STRATEGY RESEARCH PROJECT

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FOREIGN MILITARY SALES: A STRATEGIC CONCEPT SUPPORTING PEACETIME ENGAGEMENT AND PREVENTIVE DEFENSE

BY

LIEUTENANT COLONEL R. KELLEY GRISWOLD
United States Army

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BY

Lieutenant Colonel R. Kelley Griswold
United States Army

Colonel Morris E. Price, Jr.
Project Advisor

U.S. ARMY WAR COLLEGE
Carlisle Barracks, Pennsylvania 17013

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ABSTRACT

AUTHOR: R. Kelley Griswold (LTC), USA

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DATE: 9 December 1996 PAGES: 29 CLASSIFICATION: Unclassified

Foreign Military Sales (FMS) are not new in American foreign relations. Neither is the idea of preventive defense as an element of military strategy. What is new is the increased emphasis of preventive defense as an element of the nation's National Military Strategy and the increased role of FMS in support of that strategy since the end of the Cold War. This project will analyze these changes, provide background on FMS and its relation to other Security Assistance components, and review FMS in the context of ways, means, and ends. This project uses actual FMS cases, primarily of the Multiple Launch Rocket System (MLRS), to provide examples and illustrations throughout.

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FOREIGN MILITARY SALES:

A STRATEGIC CONCEPT SUPPORTING PEACETIME ENGAGEMENT AND PREVENTIVE DEFENSE

Introduction

Foreign Military Sales (FMS) are not new in American foreign relations. Neither is the idea of preventive defense as an element of military strategy. "It has been a central idea of military strategists for over two thousand years."[1] What is new is the increased emphasis of preventive defense as an element of the nation's National Military Strategy and the increased role of FMS in support of that strategy since the end of the Cold War. This project will analyze these changes, provide background on FMS and its relation to other Security Assistance components, and review FMS in the context of ways, means, and ends. This project uses actual FMS cases, primarily of the Multiple Launch Rocket System (MLRS), to provide examples and illustrations throughout.

Background

Peacetime Engagement and Preventive Defense

Since the conclusion of the Cold War, the nation has pursued a National Security Strategy of engagement and enlargement. Peacetime engagement describes "a broad range of non-combat activities undertaken by our Armed Forces that demonstrate commitment, improve collective military capabilities, promote democratic ideals, relieve suffering, and in many other ways, enhance regional stability."[2] Security Assistance

activities, to include FMS, clearly fall into this range of activities. FMS also is a key concept in support of Preventive Defense.

"Today, our policy for managing post-Cold War dangers to our security rests on three basic lines of defense. The first line of defense is to prevent threats from emerging..."[3] This is the basis of the concept of Preventive Defense. "Preventive defense seeks to keep potential dangers to our security from becoming full-blown threats. It is perhaps our most important tool for protecting American interests from the special dangers that characterize the post-Cold War era."[4]

Foreign Military Sales

FMS has long been a component of Security Assistance. President Roosevelt, in his 1949 inaugural address, instituted a radical departure in foreign policy when he initiated programs to supplement our national security through involvement with other nations' security. A key requirement established by President Roosevelt, that the program must promote national interests, is still valid today.[5] President Clinton released his policy on Conventional Arms Transfer in February 1995, noting that "...the policy supports transfers that meet legitimate defense requirements of our friends and allies, in support of our national security and foreign policy interests."[6] Shortly thereafter, "the Joint Staff defined foreign military interaction as initiatives whereby U.S. defense personnel -- by direction of U.S. Defense authorities -- interact with foreign defense personnel on a systemic and cooperative basis to achieve national security objectives."[7]

FMS is unique within the Security Assistance arena in that it is the only component that requires no expenditure of U.S. government funds. This is especially noteworthy in

a period of declining defense funding. In order to actively support the nation's overall Peacetime Engagement and Preventive Defense approaches, alternative means to provide resources for activities must be found. Because the key word in Foreign Military Sales is sales, FMS inherently does just that. "The purchasing government pays all costs that may be associated with a sale."[8] FMS is a pay-as-you-go program requiring cash for equipment, services, and/or training. Policy also permits the sale of design and construction services under the FMS program.

Security Assistance

The Defense Institute for Security Assistance (DISAM) notes that Security Assistance is an umbrella term for a varying set of programs. They describe it as an elastic program with unspecified boundaries.[9] Their current listing of programs collected together and named Security Assistance includes seven programs, including FMS (Figure 1).[10] It is often confusing to isolate a program under the umbrella because organizations other than DISAM use different names for the collection of programs. The State Department refers to the programs as "Foreign Operations"[11] while the Secretary of Defense titles the programs "Military Assistance."[12] The National Defense University uses the term "Foreign Operations Assistance,"[13] and the Joint Staff included some aspects under the title, "Foreign Military Interaction Programs."[14] For ease of reading, this project will use the term Security Assistance.

The Foreign Assistance Act of 1961, as amended, and the Arms Export Control Act of 1976, as amended, authorizes the Security Assistance program. This legislation permits provision of goods and services to nations that support our national security objectives

and authorizes sales to achieve mutual defense objectives.[15] In addition, the NATO Participation Act of 1994 expanded eligibility to nations seeking transition to NATO.[16]

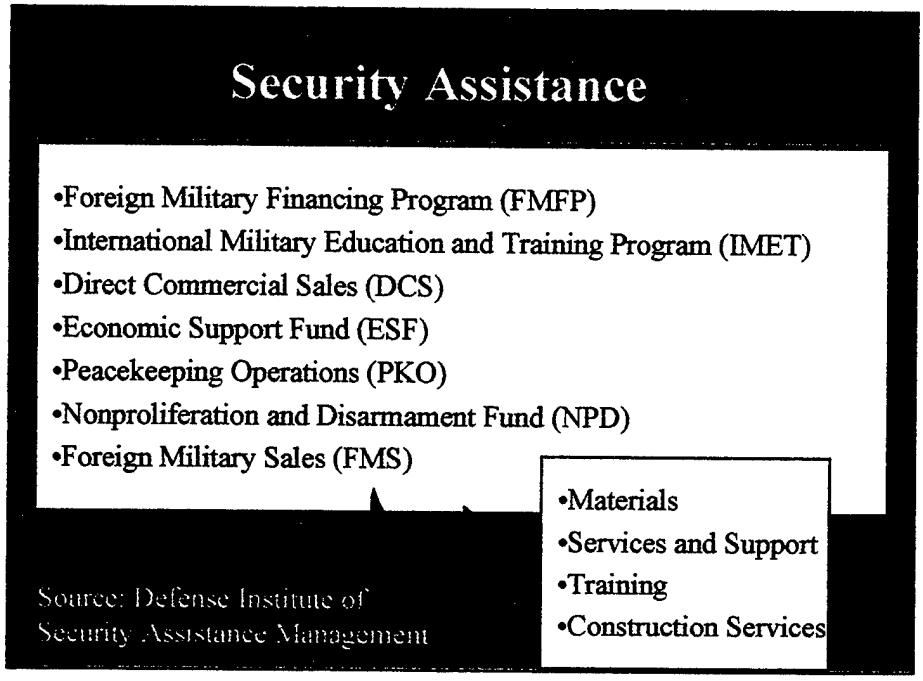


Figure 1[17]

Other Security Assistance Components

The other Security Assistance components, some of which directly relate to FMS, are briefly described below:

Foreign Military Financing Program (FMFP). Congressionally appropriated grants and loans are made available to foreign governments for the purpose of purchasing U.S. arms, services, and/or training. The intention is to permit nations to transition from grant programs to cash programs. It is important to note that a nation with funds provided under FMFP may use those funds to pay for FMS cases.[18] This presents an anomaly in

the FMS program because its structure is a pay-as-you-go program when, in fact, the funds may have originated in the U.S. treasury.

Direct Commercial Sales (DCS). Foreign nations may enter into direct sales arrangements with U.S. contractors provided they have approval from Congress.[19] Potential customer nations must decide which system, FMS or DCS, is most advantageous to them. DCS has the same objectives as FMS: to enhance friendly nations' security through the provision of military equipment, training, and/or services.

The decision to choose one program over the other varies with each potential purchaser. The purchaser must consider factors such as negotiating ability, training and logistic support requirements, degree to which the purchaser desires U.S. military personnel involvement, price, and lead-time. DCS eliminates the government-to-government relationship prevalent in FMS cases and eliminates the requirement for U.S. management of the case.[20]

International Military Education and Training (IMET) Program. IMET allows the United States to sponsor and fund training for military and related civilian personnel on a grant basis. Usually conducted in the United States, IMET provides a corps of leaders with first-hand knowledge of America and its democratic way of life.[21] Similarly, foreign nations may request training as part of FMS cases; however, they must finance the training themselves. Training procured under an FMS case is usually system-specific and tied directly to the purchase of equipment.

Other Programs. The three remaining components of Security Assistance are Economic Support Fund (ESF), Peacekeeping Operations (PKO), and Nonproliferation and Disarmament Fund (NPD). These programs result from the end of the Cold War.

They reflect the diversity of U.S. interests and are representative of the elastic nature of the Security Assistance umbrella. There is no direct link to FMS.

Discussion

FMS is an integral component of Security Assistance and, in turn, of the National Military Strategy supporting the National Security Strategy. As an instrument of Peacetime Engagement, it provides for U.S. involvement in the affairs of other nations. FMS is only useful, however, if a particular sale enhances the U.S. security interests, makes an impact on regional stability, and/or strengthens international cooperation. The State Department considers elements for each case to determine whether or not to approve the sale.[22] This said, the transfer of defense articles, services, and/or training (otherwise known as FMS) is one of the primary methods to carry out our foreign policy and national security objectives. What follows is a discussion of FMS in the context of ends (objectives), ways (concepts), and means (resources).

Objectives (ends)

The objectives of FMS are many. Traditionally, however, FMS has two major objectives: to provide the U.S. access to other nations and to ensure the United States can influence policies and actions of other nations. Together, these objectives equate to power, and they enable the United States to pursue its own security objectives. From a military perspective, FMS also has the objective of enhancing security for U.S. forces by strengthening the capabilities of our allies and by enhancing interoperability.

Recently, President Clinton assigned another objective to FMS by issuing the Conventional Arms Transfer Policy. For the first time, the United States will engage in actively marketing arms and promoting sales to benefit U.S. industry that produces military equipment.[23]

Access. The National Military Strategy revolves around two strategic concepts: overseas presence and power projection.[24] Both require access to foreign lands and facilities prior to and during conflict. FMS, as an element of Peacetime Engagement, is a tool to gain that access. Equipping a nation with American equipment builds a logistical and support chain that must be maintained for the equipment to continue to function. Training a force to use equipment establishes a habitual relationship with the forces of that nation and makes gaining access in times of need easier.

Another aspect of access also is vital to the United States. The nation has "become critically dependent on the importation of raw material from many countries."[25] Not only do we require access to other nations, but also we require access to their mineral assets, sea lanes, and markets. Support to these nations through the Security Assistance program, to include FMS, may play a key role in gaining access.

Influence. Influencing another nation is another of the traditional goals of FMS. Establishing dependency clearly is a method of exerting influence. According to the Director of the U.S. Army Missile Command Security Assistance Directorate, sale of a weapon system establishes a relationship that requires the receiving nation to depend on the United States for repair parts and technical support. He further notes that, through training and individual contact, the United States is able to encourage the human rights aspects of our foreign policy.[26] President Clinton's policy on arms transfer notes that the

promotion of human rights and democratization are policy goals.[27] Peacetime Engagement through FMS makes the person-to-person contacts possible and provides an avenue for influencing individuals.

Domestic industrial base. One of President Clinton's policy goals is to enhance our industrial base to meet and maintain technological superiority at lower costs.[28] Protection of the U.S. industrial base is not a new concept; however, the nation has only recently recognized it as an expressly stated goal of the nation's arms transfer policy. The late Secretary of Commerce, Ron Brown, told U.S. weapons makers in 1993, "We will work with you to help you find buyers for your products in the world market place."[29]

As our military budget continues to decline and the cost of high technology weapons continues to rise, it is essential to find ways to share the cost of developing and procuring new systems. Finding FMS customers increases the quantities procured and, therefore, reduces unit costs. This allows the United States to take advantage of economies of scale and purchase more systems for U.S. use. This translates into increased capabilities.

The Multiple Launch Rocket System (MLRS) provides an interesting example of the effect of FMS on the U.S. industrial base and on the unit cost of rocket systems (Figure 2). At the end of FY93, the United States had acquired sufficient basic rockets to satisfy its needs. Future versions of munitions, however, required the same production facilities and worker skills as was required for the basic rocket production. The MLRS Project Office determined that it would cost approximately $10 million to close the facility and reopen (and recertify) the production line when the next generation of the rocket, the Extended Range MLRS (ER-MLRS) rocket, was ready for production.[30]

To maintain the production base and avoid wasting $10 million, the MLRS Project Office procured additional practice rockets for the United States and for sale to other nations. Additionally, the State Department approved additional FMS sales of basic rockets for FY94 and FY95. The MLRS Project Office accelerated Low Rate Initial Production of the ER-MLRS to close the remainder of the original production gap. FMS, therefore, played a key role in keeping the production line open and avoiding the costs of plant shut down.

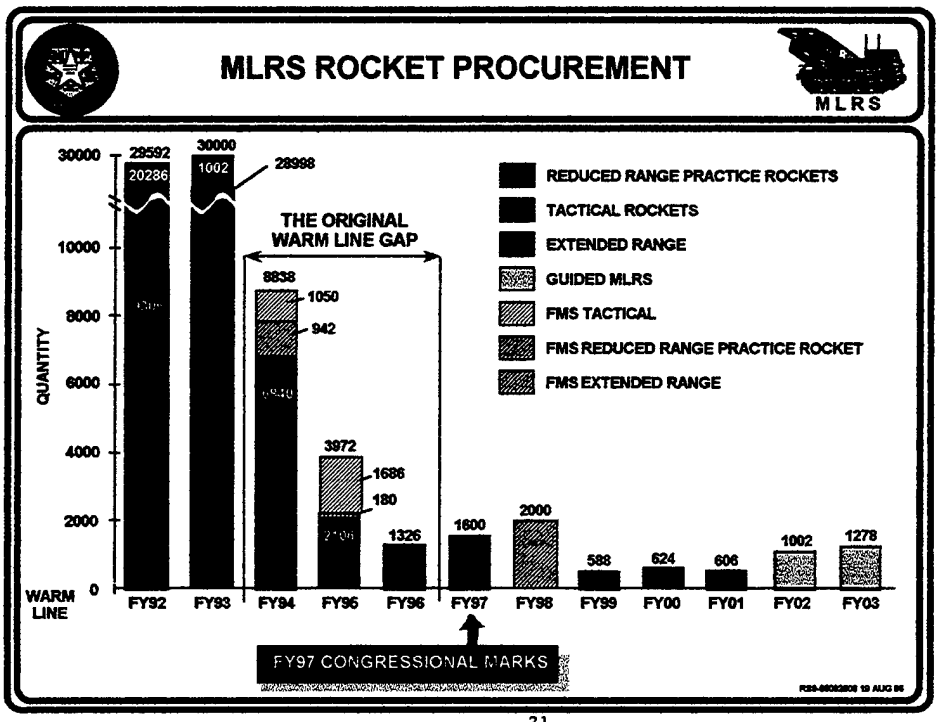


Figure 2[31]

The MLRS facility faces a similar problem in FY98. The United States has not appropriated funding for any ER-MLRS rockets.[32] A recent study concluded that it will cost approximately $17 million a year to keep the production facility in a warm status. (A warm status simply exercises the equipment periodically, ensures adequate

maintenance, and keeps a labor pool available. No hardware is delivered to the government.) An alternative was to allow the plant to close; but the cost of shutdown, restart, and recertification did not offer significant savings over the warm line scenario.[33] Neither the warm nor the cold line scenarios offered the best benefit for the dollar spent. Fortunately, officials approved sales of approximately 2000 ER-MLRS rockets to Norway in FY98. Once again, FMS sales will prevent plant closure and loss of critical worker skills.[34]

Unit costs for MLRS rockets are related directly to the quantities procured. FMS sales play a significant role in keeping U.S. costs as low as possible. They increase the business of the prime contractor and permit overhead to be spread over a larger base. Figure 3 illustrates the volatility of unit prices resulting from quantity variations and is based on estimates provided by the MLRS Project Office. FY99 is used as the year of comparison because the FMS cases illustrated all occur during or prior to that year. All values are approximate.

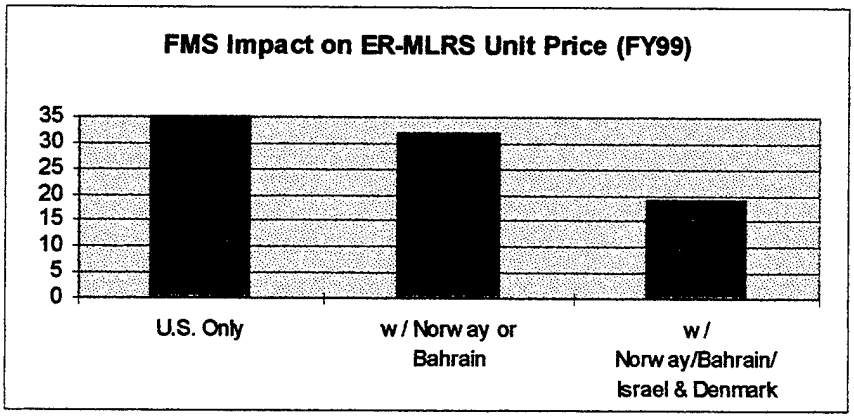


Figure 3[35 36 37 38]

Similarly, FMS cases have provided the MLRS launcher to other nations, allowing the project office to take advantage of economies of scale and the resulting reduced unit cost of the launcher. For example, the United States has completed fielding MLRS to the U.S. active force and is in the process of building launchers for the National Guard. The last launcher contract was awarded in FY95 with deliveries to be made through FY97.[39] The contract purchased a total of 20 launchers with an estimated unit cost of approximately $2.3 million each. Sales to Israel and Japan raised the number of launchers procured to 71. The unit cost was reduced to approximately $1.9 million each. The contractor returned the resulting savings (approximately $12-15 million) to the MLRS Project Office, which used the funds to partially develop an interim launcher capable of supporting the Army Tactical Missile System Block IA. As a direct result of FMS, continued development of the interim launcher was made possible without appropriation of additional U.S. funding.[40] Similarly, FMS generated other funds for support of the MLRS Engineering Services contract shortfalls. Of the $26.6 million required, FMS generated approximately 50 percent (Figure 4).

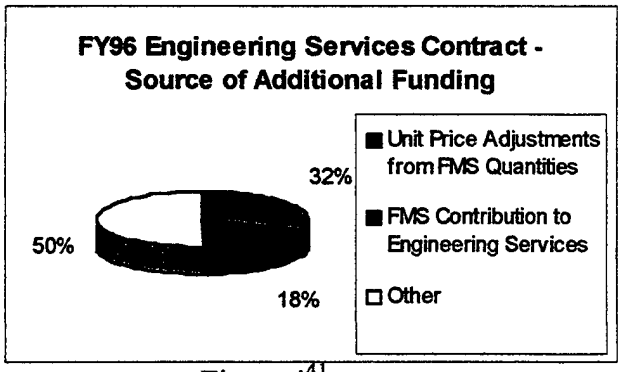


Figure 4[41]

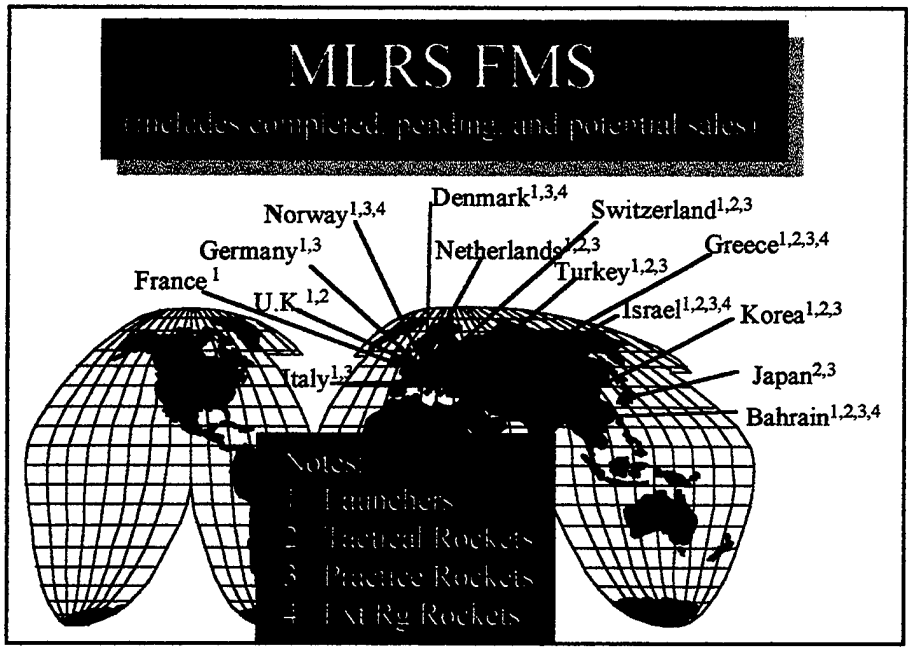
As striking as these examples are, the benefits may not yet have been exhausted. The potential exists for a case permitting the sale of 27 launchers to Korea in the near future. And, although the United States is not buying more M270 launchers, the additional business will reduce unit costs of other products sold to the United States by the same contractor.[42]

MLRS is joined by countless other systems in the FMS marketplace. As an example, the U.S. Army recently announced the sale of Stinger Reprogrammable Microprocessor (Stinger RMP) missiles to Taiwan. Specific considerations surrounding the sale included leveraging the existing production line to provide lower units costs as a result of economies of scale.[43]

Enhanced security. FMS provides a tool for enhancing our security requirements as specified in the National Security Strategy. The strategy requires that we "...defeat aggression in concert with regional allies in two nearly simultaneous major regional conflicts..."[44] The shared burden implied by this statement requires our forces to operate with those of other nations. Interoperability is a key factor to military success in a coalition environment. A partner outfitted with U.S. equipment and highly trained in its use is a valuable asset. In this way FMS serves as a combat multiplier. MLRS again provides a highly visible example. Figure 5 illustrates the worldwide network of MLRS equipped nations (including pending and potential sales) established through FMS.

Improving the defense capabilities of our allies not only demonstrates our commitment, but it also decreases the chances that U.S. forces will have to maintain regional security. As noted earlier, FMS is an element of preventive defense that "When successful, ... precludes the need to deter or fight a war."[45] A well-equipped, well-trained

ally may be able to prevent direct U.S. involvement while still supporting our national security interests.



Compiled from MLRS Project Office data

Figure 5[46 47 48]

Concepts (ways)

The concepts applied, or more appropriately the tools, that support the FMS objectives include materials, training, services and technical support, and construction services.

Materials. The Foreign Assistance Act of 1961 authorized the sale of equipment from U.S. stocks long ago.[49] Equipment sales is the most commonly thought of aspect of FMS.

Since the end of the Cold War, the United States has dramatically increased its sale of military equipment worldwide. Of the total arms exported in 1986 by all nations, the

United States sold only 13 percent. In 1995, that percentage increased to 70 percent.[50] As a result of the success of U.S. equipment in the Gulf War, the dollar value of FMS cases doubled from 1992 to 1993 (Figures 6 and 7).[51]

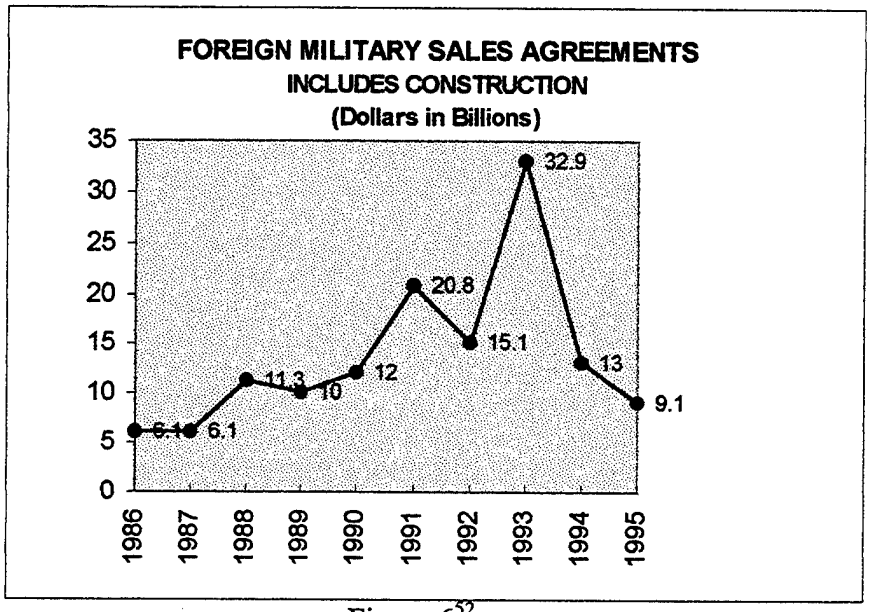


Figure 6[52]

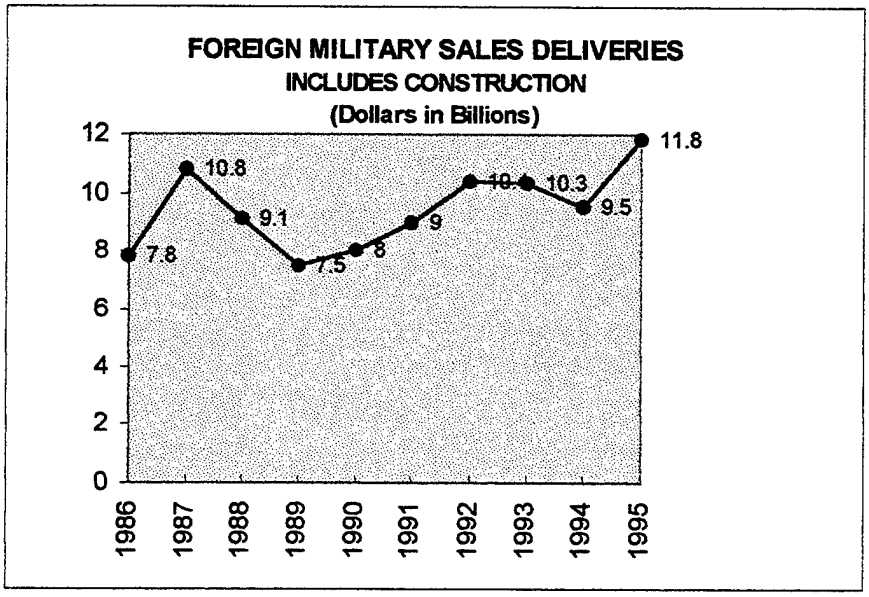


Figure 7[53]

In a relatively recent trend, foreign nations are no longer content with older versions, or in some cases the current versions, of U.S. equipment. Changing technologies and the apparent superiority of U.S. systems in the Gulf have caused nations to seek only the latest equipment and/or upgrades, often from new production. Whereas the Foreign Assistance Act of 1961 authorized sale of existing equipment from U.S. stocks, the sale of new production equipment reflects a common trend. Today, sales sometimes involve equipment that has yet to reach all U.S. forces.

Training. When discussing training of foreign forces, the IMET program is perhaps the first program that comes to mind. However, nations may elect to purchase training as part of an FMS case or as a case in itself. Both programs have similar benefits that promote our national policies and support the FMS objectives of gaining access and exercising influence. Exposure to American values and institutions through the FMS program in peacetime serves to influence individuals and institutions and promotes human rights and democratization. Clearly, the sale and conduct of training programs increase interoperability and may offset the requirement for future deployment of U.S. forces. Once again, FMS is at the forefront of Preventive Defense.

Services and technical support. Sale of services includes logistical support, documentation, engineering support, or practically anything a nation desires in support of its security needs. As with all FMS cases, the State Department grants approval only on a case-by-case basis, and the foreign government must provide funding for the sale. Sale of services is instrumental in expanding our influence over other nations and provides an exceptional opportunity for person-to-person contacts. High technology equipment

requires specialized technical support, expertise, and logistical backing. This usually requires prolonged relationships.

When considering sale of services, the United States also gains a degree of leverage over other nations. A decision not to sell support for a system, once fielded, negates the system's effectiveness. This is a clear case of exerting influence.

Technical support cases also serve to enhance interoperability as in the case where the United States agreed to rehost its MLRS fire control software onto the Dutch artillery fire control computers. Peacetime Engagement through FMS enhances allied capabilities and thus decreases the likelihood of direct U.S. involvement.

Construction services. Sale of construction and civil engineering services contribute to obtaining access to other nations. Upgrade of port or airport facilities, for example, increase the likelihood that U.S. forces can utilize the facilities in time of need. Therefore, FMS cases, as an element of Peacetime Engagement, enhance our warfighting responsiveness and capabilities.

Means (resources)

Although the FMS program is a pay-as-you-go program, it is not without costs. While the program does not use U.S. appropriated funds, the management of such a program requires expenditure of resources. According to the Department of State's report to the Congress, FMS administrative costs were $355 million dollars in fiscal year 1996. This equates to 5,657 man-years of effort.[54] The FMS cases include these expenses; however, most people supporting FMS have other duties as well. For example, the MLRS Project Office devotes extensive management effort to it numerous FMS cases. Government

specialists and subject matter experts participate in the cases and travel in support of FMS, but most must also perform their primary duties of U.S. weapon system management. This is particularly true for senior level managers who must balance their attention between the United States and FMS customers.

This is not to say that there are not certain advantages of a project office supporting FMS cases. Salary expenses of employees working on FMS cases can be offloaded to the case and paid for with foreign funds.[55] Of the 120 personnel working in the MLRS Project Office, approximately 12 are paid with FMS funds. This includes both core personnel assigned to the project as well as colocated matrix support personnel working in the project.[56] The talent pool employed by the project remains the same; however, it is possible to use U.S. appropriated funds for things other than salaries.

Recent guidance from the Deputy Director of Acquisition Career Management dictates that a project office may use no more than 5% of its total appropriated funds for overhead.[57] Alternatives for satisfying this constraint include reducing staff, services, and/or contract support, as well as finding ways to meet requirements with funding other than that appropriated by the United States[58] One method of complying with this guidance is to evaluate tasks performed by government employees outside the project office, particularly in general support engineering facilities, to determine if the work is benefiting FMS customers. If so, it is appropriate to share the costs of the work with the customer and use FMS funds.[59] The MLRS Project Office estimates that, in fiscal year 1997, an additional 30 man-years of work (approximately $3M) can be paid for with FMS funds under this approach.[60] Even though this concept has not been pursued in the past, it is a viable cost saving option. Currently, engineering work performed by the

MLRS prime contractor is partially funded with FMS funds. Extending the concept to work performed by government engineers is logical.[61]

Technological advantage is a national resource enjoyed by the United States. The FMS program reduces that advantage by allowing other nations to gain access to our technology. Ensuring our advantage over potential adversaries is a stated goal of the Clinton Arms Transfer Policy that may not be consistent with the sale of high technology equipment. The paragraph on risk further addresses this potential loss of technology.

Risks. As alluded to above, the FMS program is not without risks. Increasingly, other nations are being equipped with newer, more advanced equipment than that in the hands of U.S. forces. Other nations insist on equipment right off the production line that usually includes the latest enhancements and improvements. U.S. forces have existing equipment that can achieve the latest capabilities only through upgrades that they must purchase separately. Examples include the Block 52 F-16C aircraft purchased by South Korea, the M1A2 tank purchased by Kuwait and Saudi Arabia, and the AH-64 Apache purchased by several Gulf states.[62] The Extended Range MLRS rocket will be in the inventories of several nations prior to complete fielding to U.S. forces. Risk mitigation is possible by ensuring we sell only to the right nations; however, we must still consider the risk.

The sale of advanced equipment confronts us with the risk of losing the inherent technology that makes up that equipment. Many nations are more than capable of exploiting the technological advances and thus depriving our industry of future business. Shifting international alliances and governmental changes of nations equipped with U.S. equipment may present a risk. Nations like Iran, once equipped with the finest gear we

could produce, are no longer friendly to the United States, nor are they a good security risk. Iraq seized Hawk missile systems the United States sold to Kuwait, and, although Iraq did not employ them, they posed serious security concerns for our military planners.[63] Regional disputes may result in situations where warring nations are both equipped with U.S. equipment and technology. Loss of control of systems, as noted in these examples, is a risk assumed when entering into an FMS case.

When the United States enters into an FMS agreement with a friendly nation, the national reputation of the United States is on the line. The United States cannot afford to sell a system in which it does not have trust and confidence. In December 1991, the Under Secretary of Defense, Donald J. Yockey, signed a memorandum requesting that he be required to concur with any "sale of a major defense system which has not completed OT&E successfully."[64] What became known as the Yockey Memorandum was approved by the Under Secretary of Defense for Policy and implemented by the Defense Security Assistance Agency.[65] The memorandum established policy requiring certification of a system's ability to satisfy stated operational requirements prior to considering the system for sale to another nation. The policy intends to prevent our allies from being left, "in a difficult situation if we decide not to acquire a system because it failed to prove operational effectiveness and suitability."[66] There have been instances where the United States has agreed to sell new equipment to friendly nations prior to the completion of testing, but these cases are rare and require waivers of existing policy. Such an instance is the approval to sell Extended Range MLRS rockets to Israel, Greece, Bahrain, Norway, and Denmark.[67] Although the State Department granted approval, it required the MLRS Project Office to provide specific warnings to the purchasing nations advising them that

the system has not yet completed Operational Testing.[68] Thus these nations, as well as the United States, have assumed a degree of risk. They depend on the United States to deliver a system that will perform, while the United States puts its reputation on the line.

Summary

FMS is a flexible instrument that supports Peacetime Engagement and Preventive Defense and leaves other nations more secure. These nations are more likely to support free trade and democratic institutions, thereby enhancing U.S. interests. FMS enhances our security by enabling our allies to be more self sufficient militarily and, therefore, lessens the likelihood of direct U.S. forces being committed. Strong, stable friends contribute to regional stability and, therefore, to conflict prevention. FMS also ensures interoperability with friendly nations, thus creating a synergistic effect combining U.S. capabilities with that of other nations.

FMS directly supports Peacetime Engagement through person-to-person contacts established in the course of sales and continuing support. Sale of training presents opportunities for exposure to Americans and American ideals. FMS opens the door to other nations, thereby providing access and an opportunity to exert influence.

Preventive Defense relies on techniques to strengthen our capabilities and those of our friends, thus reducing the likelihood of conflict. FMS enhances our capabilities by enabling the United States to procure more, less expensive equipment than would otherwise be possible. FMS results in lower unit costs and a more capable industrial base. Cost reductions and the resulting savings enable the United States to support other strategic programs.

Increasingly, FMS is a mechanism for keeping U.S. industry afloat. The MLRS production facility is only one example of facilities being kept viable through FMS. Other major systems such as the M1A1 and M1A2 tanks and armament for the Apache helicopter have faced similar situations.[69] A viable industrial base is essential as a backdrop for implementing Peacetime Engagement and Preventive Defense. Unfortunately, American industry faces stiff competition from abroad and also faces a worldwide decline in defense spending.

Recommendations

Reliance on FMS as a key element of the Security Assistance component of the National Military Strategy is essential. The program is not without risks; however, sufficient safeguards are in place to minimize the risks. As the only program that does not utilize U.S. funding, it is vital that the program be retained. In this time of declining defense dollars, the United States should expand the FMS program and should accelerate the policy of directly marketing U.S. material. With a worldwide decline in defense spending, the United States needs to secure a larger percentage of a smaller overall market to ensure a viable industrial base. FMS provides an opportunity to do just that.

ENDNOTES

[1] William J. Perry, Annual Report to the President and the Congress (Washington: U.S. Government Printing Office, March 1996),vii.
[2] John M. Shalikashvili, National Military Strategy of the United States of America (Washington: U.S. Joint Chiefs of Staff, 1995), 8.
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