



THE RELATIONSHIP BETWEEN STRATEGIC EXPORT CONTROLS AND ECONOMIC BENEFITS

21ST ASIAN EXPORT CONTROL SEMINAR

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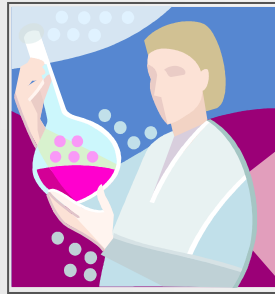
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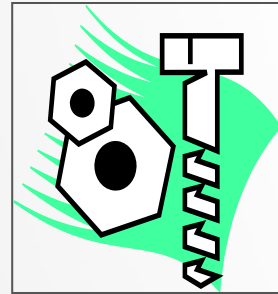
PRESENTATION ROAD MAP

- Address the common concerns about the costs associated with imposing strategic trade controls
- Discuss the economic benefits associated with imposing strategic trade controls
- Present evidence that imposing strategic trade controls facilitates international trade

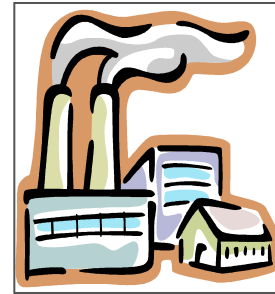
THE SCOPE OF CONTROL AND STRATEGIC TRADE CONTROLS



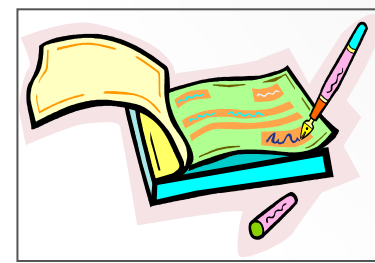
*Technology
Transfers*



Importation



Production



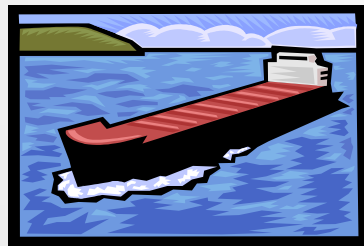
*Financial
Transfers*



Brokering



*Exportation
& Re-
Exportation*



*Transit,
Transshipment,
& Transport
Facilitation*



*After-
Delivery
Services*

COMMON CONCERNS ABOUT STRATEGIC TRADE CONTROLS' COSTS

1. Strategic trade control systems are difficult and costly to implement and maintain
2. Strategic trade controls create barriers to profitable trade that will be exploited by competitors
3. Strategic trade controls make it more difficult and costly for private sector businesses to engage in international trade

CONCERN 1: COSTS OF IMPLEMENTING STRATEGIC TRADE CONTROL SYSTEMS

- There is often significant political inertia in passing a comprehensive strategic trade control law
 - Industry outreach can help obtain the support of commercial stakeholders
- Efficient legal-regulatory design can help minimize the costs of tailoring international best practices to indigenous systems of governance
- International resources can mitigate the costs of imposing and maintaining effective strategic trade control systems
 - UNSCR 1540
 - Multilateral Export Control Regimes

CONCERN 2: STRATEGIC TRADE CONTROLS MAKES INTERNATIONAL COMMERCE LESS EFFICIENT

- A recent European Union [study](#) found that the total percentage of its members' exports subject to STC licensing varied from approximately 1% to more than 4%
- The “scope of control” within countries' strategic trade control systems will determine the portion of transactions subject to licensing
- Depending upon the proliferation profile a country has, a strategic trade control system can be tailored to maximize efficiencies in the types of controls most relevant to a country's needs
- Effective industry outreach programs can substantially improve the efficiency of strategic trade control systems

CONCERN 3: LOSING OUT TO FOREIGN COMPETITION

- The multilateral export control regimes already operate on a “no undercutting” principle, which prevents potential proliferators from exploiting these supplier states
- All other countries in the world are obligated to impose strategic trade controls, and the global trends are moving towards higher and higher levels of compliance
- Efficient regulatory design can mitigate the risks of strategic trade controls making countries appear less competitive to conduct legitimate business in
- Narrowly-derived benefits versus systemic costs associated with proliferation sensitive transactions
 - Ex., the A.Q. Khan Network’s exploitation of Dubai

ECONOMIC BENEFITS OF STRATEGIC TRADE CONTROLS

1. Strategic trade controls enhance the security of international commerce and minimize the risks of contributing to WMD proliferation
2. Possessing strategic trade controls offers countries positive reputation effects as safe, well-regulated places to do business
3. Possessing strategic trade controls offers countries improved access to strategic technologies and commodities from suppliers

BENEFIT 1: ENHANCED SECURITY AND RISK MITIGATION

- Imposing strategic trade controls improves countries' national security by establishing stronger regulatory controls over products and technologies that could be exploited by violent non-state actors within a country
 - States possessing large civil nuclear infrastructures, for example, are more likely to be targeted with radiological and nuclear terrorism
- The risk premium of being a “weak link” in the global nonproliferation regime

BENEFIT 2: REPUTATION EFFECTS

- States that develop efficient, comprehensive strategic trade control systems can enhance their commercial and political reputations
 - Attract foreign direct investment in strategic and high-tech sectors from multinational companies
 - Obtain membership in the multilateral export control regimes
- Reputation effects are directly linked to the efficiency of countries' strategic trade control systems and the quality of their industry outreach

BENEFIT 3: ENHANCED ACCESS TO STRATEGIC TECHNOLOGIES AND PRODUCTS

- Countries that possess strategic trade controls can enhance their ability to obtain controlled technologies from foreign suppliers
 - The United States, for example, has made the presence of strategic trade controls a condition for the transfer of nuclear technology in some cases
- Countries lacking strategic trade controls may have more stringent controls applied against them by other countries



Source: http://www.uaeinteract.com/docs/UAE_commences_work_on_second_nuclear_reactor/55336.htm

ANALYZING THE IMPACT OF IMPOSING STRATEGIC TRADE CONTROLS

- Analyzed the export flows of all countries in the world from 1950-2007
- Examined the impact of countries' participation in the export control regimes that denote the presence of the strongest strategic trade controls
- Employed an econometric model of analysis that included a basic set of control variables and variables for membership in the following multilateral export control regimes:
 - Nuclear Suppliers Group
 - Missile Technology Control Regime
 - Australia Group
 - Wassenaar Arrangement

THE POSITIVE EFFECTS OF STRATEGIC TRADE CONTROLS ON INTERNATIONAL TRADE

- Being a party to the multilateral export control regimes all had positively signed effects on their members' export flows
- In particular, being a party of the NSG and MTCR both had positive and statistically significant effects on countries' export flows
- In an average, hypothetical case, a state's exports were 22% greater if it was an MTCR member and 13% greater if it is an NSG member compared to not having memberships in any of the regimes

CONCLUSION

- The costs associated with imposing strategic trade controls can be minimized via international assistance and employing efficient legal-regulatory designs and effective industry outreach
- Implementing strategic trade controls can potentially have far-reaching economic benefits, even if strategic trade controls only directly affect a small fraction of countries' trade
- Adopting the best-practices, guidelines, and control lists produced by the multilateral export control regimes represents a useful strategy towards creating efficient, effective strategic trade control systems and potentially obtaining membership in the regimes

THANK YOU

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