
Bolstering Defense Industrial Competitiveness Through International Cooperation

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Today, the U.S. Department of Defense is a major customer of more than 215 industries, purchasing products that range from office supplies and clothing to high-performance aircraft. It is often difficult to draw a clear-cut distinction between the U.S. defense industrial base and the U.S. commercial manufacturing economy across this spectrum. For this reason, the department has a major stake in the state of the nation's competitive posture *vis-a-vis* America's major trading partners. Moreover, the global nature of today's marketplace and our security objective of increasing cooperative acquisition efforts with our friends and allies compound the already hazy definition of what constitutes the United States technology and production base.

While it is neither appropriate nor possible for the Department of Defense to underwrite the competitiveness of commercial enterprise, the department's unique role as a major consumer provides significant leverage within the business environment, both domestically and internationally. In July 1988, the Department of Defense issued a report entitled "Bolstering Defense Industrial Competitiveness" outlining a broad strategy aimed at improving the competitiveness of U.S. defense manufacturing. Based on input from participants from industry, academia, and government, the report described broad-based actions for dealing with the underlying causes of the competitive problem. A fundamental theme was that any successful initiative will require cooperation, not only with domestic industry, but also with our allies if we are to enhance U.S. defense industry potential.

The relative erosion evident today in several key U.S. industrial sectors such as ball bearings, machine tools, and semiconductors stems in large part from pressures arising from newly emerging competitors. This can have negative consequences for the future of the U.S. technology base.

DOD's strategy for offsetting the numerical superiority of its potential adversaries has been technological superiority. It is therefore essential that DOD work constructively within today's highly dynamic and competitive international environment to ensure that America retains its technological leadership.

From the standpoint of international armaments cooperation, this means aggressively seeking out new areas for cooperation that benefit our security posture and stimulate the technology base. While total national defense self-sufficiency is a laudable goal, it is unrealistic. The global nature of today's international marketplace and the realities of flattening or decreasing defense budgets dictate a more interdependent and streamlined approach to how and what we buy, with other nations participating in a greater share of development and production. At the same time, DOD must do whatever is appropriate to enhance U.S. industry's ability to sell abroad; the revenues generated from such transactions can provide the stimulus for greater investment in the industrial base and help lower acquisition costs.

Consequently, we must provide minimum restraints on U.S. industry, consistent with national security requirements, thus allowing our industries maximum access to overseas markets. This means further streamlining the often-cumbersome export licensing process that U.S. companies must cope with in order to sell abroad. Industry often cites this process as one that gives unintended advantage to foreign competitors who have no comparable restrictions. We must also take full advantage of technologies developed by other nations and focus increased attention on developing and exploiting those dual-use technologies that fuel commercial competitiveness.

Given the already global interdependence of commercial markets, it is imperative that we continue to explore new and innovative ways of dealing with U.S. defense industrial requirements and our steadfast commitment to work with our friends and allies.

Inherent in such an interdependent relationship is the potential for vulnerabilities due to possible unforeseen supply disruptions in times of crisis. A technologically advanced industrial base can provide the requisite hedge against a mostly unpredictable range of conflict scenarios by providing a responsive and advanced infrastructure to meet new or depleted resource requirements. Our society's ability to draw continuously on its talent for innovation and technological excellence, therefore, becomes an increasing consequential and essential component of our security posture, whatever the scenario.

Of course, current policies must ensure at the outset that we do not inadvertently design critical foreign source dependencies into our weapon systems and that we understand the impact that offshore production and purchase decisions may have on the ability to field weapon systems during crises. This criterion is being factored into the early program decisions of the Defense Acquisition Board, which has responsibility for reviewing and approving the acquisition of all new major weapon systems.

Of particular concern to the Department of Defense is the continued health of second- and third-tier contractors. It is at these levels that we face a relative decline in industrial competitiveness. These suppliers represent a base that receives approximately 50 to 80 percent of the DOD acquisition budget and are the major source of technology development in the United States.

Therefore, we must carefully balance our objectives for increased armaments cooperation with the effect an international project would have on our defense industry. To assist in this process, DOD now seeks information and recommendations from the Department of Commerce before entering new international agreements for the cooperative development of weapon systems.

Encouraged by the Nunn Amendment to the 1986 Defense Authorization Act (which provides funds for the United States' share of new cooperative projects with NATO nations, Australia, Israel, Egypt, Korea, and Japan), we have embarked upon a number of weapon system development efforts teaming U.S. and allied governments and industries. Such development efforts as the Air Force's modular standoff weapon, the Navy's NATO anti-air warfare system, and the Army's 155mm fire-and-forget artillery-delivered munition are providing affordable alternatives to U.S.-only developments.

It is planned that more than \$10 billion will be spent on Nunn Amendment projects by the United States and its allies over the next five years, with the U.S. providing only about one-third of that amount. In essence, we will obtain the benefit of a \$10 billion investment at a cost of about \$3 billion. Since the remaining two-thirds of the cost is spread among our allies, they will enjoy similar savings. An added bonus is that participating U.S. firms, through international teaming arrangements, have new opportunities to penetrate markets abroad, enhancing our industrial competitiveness.

In support of these initiatives, several study efforts are underway that address strategies for defense trade and cooperation.

First, DOD is developing a master plan for international armaments cooperation. The objective is to identify those acquisition programs that will yield the greatest benefit to the United States through international cooperation. This effort will result in a long-range strategic approach to our pursuit of armaments cooperation.

We are ensuring that our international cooperative efforts are complementary to our efforts with respect to our defense industrial base and vice versa. We are also placing emphasis on other nations such as those of the Pacific Rim, with a view toward the next decade. Once approved, the Armaments Cooperation Master Plan will be used as a reference during acquisition and budget reviews, just as other DOD master plans focused on specific mission areas are now used.

The master plan also will address benefits to the United States from both defense trade and cooperation perspectives, including the third-country sales issues. This is particularly important as we face the prospect of a unified European market after 1992. We are working now to ensure that our strategy considers the effect of such European efforts on U.S. industry and the overall cohesiveness of the NATO alliance. Starting more cooperative developments now could benefit the U.S. defense industry's future prospects in the NATO market. Hopefully, the European effort will not mean protectionism, but rather will lead to a more efficient defense market. Protectionism on either side of the Atlantic will be inimical to the overall security interests of all NATO nations in the long run.

A supporting activity currently underway is a combined effort by the DOD and the RAND Corporation to re-examine decision criteria regarding defense trade issues. We are developing uniform criteria for government decisions on trade issues to ensure that the many aspects of the problem--political, economic, industrial base, and technology security--are properly considered. The Defense Policy Advisory Committee on Trade, an advisory group of defense industry chief executive officers, is also a contributor to this effort.

Another major effort is aimed at ensuring productive, cooperative relationships with the countries in the Pacific Rim. For more than five years, these countries have been our principal trading partners. Only recently has there been a significant effort to bring that shift in trade relations in line with U.S. investment and defense industrial cooperation with the Pacific Rim nations. As this area continues to emerge as a major economic power center, we will be looking for new ways to optimize defense industrial cooperation. Clearly, there are emerging technologies of which the U.S. can and must avail itself.

In the past, technology flow often has been one way--from the United States. We in DOD must work harder to make this relationship into a two-way street. The Defense Science Board also is focusing on the Pacific Rim and is preparing a report for the Secretary of Defense on the potential for achieving U.S. security objectives through defense industrial cooperation with the nations of that area. The task force's objectives include assessing the potential for, and forms of, defense industrial cooperation that can have a major impact on the modernization, readiness, and sustainability of participating nations; advancing U.S. security objectives in the area, assessing the industrial, economic, and military factors that affect such cooperation, including identifying possible adverse effects on the U.S. defense industrial and technological base; and recommending solutions for such problems. The Defense Science Board's final report is planned for the late Spring of 1989.

One key issue identified in the "Bolstering Defense Industrial Competitiveness" report was the need to forge a better relationship between government and industry. The report found that an

exaggerated adversarial relationship would result in an environment in which significant improvements in our competitive posture would become increasingly difficult. One important way we are remedying this situation is through the recently instituted Defense Manufacturing Board. It is providing a forum for a government-industry dialogue, and several key issues already have been identified by the participants: the need for capital investments to revitalize industry, the need to better integrate system design with production, the need for greater focus on quality, the need to consider strategic linkages between industries and, perhaps most importantly, the need to implement solutions rather than just to study problems.

The cornerstone of the department's effort to ensure a healthy and competitive industrial base must be cooperation--domestically and internationally. Many efforts are under way within the department to achieve positive innovation in our relations and activities among government and industry alike.

Technological advances do not respect national boundaries; remarkable breakthroughs are occurring worldwide, especially in European and Pacific Rim nations. It is essential that the Department of Defense develop new avenues to ensure we benefit to the maximum extent possible from them. Over the long run, we cannot successfully pursue strategies aimed at inhibiting other nations from developing technologically; rather, we must ensure that our own actions promote technology leadership and that such actions are in fact the basis for any policies taken in pursuit of cooperative international agreements.

We have laid the foundation and put the institutional framework in place. Our success in meeting these issues head on will have important consequences for U.S. technological leadership and America's ability to maintain a capable, credible military deterrent.