A PRELIMINARY ANALYSIS OF GERMAN ARMS TRANSFER RATIONALES

A thesis presented to the Faculty of the U.S. Army Command and General Staff College in partial fulfillment of the requirements for the degree

MASTER OF MILITARY ARTS AND SCIENCE

by

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Fort Leavenworth, Kansas
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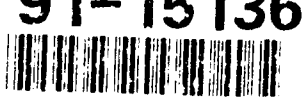

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This study is an initial, country-level, analysis of the German government rationales for allowing the transfer of arms. The study divides arms transfer rationales into three distinct areas, political, economic and military. At present, there are no indications the German government is selling/ transferring arms for military reasons. Political rationales for transferring arms include international stature, national pride and influence. The political rationale is expressed in declaratory foreign, defense and industrial policy. The evolution of these policies, and their results, provides a perspective for future actions. The German government is starting to express an independent foreign and defense policy for the first time in the postwar era. This independence will figure in the decision to sell arms in the future although there is no evidence of present influence. Economic rationales common to European countries include employment, lower unit costs (economies of scale), and arms-for-oil. Aggregate analysis of general trends in arms transfers indicates a positive correlation between arms transfers and exports suggesting economic rationales as a factor in weapons sales. Additionally, with the tremendous costs involved in the unification, coupled with an ever increasing demand for quality weapons, the German government may be tempted to alleviate economic problems with these sales.

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The opinions and conclusions expressed herein are those of the student author and do not necessarily represent the views of the U.S. Army Command and General Staff College or any other governmental agency. (References to this study should include the foregoing statement.)

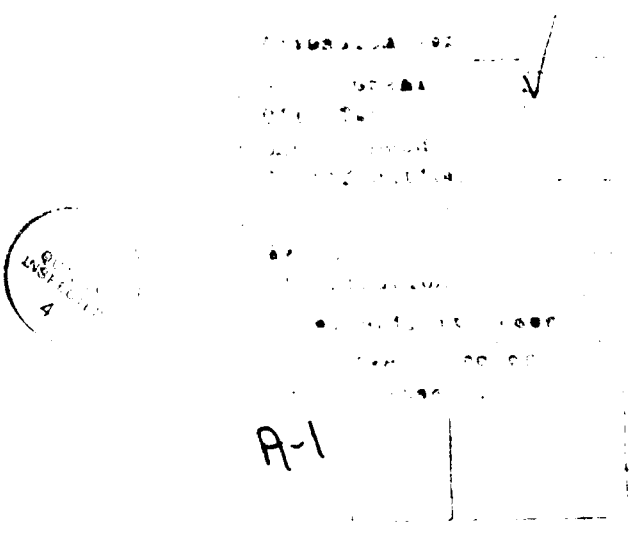
ABSTRACT

A PRELIMINARY EXAMINATION OF GERMAN ARMS TRANSFER RATIONALES by Major Charles K. Pickar, USA, 93 pages.

This study is an initial, country-level, analysis of the German government rationales for allowing the transfer of arms. The study divides arms transfer rationales into three distinct areas, political, economic and military. At present, there are no indications the German government is selling/ transferring arms for military reasons.

Political rationales for transferring arms include international stature, national pride and influence. The political rationale is expressed in declaratory foreign, defense and industrial policy. The evolution of these policies, and their results, provides a perspective for future actions. The German government is starting to express an independent foreign and defense policy for the first time in the postwar era. This independence will figure in the decision to sell arms in the future although there is no evidence of present influence.

Economic rationales common to European countries include employment, lower unit costs (economies of scale), and arms-for-oil. Aggregate analysis of general trends in arms transfers indicates a positive correlation between arms transfers and exports suggesting economic rationales as a factor in weapons sales. Additionally, with the tremendous costs involved in the unification, coupled with an ever increasing demand for quality weapons, the German government may be tempted to alleviate economic problems with these sales.



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CHAPTER 1

INTRODUCTION

> Arms sales have become, in recent years, a crucial dimension of international affairs. They are now major strands in the warp and woof of world politics. Arms sales are far more than an economic occurrence, a military relationship, or an arms control challenge--arms sales are foreign policy writ large.[1]

The study of arms transfers, the industry, and the mechanisms established to control this lucrative market is a relatively new field. Although some sort of arms industry has existed as long as men have fought wars, the study of the transfer process and its effects only excited the interest of the academic community in the last fifty years. Indeed, until recently, the trend in the study of armaments and proliferation concentrated on the use and effectiveness of nuclear and other weapons of mass destruction. The large number of conventional wars fought since World War II has caused a shift in this focus. Some argue that the desire to acquire and use conventional arms served as a catalyst for

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[1]Andrew J. Pierre, The Global Politics of Arms Sales, Princeton, N.J.: Princeton University Press, 1982, 3. Author's emphasis.

most of the conflicts of the last century. Others accuse the supplier nations, generally the industrialized world, of being the "Merchants of Death." As the world moves to the twenty-first century, the nature of war, to a large extent will depend on the type, quantity and quality of arms traded in this decade.

The manufacture and export of arms by the industrialized countries of the world not only affects those countries receiving the weapons, but also those countries doing the exporting. In fact, exporting countries, the United States included, often use arms sales to reduce the unit cost of weapons. Other rationales range from economic and employment policies to exercising power and influence in the international environment.

The German economy and its capacities are well known. The reunification of the divided Germany's raises a number of questions about the future of this economic locomotive of the European continent. The unification is expensive, and the German government is already raising taxes to cope with this fact. That the war is finally over after forty-five years of division, is only now sinking in. Germany is no longer inhibited in foreign, defense, industrial and military policy by the victors of the war. In this new Germany things are bound to change. The reasons Germans export arms and the effect these arms transfers create in the international arena form the basis of this

research. Specifically, this paper examines foreign, defense and economic policy of this reunited nation to determine why Germans export arms, and by doing, attempt tc plot the future direction of arms export policy.

The thesis has four main goals. First, it explores the make-up of the present day German arms industry to identify the importance and impact of the industry for the economy of an eventual unified Germany. Second, it analyzes the motives behind the sales of German arms in an attempt to determine the rationale used to allow the sale. Third, the study examines the various governmental mechanisms established to control the sales of arms. Finally, and probably most important, this paper scrutinizes the political will and by extension, foreign policy of this new unified Germany in an attempt to determine the future policy direction of arms sales.

A. ASSUMPTIONS

There are two key assumptions in this paper. The first assumption is an extension of the introductory quote to this chapter, namely, that nations use arms to influence policy and that arms transfers represent concrete foreign policy decisions. This assumption, derived from the fact that arms sales in Germany, as in all major industrialized nations, are government controlled, permits the research to

proceed along policy lines rather than forcing the research into the pursuit of purely economic motives.

The second assumption provides that rationales can be determined from an examination of the public facts of an arms sale. When nations announce an arms transfer, rationales are not always stated. Therefore, it is often necessary to infer rationales from the circumstances of a sale.

B. DEFINITIONS

For this paper, the terms arms sales and arms transfers will be used interchangeably. Arms transfers are defined as:

> ...the international transfer (under terms of grant, credit, barter or cash) of military equipment, usually referred to as "conventional," including weapons of war, parts thereof, ammunition, support equipment, and other commodities designed for military use. Among the items included are tactical guided missiles and rockets, military aircraft, naval vessels, armored and nonarmored military vehicles, communications and electronic equipment, artillery, infantry weapons, small arms, ammunition, other ordnance, parachutes and uniforms. Dual use equipment which can have application in both military and civilian sectors is included when its primary mission is identified as military. The building of defense production facilities and licensing fees paid as royalties for the production of military equipment are included when they are contained in military transfer agreements. There have been no transfers of purely strategic weaponry. Excluded are

foodstuffs, medical equipment, petroleum products and other [related] supplies....[2]

Offsets refer to aid provided by a supplier nation to a recipient nation to make a sale. For instance, the U.S. agreed to build an F-16 plant in Turkey (thereby providing technology and jobs) in return for Turkey buying the F-16. Technology transfer is the sale of the technology or the grant of a license to construct a particular weapon system and is treated as a sale of arms.

The dependent variable under examination in this study is the decision, by a government, to authorize the transfer of weapons, materials, and training to another government. The independent variables are those elements that influence or have an impact on the decision to transfer the armaments. The common term describing these independent variables are rationales. Generally, the rationales can be divided into three categories: economic, political, and military. The most commonly accepted rationales for the transfer of arms are listed below.

Figure 1.1 Arms Transfer Rationales

Economic:

Balance of Payments

Lower Unit Costs

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[2]This definition is taken from the U.S. Arms Control and Disarmament Agency, World Military Expenditures and Arms Transfers 1988, Washington D.C.: Government Printing Office, 1988, 133.

Employment

Spur other Commercial Transactions

Union Pressures

Economies of Scale

Political:

International Stature

National Pride

Treaty Commitments

Demonstrate Friendship

Ideological Affinity

Access to Military Elites

Influence

Arms for Oil

Military:

Strategic Access (bases)

Stockpile for use by supplier

Demonstrate Military Power

Collective Security

Control Regional Conflict

Maintain National Defense Industrial Base

The list is not meant to be all inclusive, and certainly all the rationales do not apply to the Federal Republic. The list is presented as an acknowledgement of the myriad factors associated with the international transfer of arms.

Economic rationales are employed to assist a country in its financial posture. Since the nation-state is the level of analysis; one must consider the macroeconomic picture as opposed to a microeconomic view of one industrial sector. An economic rationale persuades the decision making authority in the government to approve an arms transfer for primarily economic reasons.

The second major grouping of rationales is political. A political rationale is defined as one in which the benefits to be gained from the approval of a sale are politically motivated. As the list shows, the range of motives is great. The key to a political rationale is the political advantage, either perceived or real, that the nation-state may gain from the transfer in the international arena. Gains in the form of guarantees for access to oil and increases in international stature are only two examples of this phenomenon. Finally, a central element of the political rationale is power, either through influence or recognition.

Military rationales concentrate on military related concepts. A military rationale for an arms transfer centers on a military gain made possible by the sale. The military rationales are more commonly used by the United States and the Soviet Union. A prime example of a military rationale was the F-16 sale to by the U.S. to Belgium. This particular sale satisfied two objectives, it contributed to collective security, and probably more importantly for the United

States, it allowed maintenance of the U.S. defense industrial base represented by the F-16 production line.

Almost invariably, arms transfers are motivated by more than one rationale. In each case however, there is usually one overriding rationale. In the above case with the U.S. sale of F-16's, in addition to the military rationale, economic and politic benefits were gained. This study attempts to isolate the key rationales, from other gains to be made, responsible for the decision to transfer arms.

C. LIMITATIONS

The main limitation of this thesis is the difficulty of obtaining current information on arms sales. Most nations are reluctant to advertise the fact that they have provided another nation with arms or technology, especially considering the present situation in Middle East. Moreover, some arms transfers are kept secret for political reasons. The two main sources for information and trends in the world of arms transfers are the "World Military Expenditures and Arms Transfers", (WMEAT) published by the U.S. Arms Control and Disarmament Agency and the Stockholm International Peace Research Institute (SIPRI). While these publications are acknowledged to be the best and most complete in the field, for reasons stated above they may be slightly inaccurate. Lack of reliable information from other sources requires a dependence on these two agencies.

A particular problem arises from the way SIPRI and ACDA compute their data. SIPRI tracks only sales of major items of equipment (ships, howitzers etc.). ACDA on the other hand, reports on the smallest level of sales.

It is impossible therefore, to check data by comparison, since the data do not compare. The trends in arms sales do generally agree however, and these two sources are used to verify trends. For this paper, both sources are used because of the perspectives each offers. For instance, SIPRI maintains historical data in current dollars from 1968 on. ACDA does the same, but only on a ten year period, which drops a year for each year added.

D. DELIMITATIONS

This study confines itself to the trends of the last fifteen years. There are two reasons for this delimitation. First, the inflation of the past fifteen years in the world has unnaturally swollen prices making comparisons difficult. Each of the above mentioned references reports actual prices paid. Second, while the arms industry has existed for some time, only in the past fifteen years has it really expanded.

The study does not address the illegal sale of arms in the world. The fact that illegal arms transfers occur (without the knowledge or consent of governments) is widely documented in weekly newsmagazines and newspapers. In fact, certain German industries have been accused of selling

weapons, technology and expertise to some troubled spots in the world. There is no question that an illicit trade exists, but the governments of the nations from whence these arms originate are generally made aware of the facts, after the trade is consummated.

The final major delimitation is in the scope of the study. Since this is an initial work, the research is confined to the macro level of country analysis as opposed to the micro level. This study is a survey of the major groupings of rationales for arms transfers, rather than a specific examination of one industry or one rationale.

II. REVIEW OF THE LITERATURE

The scholarly work conducted on the study of the arms trade falls into three categories, divided by time.[3] The first category, the "Merchants of War" era started with the Industrial Revolution in the latter part of the nineteenth century and lasted until World War II. During this period the manufacture of arms was seen as a logical continuation of the production lines necessary to produce the weapons needed for each country's own defense. The era is characterized by generally few restraints on the manufacturers and very little, if any, governmental

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[3]For an alternative treatment of the history of arms transfers, see, Cindy Cannizzo ed., The Gun Merchants: Politics and Policies of the Major Arms Suppliers, New York: Pergamon Press, 1980.

controls. The study of arms transfers during this period was limited to a few scandalistic works which attempted to show the evil of transferring weapons. Additionally, the League of Nations published, for a brief period, a listing of the various "deals" of the day. The conventional wisdom believed that these lists led to a decline in the transfer of arms.

The second period started at the end of World War II and continued to the mid-1970's. During this period the tremendous inventories of weapons that the allies had produced during the war were essentially redistributed in the world. The Cold War forced the U.S. and other allies to rearm the vanquished of World War II with these older weapons and also saw the rebirth of the European defense industries that had been dismantled or destroyed. The research of this period focused almost exclusively on the nuclear and Cold War issues of the day and ignored the transfer of conventional weapons.

The final period runs from the oil embargo days of the mid-70's. The volatile Middle East, and a need for oil caused many arms suppliers, Western and Soviet alike, to offer arms to the region. Modern technology and a desire to upgrade their own defenses caused many Third-World nations such as Brazil and Israel and South Africa to begin to manufacture and market arms. The Federal Republic of Germany is a major player of this period. It is only in this final

period, from 1973 to date, that the study of arms transfers has excited any interest.

The work accomplished over the past seventeen years focuses on two major aspects of the arms trade. The first area is the study of the superpowers and the effects of their weapons transfers. The second area concentrates on the mechanics of the study itself, namely the theoretical relationships between arms transfers and international relations, political science theory etc. With few exceptions, no major analyses at the country level, other than those already indicated, have been done.[4]

Research also indicates that few scholars have explored the German arms industry, although, Ulrich Albrecht, a German political scientist has studied the trade in some detail. In an article on the West German arms trade in 1986, he predicts that West Germany will expand its' arms trade as a natural result of economics. He feels that commercial pressures will drive arms transfer license approval for the foreseeable future. Albrechts' findings are based on interviews with industry leaders and personal experiences with labor unions.

A second scholar, Michael Brzoska of Hamburg has written extensively on the arms trade in general and published a dissertation in 1986 on the European arms

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[4]Pierre, in Global Politics, devotes seven pages to the West German arms trade.

industry. His findings tend to agree with those of Albrecht.

American scholars such as Frederick Pearson tend to focus on the European aspects of German arms transfers, emphasizing the cooperative efforts. He believes that the future of German arms export policy will be determined by the urge to benefit from the technological fruits of arms development.[5]

Further research reveals that although SIPRI and ACDA regularly publish articles about the trade and trends in general, within the past four years, no major studies have been conducted on the German arms trade.

In the past year, the news media has reported on the alleged sales of either technology or arms on the part of the West Germans. More recently, reports have focused on the weapons the new German Republic must dispose of as the East German forces become a part of the Bundeswehr. These articles, while interesting, serve only in the way they contribute to the data on official arms transfers.

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[5]See Frederick S. Pearson, " 'Necessary Evil': Perspectives on West German Arms Transfer Policies," in Armed Forces and Society, Vol.12, No. 4, (Summer 1986), 525-552, for an analysis of the effects of the changes in arms transfer policy in 1982. While accepting economic rationales as important, Pearson nonetheless emphasizes the political aspects of German arms transfers as evidenced by the key role played by the German Foreign Ministry in all licenses.

III. METHODS AND PROCEDURES

This study examines the political, foreign policy and economic importance of arms sales for Germany using the three major groupings of arms transfer rationales, economic, political and military. The first section is an analysis of the political aspect of German arms transfers. German defense and foreign policy is generally straightforward. By tracing the evolution of the policies, and examining current trends, a prediction is possible. This prediction, measured against trends in arms transfer policy, reveals the direction the government in moving in this crucial area.

The second section examines economic aspects of German arms transfers. Using aggregate regression analysis based on data from ACDA and SIPRI, correlations between GNP and arms exports, and military expenditures suggest explanations for the trends of exports over the years. The statistical analysis is balanced against other explanations for the trends.

The third section examines, in detail, two important rationales from the political and economic groupings, arms-for-oil, and influence. These rationales are treated separately for two reasons. First, theoretical frameworks using the United States and the Soviet Union have been developed and offer a possibility to test and determine validity. Second, These two areas, arms-for-oil, and influence suggest themselves as strong rationales for German

arms exports. The former because of the effect the 1973 oil embargo created coupled with the pattern of sales immediately after, and the second because Germany is becoming more independent and may wish to exercise that independence in the future.

CHAPTER 2

THE POLITICS OF GERMAN ARMS SALES

Political rationales for arms transfers are found in the foreign and defense policy of the nation being examined. These rationales are further translated into arms transfer policy. For instance, U.S. weapons sales to Saudi Arabia emphasize the defense and foreign policy commitment the United States has to that nation. Similarly, denial of weapons sales usually reflects foreign and defense policy considerations. This section examines the foreign and security policy of the Federal Republic to relate it to the present arms transfer policy. The present bureaucratic mechanisms for controlling arms transfer licenses are also discussed.

As in most nations, the defense and foreign policies of Germany are mutually supportive and dependent. Analysis of these policies is fundamental to the examination of the political rationale.

A. GERMAN SECURITY POLICY

According to the White Book, 1985, German security policy has three main goals:

> ...to rule out the threat or use of force between states as a means of settling political conflicts, to promote cooperation with other states--including those having a different social order--to our mutual benefit, and to achieve, through negotiations on arms control and disarmament, a stable balance of forces at the lowest possible level and thus to establish a lasting state of peace with less weapons in Europe.[1]

German security policy is founded on two main considerations, strategic location and economic might. These two elements of national power dictate the course that Germany has taken and will take in the foreseeable future. The collapse of the Berlin Wall and East European communism offer particularly difficult policy choices for the government. No matter how one looks at German security, it is undeniable that German peace is European peace.[2]

Another aspect of German defense policy is that the present defense of Germany is largely out of German hands. The NATO structure, embodied in the form of Allied Forces Central Europe (AFCENT), supranationally raises German defense to the level of European and even American defense. Germany's armed forces, manned and equipped by Germans,

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[1]White Paper, 1985, 5.

[2]Anne-Marie LeGloannec, "West German Security: Less of a Consensus," in Evolving European Defense Policies, edited by Catherine M. Kelleher and Gale A. Mattox, Lexington, Massachusetts: Lexington Books, 1987, 170-184.

generally are commanded by Americans and British commanders.

Such an ambiguous situation has led the Germans to take a 'hands-off' approach to defense policy. This particular situation is changing.

Until October of 1990, German security policy focused on Germany in the NATO context. In fact, the constitution prohibits the employment of forces outside the country. The key question in the reunification issue was the direction Germany would take after reunification. The answer to that question was a resounding yes to the NATO structure.

A result of the unification is the new found self-confidence and independence being manifested in all aspects of German policy. An example of this independence is reflected in the statements of Chancellor Helmut Kohl in March of 1991, before a conference on the future of a united Germany in Europe:

> We should explore... the participation of the Bundeswehr in joint operations according to Chapter 7 of the United Nations Charter [and] the participation of the Bundeswehr in a joint action within the framework of a future European security structure.[3]

These remarks were made in the context of the war in the Persian Gulf, however, the fact that the issue is being addressed, is important:

> The idea that [German forces] should operate outside Europe or within larger, integrated

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[3]As quoted in "Kohl questions limits on military," The Kansas City Star, 15 March 1991, A-7.

European units has not been put forward like this before.[4]

Indeed, not since the war have German politicians suggested a use for armed force outside of the country. Such use of force requires a change in the constitution, a delicate issue. It seems clear, however, that the Germans are willing to test the limits, if, in fact, any limits remain, of their new status.

Military or security policy is a key determinant of defense industrial policy. There are two possible scenarios the German government may pursue at this point. First, is the continuation of present policies, albeit reduced in light of a lessened Soviet threat. This policy requires a reduction in the size of the German armed forces of some 300,000 personnel, in accordance with agreements negotiated with the Soviets. Such a policy slows, but does not stop, modernization and procurement efforts coming to fruition in the Federal Republic. This policy has a clear effect on the defense industries and the federal budget. Any slowing of procurement programs raises prices, and could cause employment difficulties. In light of the high cost of the unification and the concurrent lessening of the threat, it is unlikely that the political and national will would support higher defense costs. On the other hand,

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[4]Ibid, a quote attributed to Eckehardt Ehrenberg, director of the Research Institute for Security Policy and International development, Bonn.

unemployment is equally unacceptable. If the government decides to proceed with modernization, arms exports are a way to reduce the costs.

Should the Germans decide to drastically cut back on defense and consequently reduce funding for defense programs, a different situation is presented. In this instance the government is faced not only with serious security policy issues, but also domestic issues. Public outcry over layoffs and firings could be too much for the government in power to withstand.

The question remains however, as to the direction German security policy will take in the future. Tentative steps taken to date suggest a more expanded role for Germany in the NATO and world arena. Whatever its direction, it is clear that the Allies will have little to say in its determination.

B. GERMAN FOREIGN POLICY

German foreign policy has evolved over the past 45 years through a series of phases. The first phase, postwar foreign policy, tended towards policies that acknowledged the Allies superiority and were aimed at getting Germany rebuilt and reaccepted into the community of nations. The period was marked by the almost total lack of foreign policy initiatives, the emphasis was on domestic policy. Instead, the Germans acquiesced to the Allies in all aspects of

foreign policy. The tremendous amounts of aid and world scrutiny provided by the Allies certainly influenced this stage. This stage also saw the start of a series of initiatives, from both the east and west, to establish the identity of the true German state.

The second stage of foreign policy evolution is marked by the tentative gestures of Ostpolitik, of the Willy Brandt era, in the late 1960's. Flying in the face of US and European criticism, Brandt insisted on turning attention to the "German Question," and Eastern Europe. This period is marked by the first attempts of a German government to assert itself in the international arena, and, more importantly, break ranks with other western nations.

The third stage commenced with the Chancellorship of Helmut Schmidt and continued, albeit less confrontationally, with the administration of Helmut Kohl. This phase is marked by a gradual, but steady shift towards foreign policy independence. For the first time, the United States, in the person of President Jimmy Carter was rebuffed by the Federal Republic. Accepting the Pershing II missiles was less a policy choice of the United States than a positive effort by the Federal Republic to address the imbalance in Europe and do something about it.

The latest stage commenced with the destruction of the Berlin Wall and is still developing. Most important about this phase is the absolute independence in foreign

policy demonstrated by the Kohl government on the issue of unification. The German assertiveness in foreign policy has never been so pronounced. Moreover, this phase marks the end of a certain degree of domination by the United States over German foreign policy. Until now, the US has played a role in foreign policy formulation for the Federal Republic, a role which will decrease as the nation rebuilds the DDR and reestablishes its independence of the victors of World War II.

To analyze the political rationale in detail, this last stage of development must be subdivided into three separate and distinct components Europe, the United States and Third World nations. This subdivision examines the restraints imposed by foreign policy, as well as opportunities available for the German foreign policy. Foreign policy directly influences arms transfer policy which is examined in the next section.

1. Germany in The European Perspective

In this new age of foreign policy, Germany's neighbors are understandably cautious. The French in particular are wary of this present resurgence of German diplomatic power. Since World War II, German foreign policy towards Europe has been always centered on the concept of a united Europe, where all nation subordinate national considerations for the good of the whole. Of course, the

concept of a united Europe was conceived with this particular goal in mind. German elites are mindful of the effect their past has on their neighbors and consequently do all they can to quell any fears of a resurgence of German nationalism or a return to the past. As Robert Schumann proposed initially in his idea for a united Europe, unification of industrial policy precludes any attempt by one nation to gain an advantage over another.

Closely related to this goal is German insistence on the inviolability of NATO. As already mentioned, German military policy is seconded to NATO policy in most instances. Another aspect of the importance of NATO is the defense industrial policy, addressed in the next chapter which is also a key element of foreign policy.

In summary, German foreign policy in Europe is best described as good neighbor politics. The government actively seeks opportunities to further emphasize the role of the EC, and other multinational forums such as the Western European Union (WEU), as well as NATO. Additionally, the Federal Republic is of neccessity sensitive about giving the appearance of a return to German nationalism. While many bordering nations, especially Eastern European nations, are uncomfortable with the new Germany, she is taking great pains to assure all that there will be no return to the past.

Germany needs European acceptance to pursue her own well-being. Acceptance hinges on foreign policy behavior within acceptable norms. Domestic pressures will influence this foreign policy, especially as the EC comes together. Germans are taking a hard look at equity in the EC relationship to ensure that equity reflects the German contributions.

2. Germany and the United States

The relations between the Federal Republic and the United States are, ostensibly the best they have ever been. The United States was an active player in the diplomacy that resulted in unification, and for this the Germans are grateful. However, as already mentioned, the Germans are experiencing a resurgence of self-confidence that extends to its dealings with the United States. A peace treaty formally ending the war has been signed and the limitations imposed, as weak as they were, no longer exist. The United States relationship is changing from one of big brother to coequal. This has an important impact on arms transfer policy. Until recently, U.S. governmental pressure could prevent arms transfers, or, as has also occurred, spur arms transfers as a surrogate for U.S. sales.

3. Germany and the Third World

West German relationships with the Third World have changed in direct proportion to the effect other nations have had on the Federal Republic. Additionally, in some cases, particularly in the arms transfer arena, Third World policy was driven by Allied considerations.

German policy toward the Third World,

> ...supports the striving of countries for independence and true non-alignment. By means of her public development aid, the Federal Republic makes an important contribution to helping the Third World to overcome its economic and social difficulties. [The] Federal Government pursues activities of peace preservation outside Europe by political means, in particular by means of economic and development policies.[5]

In fact, German aid toward the Third World generally exceeds 0.5 percent of GNP, one of the highest percentages in the West. Reasons for German generosity in the Third World range from humanitarian concerns to developing new markets and probably are a combination of both. Foreign policy, however, can also be measured as a result of arms transfer decisions. Arms transfers to the Third World, specifically regions of the Middle East and Latin America, have fluctuated over the last ten years. These fluctuations are a reflection of the foreign and arms transfer policy of the Federal Republic. The next section concentrates on the arms transfer policy development and history.

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[5]White Book, 1985, 25-6.

C. ARMS TRANSFER POLICY

Arms transfer policy in the Federal Republic conforms to Article 26, of the Federal Constitution, which states that "weapons designed for warfare may be manufactured, transported or marketed only with the permission of the Federal Government."[6] As initially pronounced this straightforward policy was clear and needed no amplification, at least as long as the arms industry lay fallow. As the industry regained strength, however, the policy was abused.

In 1961, as a result of a number of scandals involving the export of arms, the government passed legislation establishing a stricter control of the trade.[7] This legislation, the 'War Weapons Control Act,' was an attempt to establish a tight regulation over the arms trade. By all accounts, the result of the 1961 law was effective in that Germany gained an immediate reputation as one of the few countries in the world with such a restrictive law.[8] Major provisions of the 'War Weapons Control Act,'

> ...regulate production, ownership, handling and the sale of weapons. In order to prevent

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[6]As quoted in Stanley and Pearton, The International Trade in Arms, 25.

[7]Ibid, 26. The result of these scandals was the recognition that while the Constitution forbad an indiscriminate arms trade, there existed no legal mechanism to monitor or prevent it.

[8]The official title is, Gesetz ueber die Kontrolle von Kriegswaffen (KWKG), dated 20 April 1961 with amendments.

> third country sales, an end-use certificate is demanded from the recipient country. To receive West German military equipment, orderly domestic conditions (geordnete innerstaatliche Verhaeltnisse) must prevail in the recipient country and it must not be an area of tension (Spannungsgebiet). The export of strategic goods is regulated under the Foreign Trade and Payment Act (Aussenwirtschaftsgesetz), which covers items that might otherwise evade regulations of the War Weapons Control Act.[9]

From this basic legislation, German arms export policy has undergone an evolution. Instead of becoming more restrictive, however, the ambiguities inherent in the law have actually caused a net relaxation of arms export policy.

1. Policy Evolution

To trace the process of this evolution, it is necessary to examine the various developmental stages in light of the actual decisions made during the period. As already noted, the actual legislative apparatus to control arms transfers was only established in 1961 as a result of international pressure. The original intent was to strictly limit the transfer of arms to continue to gain acceptance in the community of nations. However, initial pressures to export arose not from any excess industrial capacity, but from the desire to meet allied demands to modernize the Bundeswehr. Military modernization creates excess, and the old weapons were excess. At the same time, Allied nations subtly suggested that Germany could assist in stanching the

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[9]SIPRI Yearbook, 1983, 276.

spread of communism, by assisting less wealthy NATO countries such as Greece, Portugal and Turkey.

Since the German government itself, refuses to become involved with arms sales directly, (a policy which continues to this day), conditions in the mid-1960's created a dilemma for the government. The industry by this time had produced the first generation of replacement tanks for the aging U.S. M-47's. These tanks were the first generation of 'Leopards.' In order to dispose of the surplus, the government created a private agency with the mission to dispose of excess, outdated and surplus equipment of the armed services. This agency, VEBEG (Verwertungsgesellschaft m.B.H.) was authorized to sell the weapons to private dealers.[10] Unfortunately, indiscretions of this agency caused great embarrassment to the German government and caused the Germans to further tighten arms transfer regulations.[11]

Chastened by this experience, the government policy in 1970 stated:

> The Federal Ministry of Defence and the Bundeswehr have no specific interest in promoting arms exports unless such exports serve to standardize the equipment within the Alliance. It is true that there are also other reasons which may speak in favor of

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[10]The International Trade in Arms, 59.

[11]Ibid. The 'private' arms dealers, such as the American privateer, Samuel Cummings, profited greatly from such arms deals. The scandals caused by these deals caused a reappraisal by all nations of the difficulties in selling arms on the private market.

> certain exports; such transactions are, however, no longer under the sponsorship of the Federal Ministry of Defence.[12]

While the extent of the changes resulting from the political problems raised by the scandals of the late 1960's is not known, it appears that the Defense Ministry categorically withdrew from the decision making process. In fact, while the Defense Ministry was charged with disposing of excess equipment, it is clear that no thought was given as to the possible results of such transactions.

In 1971, the policy became more restrictive:

> The Federal Government has adopted a policy that governs the export of weapons of war and other military material. The Government intends to restrict the trade in war material. The export of weapons of war to non-NATO countries, which had already been banned for areas of tension, is now generally prohibited. The export of other military material has been restricted.[13]

This policy also included the concept of 'areas of tension,' which would be forbidden transfer of German arms. This concept, approved by the Federal Security Council, gave final definition authority of 'areas of tension,' to the Foreign Ministry. The guidelines were extremely vague and subject to interpretation on a case by case basis.[14]

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[12]White Paper, 1970, 157.

[13]White Paper, 1971-1972, 150.

[14]The Federal Security Council is an integral part of the arms transfer approval mechanism, discussed below.

At the same time however, in an effort to promote interoperability as well as contribute to the maintenance of its own defense industry, the Germans allowed unrestricted "export of weapons of war and other military material to NATO countries."[15] Economically, the Germans were trying to establish their defense industry on a solid basis by selling to NATO and at the same time avoid recriminations for indiscriminate sales to other nations. Obviously, the ban on exports to non-NATO countries, as well as areas of tension, was violated.[16]

In 1979, the White Paper acknowledged the dangers and difficulties inherent in arms transfers to the Third World, while seeming to realize that arms transfers are a fact of modern life:

> The exportation of arms to the Third World basically remains a problematic issue. The transfer of large amounts of arms and military equipment expands the conflict potential and threatens peace.[17]

The same document quotes the Federal Chancellor as calling for a strict limit on the transfer of arms:

> Regulating the international transfer of armaments must feature prominently in our efforts to achieve arms limitation. [We] refuse as a matter of principle to grant aid for the export of weapons. Only in

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[15]Ibid.

[16]See the SIPRI Yearbooks for a detailed listing of annual reorted sales of German arms and equipment.

[17]White Paper, 1979, 164.

> exceptional and on the whole very limited cases do we allow any weapons at all to be supplied to countries outside our alliance. We strictly do not allow weapons to be exported to areas of international tension.[18]

Again the facts show that Germany continued exporting arms throughout the period. In 1976, for example, orders were recorded for Egypt, Iran, Lebanon and Ethiopia. Some of these orders reflect delivery dates of 1979. By policy these areas were supposedly areas free of tension. The definition of tension ambiguous as it was, required clarification. The clarification came in 1980 in a new policy development.

A political decision which set off a new round of discussions in the government involved the decision in 1980, by the Foreign Ministry to no longer, "define any 'areas of tension,' (to which arms exports were in principle prohibited), and that the motivating force behind decisions to export arms [is] the national interest."[19] This is a watershed decision for a number of reasons. First, because it officially recognizes actual arms transfer license criteria. Even a cursory glance at arms transfer registers in the 1970's showed that contrary to declaratory policy, the Germans were in fact, exporting arms quite freely. Second, this decision opened a new era in arms transfer policy. The Germans recognized the political power inherent

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[18]Ibid.

[19]SIPRI Yearbook, 1981, 194.

in arms transfers. It is also possible the decision was at least partially determined by domestic considerations. The end result is a shedding of past self-imposed restraints in deference to Allied pressures. SIPRI further notes,

> Given the West German dependence on oil supplies from Saudi Arabia, it can be speculated that the government may have to sell whatever Saudi Arabia wishes to buy. The Social Democrat politician Hans Juergen Wishnewski even claims that continued arms exports to Saudi Arabia are a necessity not only for FR Germany but for the West, for securing oil supplies.[20]

Political squabbles over this policy interpretation erupted in 1981 and continued into 1983. The two major political parties disagreed over the form of the policy.

> In the West German Parliament, while both the Christian Democratic Union (CDU) and the Christian Socialist Union (CSU) have adopted a position somewhat between reserve and approval, the Social Democratic Party (SPD) rejected the suggestion that arms should be exported to countries outside NATO. The SPD also fear that expanding West German armaments production and exports may determine West German foreign policy; and the are also concerned that arms exports should not be regulated by employment considerations.[21]

On 28 April 1982, the government again amended the original arms exports control law by deleting the phrase 'area of tension', a tacit recognition of an unenforceable provision of law. The concept was replaced by a provision

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[20]Ibid.

[21]SIPRI Yearbook, 1983, 276.

which allows transfers if they are in the 'national interest.' This is the law, in effect at the time this report is being written, which governs arms transfers at this turning point in modern German history.

D. Arms Transfer Mechanisms.

The approval procedure for arms transfers is shown in Figure 2.1. German arms sales are unique in the world in that each sale is considered on a case-by-case basis. All arms exports must conform to the requirements listed in the principal legislation of the Federal Republic governing arms transfers. The War Weapons Control Act (KWKG), is the basic law controlling arms exports in the Federal Republic.

The trade in arms in the Federal Republic is monitored by three separate ministries, Economics, Defense,and Foreign Affairs. The key player of these three is the Minister of Economics who grants final approval for the sale. The process consists of three, basic steps:

1. The firm wishing to export weapons, first requests authorization from the Ministry of Economics.
2. The Minister of Economics submits the request to the Ministries of Defense and Foreign Affairs and Commerce, for comment. In the case of a politically sensitive arms sale, the request is submitted to an inter-ministerial committee known as the Federal

Arms Transfer Approval Process

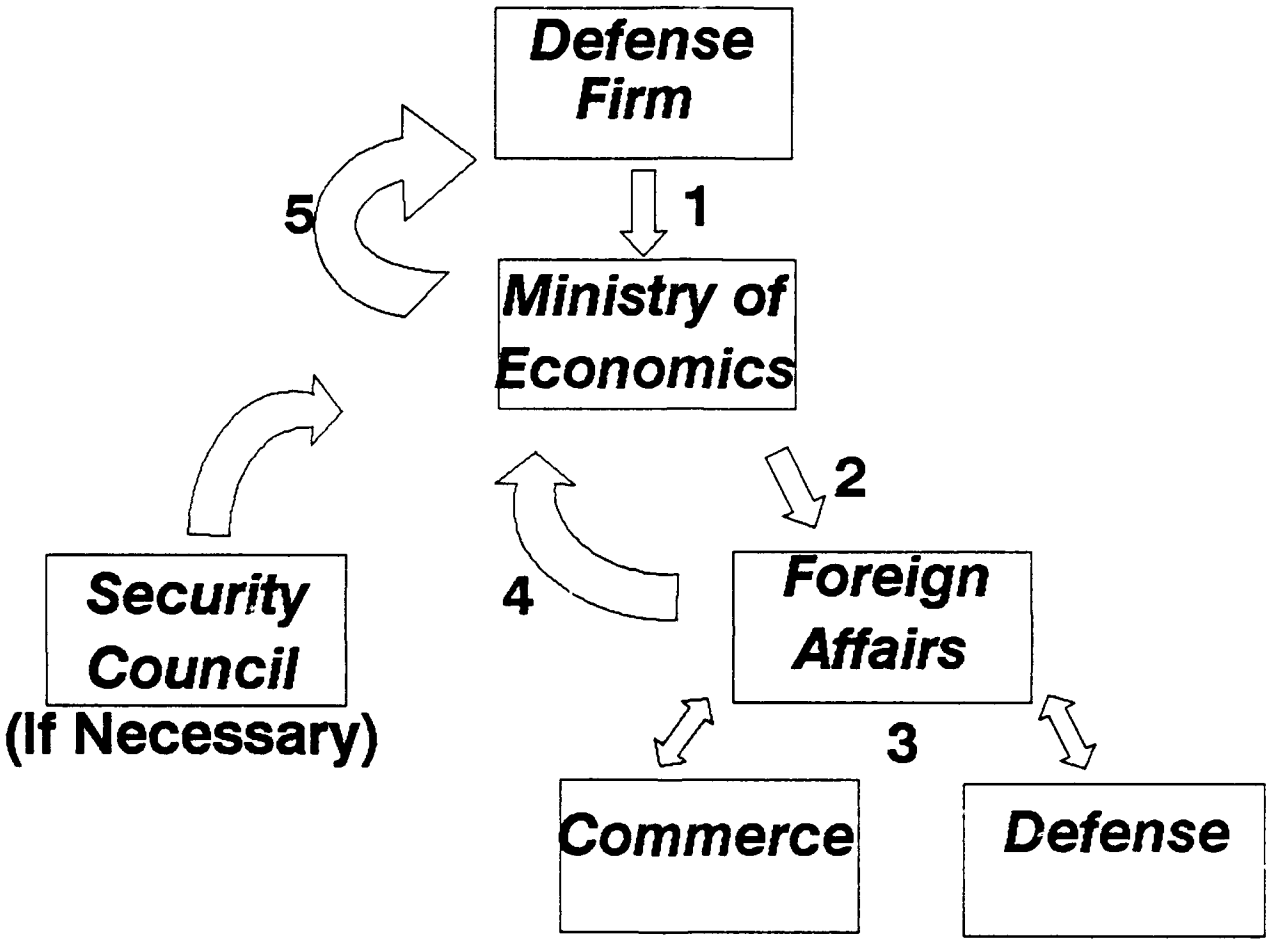

Figure 2.1

Security Council. The Federal Security Council consist of the above mentioned ministers plus the Ministers of Finance and Domestic Affairs. The committee is chaired by the Chancellor. A decision made by the Federal Security Council is final.[22]

3. The final step in the process is the issuance, by the Ministry of Economics, of an export license.

Unlike the United States and other major producers, the government is not required to inform the Parliament of bilateral transfers of arms. The law stipulates however, that in the case of international cooperative projects, the Parliament must be informed.[23]

In all other cases, the Parliament does not have the right to veto sales. While individual members often ask pointed questions and raise allegations concerning sales, the legal power rests in the executive branch of government.

3. Summary

The German export laws have matured, from a broad policy restricting categorically all arms exports, to a system which acknowledges the importance of foreign policy and national interest which attempts to use arms transfers to further German goals. This evolution reflects important changes in foreign and security policy, as well as German perceptions regarding the world. A combination of renewed

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[22]SIPRI Yearbook, 1989, 328-330.

[23]Ibid.

self-confidence and a final resolution of the "German Question," allow the Federal Republic to face the decade of the 1990's free of past concerns. This independence, already surfacing in foreign and defense policy, will see the Federal Republic pursuing its national interest, even at the expense of offending traditional allies. More importantly, this pursuit of the national interest, unencumbered by the past, allows domestic concerns of the defense industry and the polity to come forward. At this time, there is no ulterior agenda that the Federal Republic is following, but for the first time since 1945, it is free to follow its own course.

CHAPTER 3

THE ECONOMICS OF GERMAN ARMS SALES

Most Western European nations, as well as the newer "second-tier" producers of arms, recognize that exports are vital to the maintenance of a domestic defense industry.[1] Logic dictates that the size of the industry must be sufficient to produce the requested weapons for the domestic market, but that the domestic market may not be large enough to totally support the industry. This is true for the Federal Republic, although many of the main defense contractors are quite diversified into non-defense fields. The issue to be examined in this chapter is the extent to which the economic factor of arms transfers drives weapons exports.

A review of economics literature indicates two schools of thought on this rationale as a motivator for arms sales. The two schools essentially disagree over the impact

[1]Second-tier producers are those newly industrializing nations that have established a defense industry built on the technology gained from licensing agreements.

that economic factors have on the export industry. Pierre dismisses the economic primacy of arms sales as a major rationale:

> It may be, however, that the economic importance of arms sales--the "explanation" most often given for their existence and expansion--is not so great as often believed to be. The widespread perception that high levels of arms sales are necessary for the national economies of the principal suppliers is based upon vague, general notions rather than hard data.[2]

Pierre's comments are tempered by another study, the first study of arms transfers done by economists.

> ...in purely commercial terms, the promotion of arms exports by a country is not a profitable proposition. ...It appears that the initial momentum [to export arms] was provided by strategic and political objectives, but that the growing dependence of particular interests on arms exports created a powerful economic lobby, despite the lack of commercial logic. In fact these economic pressures tend to undermine the political and strategic objectives.[3]

At the opposite side, Albrecht argues that the sole reason nations export (especially nations the size of West Germany) is for the economic benefit:

> The new commercialism in the area of arms exports can be explained, [in the case of Germany], ...by a shift in export policy decision-making from government to industry. Foreign policy considerations are losing their importance. In a dispute over a potential weapons sale, it is increasingly

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[2]Andrew J. Pierre, The Global Politics of Arms Sales, Princeton: Princeton University Press, 1982, 25.

[3]Ron Smith et al. "The Economics of Exporting Arms," Journal of Peace Research, Vol. 2, No. 3, 239.

> likely that economic motives will prevail over diplomacy. The limited relevance of government policy in the area of arms exports from the point of view of the industry must also be recognized. A negative decision by the government in a specific case merely gives the [German] arms producer incentive to find other ways to carry out the deal. The flow of arms exports from European countries, as opposed to those from the superpowers, must be interpreted primarily as an outgrowth of economic and industrial policies, rather than foreign policy.[4]

Throughout his article Albrecht emphasizes economically motivated arms production and sales as the driving force for the German arms industry. Indeed, there is evidence that some aspects of economics play a part in arms transfers. It is not clear whether in the case of Germany, economics is the sole or even the most important motivator for arms exports.

If foreign policy rationales are subordinate to economics, there are two possible explanations. Either the government through inaction has relinquished control to the industry as Albrecht theorizes, a form of passive submission. Or, because of intense efforts by the industrial community, the government is being lobbied for positive or active submission to the industry. This chapter examines the impact of economics, industrial policy and employment policy on the decision to sell arms.

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[4]Albrecht, 142.

A. THE GERMAN INDUSTRY

Since World War II, the German arms industry has grown tremendously. The growth of the industry can be divided into three phases, dependence, licensing and development, and independent production. All industry is privately-owned. Government armament policy which regulates the structure of the industry is addressed below.

The first phase, dependence, was a natural result of World War II, and more importantly the founding of NATO and the rebirth of the German military. The economy was slowly rebuilding and notwithstanding popular resistance, the Allies (United States, France and Great Britain) were pushing the Federal republic into assisting in the defense of Western Europe. Accordingly, the lead taken by the United States saw West Germany being rearmed.[5]

The second stage of the industry evolution began in the 1960's. Indicative of this period are the licenses granted German firms to produce, in most cases, United States designed weapons. The F-104 "Starfighter", is one of the best examples of this new trend of licensing.[6] It was

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[5]For a detailed examination of the politics and mechanics of military assistance programs to the Federal Republic see, Andrew J. Bartle, Rearming the Phoenix: American Military Assistance to the Federal republic of Germany, 1950-60, Ph.D. dissertation, The Ohio State University, 1985.

[6]In 1989, the Federal Republic of Germany delivered the last of 150 F-104 Starfighters, to the Republic of Turkey. The aircraft had been modernized and although the terms of the deal are unclear, it appears that the FRG assumed a role of provider of technology, much like the US in the 1960's with the same aircraft.

in this phase that the latent talents of German weapons designers came to the fore. Using examples of the latest technology, and provided with trained workforces, the industries were able to venture out on their own.[7]

The last stage of the development of the German industry is that of self sufficiency. Having retooled and retrained the workers and designers, the Germans were ready to develop their own weapons. Indeed, this period saw the development of some of the most sought after weapons in the world, to include the Leopard II tank and the Alpha Jet.

This period, starting in the early 1970's and lasting until today is important for the development of co-production arrangements. The European countries, faced with the dominance of the United States in the arms industry sought to challenge that dominance with their own equipment. Co-production allows different nations to share research and development costs of expensive weapons systems while maintaining independent defense industries at home. The Federal Republic of Germany has been quite willing to enter into these arrangements. Some argue that these arrangements

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[7]Many European nations, including Germany and Italy, were accused of using US technology, improving it and reselling it to gain entries into the world markets. See "The U.S. Giveaway," New York Times, 7 December 1986, f.1.

allow Germany to abrogate her responsibilities as to the recipients of these arms.[8]

The German arms industry, much like other sectors of German manufacturing is profitable and competitive. Indeed, German arms, much like other German products are in demand because of the perceived quality applied throughout all industry. Over the past fifteen years, the German arms industry fluctuated between fifth and sixth place, in volume of sales, in the world. Figure 3.1 shows German position relative to the world's major producers.

Among the "Big Four" European producers, (France, Germany, United Kingdom and Italy), the picture changes somewhat. Of the four major European manufacturing nations, Germany is predominant in the Latin American and European markets, and tied with the UK in the East Asia market. The Middle East market share is the smallest of European producers. A cursory glance at the German participation seems to indicate a lack of coherence to the stated policy of restraint in arms transfers to areas of tension. (See Figures 3.2, 3.3, 3.4, 3.5, 3.6.)

B. ARMS TRANSFERS AND GROSS NATIONAL PRODUCT

Figure 3.7 shows the fluctuations of Gross National Product (GNP) from 1977 to 1987. Noteworthy is the period

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[8]Germany provides components of various defense products to the final assembler, France in the case of the Tornado. The French have sole authority to approve or deny sales of these weapons.

World Market Share

1983-1988

Source: USACDA, WMEAT

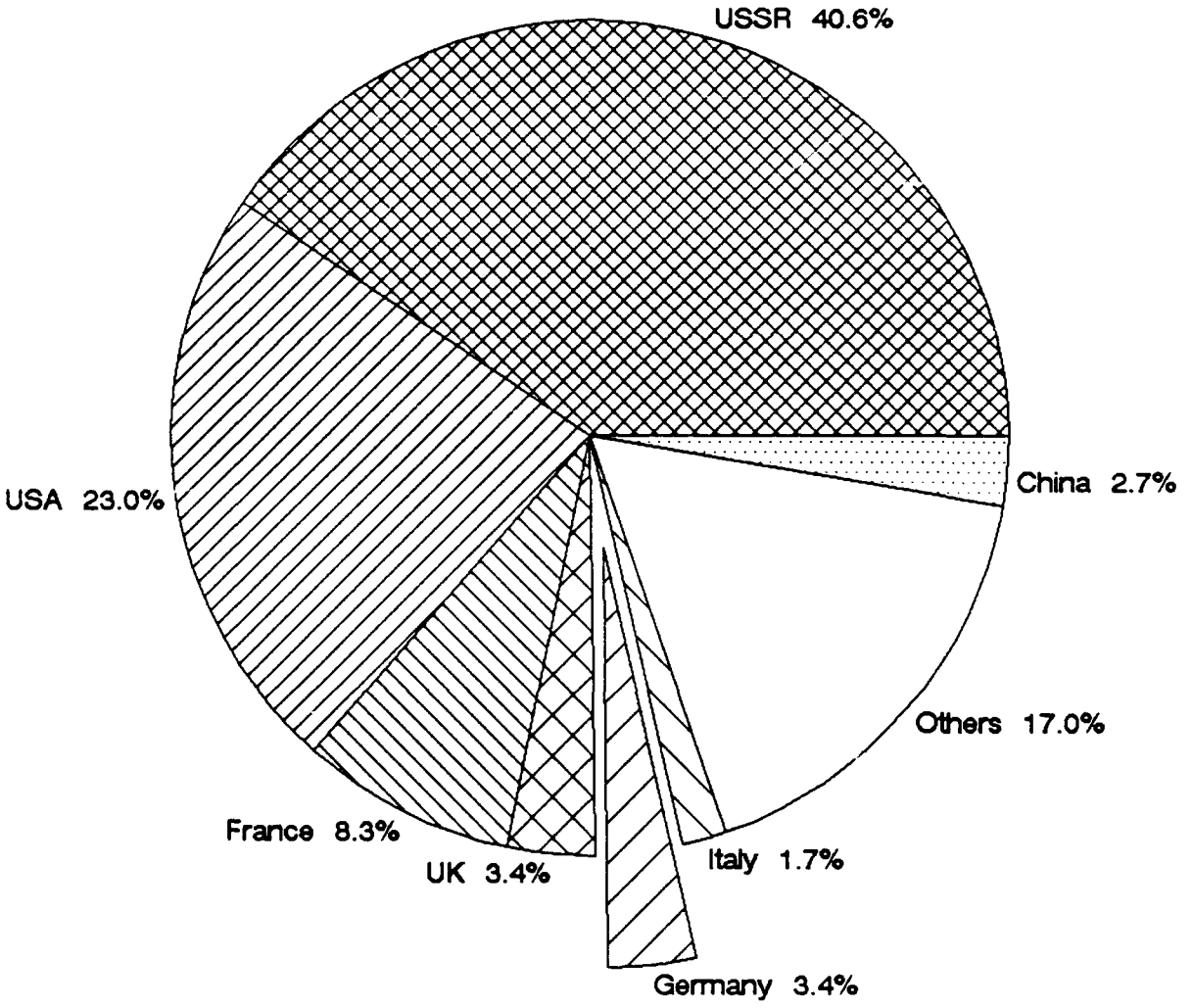

Figure 3.1

Africa Market Share

1983-1988

Source: USACDA, WMEAT

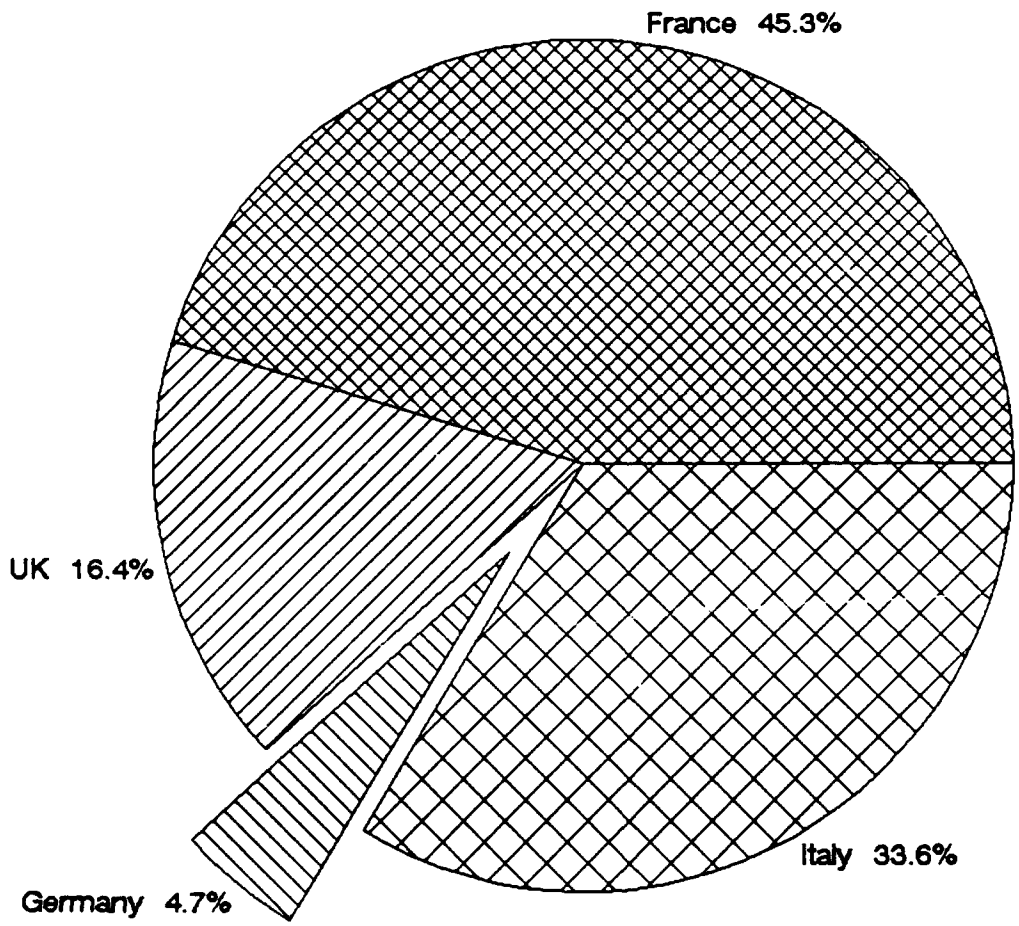

Figure 3.2

Latin America Market Share

1983-1988

Source: USACDA, WMEAT

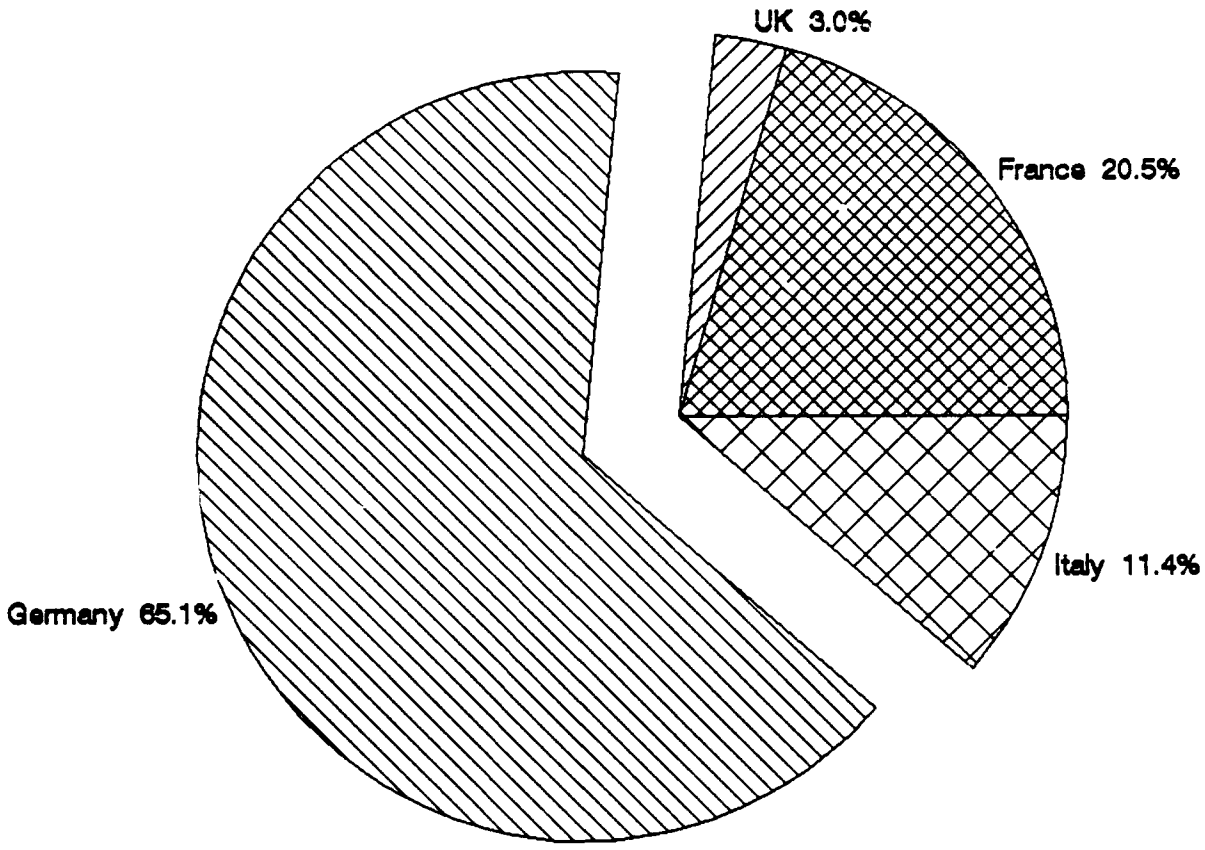

Figure 3.3

European Market Share

1983-1988

Source: USACDA, WMEAT

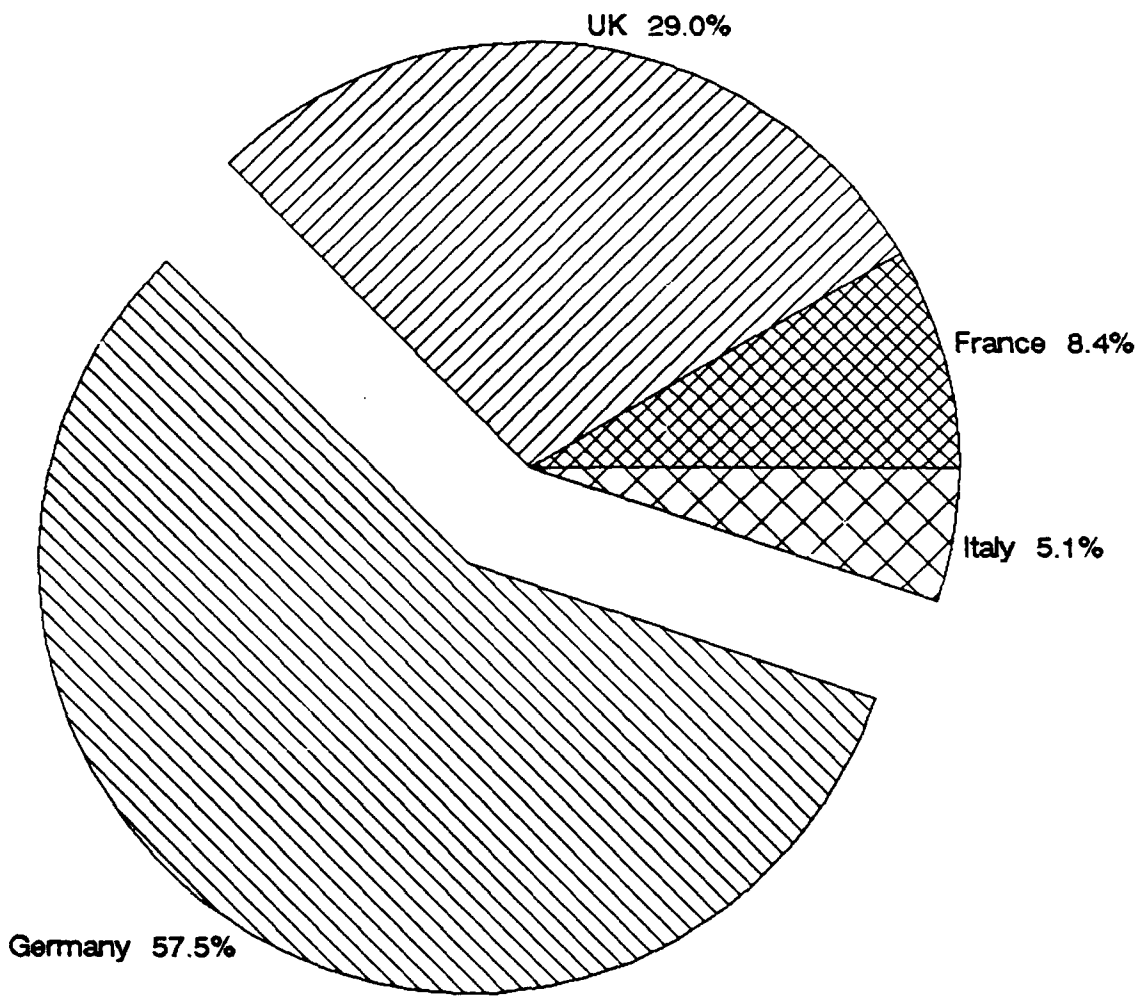

Figure 3.4

East Asia Market Share

1983-1988

Source: USACDA, WMEAT

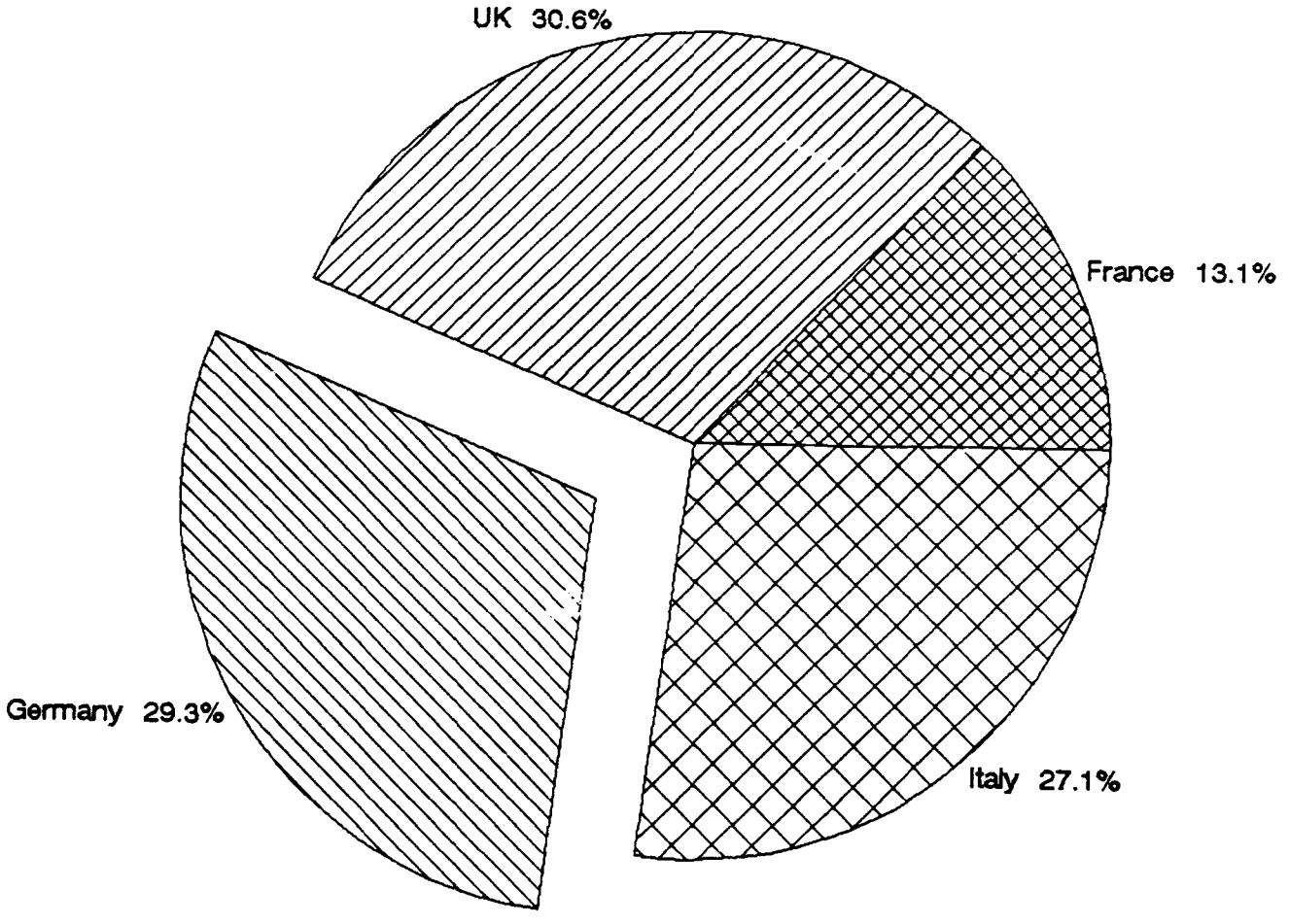

Figure 3.5

Middle East Market Share

1983-1988

Source: USACDA, WMEAT

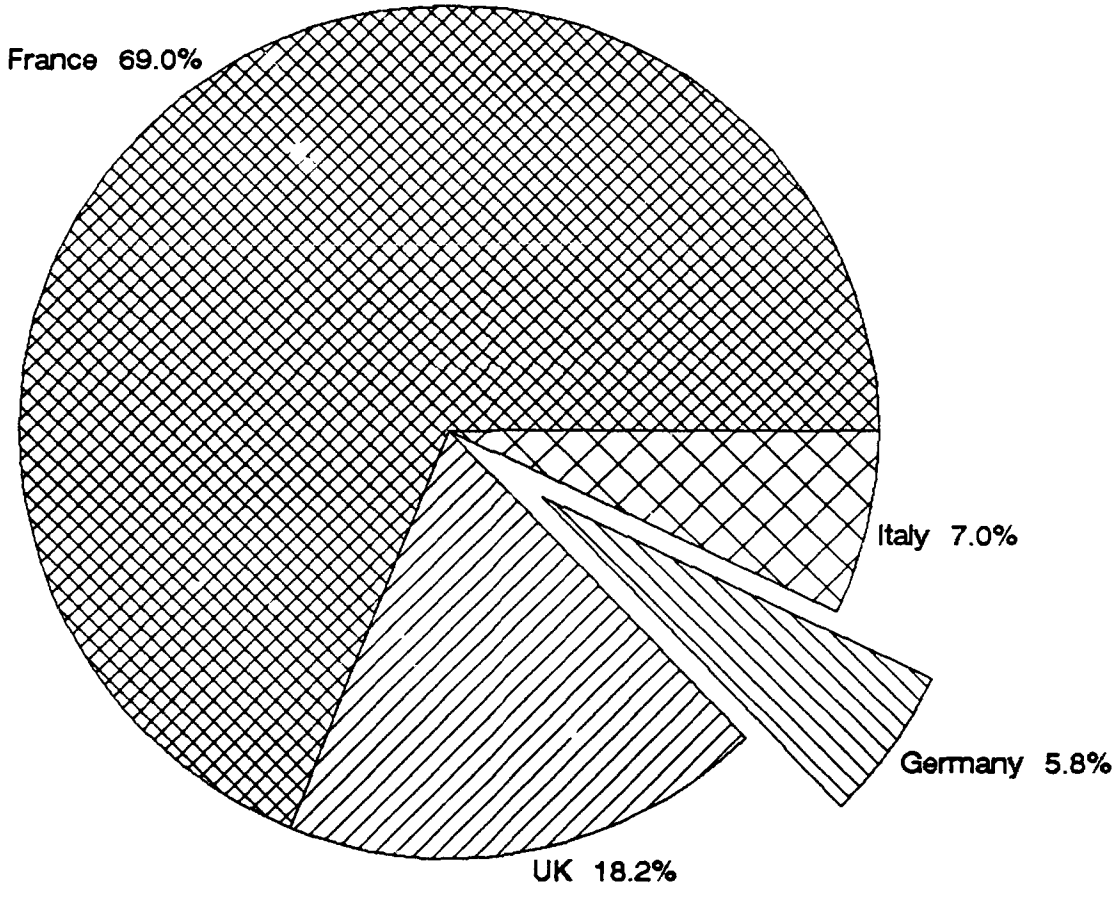

Figure 3.6

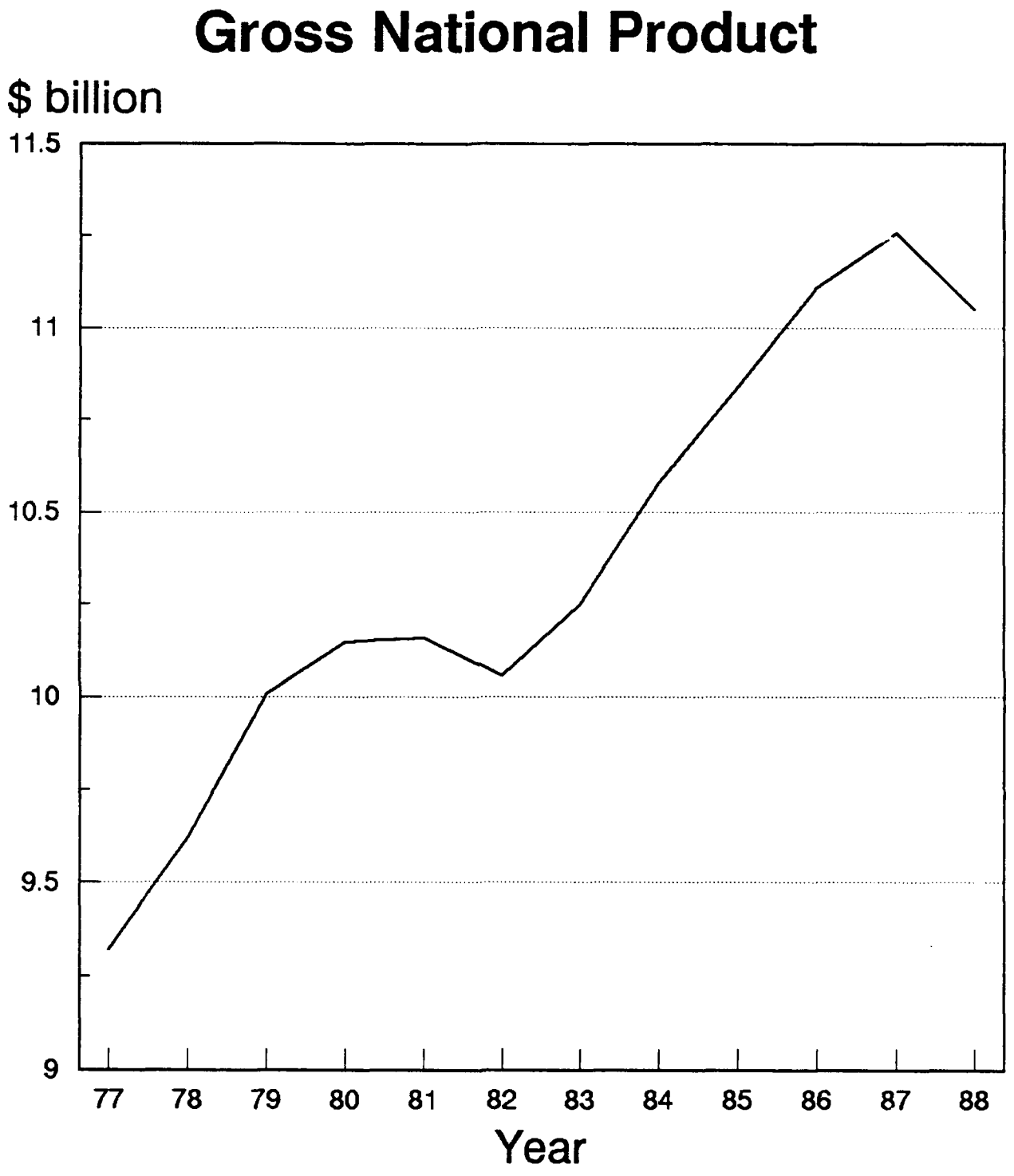
Gross National Product
$ billion
11.5
11
10.5
10
9.5
9
77
78
79
80
81
82
83
84
85
86
87
88
Year

Figure 3.7

1980-1982 when Germany slipped into a mild recession (although one of the worst it has seen since the end of the War.) Figure 3.8 depicts the production of the armaments industry over the same period. If the armaments industry is essential to the economy, then the measurement of GNP should reflect a strong positive relationship to the measurement of arms exports. That is, as arms production and sales increase, the measurement of gross national product should also increase. Likewise, as arms sales decrease, so should GNP. Examination of the graphs reveals that as GNP fell in 1982, so fell arms transfers, and as GNP increased so increased arms transfers. Preliminary investigation, therefore, suggests that arms transfers and GNP may be related.

C. AGGREGATE DATA ANALYSIS

An aggregate regression analysis of the World Military Expenditure and Arms Transfers (WMEAT) data supports the above conclusions. Using data on current value arms exports, total exports, military expenditures and total Gross National Product (GNP), relationships among these factors were analyzed using simple regression analysis. The first hypothesis stated that increased military expenditure, and the desire to subsidize expensive weapons procurement, would cause arms exports to increase. A

Arms Exports

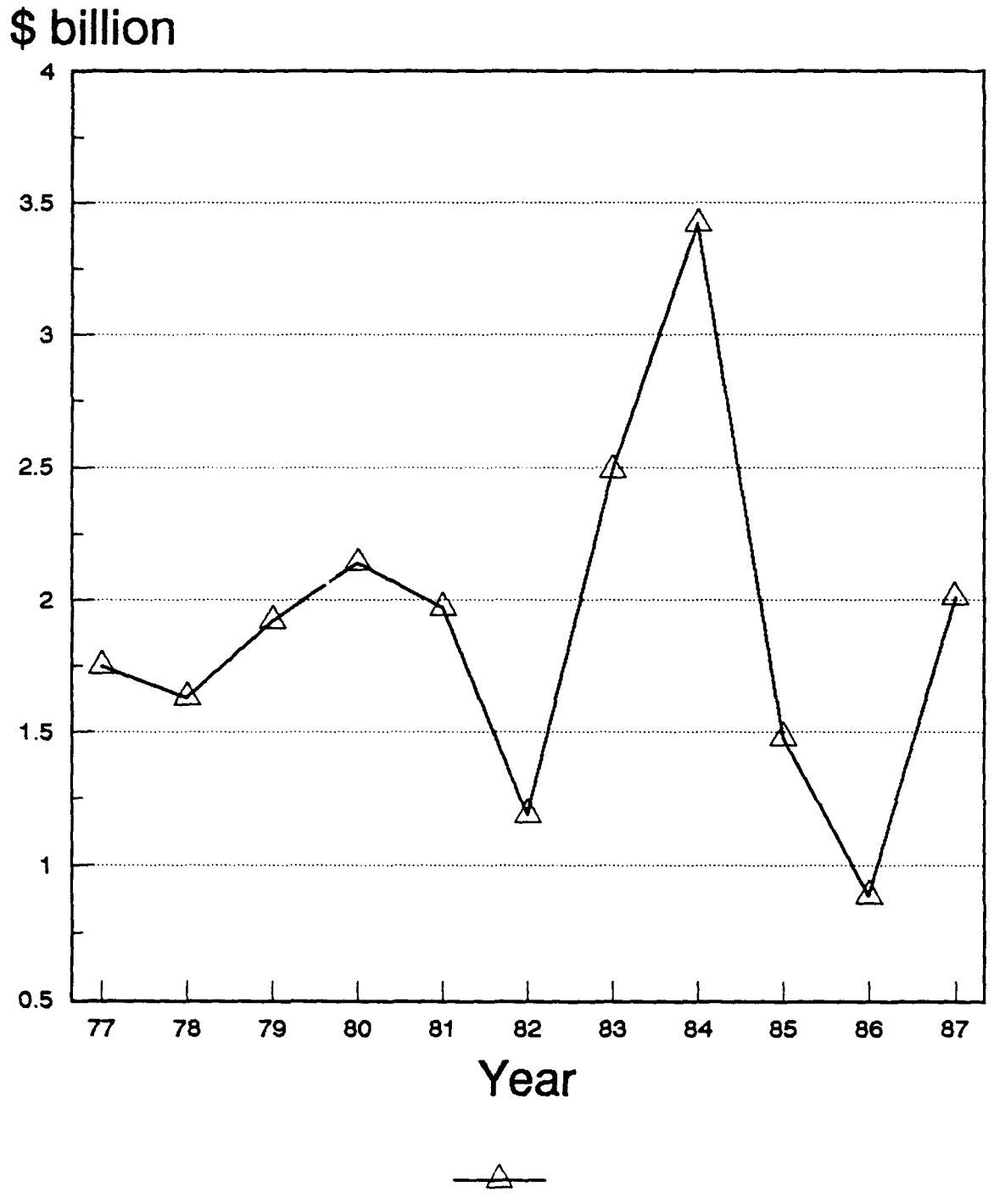

Figure 3.8

positive correlation indicates verification. The higher the value, the stronger the correlation. This initial regression analysis compared arms exports (dependent variable) to military expenditures during the period 1967-1982. The period was selected because in 1982, the government changed from a supposedly anti-arms transfer administration (that of the Social Democratic Party (SPD)) to a more conservative one (Christian Democratic Union (CDU)). Figure 3.9 shows the scatterplot of the regression analysis. The r-squared value of 0.7926 suggests a high correlation between military expenditure and arms transfers, something that could be considered natural in a country with a large and expanding military. The restated hypothesis, as military expenditure increases so increase arms transfers then holds true.

Beyond simple analysis, this result suggests that the modernization of weapons systems and armed forces could be financed, at least in part, by the sale of arms. Military departments and governments, eager to modernize could be tempted to lower costs by spreading them over more weapons than needed. For instance, when the army requires one hundred tanks, if two hundred were manufactured, lower costs in economies of scale would reduce the unit price. Of course, the extra one hundred tanks must be sold.

The second hypothesis stated as arms exports increase, that total exports of a nation increase. This hypothesis reflects the idea that the economy can be

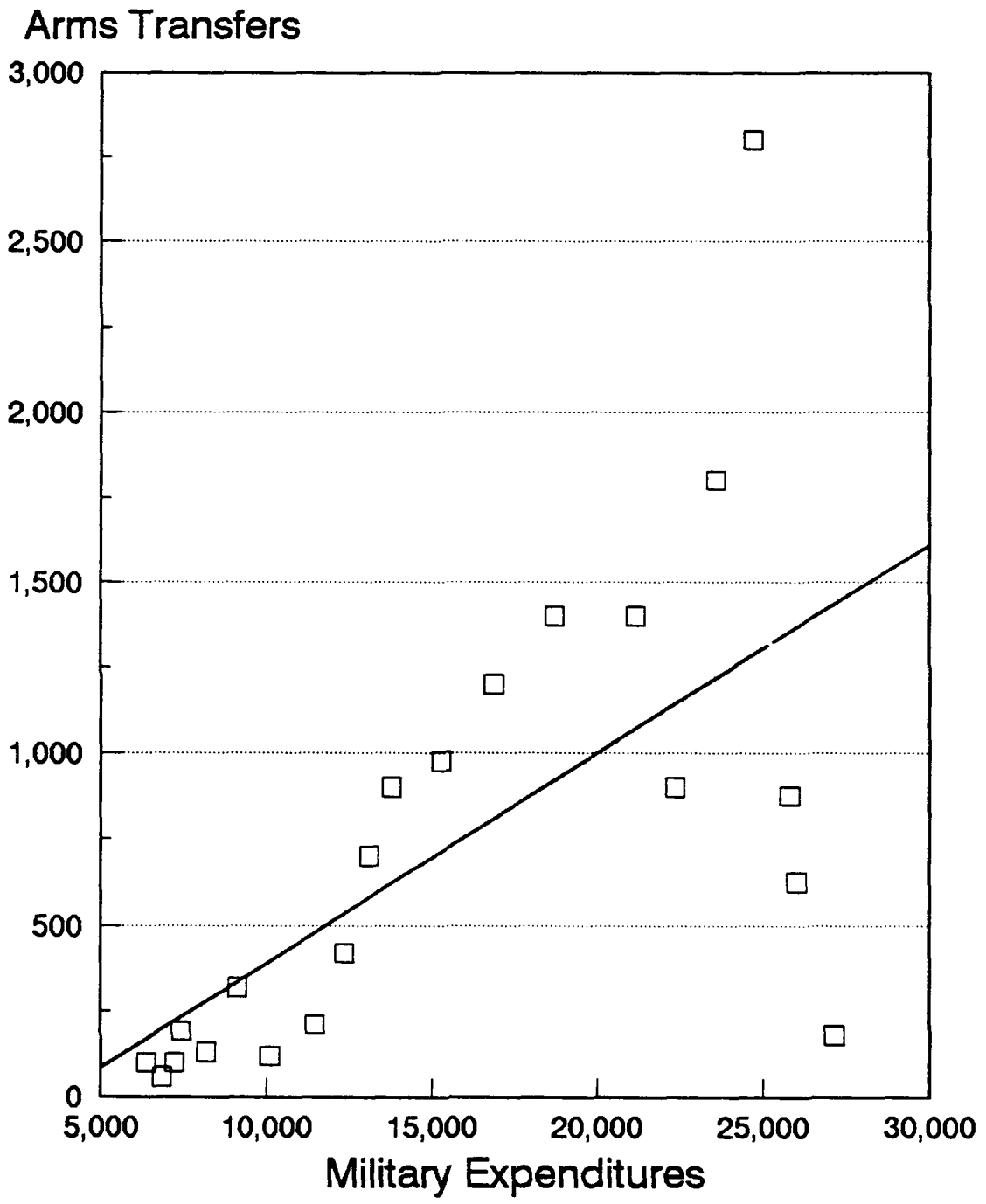
Scatterplot 1
Arms Transfers
3,000
2,500
2,000
1,500
1,000
500
0
5,000
10,000
15,000
20,000
25,000
30,000
Military Expenditures

Figure 3.9

influenced by a strong arms market. The results of this test also show a positive correlation. Figure 3.10 is the scatterplot of this test. The r-squared coefficient is 0.6961. Again this strong correlation suggests that the hypothesis is true. Therefore, an increase in arms exports appears to have a strong, positive effect on the total export sales of the country.

There are a number of plausible explanations for these correlations. In the 1970's, the most logical explanation was the "arms-for-oil" question (which will be examined later).[9] This trend can be explained by the search for oil, (at least until the early 1980's), a conscious change in the policies that control sales of weapons abroad, or a combination of these factors plus other new forces.[10]

From this analysis we can draw the tentative conclusion that an argument espousing the important benefits of arms transfers on the national economy could be totally valid. Moreover, the temptation to benefit the economy may, in fact, be increased as the need to restructure armed forces, reduce weapons inventories and finance reunification

---

[9]One of the most analyzed theories of arms transfers was born out of the Arab oil embargo of 1973. In order to secure access to the necessary oil stocks, the theory suggests that arms export licenses were tendered on assurances of uninhibited oil flows. One of the frameworks developed in this period will be used to determine if the Germans traded arms for oil.

[10]Brzoska feels that the relaxation of the controls on arms exports, especially over the last 15 years is caused by the "polity", that is, forces of unions, employment impacting on the government.

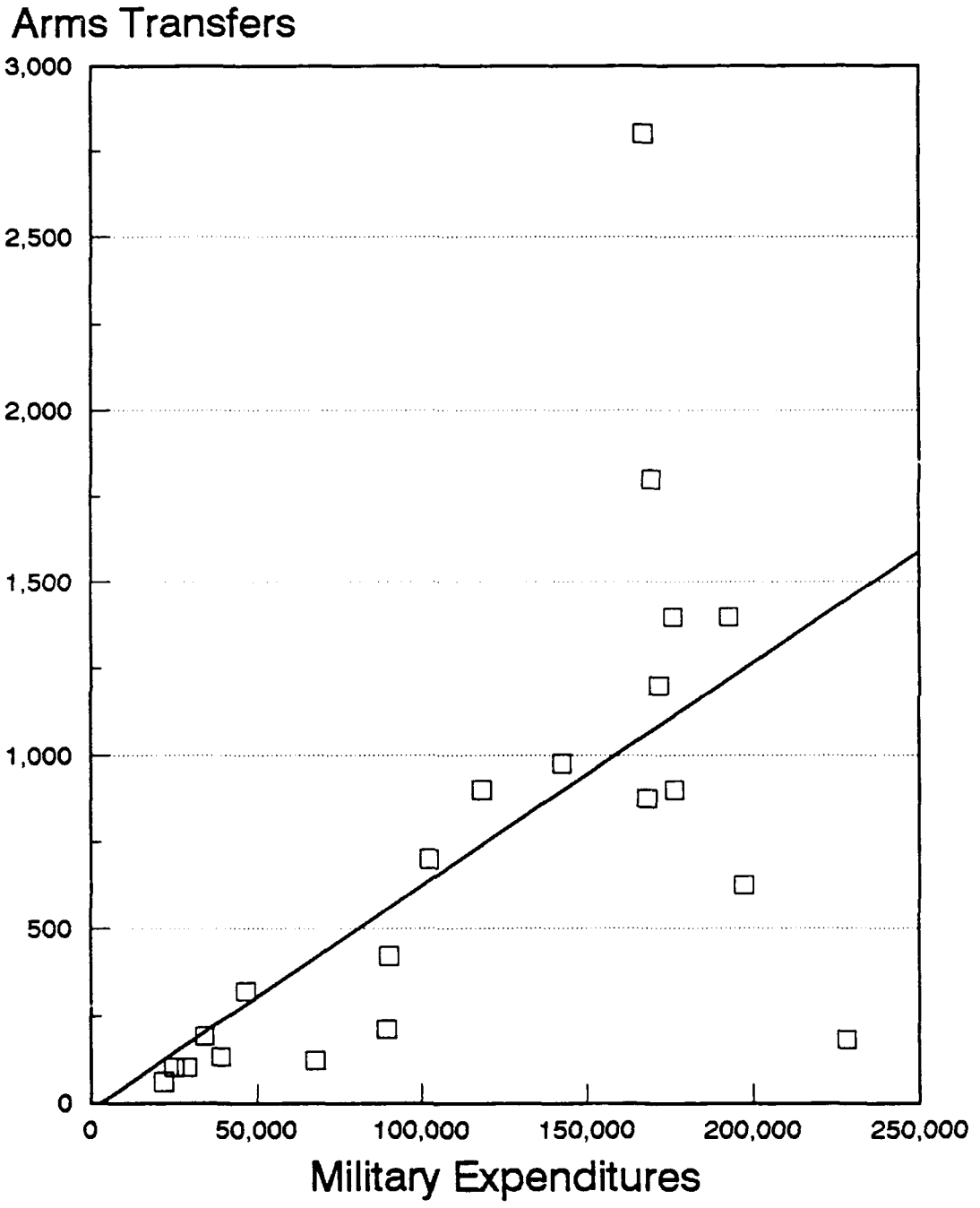
Scatterplot 2
Arms Transfers
3,000
2,500
2,000
1,500
1,000
500
0
0
50,000
100,000
150,000
200,000
250,000
Military Expenditures

Figure 3.10

proceeds. Before surveying the arms industry, an examination of the evolution of armament policy should reveal the government's approach to this important economic segment.

D. ARMAMENT POLICY

Like security and foreign policy, armament policy has evolved over the past forty-five years. Similarly, armament policy is sensitive and depends on the security and foreign policy of any nation. The initial postwar policies sought to rebuild and reestablish a devastated defense industry which could support the growing Bundeswehr. Of course, the rebirth of the defense industry was closely monitored by the Allied powers, which were ambivalent about the new German military machine. Under the pressure of the Cold War however, Allied worries were swept away and replaced by a commitment to the new German military.

The Paris Agreements of 1954 gave permission for a rebuilt German defense industry that was however, severely limited in its manufacturing options. Since that time, amendments have steadily eroded the restrictions so that compliance generally depends on the will of the German government.

While given permission to manufacture weapons in 1954, the Germans remained net importers through the early 1960's. In fact, during this period, the Germans purchased

arms to supply the Bundeswehr for a total in excess of 1.3 billion dollars.[11]

As the economy recovered, the Germans began to acquire a thirst for the technology 'spin-offs' available from defense research and manufacture. Contracts with the U.S. in the early 1960's for licensed production rather that outright purchase reflect this fact. By acquiring the rights to F-104, Starfighter, and Hawk missile technology, the Germans were able to learn state-of-the-art practices, train their workers, and gain the expertise necessary to begin developmental research in their own weapons production. By 1969, the Germans had established a competent and competitive defense industry.

In the 1969 White Paper, the aim of armaments policy was,

> ...to provide the armed forces with equipment by continuously coordinating armaments policy with the interests of economic, scientific and foreign policies.[12]

This statement attests to the interdependence that defense industries naturally acquire. The government's intent is to insure that all benefits possible from weapons development are gained, while being careful not to disturb the precarious balance of foreign policy the extant with the

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[11]See The International Trade in Arms for a more complete synthesis of this period.

[12]White Paper, 1969, 61.

NATO allies. The White Paper goes on to state the necessity for establishing and maintaining this fledgling defense industry.

> When major procurement projects are initiated, it is not only the interests of the users that must be considered, but also preservation of certain domestic defence production capacities, the objectives of the general economic and financial policies pursued by the Federal Government, and, in particular, the requirements of the trend and structure of the economy.[13]

Aware of the difficulties associated with a dependence on a military-industrial complex, the Germans deliberately sought to keep industries small, but efficient. A revision of the 1969 armaments policy further noted,

> In general, the armaments policy of the Federal Government aims at having armaments contracts absorbed, wherever possible, by the traditional production capacity of the German economy, thus preventing the build-up of a specific arms industry.[14]

In fact, this policy has been successfully applied. Today, there is no identifiable arms industry. The capacity to produce weapons has been integrated into the major manufacturing concerns of the nation. In 1970, the concept provided,

> ...changes in the armament concept and even disarmament would have no serious repercussions on the German economy.[15]

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[13]Ibid, 69.

[14]White Paper 1970, 149.

[15]Ibid, 150.

By 1970, the key aspects of German armaments policy, strict economic coordination, agreement with defense and foreign policy, the unquestioned requirement for indigenous capability, and deliberate diversification were in place. At the same time, interest in joint production efforts was surfacing. In the 1971/72 White Paper, the government formally defined the benefits of cooperation.

> Cooperation in the armaments field serves to counteract the steadily rising costs of modern weapons systems;...A build up of further arms production capacities should be avoided;...[and] The combined weapons technologies of allied nations ensure the production of first-rate equipment.[16]

In 1972, in conjunction with ten other European nations, the Germans entered into collaboration agreements on weapons production. This recognition of the importance of coproduction, and the benefits possible from such collaboration has become a centerpiece of German armament policy.

German arms industry policy, stated in the White Paper, 1977, repeats and refines this concept:

> The Federal Government does not seek self-sufficiency in the field of defense production. ...on the other hand, due to military-logistic and technological-economic considerations, the Federal Republic of Germany, cannot do without a defense capacity of her own. She must be concerned with being able to play her part in the alliance as a suitable partner in collaborative efforts. Partnership in the

[16]White Paper, 1971/72, 122.

Alliance calls for independent achievements.[17]

Three key points emerge from this statement. First, the government, as has always been stated, does not seek autarky in defense industries, realizing that such a goal is unattainable for economic and political reasons. The economic reasons are tied to economies of scale. The German armed forces are not big enough to support industrial specialization in all the facets of the defense industry. Political reasons are tied to the particular heritage that Germany brings to present day Europe, which has not been totally shaken off. And, industrial production is finite in any country. The more devoted to defense, the less available for consumer goods, both for domestic consumption and export.

Second, the technological gains available from military research generally are believed to benefit the civilian economy.[18] The scramble for defense contracts in the wake of the U.S. commitment to SDI attest to this fact.

Finally, the Germans are very aware of the importance in being a reliable member of the alliance. Therefore, collaborative efforts are pursued. While this is an altruistic goal on the surface, the country stands to gain from these experiences.

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[17]White Paper, 1977, 35-6.

[18]for an opposing viewpoint, see "Military Spending Questioned," The New York Times, 11 Nov 86, 28.

In the 1985 White Book, the move towards autonomy in arms industry policy becomes more pronounced:

> A national defence industry is important for security as well as for economic and employment reasons. Equipping the Bundeswehr with complex weapon systems require technologically sophisticated industrial capacities for production and maintenance. In terms of Alliance policy, having a defence industry of one's own assures for a country the ability to cooperate as a partner, creates opportunities for having a voice and influencing developments in the Alliance, and avoids unacceptable dependencies. In addition, defence technology research, development and production at the high technological level required for military equipment, provides important stimuli for industry for the civilian sector.[19]

This latest German declaratory policy follows the established trend and adds an important aim. In a reflection of the foreign policy initiatives discussed in the previous chapter, the German tendency towards independence is also present in armament policy. This desire to "influence developments," is clearly driving the policy apparatus in the armaments arena.

Additionally, by acknowledging the benefits German industry accrues from defense technology, the government is saying it intends to pursue arms manufacturing for reasons other than equipping the Bundeswehr.

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[19]White Book, 1985, 366.

D. THE STRUCTURE OF THE INDUSTRY

The structure of the industry is shown at Figure 3.11. The fifteen largest companies (in terms of Arms Sales) employ a total of over 1.3 million people and account for arms sales in excess of 13 billion dollars. Unlike other European industries, the German arms industry is totally private. In fact, the trend in recent years has been for the larger companies to acquire the smaller. A case in point in the Daimler-Benz conglomerate which recently acquired AEG. If the government was purely economically motivated or if the "decision-making authority had shifted from government to industry," then one could expect an emphasis on armaments trade similar to the French example where military attaches are salesmen first and military professionals second.[20]

E. EMPLOYMENT

The defense industry employs some 230,000 persons out of approximately 25,000,000, employed in the country, equivalent to almost one percent (.92%) of the German workforce.[21] SIPRI further estimates that, based on an estimate of 20% of production devoted to export, approximately 48,000 jobs can be attributed directly to arms exports (as opposed to jobs related to the arms industry

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[20]Edward A. Kolodziej, "France and the Arms Trade," International Affairs, January 1980, 54-72.

[21]SIPRI Yearbook, 1986:336.

Figure 3.11 The 15 Largest German Arms Producers, 1989.[22]

Company	Industry	Arms Sales	Total Sales	%Arms Total	Employ ment	Arms Empl
Daimler Benz	AC,ENG, MV, EL	3420	41581	8	339000	27120
MBB	AC,EL, MI	1990	4054	49	40000	1960
AEG(DB)	EL	1370	7618	18	89600	16128
MTU(DB)	ENG	970	1867	52	17200	8944
Siemens	EL	800	33823	2	353000	7060
Rh. Met	A,SA/O	650	1850	35	15460	5411
Krupp	MV,EL	630	8391	8	63391	5071
Diehl	MV,SA/O	610	1360	45	14200	6390
Thyssen	MI,SH	600	9563	6	128700	7722
Dornier DB	AC,EL	570	1093	52	9800	5096
Atlas (Krupp)	EL	460	569	81	4200	3402
Krauss	MV	380	723	53	5100	2703
Mercede (DB)	MV	380	31620	1	182100	1821
Std Lorenz	EL	320	2790	12	23000	2760
Thyssen (Thyss. Ind)	MV,SH	340	2286	14	34969	4896

A= Artillery
AC= Aircraft
EL= Electronics
ENG= Engines
MI= Missiles
MV= Military Vehicles
SA/O= Small Arms/ Ordnance
SH= Ships

[22]Source: SIPRI Yearbook, 1989, and Klank, Wilfried, "Neue Tendenzen in der BRD-Ruestungsindustrie," IPW Berichte, Vol. 18, 1989, 25-31.

only.) Those 48,000 jobs constitute less than two-tenths of a percent of all jobs in the Federal Republic. While minuscule, the figure may gain significance as pressures build to find positions for the influx of former East German workers. Perhaps more significant than actual numbers is the fear of less than full employment. The populace of the Federal Republic is sensitive to the problems caused by and the suffering associated with unemployment.

These fears are reflected in the actions of the unions. Albrecht notes,

> In the Federal Republic of Germany tensions within the unions over the issue of arms exports are no less intense. The metal-working industry union (IG Metall), the largest single union in the free world--with 2.6 million members--came close to breaking with its extreme elements several times. Because they saw themselves in opposition to the union leaders who opposed the expansion of arms exports, the leaders of the workers councils of several large armaments firms founded the "Working Group of Employee Representatives from the Defense-Technological Enterprises." This group advocated "filler contracts" from the sensitive export sector in the event that insufficient national defense contracts led to employment difficulties.[23]

There is no proof that such actions are continuing, but the fact that councils already existed is significant in light of the present, possibly high unemployment period facing Germans today. Further, as Germany continues to experience problems assimilating the East German workforce,

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[23]Albrecht, 136.

there is a strong possibility that these union groups will again become active.

Another significant, though less recognized aspect of employment is culture based. The Germans, like most Europeans, spend their school lives preparing for a job. The job becomes the focal point of all actions from the day the job is assumed to the day the worker retires. The labor mobility in the United States, where a typical worker may change positions three or more times in the course of his working years in unheard of. It is conceivable that workers in a defense industry may take drastic steps to keep their jobs. These steps probably include the union actions described above, individually applied political pressure in the form of votes, and forming interest groups.

D. SUMMARY

An essential element of the economics rationale for arms transfers requires the government to subordinate foreign and security policy concerns. Economics is the eternal quest for scarce resources. In an age of scarcity in the Federal Republic, as evidenced by the raising of taxes and other fiscal moves designed to 'bail-out' its eastern cousin, it is plausible that the nation is loosening arms transfer policies for economics sake.

For the economics rationale for arms transfers to be predominant, a number of preconditions are necessary. First,

the government must allow such dominance. This dominance is expressed actively or passively. An active economics rationale dominance is reflected in a nations economic, armament and arms transfer policies. A review of these policies suggest that in Germany's case, active economics dominance may be occurring.

Although Albrecht's statements about the direction of German arms transfer policy were written in 1985, before the dissolution and integration of the German Democratic Republic, his findings appear sound. His arguments, which concentrate on the importance of jobs and commercialism have only gained greater importance.

While Pearson and others dispute the importance of arms sales in economics, there appear to other reasons for this finding.

CHAPTER 4

ALTERNATE EXPLANATIONS FOR ARMS TRANSFERS

The examination of German arms transfer policy to this point offers a number of plausible explanations for arms transfer rationales. However, artificial separations of policy issues, while useful for analysis, generally fail to address the many facets involved in the transfer of arms. In examining the events of the past decades which produced surges in arms transfers, scholars, using event-based have formulated models for examining these policy choices.[1] Two of these models, 'arms-for-oil', and 'arms for influence', are appropriate to examine in the case of the Federal Republic.[2]

The first policy choice, 'arms-for-oil,' centers on the policy issues borne out of the oil crisis of 1973. As noted earlier, German exports during and following this period

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[1]There are numerous theoretical frameworks available. See, for instance, Christian Catrina, Arms Transfers and Dependence, New York: Taylor and Francis, 1988, for a complete discussion on existing theory. Other sources include the various political science journals that examine arms transfers.

[2]These two frameworks were selected because it appears the Germans may have transferred arms to gain both of these advantages.

show a trend favoring oil producing countries of the Middle East and elsewhere. Other pronouncements by officials of the German government indicate even if not pursued overtly, the policy choice was apparent.[3]

A. The "Arms for Oil" Policy Choice

Germany's dependence on foreign oil is no secret. The country is devoid of economical energy resources and depends completely on the oil-producing nations of the world for her survival. A basic question is the extent to which this oil dependency drove the government to adopt an arms-for-oil strategy during the 1970's and later, and the effect the strategy has had on arms transfer policy since that time.

The major recipient of German weapons during the period from 1967 to 1976 was Iran with imports worth 275 million dollars. Other oil producing recipients of German arms during the period were Libya, 15 million, Iraq, 35 million, Kuwait, 20 million and Nigeria, 20 million dollars. Additionally, Venezuela, also a member of OPEC and a strong oil producer received over 41 million dollars worth of arms. These five countries, all members of OPEC and major oil exporters, accounted for thirty-percent of the value of German arms transfers to Third World countries during the period in question. Figure 4.1 shows oil imports in 1973 and 1978.

During the period 1978-1982, the data results are more

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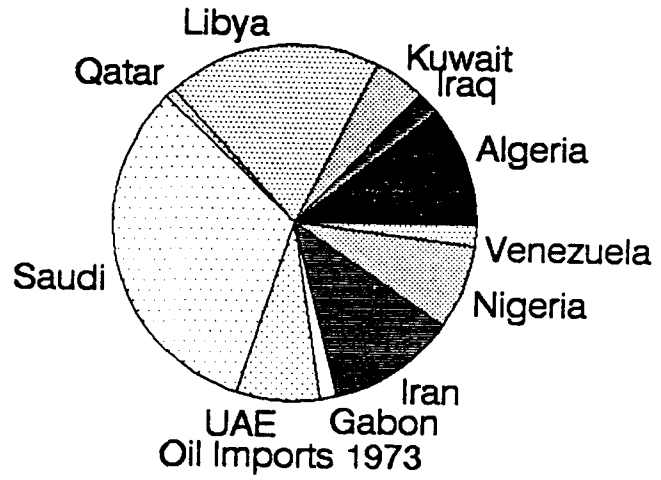
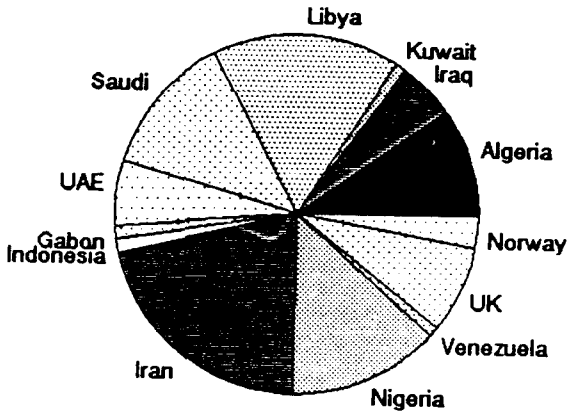
[3]See SIPRI Yearbook, 1981, 194.

Crude Oil Imports
West Germany



Oil Imports 1973



Oil Imports 1978

Source: CIA, International Energy Statistical Review, 7 March 1979.

Figure 4.1

significant. Of arms exports in excess of 5.6 billion dollars, 2.3 billion dollars were to OPEC countries.[4] Major recipients of German arms during this period were Libya, 430 million dollars, Saudi Arabia, 550 million, Iraq 240 million and Iran 120 million dollars.

Finally, although reduced, German arms transfers to OPEC countries during the period 1983-1987 totalled 1.03 billion dollars. This reduction in trade with OPEC countries is probably due to the global glut of oil. As dependency lessens, the need to trade arms for oil lessens.

Laurance, in An Assessment of the Arms-For-Oil Strategy, suggests that nations employ the arms-for-oil strategy for five major reasons:

1. Regional Internation Stability
2. Internal Stability in Oil-Producing States
3. The General Security of Oil-Producing States
4. General Political Influence
5. Interdependence [5]

This framework provides an appropriate analytical vehicle for examining the motives Germany may have had in selling arms-for-oil.

1. Regional Stability

The Germans stand to lose in the event of Middle Eastern conflict, as demonstrated by the panics created in the

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[4]USACDA, WMEAT, 1984, 95.

[5]From Edward A. Laurance, "An Assessment of the Arms-for- Oil Strategy," in Donald J. Goldstein ed. Energy and National Security, Washington D.C.: National Defense University Press, 1981, 59-89.

recent Persian Gulf War. Germany, like most European nations, is dependent on Middle Eastern oil. While prevented, ostensibly by her constitution from using military power to intervene in the Middle East, Germany recognized her obligations by offering compensation to nations in the region and the United States. Faced with the real danger of conflict interrupting Germany's life-line of energy, it is feasible that regional stability played a role in German considerations of arms transfers to the area over the past twenty years.

Of course, the weapons sales to Venezuela tend to counter this regional strategy. However, in 1973, Germany only imported some 1.8 percent of its oil needs from that country compared to 30.9 percent from Saudi Arabia, 18.2 percent from Libya, and 10.8 percent from Iran.[6] By 1978, these figures were Venezuela, 0.8 percent; Saudi Arabia, 12.2 percent; Libya, 15.8 percent; and Iran, 20.3 percent. (See Figure 4.1.)

2. Internal Stability

Internal stability had to be considered for many of the same reasons cited in the discussion of the regional stability strategy. For example, the German government's dealings with Iraq's Saadam Hussein have always, at least until recently, been cordial. This suggests that the Germans had a vested interest in sell'ng weapons to a "known

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[6]CIA, International Energy Statistical Review, 7 March 1979, as listed in Laurance, An Assessment of the Arms-for-Oil Strategy. The other major sources of German imports were: Iraq, 4.8%; UAE, 5.6%; and Nigeria, 12.3%

quantity," Hussein, thereby assuring themselves of an uninterrupted supply of oil. The scandals uncovered in the immediate post-Kuwait invasion tend to reinforce this finding. Rather than deny Hussein the weapons and technology he desired, which could perhaps inadvertently contribute to a coup, the Germans preferred facing a known, although radical head of state.[7]

Of course, the possibility that the German government was unaware of German assistance to Iraq must be acknowledged. However, such acknowledgements must be tempered in the wake of allegations of similar conduct with Libya's Colonel Qaddaffi.

3. Insure Capability to Produce and Supply

Although the German government has been concerned about the ability of the Middle Eastern States to protect themselves and their oil producing assets, it has taken little action to support them. The German government, consistent with the above analysis on defense policy, was content to allow the United States to train and maintain the indigenous forces of the region. To be sure, the German Constitution prohibits overt use of force by the armed forces. Recent pronouncements concerning the use of German armed forces may reflect an interest to contribute in this area. Certainly the Persian Gulf war and the speculation in oil prices may have also had an effect on this decision.

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[7]For detailed reports on German contributions to Iraq, see Der Spiegel, _____.

4. Political Influence

The concept of political influence is extremely amorphous, and because of that, difficult to prove. Given German concerns for oil supplies, it seems logical that the government would seek political influence in an effort to insure uninhibited access to that precious resource. The greatest difficulty arises when one attempts to define influence. Is influence, for instance, the power one nation acquires over another that results in the nation being influenced to do something it would not ordinarily do? Or, is influence the benefit one nation gains from having assisted another nation, a sort of reward? The concept of influence will be discussed in detail later. Referring to the arms-for-oil strategy, the logical conclusion is that Germany gained influence from arms sales to oil producing nations. The best examples of such influence (using the reward definition) are the tremendous investments placed in Germany and in the markets available for other German manufactured goods in the region. Additionally, investments in German industry by Saudi Arabia represent a form of present day offset, but in reverse. In other words, the arrangement might have been as follows: Saudi Arabia is permitted to purchase arms, Germany is assured of oil supplies. Of course, suggestions of sales to Saudi Arabia generally create furor for reasons similar to those in the United States, destabilization. Although the most recent reports reflect no German sales to Saudi Arabia, as recently

as 1983, over fifty percent of German sales to the Middle East were to Saudi Arabia.[8]

It appears that the political influence strategy was employed by Germany, but not in a manner that sought to influence the policy of a recipient nation. Rather the Germans were content to maintain or enhance friendships, thereby insuring access.

5. Interdependency

Interdependency, for many of the same reasons as were discussed for internal stability, does not seem to have persuaded German decision-makers to approve the transfers. The government throughout the 1970's still depended on the United States to maintain stability in the region. Secondly, the Federal Republic, while a major arms exporter, did not export sufficient quantities to create the circumstances for interdependency. Lastly, all recipients of German arms had at least one, if not more, alternative suppliers that, during the lean oil years, supplied more materials than did the Germans.

6. Summary of the Arms-for-Oil Explanation

The "arms-for-oil strategy" framework emphasizes those factors that took precedence during the years of oil crises. More importantly, the framework highlights those strategies the Germans may have used in the past to insure access to oil, or, to further their national interest. Those strategies, regional stability, internal stability and

[8]USACDA, WMEAT, 1985, 134.

political influence are present today as centerpieces of German foreign and defense policy to the Third World.[9]

The oil crisis period, the years 1973 to 1979, were instrumental in the development of German arms transfer policy. Although the threat of oil embargoes has subsided, German policy makers seem to have continued with the strategies devised during the late 1970's, and refined them to their present state.

Perhaps most important, the arms-for-oil strategy provides proof that the Germans may have used the arms transfer policy tool for economic gain or to placate the defense industries. It is debatable whether arms for oil is actually a political or economic rationale. In this case, Germany's dependence on oil, combined with the increased industry efficiency, forced the government to make full use of the political aspect of arms transfers, for domestic economic gain.

C. INFLUENCE: AN ALTERNATIVE EXPLANATION?

The arms for oil motive for transferring arms is not sufficient to explain present German arms transfer policy, especially in light of the aforementioned evolution in foreign and defense policy. There is something else, an intangible element of the policy that is not explained by economics, arms-for-oil, and other common explanations for the transfer

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[9]White Paper, 1985, 24.

of weapons. The concept of influence suggests itself because it offers the host country the maximum in benefits from foreign policy decisions, something compatible with the new self-confidence in German politics.

Quandt defines influence as the ability one country exercises over another to alter the policy of the recipient.[10] Rubinstein further elaborates:

> A country seeks to exercise influence in order to obtain specific short term advantages, though very often the motives and consequences of a successful influence attempt may have the most significance for the influencer as part of his long-term objectives. Like breathing, influence becomes especially noticeable when pressure is applied or concern heightens. Influence may be considered to have a certain number of characteristics.
>
> 1. It is a relational concept involving "the transferral of a pattern (of preferences) from a source (the controlling actor) to a destination (the responding actor or system) in such a way that the outcome pattern corresponds to the original preference pattern.
>
> 2. It is issue-specific and situation specific: the duration of influence is restricted to the life of the issue or the situation within which it transpired, and when these change so does the influence relationship.
>
> 3. It tends to be an asymmetrical, mutual interaction process: there is no fixed pattern of achievement costs.

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[10]William B. Quandt, "Influence Through Arms Supply: The American Experience in the Middle East," in Uri Ra'anan, Robert Pfaltzgraff and Geoffrey Kemp eds. Arms Transfers to the Third World: The Military Buildup in Less Industrialized Countries, Boulder, CO.: Westview Press, 1978, 121-129.

4. It is a short lived phenomenon.[11]

Rubinstein's characteristics require two important ingredients: first, a conscious act by the "controlling actor" to persuade the "responding actor" of the former's established ability to influence the respondent's action; and second, it assumes that the "controlling actor" has already accumulated some degree of power that is enough to affect the respondent. If a controlling actor offers to sell weapons in an attempt to influence a respondent's behavior, then the controlling actor must have some superiority over the respondent in addition to an arms production capability in order to exercise influence. That superiority could be economic, political or military, but it is more likely a combination of both that is universally recognized.

The definitions of influence suggest a degree of control and power that is, as yet, absent from German exercises of influence if the German version can indeed be called influence. In Germany, a key element of power, economic, is present, and is recognized by the world community. It is only of late, however, that the government has attempted to exercise power in the international system (thereby demonstrating its presence and closing its past) and only then because of the possibilities provided by the reunification. Germany is, of course, a member of all the

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[11]Alvin Z. Rubinstein, Soviet and Chinese Influence in the Third World, New York: Praeger Publishers, 1975, 10.

alliances and groupings of the industrialized world. Until last year, that presence provided recognition, but the Germans were always anxious to avoid situations that force them to make hard choices that differ from the western consensus. In other words, in order to put the past to rest, the Germans have been willing to subordinate their own national interest to that of the other great nations. Of course, the subordination or appearance thereof, of national interests, is clearly serves German goals.

The research on the concept of influence in arms transfers has generally concentrated on the superpowers. Quandt, Rubinstein, and Cahn have written about the effects and uses of influence in the Third World as it relates to the superpowers.[12] In examining the German case the research and findings on influence do not fit. This is not unique to Germany, but to other arms exporters that do not fit the "great power" or the "second-tier supplier" definition. An underlying theme, for instance, in the analyses of United States influence relationships starts with the premise that influence is used in an adversarial manner, i.e. to deter an action by a recipient state. This is a valid use of influence, but because of the difference in size, economy, and power between Germany and the United States, such a premise is not

[12]In addition to the works of Quandt and Rubinstein already noted, see also Anne Hessing Cahn, "United States Arms to the Middle East 1967-76: A Critical Examination," in Milton Leitenberg ed. Great Power Intervention in the Middle East, New York: Pergamon Press, 1979, 101-125.

valid. There are similarities, but the influence attempts of a country the size of Germany cannot be compared to the great powers.

The German government's arms transfer policy has changed. It is also clear that the Germans stand to gain from an increased use of the arms transfer foreign policy tool. The difference is in the power aspect; or, more appropriately, the difference lies in the desired result of the application of some form of power. The Germans do not seem to be employing influence as a policy tool, although the future may change this finding. Rather, the Germans are using their newly discovered power and the world demands for security assistance to seek economic returns, at least in the short term.

German influence could be eventually expressed as compellance. Using influence established by the sale of weapons, the "good-will," resulting from such sales fosters strong international relationships. These relationships could conceivably offer a "foot in the door," to pursue German interests.

CHAPTER 5

CONCLUSION

In concluding his article on German arms exporting strategies, Albrecht states,

> The flow of arms exports from the European countries, as opposed to those from superpowers, must be interpreted primarily as an outgrowth of economic and industrial policies, rather than foreign policy."[1]

Actually, this trend, as the results of this study suggest, is probably true, at least in the case of Germany. There are three major reasons for this finding: increased independence in the field of foreign policy, economic pressures, including employment and other considerations that are causing a reappraisal of past policy, and a desire, albeit nascent, to reassume a position of power in the world not limited to the economic element.

The increased independence in foreign policy is a direct result of the enhanced self-confidence as a result of

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[1]Albrecht, 142.

the reunification. This independence is manifested in new proposals for the use of German armed forces outside Germany and the desire to pursue a German agenda, rather than one dictated by the victors of World War II.

The government, no longer constrained by the necessity and desire to please the victors of World War II, is willing to use its new found power to pursue the national interests of the Germans. These national interests, at least for the foreseeable future, center on economic well-being, the restructuring of the east, and opening new markets in the former Warsaw Pact nations.

German leaders have long recognized the importance of maintaining friendly relations with Third World nations, especially those with the natural resources, oil and other industrial minerals that the Germans require. While stated policy avoids bartering arms for these resources, the evidence suggests that such trades have occurred, and will continue to occur in the future. The change in the wording of the arms export law to allowing exports that serve Germany's vital interest attest to this fact.

In the foreign policy arena, Germany will continue to exercise new found independence. This exercise does not necessarily bode ill for the west, but certainly requires a rethinking of traditional power and influence relationships among the major world nations. This independence however, allows the Germans to transfer arms without seeking the

approval of, or being concerned about, the scrutiny of other nations.

The second major element of Germany's new look in arms transfer policy is a combination of economic realities and the actualities of foreign policy. The German arms industry, by means of employee unions and other lobbying groups is applying pressure on the government to ease arms transfer restrictions. This pressure is a response to the actual economic situation in the reunited country stemming from the bankruptcy of East Germany. The new Germany faces tremendous internal economic pressures that are not easily relieved.

The results of this paper show that the Germans may be willing to use arms transfers to ease these economic woes. This finding is based on the fact that the Germans have used arms transfers to gain economic benefits in the past. As conditions worsen, and more importantly as jobs are threatened, the German government may be forced to ease arms transfer regulations to placate a worried populace.

While this economic pressure is imminent, the Germans will not allow economics to rule their arms transfer decisions in the long run. The Germans are well aware of their importance to a united Europe. This awareness, coupled with the ability to shape and determine its own future course will allow the government to choose between economics

as a rationale for arms transfer and politics as the sole determiner of the transfer.

After forty-five years of subservience to the Allied Powers, the Germans are ready to test the limits of their power. The fall of the Berlin Wall, and the subsequent reunification sheds all vestiges of World War II and allows the Germans to look to the twenty-first century as a sovereign and autonomous nation. It is logical to assume that the arms transfer policy of the nation, which has moved toward liberalization recently, will continue to do so.

Over the next decade, we can expect to see a more aggressive marketing of German arms in the world. This marketing will increase the Federal Republic's influence in the world, open new markets and ultimately lead to a change in the current economic, political and military balance in the world.

After forty-five years the "German Question," may have been answered in the context of postwar Europe, but it begs an answer in the post-reunification world.

A. A SUGGESTED FRAMEWORK.

In the process of writing and researching this study two problems became evident. First, with few exceptions, there has been little interest in examining the motives and processes of other major European countries in the area of arms transfer policy. Instead, the major authors devote

their attention to the "big two", the United States and the Soviet Union. While this is not surprising given the volume of exports of those two countries, the rise of "second-tier" producers--Brazil, Israel, South Africa and India--emphasizes the importance of examining the policies of smaller countries. The simple fact of the matter is that there are only two countries in the world that behave in a manner similar to the United States and the Soviet Union--themselves!

Because the two superpowers are so interesting, the research uses their rationales, their motives, and their desires to formulate generalizations for the other, less powerful arms producers. That leaves the student of European political process, mainly those students of West Germany, Italy and France without a basis from which to start.

The second major difficulty, related to the first, is the lack of theoretical frameworks for examining countries other than the big two. An example of this problem is the concept of influence. Influence has been examined, analyzed, and defined by the finest scholars in both the arms transfer field and the broader, international relations field. The results of those examinations are generalizations only infrequently applicable to the emerging powers, especially those in the armaments business. The arms-for - oil category also applies as the most readily observable data are those generated by the United States.

Figure 5.1 depicts a framework that may prove useful in the examination of a country that is developing an arms industry.[2] The basic premise is that the country goes through a process of evolution starting as an importer and ending as a country that is able to wield influence, if, influence is the end state.

The first phase is marked by an absolute dependency on arms imports for survival. This phase can be likened to Germany's status at the end of World War II. Although tacitly accepted as a defeated nation, Germany was prevented from manufacturing arms, thereby creating an abject dependency on the United States, and the other allies.

The second phase is characterized by the start of indigenous production. Generally, imports continue but the nation has developed an industry, obtained licenses, and is able to begin meeting its own needs, reducing its dependency on other nations.

As the indigenous industries develop, there will be expansion, purchases by the government, and in the late stages of this phase an excess capacity that must find an outlet in the foreign markets. This phase is the Export for Economics or Export for Currency phase. As the national government seeks to balance its budget and cut defense

[2]This framework was developed in an unpublished Thesis by the author in 1987.

An Evolutionary Framework for Arms Transfer Rationales

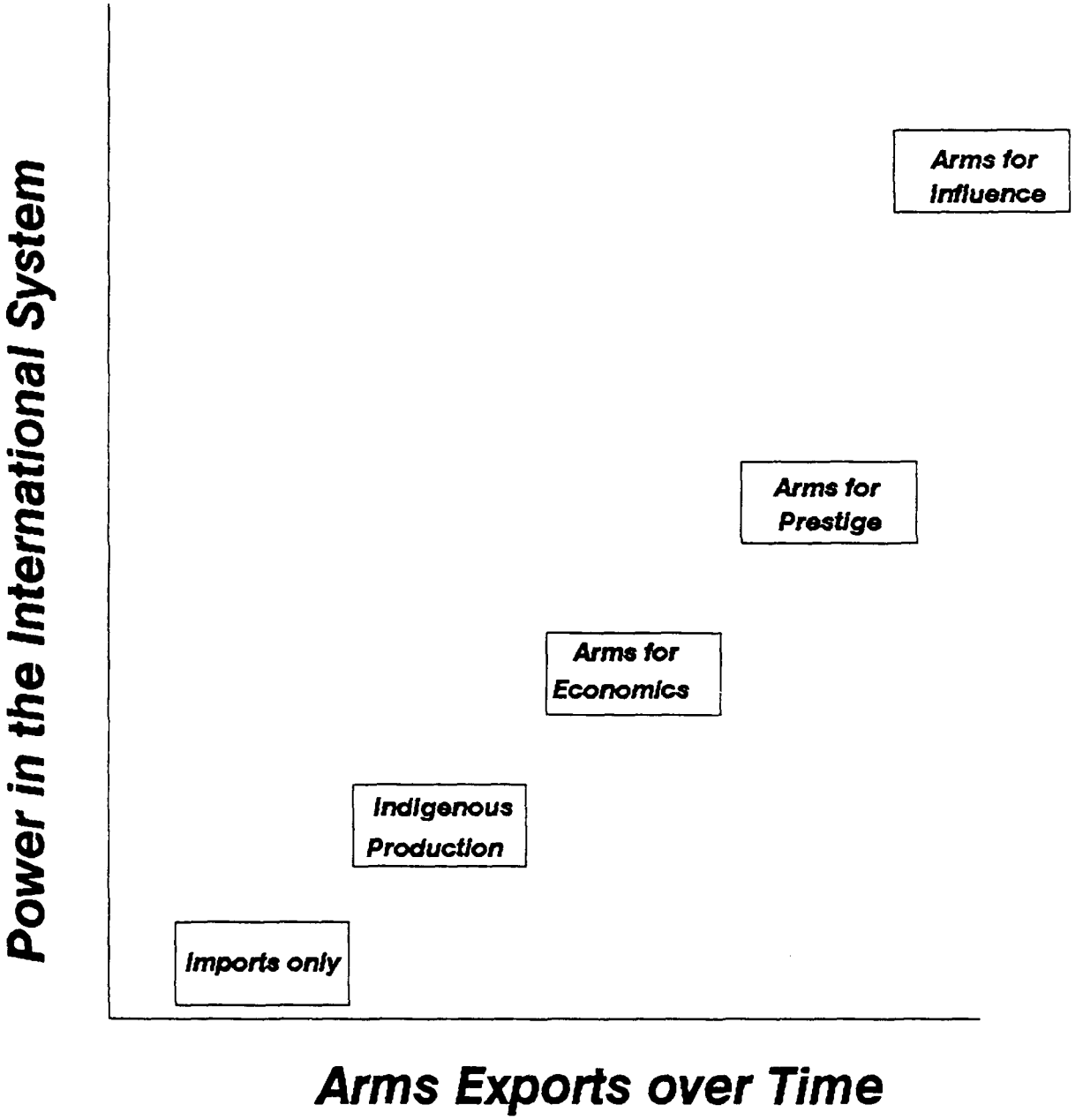

Figure 5.1

costs, it encourages and seeks markets for its defense goods. The prime motivation for sales would be to lower unit costs, but also to maintain the indigenous industry. In Germany's case, this stage is also influenced by domestic considerations, mainly employment. It is marked by scandals occurring because of the ambiguity of laws governing arms transfers.

The fourth phase, Export for Prestige phase is a cumulation of the stages thus far. By this time imports have faded, indigenous industries have matured, but the economic factors are still present and although not as important, still must be addressed. This phase marks the beginning of the use of arms transfers as a policy tool and is characterized by the trade of modernity, of technological prowess that is sought by other less developed nations, and of a concentration on exhibits and trade fairs that serve as showcases for the nations accomplishments. The key aspect of the prestige stage is that the nation is still maturing, still developing its strategy for dealing with other actors on the international stage.

The final stage is Exports for Influence. At this point the nation's prestige and power are recognized by the rest of the world, and it is able to exercise the power gained from this prestige to influence its less powerful neighbors. The United States and the Soviet Union are at this stage. Economics or resources are still important, but

the power of the nation has been recognized by the other players.

The framework needs further development and requires further tests. An ideal test would be to compare a country such as Brazil, that should be in the third phase, with Germany to closely examine the economic rationale. Israel and Egypt offer other possibilities. If the framework only offers an idea for the examination of countries that are not on the US and USSR scale, then its utility will have been proven.

B. Suggestions for Future Research

This study has concentrated, macroscopically, on two broad groupings of arms transfer rationales, economic and political. Future research should examine these broad groupings on a lower level. Two areas that offer possibilities are microscopic analysis of individual rationales, and industry sector analysis. Additionally, an analysis of the transfer approval/ decisionmaking structure within the government using bureaucratic politics models should yield interesting results.

In order to determine more specific motives for arms transfers, and therefore offer a prediction of future behavior, future studies should center on individual rationales within the major grouping. For instance, there are myriad political reasons to authorize sales of arms and

these reasons are generated by the government as well as the polity. Using the employment factor in arms transfers, research could be done to determine the weight the government gives to employment concerns. Similarly, as has been suggested, if the polity, in the form of unions wants to encourage arms transfers

To continue with the above example, further refinement of a future research project should focus specifically on one of the branches of industry. The naval industry suggests itself for two reasons. First, it is the most independent of German industries, that is, free of cooperative agreements. Second, the ex- East German naval industry, combined with the present West German segment will be a major force in that segment. Examination of the German impact on the world naval arms industry will probably offer interesting conclusions.

Finally, an area of the arms transfer decision process that requires research is the bureaucratic influence. In the German case, some suggest that arms are transferred as a result of bureaucratic interpretation of vague policies. Examination of the process and its results will be invaluable in determining future directions, not only for the Federal Republic, but also for other, highly structured, arms transferring nations.

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