

DEFENSE INDUSTRIAL INITIATIVES CURRENT ISSUES

No. 9: An Economic Overview of U.S. Arms Sales (04/07/2009)

In the past two decades, the U.S. has exported arms worth well over \$10 billion annually (in 2008 dollars). Tightly regulated by the government, these sales remain controversial. Advocates cite benefits such as political influence, greater interoperability with allies, a more resilient defense-industrial base, and cost savings from economies of scale. Critics counter with fears of technology dissemination to rivals, worries that U.S. arms fuel conflict and oppression, and assertions that exports support jobs overseas via offsets.

Despite these arguments and the changed nature of the post-Cold War world, the past two decades have seen remarkable consistency in arms exports. Specific crises or the political party in control of Congress or the White House do not seem to be a driving factor. This suggests that political and economic structural factors place an upper limit on the size of the market.

Scope of Trade and Financing

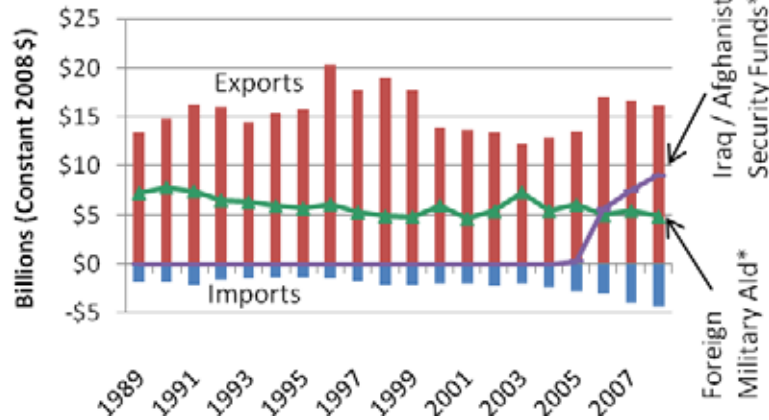
According to the [U.S. International Trade Commission \(USITC\)](#),¹ America exported military goods worth \$16.1 billion in 2008, constituting 1.4 percent of all U.S. exports for that year. Imports on the other hand, are still only a fraction of exports, thus driving a considerable trade surplus.



Turkish F-16 (Source: [Skywing Press](#) used under a CC license)

¹ The dollar figures from the USITC are domestic exports and imports for consumption. Both categories exclude goods that originated from a foreign source, traveled through the U.S. unchanged, and then were sold abroad.

U.S. Arms Trade with World 1989-2008



* Financing Data uses Fiscal Year; 2008 number is official estimate. Source: [USITC](#), [USAID Greenbook](#), [DoD Green Book](#), [DoS Cong. Justif.](#)

Like export deliveries, government-to-government arms agreements increased significantly in 2006. These trends have since diverged and the *New York Times* reported a steady rise in arms sales agreements—valued at more than \$30 billion between January and September of 2008—while exports fell slightly.² This massive increase will take time to show up in USITC delivery tracking because weapon systems take years to complete and ship. In addition, some controversial agreements, like F-16 sales to Pakistan, may be delayed for years.

Foreign military financing has been overwhelmed by the \$9 billion spent on the Security Forces Funds for Iraq and for Afghanistan in 2008. Other forms of assistance were slowly declining in constant dollars, with the exception of a spike during George W. Bush’s first term. Foreign military aid includes accounts for transfers of Excess Defense Articles (EDA) and Peacekeeping Operations, but the largest program is Foreign Military Financing (FMF), which goes primarily to Egypt and Israel. Since 1999 FMF spending has been exclusively in the form of grants—not loans—that must be spent on U.S. defense articles. These conditions are not as

² Eric Lipton. “[With White House Push, U.S. Arms Sales Jump](#),” *New York Times*, September 13, 2008.

prevalent in Iraq and Afghanistan security funds. While longer term agreements have been made, these two countries purchased less than \$300 million of arms in 2008, perhaps viewing U.S. arms as too high-end or expensive.

What is Exported?

Spare parts and other goods make up the largest category—one-third—of military exports. With a 0.8 percent compound annual growth rate (CAGR) after inflation in the last four years, the category has remained notably stable since 1989. This demonstrates the continuing impact of maintenance and upgrades for past sales.

By comparison, recent rapid growth has occurred in sectors that suffered in the first half of this decade. Since 2005, completed aircraft have experienced real growth of 19.9 percent per year, driving the 12.9 percent annual growth for all military aircraft related goods. [Poland’s purchase of F-16s, financed at commercial loan rates](#), accounted for \$1.06 billion—44 percent of that growth—in 2008.

Tanks and munitions have also experienced strong real growth with a 9.3 percent CAGR since 2005. Adjusted for inflation, this follows several years of

slow decline. This category is especially broad as “munitions” encompasses artillery systems, missiles, rockets, guns, and ammunition. No other non-aviation category experienced notable growth. Perhaps due to the low-cost sale, or donation of ships through EDA or Foreign Military Sales, the value of the naval vessel category is relatively anemic and sometimes reaches \$0. While this allows for impressive growth at times, it also results in negligible market share.

Imports, with a 29.5 percent real CAGR in non-aircraft related military goods, experienced steady growth in recent years. Unfortunately, data on imports is less detailed than for exports. As a result, it is difficult to determine the exact source of this growth. However, given the timing, it appears likely that these imports are driven by the wars in Iraq and Afghanistan and may be connected to efforts to counter improvised explosive devices. The low rate of growth for aircraft imports also suggests that U.S. companies continue to dominate the market.

—Gregory Sanders

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For additional information:

The [raw data for this report and source list](#) are available at <http://www.csis.org/isp/diig/> [DIIG’s Export Control Regulation](#) page with reports on the [overall system](#) and [space related controls](#) Annual [CRS report on U.S. Arms Sales](#) (2000-2007, Order Code RL34768)

Category (2008 Constant \$M)	Exports			Imports		
	2008	Post 1989 Trend	4 year CAGR	2008	Post 1989 Trend	4 year CAGR
Engines and turbines for aircraft	\$1,699.7		1.1%			
Aircraft related gear	\$313.4		5.0%			
Aircraft, complete	\$4,520.0		19.9%			
Total - Military aircraft and parts	\$6,533.1		12.9%	\$2,046.9		5.0%
Parts and other goods	\$5,374.8		0.8%			
Military apparel and footwear	\$524.6		-7.0%			
Tanks and munitions	\$2,830.0		9.3%			
Ships and boats	\$8.6		N/A			
Trucks, armored vehicles, etc.	\$851.2		-3.9%			
Total - Other military equipment	\$9,589.2		2.0%	\$2,278		29.5%

Source: [USITC](#) with [DoD Green book deflators](#)