and away from national-based defence industrial sectors. While recognizing some dangers from this process, she recommends that such a transnational base can be managed via a process of increased knowledge-sharing, coordinated efforts to ensure that partnerships are desirable, and joint procurement. In short, extraordinarily effective weapons can be produced far more efficiently through a well-managed expansion of transnational research, development, production, and regulation of relevant industries. My question is -- will this formula advance the cause of disarmament? Let me now turn to some of the implications of these recent trends.

PRIORITIES. First, if the efficiency of production of ever-improved arms were the only consideration to guide defence industrial policies, the path ahead would be clear -- domestic industries would become more transnational in orientation, if only among like-minded countries. Expanded production would generate economies of scale, causing costs to fall. Labour would adapt or be found elsewhere. Highly-effective weapons systems would be promptly produced in volume. And the role for international organizations would perhaps be limited to helping to maintain a general climate conducive to the further evolution of this highly rationalistic arms-globalization process.

Yet efficiency of arms production is not -- and should not be -- the sole criterion. Some countries are taking steps to limit this globalization process for parochial reasons of keeping plants from relocating abroad or protecting certain types of sensitive technology. Governments have an interest in creating and protecting jobs -- yet they also seek to avoid costly wars. Governments may seek to exploit the benefits to be obtained from interdependence, yet they also value the ideal of independence. Governments without question serve commercial and other special interests, yet they exist to serve the national and global interest.

Another reason why governments should regulate their defence industries arises from the need to advance nonproliferation and disarmament objectives, many of which are registered in binding international treaty commitments. For example, the CWC, BWC, and NPT all require their parties "not in any way to assist" the global spread of such weapons of mass destruction. This obligation contains no exemptions for assistance provided through third parties, licensing deals, or the use of offsets. The laws of economics have not repealed international law, the laws of governments, nor the iron laws of politics. Globalization confers no license to proliferate. Governments rightfully seek to husband their domestic resources to provide for the national defence -- but the "inherent right of individual or collective self-defence" found in the UN Charter is not absolute: in addition to the constraints found in treaties, the UN Charter itself contains significant limitations on the threat or use of armed force.
So yes, market conditions and various technological imperatives may well be pulling the defence industry in the direction of globalization -- yet national sovereignty persists and with it so do the legal obligations that were created as a result of the exercise of that sovereignty.

**GLOBALIZATION -- A DOUBLE-EDGED SWORD.** My second point is that while globalization of the arms industry will yield many new prospects for peace and prosperity, it will also generate new threats. In his 1998 report on "The Work of the Organization," the Secretary-General observed that while globalization helped to generate an economic miracle in Asia, the same market forces contributed to the region’s recent economic crisis. Similarly, globalization can also help produce mighty new weapons, while also generating new insecurities.

As money, information, and increasingly-decontrolled commodities flow between countries and global affiliates without any significant control by governments, it becomes difficult even to define what constitutes an "export." This greatly complicates the process of drafting trade controls.

But export controls will not be the only laws to be affected by this process. The broader relationship between the private and the public interest is more complex: will governments define defence needs for industry, or will it be the other way around? Where should one look to find the driving forces of new regional and global arms races -- inside governments as they deliberate the national interest and international peace and security, or inside the arms industry as they pursue their own interests? Given allegations that the activities of some transnational firms have been associated with the collapse of economies -- is it unreasonable to fear that other such firms might not also be capable of contributing to new arms races or altering the stakes and likelihood of wars?

The globalization of the arms industry has other implications as well. The familiar term "defence conversion" presumes the existence of a clear dividing line between military and civilian sectors -- what will this mean in a fully globalized defence sector simultaneously producing both military and dual-use goods? And more generally, the whole issue of public accountability comes to center stage: if responsibilities for the production and sale of arms are dispersed, who will be responsible for activities involving such arms that are inconsistent with international norms? How will national and international sanctions be administered? Or will such norms simply be violated in the future with impunity?

**THE ROLE OF THE UNITED NATIONS.** The Secretary-General has stated in the report I noted above that "Only universal organizations like the United Nations have the scope and legitimacy to generate the principles, norms, and rules that are essential if globalization is to benefit everyone." The key security challenge ahead for the UN is to seek to ensure that globalization advances the Charter’s objectives of peace, human dignity, justice, and social progress.

Regulating the increasingly globalized arms industry is bound to become even more difficult in the years ahead. For both governments and international organizations, reliable information is essential for effective regulation. As a step in this direction, the UN has maintained since 1992 a database called the
Register of Conventional Arms consisting of data voluntarily provided by Member States describing annual transfers of several categories of major conventional arms and on other related activities. This is an important step, but only a start.

The UN is also involved in other initiatives, including public education, helping governments to integrate former combatants into civil society, collecting and destroying excess arms, and coordinating studies by expert groups on various specialized aspects of the problem (e.g. small arms and ammunition).

While work against the proliferation or possession of weapons of mass destruction goes on in the treaty regimes established for those purposes as well as in the UN, conventional arms remain very much a concern throughout the UN’s disarmament machinery. The Conference on Disarmament in Geneva, for example, has appointed a Special Coordinator to work on the issue of "Transparency in Armaments." And the UN’s Disarmament Commission has recently reached a consensus on new guidelines on conventional arms control, limitation, and disarmament, focusing mainly on post-conflict situations. These efforts complement regional arms control activities in Europe, West Africa, Latin America, and elsewhere.

**Conclusion**

The arms now entering the global market are often termed the products of a "revolution in military affairs." If the UN is to perform its duties under the Charter in international peace and security, I believe this development must be accompanied by a "revolution in disarmament affairs." If its Member States so wish, the UN can act as a robust databank on the production and trade in arms. With appropriate mandates and funding, it can work to establish confidence building measures and transparency and to eliminate arms races. It can do much more to help societies adjust to post-conflict situations. As it pursues sustainable development, so can it work to foster sustainable disarmament.

The 20th Century -- the bloodiest in history -- is at last coming to an end. The UN has many important roles to play in promoting disarmament and conflict resolution. But it can only perform such roles as its Member States -- and ultimately the peoples of the UN -- wish it to perform. Civil society -- including groups like the Friedrich Ebert Foundation -- will play an increasingly important role in shaping and implementing a robust disarmament agenda for the coming millennium.

I believe that, as a strategic sector of the global economy, the arms manufacturing industry is in an excellent position to assist the UN in promoting greater transparency and in curbing wrongful uses of weapons acquired to serve legitimate national security needs. I use this forum today, therefore, to call upon this industrial sector to join us in pursuing these important tasks -- working together, we can all the better serve the fundamental principles of international peace and security that remain at the heart of the Charter. My proposal echoes the call for a "creative partnership between the United Nations and the private sector" made last February by the Secretary-General at the World Economic Forum in Davos.
[Brief closing remarks]