NAVAL POSTGRADUATE SCHOOL

MONTEREY, CALIFORNIA

MBA PROFESSIONAL REPORT

The Current Status Of
The United States
Foreign Military Sales (FMS) Program

By: Najmuddin Jaafar,
Abdulmonem A.R. Malallah, and
Mohamed A.R. Sharif
June 2004

Advisors: John E. Mutty
Bill R. Gates

Approved for public release; distribution is unlimited.

THIS PAGE INTENTIONALLY LEFT BLANK

REPORT DOCUMENTATION PAGE	*Form Approved OMB No. 0704-0188*

1. AGENCY USE ONLY *(Leave blank)*	**2. REPORT DATE** June 2004	**3. REPORT TYPE AND DATES COVERED** Master's Project

4. TITLE AND SUBTITLE: The Current Status Of The United States Foreign Military Sales (FMS) Program

5. FUNDING NUMBERS

6. AUTHOR(S) Najmuddin Jaafar, Abdulmonem A.R. Malallah and Mohamed A.R. Sharif

7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES)
Naval Postgraduate School
Monterey, CA 93943-5000

8. PERFORMING ORGANIZATION REPORT NUMBER

9. SPONSORING /MONITORING AGENCY NAME(S) AND ADDRESS(ES)
N/A

10. SPONSORING/MONITORING AGENCY REPORT NUMBER

11. SUPPLEMENTARY NOTES The views expressed in this thesis are those of the author and do not reflect the official policy or position of the Department of Defense or the U.S. Government.

12a. DISTRIBUTION / AVAILABILITY STATEMENT
Approved for public release; distribution is unlimited

12b. DISTRIBUTION CODE

13. ABSTRACT (maximum 200 words)
This research examines the status of the United States (U.S.) Foreign Military Sales (FMS) program within the context of the current ever-changing domestic and global security environment. Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis was used to analyze: the information gathered from the literature review; the importance of various players (domestic and international competitors, interests groups, decision makers); and the general environment (global security and economy environment that shape the National Security Strategy (NSS)). The study concludes that the U.S FMS program has evolved slowly because of the nature of the arms export business and the constraints imposed by the National Security Strategy. Recommendations for improving the FMS program are provided.

14. SUBJECT TERMS
Foreign Military Sales Program, Direct Commercial Sales, National Security Strategy, Foreign Military Financing, Cold War, Warsaw Pact, Department of Defense, Department of States, Foreign military assistance, Gulf Wars, the September 11 incidents, Market share, Decision Makers, Interest Groups, Major West European suppliers group, Security environment, Recipients, Security Assistance

15. NUMBER OF PAGES 127

16. PRICE CODE

17. SECURITY CLASSIFICATION OF REPORT	**18. SECURITY CLASSIFICATION OF THIS PAGE**	**19. SECURITY CLASSIFICATION OF ABSTRACT**	**20. LIMITATION OF ABSTRACT**
Unclassified	Unclassified	Unclassified	UL

NSN 7540-01-280-5500 Standard Form 298 (Rev. 2-89)
Prescribed by ANSI Std. 239-18

THIS PAGE INTENTIONALLY LEFT BLANK

Approved for public release; distribution is unlimited

THE CURRENT STATUS OF THE UNITED STATES FOREIGN MILITARY SALES (FMS) PROGRAM

Najmuddin Jaafar
Lieutenant Colonel, Malaysian Army
BEng., Malaysian University of Technology, 1995

Abdulmonem A.R. Malallah
Major, Bahrain Defense Force
CAA License, Brunel Technical College, UK, 1987

Mohamed A.R. Sharif
Major, Bahrain Defense Force
B.S., Bahrain University, 1986

Submitted in partial fulfillment of the
requirements for the degree of

MASTER OF BUSINESS ADMINISTRATION

from the

NAVAL POSTGRADUATE SCHOOL
June 2004

Authors: Najmuddin Jaafar

Abdulmonem A.R. Malallah

Mohamed A.R. Sharif

Approved by: John E. Mutty
Project Advisor

Bill R. Gates
Associate Advisor

Douglas A. Brook
Dean, Graduate School of
Business and Public Policy

THIS PAGE INTENTIONALLY LEFT BLANK

ABSTRACT

This research examines the status of the United States (U.S.) Foreign Military Sales (FMS) program within the context of the current ever-changing domestic and global security environment. Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis was used to analyze: the information gathered from the literature review; the importance of various players (domestic and international competitors, interests groups, decision-makers); and the general environment (global security and the economic environment that shape the National Security Strategy (NSS)). The study concludes that the U.S FMS program has evolved slowly because of the nature of the arms export business and the constraints imposed by the National Security Strategy. Recommendations for improving the FMS program are provided.

THIS PAGE INTENTIONALLY LEFT BLANK

TABLE OF CONTENTS

LIST OF ACRONYMS

AECA	Arms Export Control Act
DCS	Direct Commercial Sales
DISAM	Defense Institute of Security Assistance Management
DoD	Department of Defense
DoS	Department of State
DSCA	Defense Security Cooperation Agency
DTC	Defense Trade Controls
EDA	Excess Defense Articles
ESF	Economic Support Fund
FAA	Foreign Assistance Act
FMS	Foreign Military Sales
FMF	Foreign Military Financing
IAEA	International Atomic Energy Agency
IMET	International Military Education and Training
ITAR	International Traffic in Arms Regulations
LOA	Letter of Offer and Acceptance
NADRP	Non-proliferation Anti-terrorism De-mining and Related Programs
NASA	National Aeronautics and Space Administration
NATO	North Atlantic Treaty Organization
NSS	National Security Strategy
PD	Presidential Directive
SAMM	Security Assistance Management Manual
SWOT	Strengths, Weaknesses, Opportunities, Threats
US	United States
USG	United States Government

THIS PAGE INTENTIONALLY LEFT BLANK

LIST OF CHARTS

THIS PAGE INTENTIONALLY LEFT BLANK

LIST OF TABLES

THIS PAGE INTENTIONALLY LEFT BLANK

ACKNOWLEDGMENTS

We would like to thank our countries for giving us the opportunity to study at the Naval Postgraduate School. We also like to extend our sincere thanks and appreciations to Professor John Mutty for his continuous support, encouragement and accommodation in the completion of this project. We also like to thank Professor Bill Gates for agreeing to assist in overseeing this project. We also like to thank Associate Professor Forrest Smith from USAF DISAM-DSCA for his support on providing data.

We also like to thank our families, without their continuous support, the project could not have proceeded and been accomplished as scheduled.

We also treasure the company of each other and although at times involved in heated discussion, the ability to accommodate each other’s point of view and come to a compromise. This is a valuable piece of experience that we will surely miss.

THIS PAGE INTENTIONALLY LEFT BLANK

I. INTRODUCTION

A. GENERAL

This project examines the status of the United States (U.S.) Foreign Military Sales (FMS) within the context of the current, ever-changing domestic and global security environment. During the Cold War, the United States managed to gather influence through various policies of engagement and disengagement and through this influence has established relationships with countries around the globe.

The United States has made friends with most of Western Europe and the Third World. After the end of the Cold War, the United States achieved the status of sole super power in the world. As such it now has more influence on the friends that it has made during and after the Cold War.

Most of those friends and alliances do not possess the economic and technological ability to establish their own defense industry and as such defer to the United States and other weapon producing countries for arms supplies. These countries have been strengthened through the Foreign Military Financing (FMF) program, a U.S. program that allows selected countries to procure U.S. defense articles and products under grant or lease contracts as a part of U.S foreign policy. The demand for new weapons has been increasing due to the evolution of technology, but the United States Foreign Military Sales program has not been evolving at the same pace as the evolution of technology.

B. BACKGROUND

At present, the United States has built a strong relationship with most of the world due to economic, political and strategic interests. Most of these friends and allied countries have become users of the United States' weapon systems, which have positioned the United States as the leader of global arms exports. The downfall of the Soviet Union in 1989 created 15 independent states (Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan) and the Eastern European alliance of Albania, Bulgaria, Hungarian, German Democratic Republic, Polish, Rumanian, Czechoslovakia (which broke down into two independent states in 1993, Slovakia and the Czech Republic), Yugoslavia (which broke into five independent states between 1991 – 1992; Serbia and Montenegro, Croatia, Macedonia, Bosnia and Herzegovina, and Slovenia).

As more countries gained independence, the demand for weapons for their national security increased dramatically. With this demand for weapons, the arms export business has become more attractive, which, in turn, has drawn new entries to the industry. The Third World countries have become an attractive market. Due to the evolution in technology, countries began changing weapon systems to keep abreast. This strong global competition affects the United States arms industry and technology market.

The United States arms industry has always been the most sophisticated and technologically evolved industry with very competitive pricing in relation to the high technology and quality. The United States Government must provide the right atmosphere for the Defense Industry to keep this trend going.

The United States policy objectives are to maintain long-term military technological superiority and lower cost in its defense industry. The importance of attaining these objectives through Foreign Military Sales (FMS) cannot be overstated. The Foreign Military Sales (FMS) program is one factor that could support the U.S. defense industry in achieving these objectives by reconsidering its procedures and decision-making practices.

C. PROJECT OBJECTIVES

The objective of this project is to determine the current status of U.S. Foreign Military Sales (FMS) within the context of the current, ever-changing domestic and global security environment. It discusses and illustrates the mechanisms, processes and procedures of these programs and those relating to them, so that we can analyze their strengths and weaknesses in three areas in detail.

- First, we discuss the effect of the domestic bureaucratic arrangement involving the Department of Defense (DoD), local contractors, the Administration and Congress on Foreign Military Sales (FMS).
- Second, we identify the impact of the global arms competition on the U.S. Foreign Military Sales (FMS) program.

- Lastly, we identify the effect of the changes in Foreign Military Financing (FMF) and the results of successful Foreign Military Sales (FMS).

D. RESEARCH QUESTIONS

1. Primary Question

What is the current status of the United States Foreign Military Sales (FMS) program?

2. Secondary Questions

- What are the purposes of Foreign Military Sales and Foreign Military Financing (FMF) programs and were they achieved?
- What are the policies governing Foreign Military Sales and Foreign Military Financing (FMF) and what would be the effects of changing these policies?
- What would be the impact of changing the Foreign Military Financing (FMF) budget on the Foreign Military Sales (FMS) program?

E. METHODOLOGY

We conducted a literature search on Foreign Military Sales (FMS) and Foreign Military Financing (FMF) and collected data pertaining to the financial requirements, benefits to the United States, and disadvantages to the United States due to weaknesses and loss of customers. We used business analysis tools and models to study the situation and then recommended measures to be taken to enhance the Foreign Military Sales (FMS) program.

F. PROJECT OUTLINE

Chapter II follows this introduction and establishes the background of the United States arms export program illustrated by the Foreign Military Sales Program Overview. This chapter introduces the procedures, policies, mechanisms and the evolution of Foreign Military Sales (FMS) and Foreign Military Financing (FMF). It also identifies the key participants, mainly the stakeholders and decision-makers who are central to the successful completion of any Foreign Military Sales (FMS) and Foreign Military Financing (FMF) programs.

Chapter III analyzes the effects of the United States politics on its economy in the realm of Foreign Military Sales (FMS). It touches on the influence of the United States Foreign Policy/National Security Strategy on the Global Arms Competition. It also discusses, in general, the impact of the change in the security environment (e.g. the Cold War, the Iraq Wars, the September 11th incidents, etc.) on the arms export program and on the growth of the Foreign Military Financing (FMF) budget and its future trends prediction. The lack of precise annual sales data on Direct Commercial Sales (DCS) restricted our analysis of overall U.S arms exports. The available data in general were different between agencies and at times within the same agency. Only those from the most trusted sources were used in our analysis.

Chapter IV analyzes the current status of the United States Foreign Military Sales (FMS) program. It was conducted using the business model Strengths, Weaknesses, Opportunities and Threats (SWOT) on prominent factors that were identified in the findings.

Chapter V discusses the conclusions that can be made based on the analysis and provides recommendations for future policies on Foreign Military Sales (FMS) and Foreign Military Financing (FMF).

II. UNITED STATES FOREIGN MILITARY SALES PROGRAM OVERVIEW

Since WWII, security assistance patterns have reflected the shape and character of power relations among nations and states.

The United States has always maintained non-entanglement and non-commitment policies. However, its allies wanted to get the fullest United States commitment in the war. To demonstrate its concern while maintaining its uncommitted posture in WWII, President Franklin D. Roosevelt in Sept 1940, through his "Destroyers for Bases Deal", offered U.S. military equipment to the United Kingdom. Later in the same year, still uncommitted and maintaining the U.S. policy of isolation, he offered additional military equipment to Britain and its allies in his "Arsenal of Democracy" speech,

> *As planes and ships and guns and shells are produced, your Government, with its defense experts, can then determine how best to use them to defend this hemisphere. The decision as to how much shall be sent abroad and how much shall remain at home must be made on the basis of our overall military necessities………We have furnished the British great material support and we will furnish far more in the future……..There will be no "bottlenecks" in our determination to aid Great Britain. No dictator, no combination of dictators, will weaken that determination by threats of how they will construe that determination……... [Ref 1]*

Franklin D. Roosevelt pledged to supply and equip allies with the necessary war machinery, a program proposed to demonstrate U.S. concern and assistance in the war. In his "Four Freedoms" State of Union address to Congress in

January 1941, he defined the lend-lease program, which was based on the proposal. The Lend-Lease Act of 1941, which empowered the President, under terms he deemed proper, to sell, lend, lease and transfer material was subsequently authorized by Congress. Initially the act was used to aid Britain, the Commonwealth countries, and China. [Ref2: section3]

Following WWII, the era of the Cold War was characterized by global arms transfer by both the United States and the Soviet Union to corresponding friends and allies. Military dominance is the trademark of nations' survival and is sought to gain advantage over their adversaries. In the effort to gain dominance, developing countries began to realize the benefits of being both the customer and stakeholder. The United States, the Soviet Union, China, the United Kingdom and France began building their military industrial complexes to fulfill their domestic military needs as well as equipping friends and allies by providing mechanisms for arms transfer.

The commitment of the United States towards promoting peace and security has been evolving since WWII. This commitment was translated in its foreign policy and has developed into what currently is referred to as Foreign Military Assistance. Foreign Military Assistance is an integral part of the United States peacetime engagement strategy and directly contributes to American national security and foreign policy objectives. The principal components of the program are Foreign Military Sales (FMS), Foreign Military Financing (FMF), International Military Education and Training (IMET), and transfers of Excess Defense Articles (EDA).

Ongoing foreign military assistance efforts support the primary foreign policy goals of safeguarding American security, building American prosperity, and promoting American values. By enhancing the capabilities of its friends and allies to address conflicts, humanitarian crises, and natural disasters, it is less likely that American forces will be called upon to respond to regional problems. Strengthening deterrence, encouraging defense responsibility sharing among allies and friends, supporting U.S. readiness, and increasing interoperability between potential coalition partners through the transfer of defense equipment and training help security partners defend against aggression and strengthen their ability to fight alongside U.S. forces in coalition efforts. Therefore, when American involvement does become necessary, these programs help to ensure that foreign militaries can work more efficiently and effectively with ours rather than be hobbled by mismatched equipment, communications, and doctrine.

Foreign military assistance, particularly the IMET program, helps to promote the principles of democracy, respect for human rights, and the rule of law. In addition to making the world a safer place, the spread of democratic principles contributes to a political environment that is more conducive to the global economic development so critical to the nation's well-being. Thus, there is a genuine linkage between foreign military assistance programs and the day-to-day lives of Americans. [Ref 3: APPENDIX M]

Apart from addressing the many components of the Security Assistance program, this project specifically addresses the issue of Foreign Military Sales with the aim of establishing the current status of the United States among the world's weapon and arms producers.

A. BACKGROUND

The United States Foreign Military Sales (FMS) program is legislated by the Foreign Assistance Act (FAA) of 1961 and the Arms Export Control Act (AECA) of 1976.

The Foreign Assistance Act (FAA) of 1961 is the law of the land on the provision of economic and military assistance to foreign governments. This act establishes that the executive branch and Congress may give funds (either as a grant or as a loan) to foreign governments to purchase newly-manufactured U.S. arms. Generally, the United States provides this type of financing only to close, long-standing military allies, or to governments fighting the production and trafficking of drugs intended for the U.S. market.

The Arms Export Control Act (AECA) of 1976 is the primary law establishing procedures on sales and transfers of military equipment and related services. Created by congressional reformers in the aftermath of the Vietnam War and Watergate, this law stipulates the purposes for which weapons may be transferred (self-defense, internal security and United Nations operations only) and establishes a process by which the executive branch must give Congress advance notice of major sales.

The AECA establishes the rationale for FMS:

> The Congress recognizes . . . that the United States and other free and independent countries continue to have valid requirements for effective and mutually beneficial defense relationships . . .. Because of the growing cost and complexity of defense equipment, it is increasingly difficult and uneconomic for any country, particularly a developing country, to fill all of its legitimate defense requirements from its own design and production base. [Ref 4 - Section 1]

Foreign Military Sales (FMS) is the largest program element of the overall U.S. security assistance program. It is also the foundation for any U.S. government-sponsored sales of defense articles or services. The Foreign Military Sales Financing Program may be used to finance FMS agreements (United States of America Letter of Offer and Acceptance (LOA)) and, in some instances, to finance commercially licensed exports.

Foreign Military Sales (FMS) is a process through which eligible foreign governments and international organizations may purchase defense articles and services from the United States Government. The FMS government-to-government agreement is documented on a LOA. Foreign Military Sales (FMS) is accomplished in either FMS cash purchases where the purchaser pays in cash (U.S. Dollars) all associated costs, or Foreign Military Financing (FMF) where the U.S. Government grants/non-repayable and repayable loans are involved, these credit/loan arrangements are negotiated by the foreign government and the U.S. Government. In either situation the funds that are required to implement the LOA must be paid or transferred to the Foreign Military Sales (FMS) Trust Fund.

Only when the Foreign Military Sales (FMS) are consistent with the foreign policy interests of the United States will Congress approve such sales,

> It is the sense of the Congress that all such sales be approved only when they are consistent with the foreign policy interests of the United States, the purposes of the foreign assistance program of the United States as embodied in the Foreign Assistance Act of 1961, as amended . . . [Ref 4: Section 1]

The overall security assistance program is under the supervision and general direction of the U.S. Secretary of State. However, the Secretary of Defense is responsible for administering the Foreign Military Sales (FMS) program. In accordance with Section 42(d) of the AECA, the Secretary of Defense has primary responsibility for:

- Determining military end-item requirements
- Procuring military equipment in a manner which permits its integration with service programs
- Supervising the training of foreign military personnel
- Moving and delivering military end items
- Within the Department of Defense, performing any other functions with respect to sales and guarantees

There are several policies, many of which have their roots in the AECA, which govern the FMS program. Other policies are found in the Security Assistance Management

Manual (SAMM) or DoD directives/instructions. The ones listed herein are considered to be the more pertinent in providing a background to the Foreign Military Sales (FMS) financial management and billing system from the perspective of the FMS customer. [Ref 5: Chapter 1 pp.2-4]

- FMS Agreement
- Standardized Documentation
- Pricing
- Advance Collection
- Interest on Arrearages
- Country Administrative Self-Sufficiency
- DoD Management

B. PROBLEM DEFINITION

The advent of arms has been associated with the prevailing security environment ever since the start of mankind. States began equipping themselves to prepare for war and continued strengthening by virtue of perceived threats and aggression. The two “great” wars demonstrated the evolution of armaments and how nations’ resources were being geared in support of troops waging war. It was during the end of this turmoil that the world was presented with the invention of weaponry of mass destruction. The Cold War rivalry between the world’s two super powers was characterized by an arms race. The arsenals were differentiated by Soviet designs and the United States designs.

The United States, having the edge of economic superiority, was able to produce higher quality products and achieve superior technology as compared to Soviet products. The two super powers were joined by other developed nations that saw the arms trade business as having high potential for profits. France, the United Kingdom and Germany joined the race. After its breakup, the Soviet Union’s market share was divided among Russia, the newly formed states, and other manufacturers. Thus, new competitors emerged from the debris of the breakup. High level armament and superior technology require heavy investment for research and development. The U.S. was able to synchronize the endless needs for security with economic prosperity domestically. The U.S. saw the arms market as an avenue for it to achieve economies of scale. It enables the local defense industrial base to produce weapons and conduct research and development. It supports the industrial base by financing projects and consolidating external and internal arms requirements, thus achieving high quality and superior technology products at a much lower cost.

The United States has always been the leader of arms exporters, compared to other suppliers. The changes in the global security environment (Cold War, Gulf Wars and the September 11 incidents) have incited growing trends of arms exports. These changes in the security environment bear great impact on the U.S. FMS. For example, after the 1990 Gulf War, the U.S. FMS agreements went up to $31.109 Billion in 1993, compared to only $8.78 B in 1989 and $16.614 B in 1990. [Ref 6: Document No. 7]

The principal U.S. component of arms export is through Security Assistance components of Foreign Military Sales (FMS). Another significant means of export is through Direct Commercial Sales (DCS). DCS affects the FMS program, as both share the same pie. Foreign customers have essentially two choices available to them for acquiring U.S. defense items - Foreign Military Sales and Direct Commercial Sales. Under the current process, a firewall exists between them, creating an either/or proposition for the foreign buyer-purchase, either through Direct Commercial Sales or through FMS.

The Direct Commercial Sales route has obvious benefits, the greatest of which is a simplified process wherein the buyer deals directly with the defense firm. However, there are costs as well. First, the buyer is restricted to purchasing only those items available on the open commercial market. Second, and of most interest, the foreign buyer is often left to the devices of the defense firm. For example, an unexperienced foreign buyer may lack negotiation skills and knowledge of the product, specifications, and the U.S. contracting system. This situation may allow the defense firms to take advantage of these buyers to gain more profit. These types of incidents have been reported by the Subcommittee on Oversight and Investigations in the 103rd Congress Energy and Commerce Committee.

> In response to the evidence developed by this Subcommittee of widespread fraud in the Direct Commercial Sales from U.S. defense contractors to foreign countries…

Experienced foreign buyers can usually avoid pitfalls, but new players in the game of defense purchasing often fall prey. Therefore, and somewhat counter-intuitively, new recipients are increasingly demanding to go the way of Foreign Military Sales rather than Direct Commercial Sales.

There is another reason for favoring Foreign Military Sales (FMS). Not only does the recipient have the U.S. government acting as its purchasing agent, but it also benefits from the U.S. government-provided sustainment packages that often are linked to FMS purchases as an attempt to sweeten the deal. Table 1 simplifies the "pleasure and pain" typically associated with Foreign Military Sales and Direct Commercial Sales. [Ref 7: p.7]

TABLE 1
Differences between Foreign Military Sales (FMS) and Direct Commercial Sales (DCS)

	Positive aspects	**Negative aspects**
FMS	• Buyer receives automatic export license and access to U.S. government stock • Buyers can purchase major hardware package • Sale is usually less expensive	• Contract reconciliation/case closure is slow • Sale is slow if item is not in stock • FMS has many back orders • Buyer must deal with bureaucratic red tape
DCS	• Sale leaves "no dangling dollars" and has no federal acquisition surcharge • Sale is perceived as quicker	• Export license requirements take time • Buyers have no access to U.S. government stock • Buyers cannot purchase "total package"

The policy-makers (the Administration and the Congress) maintain a list of recipients of weapon systems through U.S. FMS programs that adhere to National Security Policies. This list is continuously updated (adding and freezing of countries) depending on contemporary relations and whether they are in line with U.S. interests. This is an extension of the Cold War mentality and, as such, it may drive customers and potential customers away from the U.S. For example, before 1979 when Iran was under the Shah, the relationship between Iran and U.S. was good, and Iran was included on the recipient list. However, after the takeover of the Islamic regime led by Ayatollah Khomeini, all relationships were severed, eliminating Iran's FMS eligibility. This change was seen as the creation of a virtual defensive envelope against a perceived threat from U.S. supplied arms that could be used against the U.S.

Other aspects that affect the FMS program are the intricacies within the labyrinth of the decision making process, the changing of administrations, and the personal interest of congressmen in support of particular interest groups. Further confusing the U.S. position on arms transfers is the Clinton Administration’s 1995 official arms sales policy pronouncement. This policy stated that in determining whether permission should be granted for a weapons manufacturer to sell to a foreign market, "the impact on U.S. industry and the defense industrial base" should be considered. The following year an advisory committee recommended that this policy be discontinued because "arms transfers made for economic reasons would undercut and perhaps even preclude restraint efforts." Nonetheless, the policy still stands. [Ref 8]

C. PARTICIPANTS

This part of the chapter discusses one of the most important aspects affecting the United States Foreign Military Sales (FMS) program at the strategic decision making level. FMS involves high stakes that can have a significant effect on the national interest (foreign policy), national defense, and the economy. Large sums of money, either from the United States Government or from the purchaser (foreign government), can be at stake.

The U.S. Constitution created the legislative branch (the Congress) and the executive branch (the Administration). The powers of one branch can be challenged by the other through a system of checks and balances. [Ref 11: Article I and II] This chapter discusses the responsibilities provided by the relevant laws, decision-making processes and the procedures for Foreign Military Sales (FMS) involving the President, the Congress, the Department of State (DoS), the Department of Defense (DoD), and other implementing agencies.

1. President's Responsibility

The President must submit to Congress the Annual Estimate and Justification for Proposed Arms Sales, known popularly as the "Javits Report", which includes:

- An Arms Sales Proposal listing all probable Foreign Military Sales (FMS) or Direct Commercial Sales (DCS) exports for the current calendar year that exceed:

    - $7 million for major weapons or weapons-related defense equipment; or
    - $25 million for other weapons or weapons-related defense equipment;
- An indication of which sales or licenses are most likely to be approved during the current year;
- An estimate of the total amount of FMS sales and DCS licenses expected to be made to each foreign country; and
- Other information about the status and rationale of FMS and DCS sales

Though not classified, the Javits Report has never been released to the public.

As part of a report submitted in accordance with section 655 of the Foreign Assistance Act of 1961 (P.L. 87-195, or the "FAA"), as amended, each February the President must list the dollar value and quantity of defense articles furnished under FMS in the previous fiscal year.

Section 36(a) of the AECA requires the President to submit a quarterly unclassified report to Congress that includes:

- A Listing of all LOAs for major defense equipment exceeding $1 million;
- A Listing of all LOAs accepted during the current fiscal year, together with the total value of all sales to each country that year;
- Projections of dollar amounts of expected FMS for the rest of the quarter and the rest of the year; and

- Other information about the status of FMS and DCS sales. [Ref.9: Chapter 9]

2. U.S. Congress' Responsibility

The Congress possesses and exercises the basic constitutional power to authorize the military assistance grant and sales programs. This authority fundamentally resides in Section 8, Article I of the Constitution, which assigns Congress the power: [Ref 10: p.22]

> [3] To regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes; [Ref 11: Section 8, Article I]

An ultimate goal of the United States continues to be a world which is free from the terrors of war and the dangers and burdens of armament, while simultaneously recognizing that the United States and the other free and independent countries continue to have valid requirements for effective and mutually beneficial defense relationships. Thus, in order to pursue this ultimate goal, Congress' main responsibility is to exercise legislative control and oversight mechanisms associated with the conduct of U.S. military assistance. Congress exercises a range of other more explicit oversight measures, which take the form of "constraint, restriction, and reports". [Ref 10:p.21]

3. Decision Making

a. Executive Branch

The President has delegated most aspects of decision- making regarding FMS to the State Department. Within the State Department the responsible agency is the Office of Defense Trade Controls (DTC). This agency controls the export and temporary import of defense articles and services by taking final action on license applications and other requests for approval for defense trade exports and retransfers, and handling matters related to defense trade compliance, enforcement and reporting.
The responsibilities of DTC include:

- Maintaining the Register of US legal entities entitled to manufacture and/or trade in munitions;
- Issuing licenses;
- Notifying Congress of export cases of particular military significance or crossing certain thresholds specified in legislation;
- Coordinating with other government agencies to ensure compliance with the AECA and ITAR;
- Providing education, training and guidance to the US defense industry on compliance with AECA and ITAR;
- Providing education, training and guidance to foreign countries that request assistance in establishing export control systems. [Ref 12]

b. Decision Making Process

DTC only considers license applications from legal entities (firms or individuals) on the Registration List that it maintains. DTC makes a case-by-case evaluation of valid license applications. There is not a country/item matrix that dictates approval or denial of any given application.

To assist in evaluation, DTC maintains a manual for licensing purposes, which is compiled at the country level. That is, there are guidelines to assist the evaluating officer for each country. The manual is compiled taking into account contributions from other government agencies related to their own field of expertise. For example, the responsible agency within the Department of Defense may provide information about items or capabilities, which would be of concern if transferred to a given country.

Where necessary, DTC also refers specific applications to other government agencies for review and comment. Depending on the nature of the proposed transfer, this review can include other offices within the State Department (such as country desks or specialists in arms control), the Department of Commerce, the Department of Defense, the Arms Control and Disarmament Agency and specialist agencies such as NASA.

The State Department has its own guidelines against which applications are judged. Other agencies are also encouraged to provide their views on what kinds of factors and criteria might require license denial. These factors and criteria are then used to help DTC decide which applications should be referred for inter-agency review.

After a decision has been made, there is an appeals procedure if the applicant feels that the wrong decision has been taken.

c. The Role of Congress

The AECA mandates congressional involvement in the decision making process for arms exports. The State Department notifies Congress of two types of arms export:

- All exports of defense articles or services sold under a contract worth $50 million or more;
- All exports of Major Defense Equipment sold under a contract in the amount of $14 million or more

To determine what should be reported, the State Department uses a definition of Major Defense Equipment developed in the Department of Defense.

The information submitted to Congress includes:

- The name of the buyer country or international organization;
- A description of the article or service including its acquisition cost;
- The name of the proposed recipient;
- The reasons why the transfer is necessary;
- The date on which the transfer is proposed to be made

Arms produced under a U.S. production license in countries other than the United States must also be reported to Congress if they meet these criteria, regardless of whether the United States or the country where manufacture takes place initiates the export.

Congress is notified at least 30 days before a license is approved or issued. In this 30-day period Congress may enact a joint resolution blocking the export or blocking the granting of the license. However, this is very rare. Although not required by law, at the beginning of each year the State Department submits a list of anticipated major arms deals for the forthcoming 12 months. [Ref 12]

D. SUMMARY

This Chapter establishes the fact that arms transfer is a business that will remain as a most attractive and profitable business for a long time as in dictated by history. It illustrates that U.S. arms transfers are used as an instrument of foreign policy based on U.S. security interests. Arms transfers develop into Foreign Military Sales (FMS) as part of the Arms Export Control Act. These interests are provided for by various Acts governing Foreign Military Sales (FMS) and decided upon by the President and his Administration as they react to changes in the foreign policy.

This chapter discussed Direct Commercial Sales (DCS), the recipients of Foreign Military Sales (FMS), the change in the security environment, other foreign arms suppliers, and the decision-makers as the factors that have direct effect on the status of the Foreign Military Sales (FMS) program.

Lastly, it also described the amount of control and over-sight present in the Foreign Military Sales (FMS) decision-making process. It is like a network of control as decisions interlink on their way through the many stakeholders. This network of control is sufficient to avoid unwanted transfers and sales of arms and diffusion of military technology contrary to foreign policy.

THIS PAGE INTENTIONALLY LEFT BLANK

III. GLOBAL ARMS COMPETITION

A. THE UNITED STATES FOREIGN POLICY/NATIONAL SECURITY STRATEGY (NSS) AS IT PERTAINS TO ARMS EXPORT

The U.S. National Security Strategy (NSS) and military structure are shaped by the interaction of a number of influences, many of which defy precise identification. The international environment is an important and constantly changing influence on US policy. U.S. strategy is largely a response to perceived and actual threats to American interests and objectives that exist in the international arena. The perception of international threats to U.S. core values and interests is the basis for the formulation and execution of the national security policy.

The policy is also heavily influenced by domestic politics. The internal environment determines the amount of effort that a society devotes to foreign and defense policy. The impact of domestic politics is seen most heavily in the budgetary process, but it is also felt in such areas as the industrial base and the manpower policy. Technology is another major variable in the interaction of influences that determine security policy. What is possible in American national security is in considerable part determined by the technological capabilities of both the United States and its adversaries. [Ref 12: pp.64-65] The influences that these have on the NSS of the U.S. have been significant. Since it started as an independent nation, the U.S. has developed a NSS that has gone from a policy of isolationism, to containment, to a policy of preemptive action. [Ref 12: pp. 66-88]

During the early stages of the Cold War, the Foreign Assistance Act of 1961 governed arms transfers. This act also served as the cornerstone for future weapons transfers. [Ref 13] Congressional sanctions of aid to Greece and Turkey marked the beginning of a long and enduring bipartisan Cold War foreign policy. This act provided the legal means for the United States to sell or transfer weapons to foreign governments that supported its national security objectives. It has its roots in the Truman Doctrine of containment. An extension to this doctrine, the Marshall Plan, was devised to help restore the war-shattered economies of Europe. [Ref 12 – pp. 68-69]

By 1969, President Nixon proposed an idea through the Nixon Doctrine that the United States would use arms transfers as a means to contain Soviet influence. The rationale was that arming friendly nations would allow them to defend themselves without having to risk American lives. As a means to restrain the presidential ability to transfer weapons to other nations, the 1976 Arms Export Control Act was passed. This Act gives the Congress veto power over arms sales and extends the notification period from 20 to 30 days from the day of submission to the Congress. [Ref 4]

In 1977, President Jimmy Carter issued Presidential Directive (PD)-13 which requires that arms transfers be directly linked to furthering US security interests and ties them very closely to the human rights records of the recipient governments. PD-13, which aimed to reverse the Nixon Doctrine, placed limits on the dollar amounts of the sales, prohibited the United States from introducing more sophisticated weapons into a region than those already present, and limited US production of weapons that were developed exclusively for export. Due to inconsistencies in applying PD-13, the Carter presidency met with great opposition even from within the ranks of his administration. To illustrate the inconsistencies of his arms policies, he restricted aircraft sales to Latin America but he proposed one of the largest aircraft sales deals to Israel, Saudi Arabia, and Egypt in the spring of 1978. [Ref 24: Carter, Iran and CATT, p. H009]

President Ronald Reagan framed weapons transfer as “an essential element of our global policy”. [Ref 14: p. h6010] That approach was considerably different from his predecessor. He subsequently reversed many of the limitations imposed by PD-13. The Reagan administration sought to rearm the United States and its allies and to support anticommunist insurgencies throughout the world. Consistent with this policy, the Reagan administration raised no objection to French sales of advanced missiles and aircraft, or Brazilian sales of multiple-launch rocket systems to Iraq. In a further effort to pull Baghdad out of the Soviet orbit, Reagan and later Bush authorized the sale to Iraq of $1.5 billion worth of sophisticated U.S. scientific and technical equipment-much of which has apparently been used in developing conventional, nuclear, and chemical weapons. Indeed, so eager was Washington to forge links with Iraq that Reagan and Bush continued to allow deliveries of such equipment even after it had become evident that this technology was being diverted for military purposes, and long after Iraq had used chemical weapons in attacks on Iran and its own Kurds. [Ref 14: p. h6010]

As a presidential candidate, Bill Clinton proposed to curb the sales of U.S. weaponry. Early in his presidency, he took some initiatives in that direction. In a February 1995 fact sheet, the White House cited "control, restraint and transparency" as critical elements of the Clinton administration's arms transfer policy. The following year, Congress passed H.R. 3121, a law that increased the level of openness around U.S. arms exports. Congress listed action on ten issues that could be taken that year to build on that progress and further assist the Clinton policy. The issues are as follows: [Ref 15]

- **Issue 1.** Eliminate the Defense Export Loan Guarantee Program
- **Issue 2.** Prohibit offsets on exports financed in whole or in part by U.S. military aid
- **Issue 3.** Repay taxpayers for public funds expended to research and develop weapons, which are exported abroad and consolidate responsibility for collecting those funds
- **Issue 4.** Amend Section 655 of the Foreign Assistance Act to include data on commercial sales deliveries and place the "655 Report" on-line
- **Issue 5.** Amend Sections 36(a) and (b) of the Arms Export Control Act (AECA) and Section 655 of the Foreign Assistance Act to require notification and reporting on offsets
- **Issue 6.** Hold hearings on arms export licensing, end-use monitoring programs, and conventional weapons proliferation
- **Issue 7.** Amend Sections 36(b) and (c) of the AECA to require congressional notification of all small arms and light weapons exports
- **Issue 8.** Amend Sections 502B and 581 of the Foreign Assistance Act and to include all military training programs, including those not primarily designed to train foreign soldiers
- **Issue 9.** Standardize U.S. arms export systems

- **Issue 10.** Ratify the OAS Convention against Illicit Manufacturing and Trafficking of Small Arms

Later, when he was faced with losing countless defense-related jobs, Clinton’s approach quickly changed, and was translated into the Administration’s five key policy goals as follows:

1) To ensure that our military forces can continue to enjoy technological advantages over potential adversaries;
2) To help allies and friends deter or defend themselves against aggression, while promoting interoperability with U.S. forces when combined operations are required;
3) To promote regional stability in areas critical to U.S. interests, while preventing proliferation of weapons of mass destruction and their missile delivery systems;
4) To promote peaceful conflict resolution and arms control, human rights, democratization and other U.S. foreign policy objectives;
5) To enhance the ability of the U.S. defense industrial base to meet U.S. defense requirements and maintain long-term military technological superiority at lower costs [Ref 16]

In 1996, 79 members of the U.S. House of Representatives sent President Clinton a letter suggesting that the 1977 ban on fighter aircraft contained in PD-13 was no longer appropriate under prevailing conditions. These ideas enjoyed bipartisan support by those who believed that these sales would actually be good for the region by claiming that other nations were more than willing to peddle their military wares in the Americas, so lifting the moratorium and subjecting proposed arms sales to the strict checks of the State Department would increase our influence over who buys arms in Latin America. [Ref 17]

From the period of Richard Nixon to Bill Clinton, it was an article of faith for executive branch policy makers that U.S. weapons exports were only to be made to responsible allies who used these systems for legitimate defensive purposes. It was documented that U.S. had supplied weapons to 50 ethic and territorial conflicts during that period. Contrary to the conventional wisdom in Washington, official U.S. government data on arms transfers provide overwhelming circumstantial evidence that U.S. supplied weaponry is at the center of many of today's most dangerous and intractable conflicts:

- From 1984 to 1994, parties to 45 conflicts took delivery of over $42 billion worth of U.S. weaponry; - Of the significant ethnic and territorial conflicts going on during 1993-94, 90% (45 out of 50) of them involved one or more parties that had received some U.S. weaponry or military technology in the period leading up to the conflict;
- In more than half of current conflicts (26 out of 50), the United States has been a significant arms supplier, accounting for at least 5% of the weapons delivered to one party to the dispute over a five year period;

- In more than one-third of all current conflicts (18 out of 50), the United States has been a major supplier to one party to the dispute, accounting for over 25% of all weapons imported by that participant in the most recent five year period;
- Despite the popular perception that it is U.S. policy to cease deliveries of weapons once a conflict is under way, as of the end of 1993 the United States was shipping military goods and services to more than half (26 out of 50) of the areas where there were wars being fought; [Ref 18]

In a number of volatile areas the United States was the primary supplier to governments that were involved in ongoing conflicts. In Turkey (76%), Spain (85%), Israel (99%), Morocco (26%), Egypt (61%), Chad (27%), Somalia (44%), Liberia (40%), Kenya (25%), Pakistan (44%), the Philippines (93%), Indonesia (38%), Guatemala (86%), Haiti (25%), Colombia (28%), Brazil (35%), and Mexico (77%), the United States was the primary supplier of imported weaponry in the most recent five year period (1990-1994) for which full data are available. [Ref 18]

Eager to reward and reinforce America’s allies in the war on terrorism, the current U.S. President, George W. Bush, has stepped up military assistance to allies, old and new. Restrictions on military aid and arms transfers to regimes involved in human rights abuses, support for terrorism, or nuclear proliferation (India and Pakistan) were lifted for a number of countries in exchange for their support in the administration’s war on terrorism. To enhance this development, on March 24, 2004, a bill was introduced to amend the Foreign Assistance Act of 1961 to require that only countries that have a democratic form of government and that support United States nonproliferation objectives may be designated as major non-NATO allies for purposes of that Act and the Arms Export Control Act. [Ref 19]

About $5 billion of the $25.4 billion International Affairs budget request for FY 2003 was officially designated for the war on terrorism. [Ref 20] This included:

- $3.4 billion for programs such as IMET, FMF, and ESF;
- $88 million for programs in Russia and other former Soviet Union states;
- $50 million for the IAEA; and
- $69 million for counter-terrorism programs, including training and equipment to help other countries fight global terror

The 2003 Economic Support Fund (ESF) budget request was $2.29 billion. Top recipients included: $600 million for Israel, $615 million for Egypt, $200 million for Pakistan, $60 million for Indonesia, and $25 million for India. The 2003 FMF budget request of $4.107 billion included $2.1 billion for Israel, $1.3 billion for Egypt, $20 million for the Philippines, $50 million for Pakistan, $50 million for India, and $98 million for Colombia. This year’s $80 million IMET budget request represents a 27.5%

increase over 2001. Top recipients include major allies in the war on terrorism: India, Pakistan, Uzbekistan, Georgia, Philippines, Jordan, Oman, and Yemen. [Ref 20]

The following funds were doled out (charity) as part of the emergency supplemental bills: $600 million in ESF for Pakistan; $40.5 million in economic and law enforcement assistance for Uzbekistan; $45 million in FMF for Turkey and Uzbekistan; $45.5 million for Non-proliferation Anti-terrorism De-mining and Related Programs (NADRP); $42.2 million for training and equipment for border security forces in Uzbekistan, Tajikistan, Turkmenistan, Turkey, Kyrgyzstan, Azerbaijan, and Kazakhstan; $108 million for a variety of counter-terrorism training programs and de-mining in Afghanistan. The FY 2002 Supplemental (Pl-107-206) included $665 million for ESF, $387 million for FMF, $110 million for Assistance for Independent States of the former Soviet Union, and $88 million for NADRP ($12 million of which will go to Indonesia). [Ref 20]

American interests and values have always been the fundamental considerations of U.S policy on who receives military assistance. Israel has been the top recipient since its foundation, as U.S support to it is essential to maintain the credibility of U.S commitments abroad. The intensity of the American commitment to Israel’s security is often more a function of U.S domestic politics than strategic reasoning. [Ref 12: p.401]

The U.S. interests in the East and Southeast Asia and its strategic goal to contain Communism, result in military aid to countries involved in the Vietnam War. For example, during that War programs were implemented to quickly transfer arms to nations involved in the war. Between 1965 and 1975, Korea, Laos, the Philippines, Thailand and

Vietnam received equipment and services valued at more than $18 Billion. [Ref 21: pp. 6-7]

Table 2:

Top Ten Recipients of Foreign Military Sales Contracts by Congressional District FY 1996

	State and largest city	**FMS Value and % national total**	**Export Item**
1	2nd CD Missouri (St. Louis)	$5.2 billion (39%)	McDonnell Douglas, F-15, F-18 fighters
2	26th CD Texas (Dallas-Fort Worth)	$1.2 billion (9%)	Lockheed Martin, F-16 fighter
3	23rd CD Florida West Palm Beach)	$ 625 million (5%)	United Technologies, engines for F-16, F-15
4	12th CD Texas (Fort Worth)	$ 417 million (3%)	Lockheed Martin, F-16 fighter
5	5th CD Arizona (Mesa)	$ 391 million (3%)	McDonnell Douglas, Apache helicopter
6	6th CD Arizona (Tucson)	$ 300 million (2%)	GM-Hughes, AMRAAM, TOW missiles
7	5th CD Massachusetts (Lawrence, Lowell)	$ 250 million (2%)	Raytheon, Patriot, AMRAAM missiles
8	6th CD Massachusetts (Lynn)	$ 242 million (2%)	General Electric, engines for F-16, F-18
9	2nd CD California (Chico, Redding)	$ 232 million (2%)	GM-Hughes
10	8th CD Florida (Orlando)	$ 214 million (2%)	Lockheed Martin, Hellfire missile
Total, Top Ten Districts $ 9.1 billion (70%)			

Source: Department of Defense contract data tapes, analyzed by Eagle Eye Services of Vienna, Virginia.

Interest groups have always been major influencing factors that affect the arms transfer policy, through pressure exerted on the decision-makers. The arms industries are excellent at providing rationale that ties together the U.S. economy, acquiring a technological edge, and maintaining and enhancing our own forces. That allows them to remain in business and to make profits. The States and congressional districts lobby for more sales of the arms that are produced in their districts because of the perceived widespread economic benefits. Table 2 shows the top ten recipients of FMS contracts by congressional district.

Specific country’s relations sometimes make the President give promises to provide military assistance that might be against the arms transfer policy as a gesture to promote future interest with that country. For example, in 1992, President Bush promised to normalize arms sales to Taiwan that could very well help them resist a naval blockade. [Ref 22]

B. FOREIGN MILITARY FINANCING (FMF) PROGRAM OVERVIEW

The Foreign Military Financing (FMF) program is a U.S. government program for financing arms exports through grants or loans for the acquisition of U.S. military articles, services, and training. It supports U.S. regional stability goals and enables U.S. friends and allies to improve their defense capabilities. Congress appropriates FMF funds in the International Affairs Budget, the Department of State allocates the funds for eligible friends and allies; and the Department of Defense executes the program. FMF helps countries meet their legitimate defense needs, promotes U.S. national security interests by strengthening coalitions with friends and allies, cements cooperative bilateral military relationships, and enhances interoperability with U.S. forces. Because FMF monies are used to purchase U.S. military equipment and training, FMF contributes to a strong U.S. defense industrial base, which benefits both America's armed forces and American workers. On average, 75% of all U.S. arms sales go via the FMS channel each year, with the rest going as commercial sales licensed by the State Department. Services, spares, and training are often more lucrative than the underlying system they are supporting. That explains why the United States can sell 72 F-15s to Saudi Arabia for $9 billion, even though the cost of the planes alone (at $40 million to $50 million each) would add up to "only" $3 billion to $3.5 billion. [Ref 23]

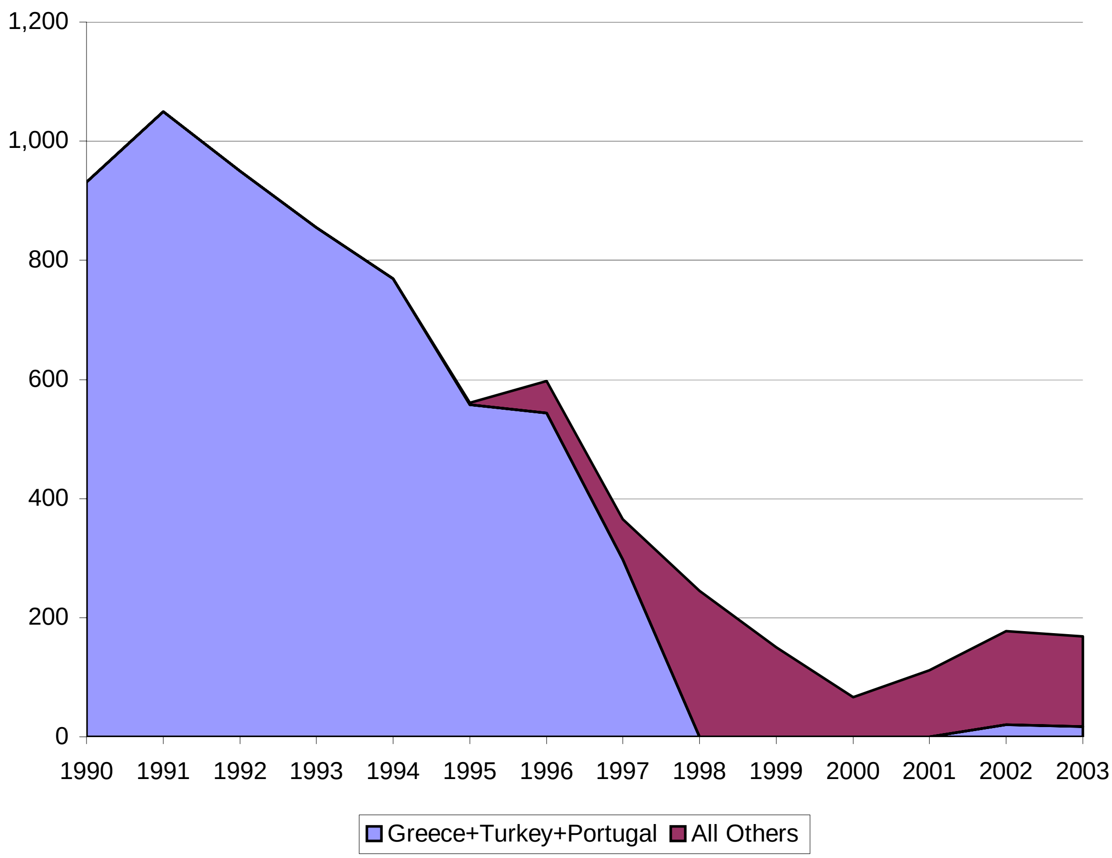
President George W. Bush's announcement in the National Security Strategy of the United States of America on Sep 17, 2002 stresses that Foreign aid is an essential part of US foreign policy:

> *To defeat this threat we must make use of every tool in our arsenal—military power, better homeland defenses, law enforcement, intelligence, and vigorous efforts to cut off terrorist financing. The war against terrorists of global reach is a global enterprise of uncertain duration. America will help nations that need our assistance in combating terror. And America will hold to account nations that are compromised by terror, including those who harbor terrorists— because the allies of terror are the enemies of civilization. The United States and countries cooperating with us must not allow the terrorists to develop new home bases. Together, we will seek to deny them sanctuary at every turn"…"Use our foreign aid to promote freedom and support those who struggle non-violently for it, ensuring that*

nations moving toward democracy are rewarded for the steps they take. [Ref 24: Introduction]

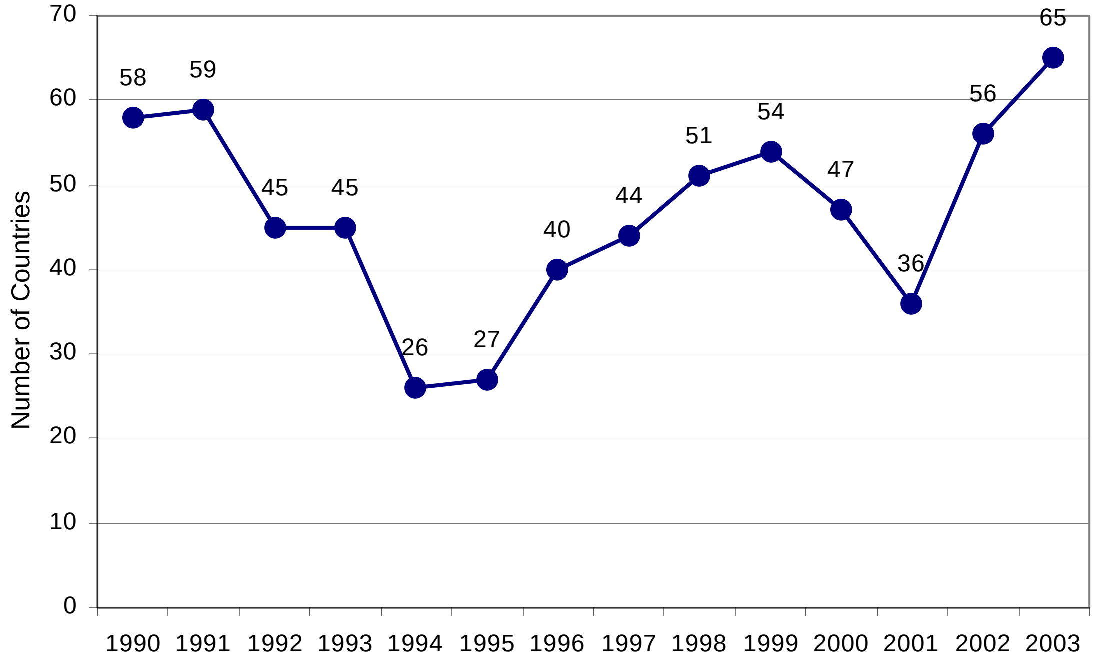
During the period 1990 to 2003, the total appropriation for FMF was $54.9 Billion with an average annual appropriation of $3.9 Billion. The maximum amount during the period was $4.727 Billion in 1990 and the minimum was $3.369 Billion in 1999 (Appendix A). The number of countries benefiting from the FMF program also varies (from 26 in 1995 to 56 in 2003) (Chart 2).

Chart 1:
Appropriated FMF for Europe 1990-2003
(In Millions of Dollars)



Source: Federation of American Scientists, U.S. Security Assistance Database Search, http://www.fas.org/asmp/profiles/aid_db.htm

Chart 2:
Number of Countries Benefiting from the FMF Program
1990-2003



Source: Federation of American Scientists, U.S. Security Assistance Database Search, http://www.fas.org/asmp/profiles/aid_db.htm

FMF shifts from and within regions depending on US interest in a particular period and the changing security environment. For example, in Europe, Greece, Turkey and Portugal were major recipients of FMF before 1990. By 1998, they were receiving no FMF, as the U.S interest in the area became a lesser priority. FMF was reinstated for Turkey in 2001 and 2002, due to the country's support of U.S. policy on the global war on terrorism. On the other hand, U.S. policy makers saw the opportunity that emerged from the breakup of the Soviet Union, especially those countries from the Balkans, and shifted FMF to these areas (Appendix

A). These countries started receiving FMF as early as 1995 and the trends are growing (Chart 1).

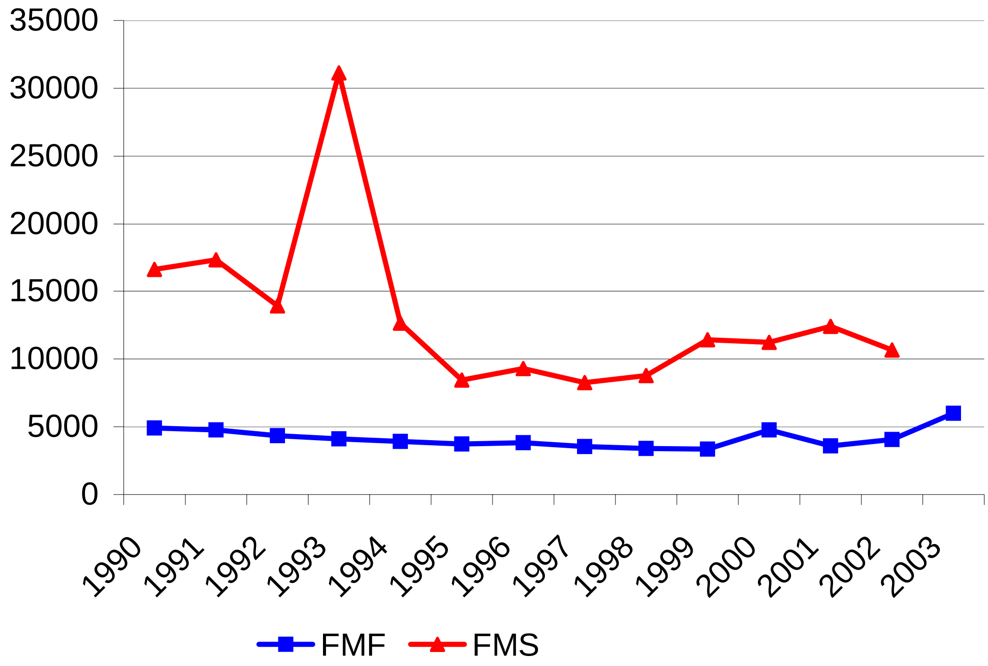
These shifting priorities also explain the increase in the number of FMF recipients (Chart 2). The U.S. interest in the Balkans was also associated with combating terrorism and as such, there was an increase in FMF appropriations to those countries in 2001 and 2002. [Ref 25]

After September 11, 2001, the number of foreign countries receiving FMF program funding was increased due to the political situation the United States was facing and the desperate need for support from allies to combat terrorism. The increase in the number of countries is in large part due to the new developing nations separated from the former Soviet Union (Table 3).

The trends of FMS and FMF in the period 1990 – 2003 are almost in consonant despite the spike in FMS in 1993 due to the 1st Iraqi war. FMS sales are almost double the FMF amount due to cash sales. The United States has revised the list of countries that are ineligible to receive U.S. weapons (Chart 2). Since Sept. 11, 2001, the United States has waived restrictions on arms or military assistance to Armenia, Azerbaijan, India, Pakistan, Tajikistan, and Yugoslavia.

Since Sept. 11, 2001, the United States has made billions of dollars worth of arms deals to strategic countries, including a $1.2 billion sale of fighter jets and missiles to Oman and nearly $400 million worth of missiles to Egypt. Countries identified as fighting terrorist groups are also set to receive large shipments of military aid, including $92 million in weapons to the Philippines. [Ref 26]

Chart 3:
FMS and FMF Trends 1990-2003
(In Millions of Dollars)



Source: Federation of American Scientists, U.S. Security Assistance Database Search, http://www.fas.org/asmp/profiles/aid_db.htm

The FMF program is a reflection of the US foreign policy. The Administration and the Congress must both agree based on information provided by various US agencies (mostly from DoS and DoD) that the military aid (FMF) is in parallel with the strategic goals of U.S. national security. Since the Camp David treaty between the Arabs and Israel in 1974, approximately 50% of the FMF financing has gone to Israel and 33% to Egypt. At the same time, FMF has provided steady, average annual funding of $3.9 B for the US defense industry (Table 3).

Table 3:

Top Ten Recipients Of FMF For The Period 1990 To 2003

Rank	Country	Total Appropriated FMF between 1990 and 2003 (Thousands of Dollars)	Percentage
1	Israel	26,932,260	49.05%
2	Egypt	18,194,410	33.14%
3	Turkey	3,313,400	6.04%
4	Greece	2,223,130	4.05%
5	Jordan	882,254	1.61%
6	Portugal	455,635	0.83%
7	Philippines	409,375	0.75%
8	Colombia	306,434	0.56%
9	Poland	266,062	0.48%
10	Pakistan	184,369	0.34%

Source: Federation of American Scientists, U.S. Security Assistance Database Search, http://www.fas.org/asmp/profiles/aid_db.htm

Of course there are both supporters and opponents of foreign aid within the Congress. Interest groups and activists on both sides affect the decision making of the sub-committees. That is why those countries benefiting from the FMF program have strong lobbyists to defend their case.

The true financial beneficiaries of FMF funding are not the recipient countries but the U.S. defense contractors. Although Israel is allowed to spend a small portion of its FMF funding on weapons procurement within Israel, most FMF program dollars go to support big ticket items like Egypt's purchase of Lockheed Martin F-16 fighter planes and General Dynamics M-1 tanks or Israel's import of McDonnell Douglas F-15 fighters. In these instances, the FMF program is simply a roundabout way of funneling money from U.S. taxpayers into the coffers of major arms exporting firms. In many cases, the funds never leave the United States, but are held in the Pentagon's Foreign Military Sales trust fund and issued to U.S. companies as defense contracts as their work on a given foreign order proceeds. [Ref 23]

Military assistance programs reflect increasing congressional involvement in the direction and details of U.S. foreign policy through its control of the foreign-operations budget. When the executive and legislative branches agree on the objectives and the concepts for using FMF as an instrument of policy, proactive assistance tends to take place and affects fewer countries at lower levels of funding (Appendix A). Many foreign governments, aware of Congress's influential role, have begun to make their case strongly on Capitol Hill as well as to U.S. ambassadors. While there is some flexibility in this category of policy instruments, it is found in programs that are outside the formal Foreign Operations budget process: in Foreign Military Sales and, particularly, in Direct Commercial Sales--programs over which State and Defense can exercise more independent control. [Ref 27]

Foreign Military Financing (FMF) may be used to fund DCS, when approved on a case-by-case basis by the Defense Security Cooperation Agency (DSCA), for the purchase of defense articles, defense services, and design and construction services. However, as indicated in the financing agreement to which the USG and the foreign governments are parties, the USG is under no obligation to approve any specific DCS for FMF funding.

DCS financing comes under the review and scrutiny of the General Accounting Office, the DoD Inspector General, the Department of Justice, and the Congress. Revisions of the guidelines, over time, reflect DoD's effort to minimize vulnerability to waste, fraud, and abuse, and, where possible, maximize acquisition streamlining and reform principles. [Ref 28: p. 1]

C. THE GLOBAL ARMS COMPETITION OVERVIEW

This part of the project concentrates on the eight-year period from 1995 to 2002, which illustrates how global competition for conventional arms transfers has changed in the post-Cold War and post-1st Iraqi War years. Relationships between arms suppliers and recipients continue to evolve in response to changing political, military, and economic circumstances. Nonetheless, the developing world continues to be the primary focus of foreign arms sales activity by conventional weapons suppliers. During the period of 1995 to 2002, conventional arms transfer agreements to developing nations comprised two thirds of the value of all international arms transfer agreements, which makes them the most profitable marketplace. This is because they lack the industrial infrastructure and technology necessary for indigenous production, and desperately need to buy arms to defend themselves. Unlike developing nations, developed nations have the defense industrial infrastructure and technology necessary to build their own arms. They will not accept foreign products unless the offered products are clearly superior to anything their firms can provide, or when they do not produce those products.

1. Worldwide

The value of all arms transfer agreements worldwide in 2002 was nearly $29.2 billion. This is a decrease over 2001, and it was the second consecutive year that total arms agreements declined (Chart 4)(Table 4). The United States led in arms transfer agreements worldwide, making 45.5% of all agreements in 2002, up from 40.16% in 2001. Russia ranked second with 19.5% of these agreements globally, a nominal increase over 2001. Ukraine ranked third, its arms transfer agreements worldwide standing at 5.4% in 2002. The United States and Russia collectively made agreements in 2002 valued at nearly $19 billion, 65% of all international arms transfer agreements made by all suppliers. In the period between 1995-1998, developing world nations accounted for 68% of the value of all worldwide arms transfer agreements, and 64.6% for the period between 1999-2002 (Tables 4, 5,6, 7, and 8).

Due to limited financial resources, many developing nations have reduced their expenditures on weapons. This has made the competition more intense among major arms suppliers. Prospective arms purchasers with significant financial resources have been cautious in making major new weapons purchases under the unstable global economy. A number of developing nations have placed greater emphasis on upgrading existing weapons systems rather than new purchases and absorbing the major items previously purchased.

In protecting their own national military industrial bases, developed nations limited their own arms purchases from one another, except for joint production or development of specific weapons systems. Several arms supplying nations began restructuring and consolidating their defense industries due to competitive pressures (e.g. multinational mergers, joint ventures, specialized niche markets) as a result of the changing dynamics of the international arms marketplace.

Many weapons exporting nations have focused their sales efforts on nations and regions where they have distinct competitive advantages due to longstanding political and military relationships. Financing and/or offset arrangements became key considerations in securing contracts with new and prospective members of NATO due to the lack of significant financial resources. Competition has been strong between U.S. and European companies in search of these orders, as they have the potential to partially compensate for sales losses elsewhere. [Ref 29: pp. 3-5]

Various nations in the developed world wish to replace older military equipment. Yet the developing world as a whole has barely recovered from the Asian financial crisis of the late 1990’s and the notable fluctuations in the price of crude oil in the last few years. Traditionally high profile weapons purchasers in Asia and the Near East were greatly affected by these events and consequently have been cautious in seeking new arms agreements. For example, “Thailand ordered $600 million worth of Boeing F/A-18 fighters and then determined it could not afford them when the country's economy faltered in 1997. The Thai government grew reluctant to buy the F/A-18s and began looking for a way to cancel the purchase”. [Ref 30]

Less affluent Developing nations (Latin American, and to a lesser extent African states) depend on financing credits and favorable payment schedules from suppliers to make major arms purchases.

2. Developing Nations

The value of all arms transfer *agreements* with developing nations in 2002 was $17.7 billion, a notable increase over the $16.2 billion total in 2001. However, this was the second lowest annual total, in real terms, during the 8-year period from 1995 - 2002. From 1999-2002, the United States, ranking first, made 41.8% of such agreements. Russia, the second leading supplier during this period, made 25.5% of such agreements. France, the third leading supplier, made 5.3% of such agreements. In the earlier period (1995-1998) the United States, ranked first, made 28%; Russia made 22.7%; France made over 14.4% (Chart 4)(Tables 5, 9).

The United States has ranked either first or second nearly every year in the eight-year period, and first every year since 1998. France has been a strong competitor for the lead in arms transfer agreements with developing nations, ranking first in 1997 and second in 1998, while Russia ranked first in 1995, and second in 1996 and 1999-2002.

Arms producers in the level below the United States, Russia and France, such as China, other European, and non-European producers, have been participants in the arms trade with developing nations at a much lower level. These suppliers are, however, capable of making an occasional arms deal of a significant nature. However, most of their annual arms transfer agreement values during 1995-2002 are relatively low, and are based upon smaller transactions of generally less sophisticated equipment (Tables 9, 10, 11). [Ref 29: pp. 5-6]

The competition for arms transfers to developing nations in the period of 1995 – 2002 was mainly between U.S., Russia, and China. For ease of analysis, we grouped the major West European suppliers (France, United Kingdom, Germany, and Italy).

a. United States

The United States arms transfer agreements with developing nations rose notably from $6.7 billion (41%) in 2001 to $8.6 billion (48.6%) in 2002 (Charts 4, 5 and 6)(Tables 5, 9, 12). The value in 2002 was primarily attributable to major purchases by key U.S. clients in the Near East and Asia. These arms agreement totals also reflect:

- Continuation of well-established defense support arrangements with purchasers worldwide
- Highly visible sales of major weapons systems
- Continuation of existing system upgrades
- Agreements for a wide variety of spare parts, ammunition, ordnance, training, and support services

The major weapon systems agreements the United States concluded in 2002 with developing countries include AH-64 Apache helicopters, F-16 C/D combat fighter aircraft, and Aegis combat systems for KDX-3 destroyers. The United States also concluded agreements to sell various missile systems to clients in both the Near East and Asia. These agreements were for AIM 120C AMRAAM missiles, Harpoon missiles, Hellfire missiles, TOW-2A missiles, MK41 Vertical launch systems, SLAM land attack missiles, AGM-84L Harpoon missiles, and AIM-9X Sidewinder missiles. Due to security reasons and the requirement to always maintain a technological edge over its adversaries, the U.S. only releases systems that are inferior to those that are used by its own forces. This policy affects sales as potential buyers turn to European suppliers, who produce systems as good as and sometimes better than those exported by the United States. [Ref 31: p 5]

In 1999, the Deputy Secretary of Defense, John J. Hamre, highlighted additional evidence that U.S is losing business to other competitors. [Ref 32]

> To that end, the FMS fee has been reduced from 3 percent to 2.5 percent of the value of the sale. Although this makes U.S. products more competitive in the global market, U.S. companies continue to lose business to foreign competitors because the remaining FMS administration fees add to the price of U.S. goods.

To make a sale, U.S. defense companies offer a variety of incentives, ranging from offsets to licensed production and joint ventures that permit a high degree of local content. Increasingly, U.S. defense executives face difficult decisions concerning how much proprietary technology to share with foreign partners. [Ref 31: p 47]

It must be emphasized that, apart from the weapons themselves, the sale of munitions, upgrades to existing systems, spare parts, training and support services to developing nations worldwide account for a very substantial portion of total value of U.S. arms transfer agreements. This fact reflects the large number of countries in the developing and developed world that have acquired and continue to utilize a wide range of American weapons systems, and have a continuing requirement to support and modify, as well as replace, these systems. [Ref 29: pp. 6]

b. Russia

Russia’s arms transfer agreements with developing nations declined from $5.4 billion (33.3%) in 2001 to $5 billion (28.3%) in 2002. Russia ranked second in the period 1999 – 2002 (Charts 4, 5 and 6), (Tables 5,9,11, 12). Russia inherited its clients from the Soviet Union, which accorded them with generous military assistance grants and deep discounts on arms purchases. Most of these traditional clients are less affluent developing nations. The arms sales aided Russia, which wanted to sell weapons as a means of obtaining hard currency. An effort has been made by the Russian leaders to promote procurement of Russian weapons by providing flexible and creative financing, payment options and agreements to license production of its weapons systems. These agreements were used to secure sales with India and China, which accounted for a large portion of Russia’s arms transfer agreement totals.

Russia faces significant difficulties in increasing sales to a wider customer base, because most potential cash-paying buyers have been longstanding customers of major Western suppliers. These buyers have proven reluctant to replace their weapons inventories with unfamiliar non-Western ones, when newer versions of existing equipment are readily available from their traditional Western suppliers. Some potential arms customers are uncertain whether Russian defense industries can be reliable suppliers of the spare parts and support services necessary to maintain the weapons systems they sell abroad. In addition, Russia has not shown any significant research and development programs for new or enhanced advanced weapons or systems.

Russia has had a wide variety of weaponry to sell, from the most basic to the highly sophisticated. Various developing countries still view Russia as a potential source for their military equipment. In late 2000, Russia pursued major arms sales with Iran, which was a primary purchaser of Russian armaments in the early 1990s. It should also be noted that Russia has had some success in expanding its customer base in Asia for combat fighter aircraft, to Malaysia and Indonesia. Similar aircraft contracts have been made with Algeria and Yemen.

Russia’s principal arms clients since 1994 have been India and China. Russia and India agreed to a long-range plan for procurement as well as coproduction of a number of advanced Russian weapons systems in 1999, 2000, and 2001. One example of these agreements was a deal in early 2001 for India’s procurement and licensed production of T-90 main battle tanks. A growing arms supplying relationship with China began to mature in the early to mid-1990s. In 1996, Russia sold Su-27 fighter aircraft to China, followed by a licensed production agreement, permitting the Chinese to coproduce the aircraft. Russia also sold China Sovremenny-class destroyers, with associated missile systems, Kilo submarines, Su-30 aircraft, and S-300 PMU-2 SAM (SA-10) systems. A variety of other contracts with China covered upgrades, spare parts, and support services associated with previously sold weapons systems. [Ref 29: pp. 7-8]

c. Major West European Suppliers

The major West European suppliers group registered a notable increase in their collective share of all arms transfer agreements with developing nations between 2001 and 2002. This group's share rose from 5.1% ($832 million) in 2001 to 11.9% ($2.1 billion) in 2002. The Group held a 19.1% share of all arms transfer agreements with developing nations during the period 1995 - 2002.

During the period following the 1st Iraqi war, the group generally maintained a notable share of arms transfer agreements. This share declined to 12.5% ($11.3 billion) in the period between 1999-2002. Individual suppliers within the group have had notable years for arms agreements, especially France in 1995 and 1997 ($3 billion and $5 billion; respectively). The United Kingdom also had a large agreement year in 1996 ($3.2 billion), and at least $1 billion in 1997, 1998, and 1999. Germany concluded arms agreements totaling at least $1 billion in 1998, 1999, and 2000, with its highest total at $2.2 billion in 1999. For each of these three nations, large agreement totals in one year have usually reflected a very large arms contract with one or more major purchasers in that particular year (Charts 5 and 6)(Tables 9, 12).

The group has traditionally had their competitive position in weapons exports augmented by strong government marketing support for foreign arms sales. Most members of the group have adopted policies to collaborate with other nations to share development costs, and to export top-of-the-line weapons systems to reach affordable economies of scales because of the high costs of developing new weapons. As mentioned by French Minister of Defense, Pierre Joxe, 1991, [Ref 33: p. A17]

> *If you want to be able to afford to make your own weapons, you have to be able to sell them.*

The group was very successful against the U.S. and Russia in securing contracts with developing nations, but individually they faced great difficulties in securing and sustaining large new contracts due to the high demand for U.S. weapons. Because of those difficulties, some producers in the group phased out production of certain weapon systems and sought joint production ventures with other European or American suppliers to share future profits. An example of this is projects such as the Eurofighter and the U.S.-British Joint Strike fighter. [Ref 29: pp. 9-10]

Highly capable defense firms, moreover, seek strategic business alliances and subcontracting relationships with American companies as a means of penetrating the U.S. market, which is by far the largest and most lucrative in the world. Some have acquired U.S. defense firms; more often, they demand a share of the production of U.S.

weapons systems and transfer of manufacturing technology as conditions for importing U.S. equipment. [Ref 31: p. 13]

d. China

China’s importance as an arms supplier to certain developing nations in the early 1980s began primarily through arms agreements with both combatants in the Iran-Iraq War. From 1995 through 2002, the value of China’s arms transfer agreements with developing nations averaged about $1 billion annually. The value of China’s arms transfer agreements with developing nations peaked in 1999 at $2.7 billion. Its sales figures that year reflected several smaller valued weapons deals in Asia, Africa, and the Near East, rather than one or two especially large sales of major weapons systems. In 2002, China’s arms transfer agreements total was $300 million, its second lowest total over the entire 1995-2002 period. (Chart 6)(Tables 9, 11, 13)

Since much of Chinese military equipment is less advanced and sophisticated than other weaponry available in the market, few clients with financial resources have sought to purchase it. China did sell Silkworm anti-ship missiles to Iran, as well as other less advanced conventional weapons. China has sold surface-to-surface missiles to Pakistan, and missile technology to Iran and North Korea, long-standing clients. [Ref 29: pp. 8-9]

D. The Impact of the Cold War, the Iraq Wars, and the September 11th Incidents on the Arms Export Program

1. The Cold War

The Cold War was characterized by an arms race reflecting a bipolar world in which both superpowers dominated the lion's share of the global arms market. Although the two superpowers did not directly engage each one another, they were in fact demonstrating their powers through proxy wars, building up their military strengths and providing arms and aid to their allies. Concentrating on the last five years before the end of the Cold War (1984 – 1988) the Russians were still leading global arms exports, capturing an average of 34.5% of the global arms market share. While the nearest competitor, the U.S., managed to capture only 23.1% of the market share. One of the reasons for the large Russian market share, apart from gaining market share from their traditional allies, was due to large sales to Iran and Iraq during their war. Iraq enjoyed much wider support, both from Arab and Western nations; the Soviet Union was its largest supplier of arms. [Ref 34: 2001- Iran-Iraq War] In 1987, the Soviet Union providing more than U.S. $8 billion worth of weapons since 1980, was Iraq's most important arms supplier. In its 1987 annual study, "Soviet Military Power", the United States Department of Defense, while maintaining official neutrality in the Iran-Iraq War, stated that the Soviet Union had provided extensive military assistance to Iraq, and at the same time, continued its efforts to gain leverage on Iran. In early 1987, Moscow delivered a squadron of twenty-four MiG-29 Fulcrums to Baghdad. [Ref 35: Arms from the Soviet Union]

The end of the Cold War (1988) radically transformed the structure of international relations and the environment for international defense business. The threat of Soviet expansionism is greatly reduced, the possibility of a Warsaw Pact invasion of Western Europe has been eliminated, and the Soviet Union appears to be following a policy of restraint in arms exports. Accordingly, the defense equipment requirements of the United States and its European Allies are diminishing significantly. Moreover, a principal reason why the United States transferred weapons and defense technology to allied and friendly nations, to counter Communist influence, has been reduced. [Ref 36: pp. 3-4]

The market share for both the U.S and Russia was a significant 50% - 70% from the end of the Cold War until 2002. The Russian's share had always been twice the U.S share before the end of the Cold War. The major impact of the end of the Cold War on the arms export industry was a decline in global arms exports, from $64.4 Billion in 1988 to $45.7 in 1990 (chart 7), and $37.74 Billion in 1991 (Chart 9). In 1988, the combined U.S and Russian market share was 47.3%, equally shared between the two. The U.S. began surpassing Russia as the leader in arms export in 1989, with 32.8% and 27.2% for Russia (Chart 8). Just before the 1st Iraqi War (Iraq invasion of Kuwait), U.S market share went up to 48.13%, leaving Russia trailing at 18.7% (Chart 10).

2. The 1st Iraqi War

The 1st Iraqi War was the first major conflict involving the U.S. after the Cold War. The U.S. managed to garner support from the “coalition of the willing”, mainly from the Gulf States and Middle East countries supporting the U.S. effort to liberate Kuwait. It was also in the U.S interest to allow countries that supported the U.S. in the war to purchase U.S. weapons and provide them aid in preparation for defense against any Iraq aggression. Secretary of Defense William Cohen explained that he had to sell friendly Gulf States whatever they requested because otherwise they "would take it as an insult" and seek another supplier. Meanwhile, some in the Arab media allege that the U.S. was "exploiting the issue of the so-called Iraq-Iran danger" to sell more arms in the Gulf. [Ref 37]

After the War of 1990/91, there were high hopes that a few blockbuster arms deals could mark the beginning of a sharp upswing in weapons exports to Asia and the Middle East that would ease the pain caused by Pentagon procurement cutbacks. In September 1990, shortly after the first U.S. troops had been deployed to Saudi Arabia, the Bush Administration announced a record $20 billion arms package for Saudi Arabia that included everything from F-15 fighter planes and Patriot missiles to M-1 tanks and thousands of military trucks. One Congressional analyst described the deal as "the defense industry relief act of 1990”.

During the last eight weeks of the 1992 presidential campaign, President Bush announced a $6 billion sale of 150 F-16s to Taiwan, a $9 billion sale of 72 F-15s to Saudi Arabia, and a $3 billion sale of M-1 tanks to Kuwait. To underscore their economic benefits, the two fighter plane deals were announced at campaign rallies in Fort Worth, Texas and St. Louis, Missouri, the production sites for the F-16 and F-15, respectively. Greeted by defense industry workers who held aloft banners reading "Jobs for America -- Thanks Mr. President," Bush, in the home stretch of his campaign for a second term, cited the sales as his way of showing that "I care about American jobs”.

In the short term, this renewed quest for overseas markets yielded impressive results. As one arms industry lobbyist put it, the marketing theme for U.S. companies during this period was "how our weapons won the Gulf War". Current realities dashed the optimistic post-Gulf War expectations regarding the ability of arms sales to bolster the U.S. defense industry and enhance U.S. economic performance. [Ref 38: p.15 and p. 57] Formerly cash rich customers like Saudi Arabia have moderated their arms purchases with the downturn in oil prices (since reversed), the accumulated costs of the Gulf War, and the budget deficits from the post-Gulf war arms buying spree. [Ref 39]

After the steady downward trend of the global arms agreement that began in 1988 and immediately after the Iraqi invasion of Kuwait, global arms sales rose from $37.7 Billion in 1991 to $44.2 Billion and $43.6 Billion in 1992 and 1993, respectively. This significant increase in the global arms market was primarily due to U.S. arms sales immediate by after the war. This is an increase of approximately 8% in market share, compared to 1991. While U.S sales increased, all other nations’ sales were almost constant during this period (Charts 9 and 10).

After its brief upsurge in 1993, the international arms market resumed its steady downward trend. The 1995 arms export policy of President Clinton that boosted the share to 35.5% in 1996, a level that remained almost steady until 1999 (Charts 10 and 12). [Ref 40]

3. September 11th and Global War on Terrorism

After the September 11th incidents, the National Security Strategy changed to preemptive action, whereby the U.S will strike first against any potential enemy that it deems a threat to the U.S. security. The U.S. war against terrorism requires assistance from nations all over the world. As such, President Bush announced that nations are either "with us or against us". Although global arms exports do not exhibit any significant changes in market trends, countries that are directly assisting the U.S in Afghanistan (Pakistan) and 2nd Iraqi War, and those giving political support (Philippines, Indonesia), were rewarded handsomely through military aid (EDA), ESF, FMF and procuring U.S. arms and weapons through FMS and DCS. This is a departure from prior U.S. policy. Sixteen out of eighteen nations have human rights problems, were non-democratic, or were suppressing their own people. The sales agreements for the U.S. rose from $12 Billion (40.16%) in 2001 to $13.3 Billion (45.5%)in 2002 as a result of the war on terrorism (Charts 11 and 12). [Ref 41]

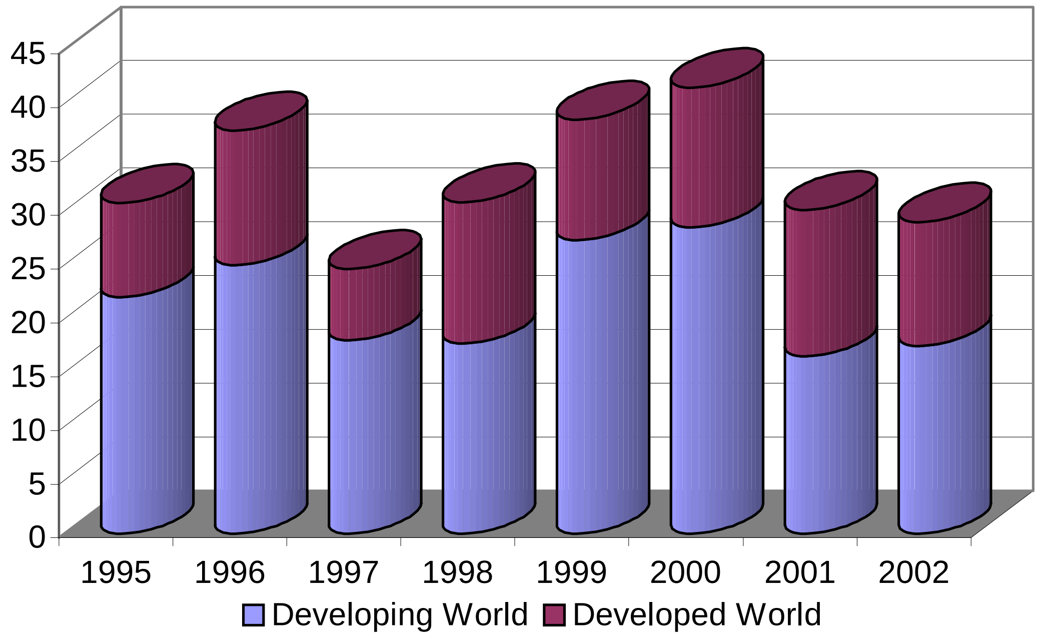
E. SUMMARY

U.S. interests that are translated into Foreign Policy and executed through NSS, remain the cornerstone of U.S. Security Assistance, i.e. arms transfers and arms exports vis-à-vis FMS and DCS funded through FMF and cash sales. The Congress plays an important role in exercising restraint and oversight for all arms exports. Individual Congressional Districts and domestic Arms producers influence these congress decisions.

The Security Assistance program is responding to the changing global security environment, which has been characterized by uncertainties and potential regional instability, namely the end of the Cold War, the Iraqi wars, the September 11th incident and the global war on terrorism. The changing security concerns have led to changes in appropriations for FMF, which have shifted within and from region to region, increasing the number of recipient countries according to the contemporary security situation.

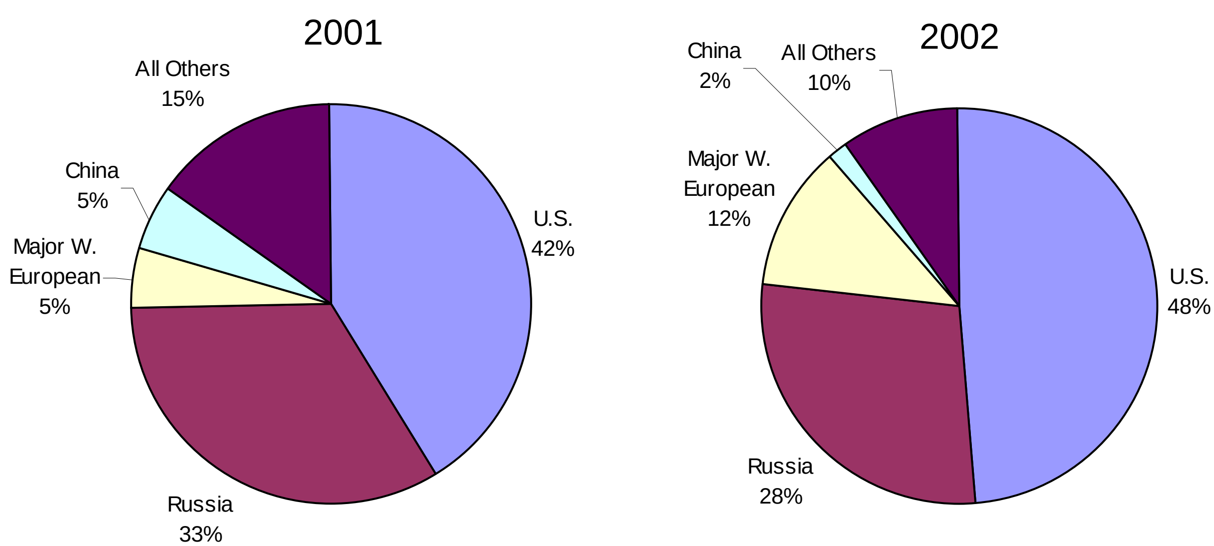
The new trends in arms exports show an increasing influence of major European defense firms that are collaborating multilaterally.

Chart 4:
Arms Transfer Agreements Worldwide, 1995-2002
Developed and Developing Worlds Compared



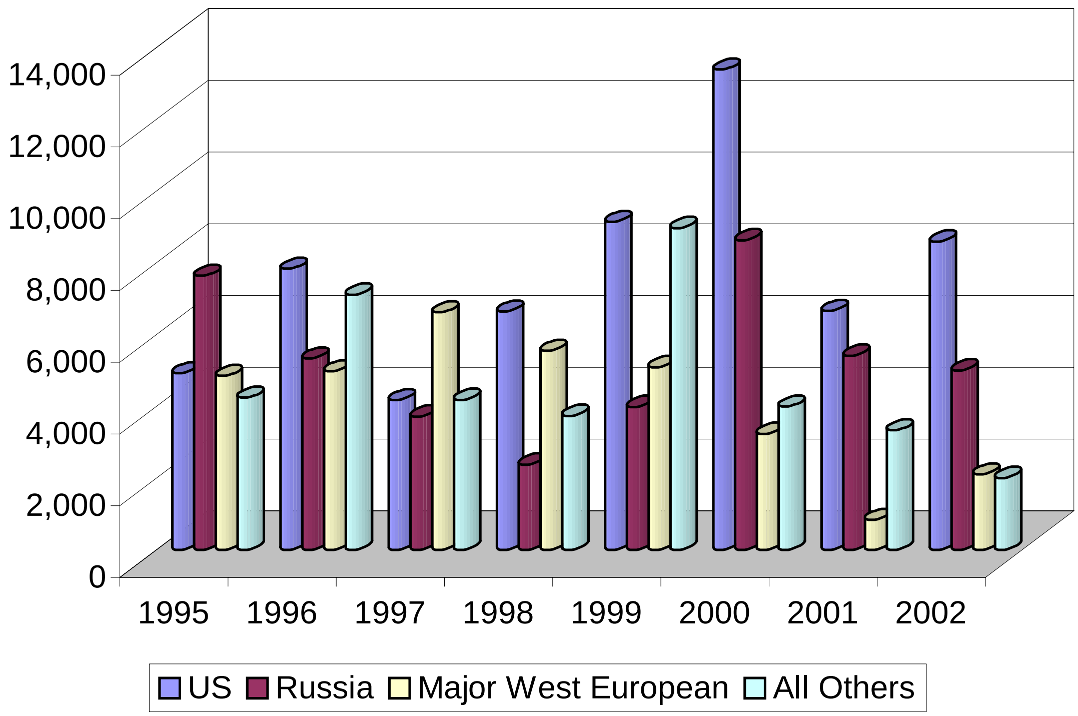
Source: CRS Report for Congress, Conventional Arms Transfers to Developing Nations, 1995-2002, September 22, 2002

Chart 5:
Arms Transfer Agreements With Developing Nations
(Supplier percentage of value)



Source: CRS Report for Congress, Conventional Arms Transfers to Developing Nations, 1995-2002, September 22, 2002

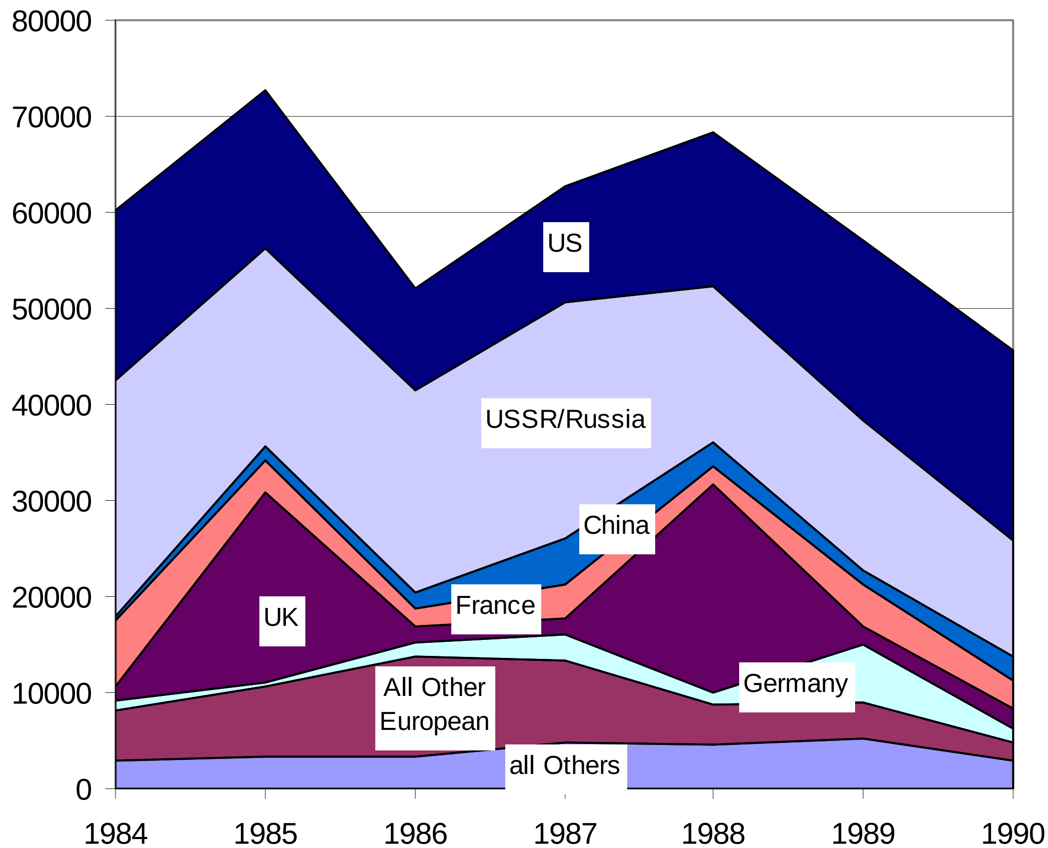
Chart 6:
Arms Transfer Agreements With Developing Nations by Major Supplier, 1995-2002
(Billions of constant 2002 dollars)



	1995	1996	1997	1998	1999	2000	2001	2002
US	4,920	7,830	4,170	6,638	9,134	13,380	6,655	8,587
Russia	7,631	5,331	3,714	2,376	3,982	8,624	5,407	5,000
Major West European	4,845	4,975	6,616	5,545	5,088	3,234	832	2,100
All Others	4,239	7,108	4,179	3,734	8,960	3,989	3,328	2,000

Source: CRS Report for Congress, Conventional Arms Transfers to Developing Nations, 1995-2002, September 22, 2002

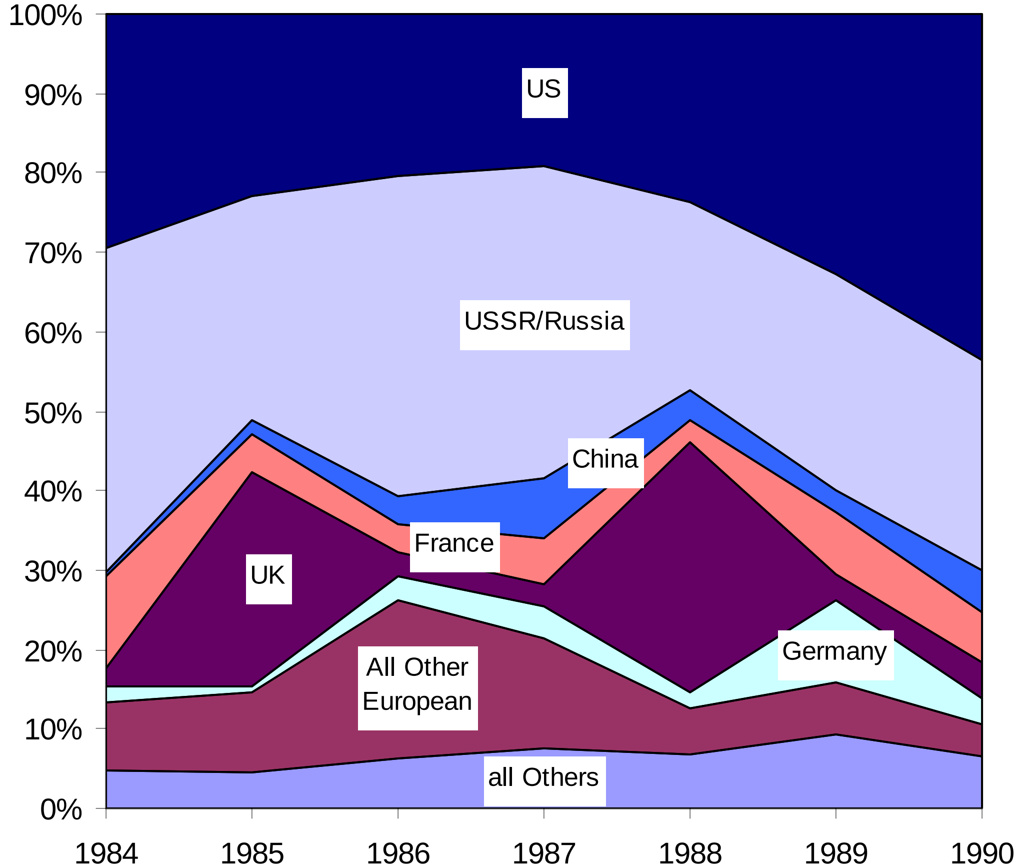
Chart 7:
Cumulative Trends in US Global New Arms Agreements Relative to Global Sales of Other Top Exporters: 1984-1990
(In 1994 Constant $Millions)



	1984	1985	1986	1987	1988	1989	1990
All Others	2900	3300	3300	4800	4600	5300	3000
All OE.	5200	7400	10400	8600	4100	3700	1800
Germany	1100	400	1500	2600	1300	6000	1500
U K	1500	19700	1600	1700	21600	1800	2100
France	6900	3400	1900	3600	1900	4400	2900
China	300	1400	1800	4700	2500	1600	2400
SU/Russia	24600	20600	21000	24700	16200	15500	12100
US	17800	16600	10600	12000	16200	18700	19900
Total	60300	72800	52100	62700	68400	57000	45700

Source: Arms Transfer Deliveries and Agreements, 1984-1994:By Supplier and Recipient Region, U.S. Arms Control and Disarmament Agency website, TABLE IV http://dosfan.lib.uic.edu/acda/wmeat95/tab4a1.htm

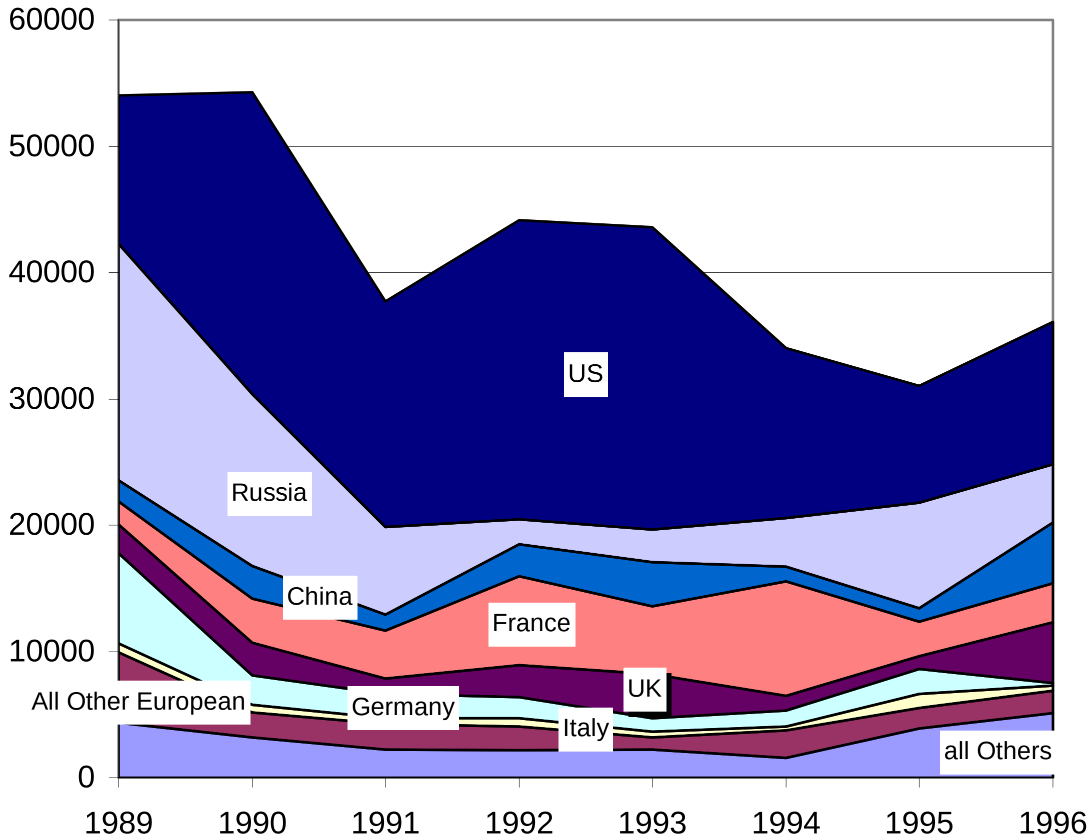
Chart 8:
US Percentage Share of Global New Arms Agreements Relative to Other Top Exporters:
1984-1990
(In Percent)



	1984	1985	1986	1987	1988	1989	1990
All Others	4.81	4.53	6.33	7.66	6.73	9.30	6.56
All OE	8.62	10.16	19.96	13.72	5.99	6.49	3.94
Germany	1.82	0.55	2.88	4.15	1.90	10.53	3.28
UK	2.49	27.06	3.07	2.71	31.58	3.16	4.60
France	11.44	4.67	3.65	5.74	2.78	7.72	6.35
China	0.50	1.92	3.45	7.50	3.65	2.81	5.25
SU/Russia	40.80	28.30	40.31	39.39	23.68	27.19	26.48
US	29.52	22.80	20.35	19.14	23.68	32.81	43.54
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Arms Transfer Deliveries and Agreements, 1984-1994:By Supplier and Recipient Region, U.S. Arms Control and Disarmament Agency website, TABLE IV http://dosfan.lib.uic.edu/acda/wmeat95/tab4a1.htm

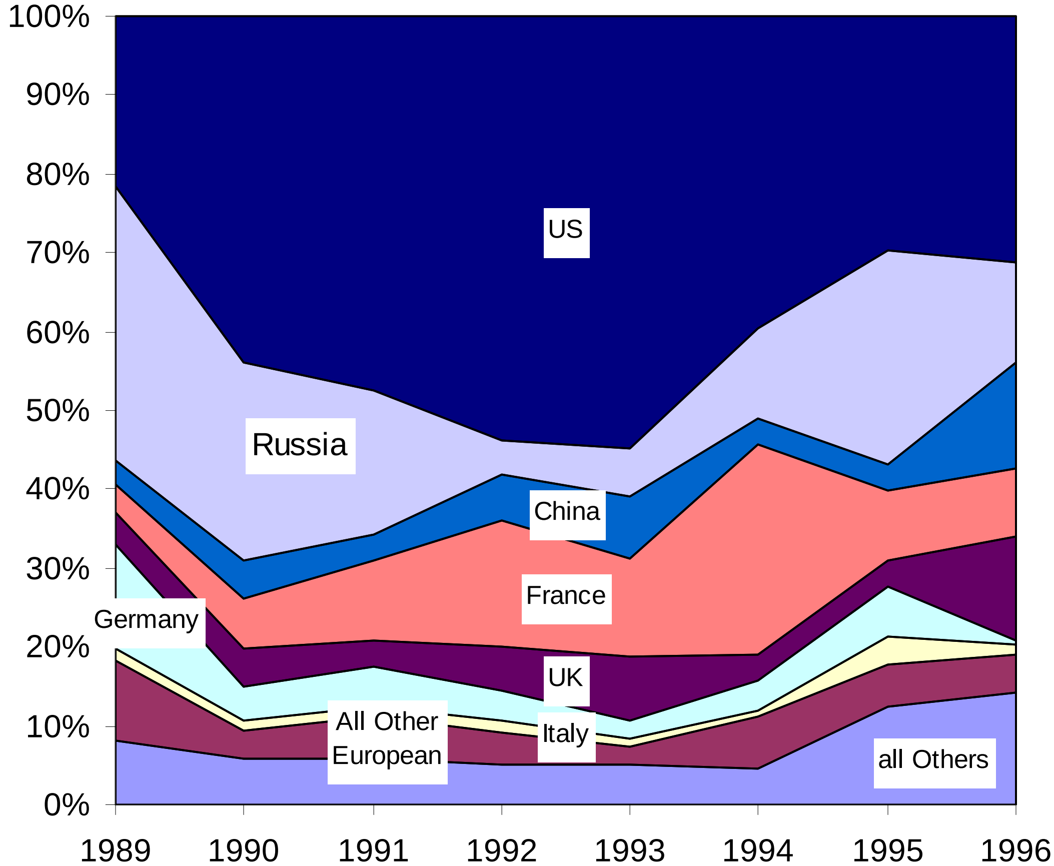
Chart 9:
Cumulative Trends in US Global New Arms Agreements Relative to Global Sales of Other Top Exporters: 1989-1996
(In 1996 Constant $Millions)



	1989	1990	1991	1992	1993	1994	1995	1996
All Others	4350	3169	2242	2199	2242	1565	3886	5100
All O E	5558	1995	2018	1869	961	2190	1636	1800
Italy	725	587	448	660	427	313	1125	400
Germany	7129	2347	1906	1649	1068	1252	1943	200
UK	2296	2582	1233	2529	3523	1147	1023	4800
France	1812	3521	3812	7038	5338	9075	2761	3100
China	1692	2582	1233	2529	3523	1147	1023	4800
Russia	18729	13615	6951	1979	2562	3859	8386	4600
U S	11719	23877	17896	23715	23928	13456	9230	11280
Total	54010	54275	37739	44167	43572	34004	31013	36080

Source: Richard F. Grimmett, Conventional Arms Transfers to the Developing World, 1989-1996, Washington, Congressional Research Service 97-778F, August 13, 1997, Page 7

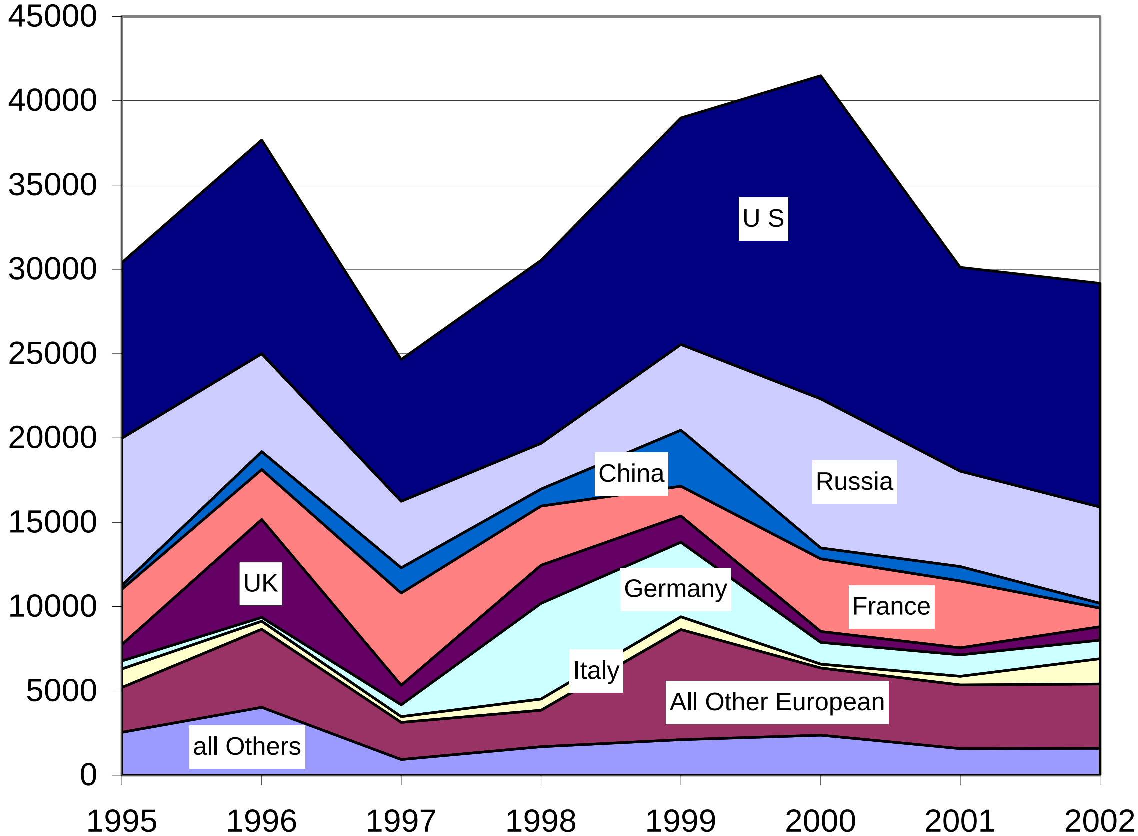
Chart 10:
US Percentage Share of Global New Arms Agreements Relative to Other Top Exporters: 1989-1996
(In Percent)



	1989	1990	1991	1992	1993	1994	1995	1996
All Others	8.05	5.84	5.94	4.98	5.15	4.60	12.53	14.14
All OE	10.29	3.68	5.35	4.23	2.21	6.44	5.28	4.99
Italy	1.34	1.08	1.19	1.49	0.98	0.92	3.63	1.11
Germany	13.20	4.32	5.05	3.73	2.45	3.68	6.27	0.55
UK	4.25	4.76	3.27	5.73	8.09	3.37	3.30	13.30
France	3.35	6.49	10.10	15.93	12.25	26.69	8.90	8.59
China	3.13	4.76	3.27	5.73	8.09	3.37	3.30	13.30
Russia	34.68	25.09	18.42	4.48	5.88	11.35	27.04	12.75
US	21.70	43.99	47.42	53.69	54.92	39.57	29.76	31.26
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Richard F. Grimmett, Conventional Arms Transfers to the Developing World, 1989-1996, Washington, Congressional Research Service 97-778F, August 13, 1997, Page 8

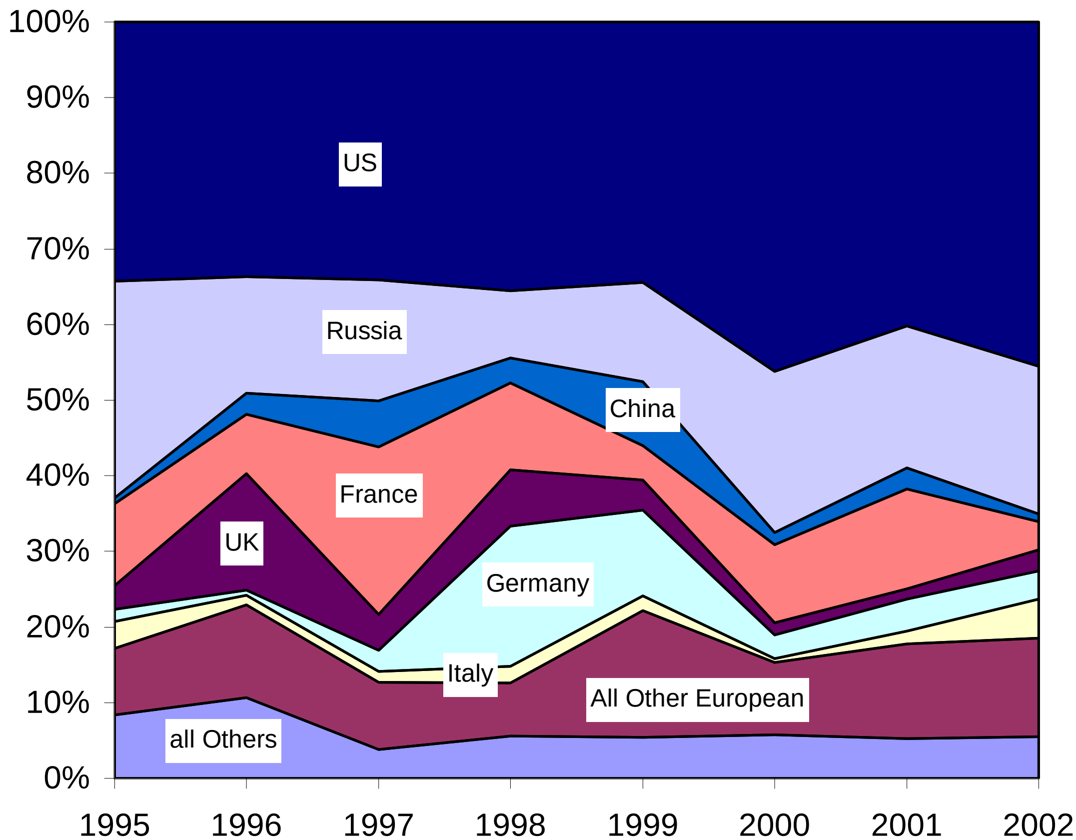
Chart 11:
Cumulative Trends in US Global New Arms Agreements Relative to Global Sales of Other Top Exporters: 1995-2002
(In 2002 Constant $ Millions)



	1995	1996	1997	1998	1999	2000	2001	2002
All Others	2,544	4,028	929	1,697	2,102	2,372	1,572	1,600
All O E	2,665	4,620	2,205	2,150	6,526	3,989	3,773	3,800
Italy	1,090	474	348	679	774	216	524	1,500
Germany	484	237	696	5,658	4,424	1,294	1,258	1,100
UK	969	5,805	1,161	2,263	1,549	647	419	800
France	3,270	2,962	5,456	3,508	1,770	4,312	3,982	1,100
China	242	1,066	1,509	1,018	3,318	647	838	300
Russia	8,721	5,805	3,947	2,716	5,088	8,840	5,659	5,700
U S	10,417	12,682	8,400	10,840	13,434	19,181	12,099	13,272
Total	30,402	37,679	24,651	30,529	38,985	41,498	30,124	29,172

Source: Richard F. Grimmett, Conventional Arms Transfers to Developing Nations, 1995-2002, Washington, Congressional Research Service (CRS), September 22, 2003, Table 8A

Chart 12:
US Percentage Share of Global New Arms Agreements Relative to Other Top Exporters: 1995-2002
(In Percent)



	1995	1996	1997	1998	1999	2000	2001	2002
All Others	8.37	10.69	3.77	5.56	5.39	5.72	5.22	5.48
All O E	8.77	12.26	8.94	7.04	16.74	9.61	12.52	13.03
Italy	3.59	1.26	1.41	2.22	1.99	0.52	1.74	5.14
Germany	1.59	0.63	2.82	18.53	11.35	3.12	4.18	3.77
UK	3.19	15.41	4.71	7.41	3.97	1.56	1.39	2.74
France	10.76	7.86	22.13	11.49	4.54	10.39	13.22	3.77
China	0.80	2.83	6.12	3.33	8.51	1.56	2.78	1.03
Russia	28.69	15.41	16.01	8.90	13.05	21.30	18.79	19.54
U S	34.26	33.66	34.08	35.51	34.46	46.22	40.16	45.50
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Richard F. Grimmett, Conventional Arms Transfers to Developing Nations, 1995-2002, Washington, Congressional Research Service (CRS), September 22, 2003,Table 8B

Table 4:
Arms Transfer Agreements with the World, by Supplier,

1995-2002

(In millions of constant 2002 U.S. dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	TOTAL 1995-2002
United States	10,417	12,682	8,400	10,840	13,434	19,181	12,099	13,272	100,325
Russia	8,721	5,805	3,947	2,716	5,088	8,840	5,659	5,700	46,476
France	3,270	2,962	5,456	3,508	1,770	4,312	3,982	1,100	26,360
United Kingdom	969	5,805	1,161	2,263	1,549	647	419	800	13,613
China	242	1,066	1,509	1,018	3,318	647	838	300	8,938
Germany	484	237	696	5,658	4,424	1,294	1,258	1,100	15,151
Italy	1,090	474	348	679	774	216	524	1,500	5,605
All Other European	2,665	4,620	2,205	2,150	6,526	3,989	3,773	3,800	29,728
All Others	2,544	4,028	929	1,697	2,102	2,372	1,572	1,600	16,844
TOTAL	**30,402**	**37,679**	**24,651**	**30,529**	**38,985**	**41,498**	**30,124**	**29,172**	**263,040**

Source: CRS Report for Congress, Conventional Arms Transfers to Developing Nations, 1995-2002, September 22, 2002

Table 5:

Worldwide Arms Transfer Agreements, 1995-2002 and Suppliers' Share with Developing World

(In millions of constant 2002 U.S. dollars)

Supplier	Worldwide Deliveries Value 1995-1998	Percentage of Total to Developing World
United States	75,176	67.70
Russia	13,899	89.70
France	24,413	86.00
United Kingdom	26,314	84.80
China	3,746	97.00
Germany	8,006	88.40
Italy	1,050	67.10
All Other European	17,108	54.30
All Others	9,730	73.00
TOTAL	**179,422**	**73.00**

Supplier	Worldwide Deliveries Value 1999-2002	Percentage of Total to Developing World
United States	53,976	67.20
Russia	15,243	86.60
France	11,027	73.10
United Kingdom	21,953	79.40
China	2,838	88.70
Germany	4,963	26.40
Italy	1,597	34.30
All Other European	10,230	59.80
All Others	9,106	44.10
TOTAL	**130,933**	**68.30**

Supplier	Worldwide Deliveries Value 2002	Percentage of Total to Developing World
United States	10,241	68.00
Russia	3,100	93.60
France	1,800	72.20
United Kingdom	4,700	70.20
China	800	100.00
Germany	500	0.00
Italy	400	0.00
All Other European	1,800	44.40
All Others	2,100	42.90
TOTAL	**25,441**	**66.70**

Source: CRS Report for Congress, Conventional Arms Transfers to Developing Nations, 1995-2002, September 22, 2002

Table 6:

Arms Transfer Agreements With Developing Nations, by Supplier, 1995-2002
(In millions of current U.S. dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	1995-2002
United States	4,062	6,609	3,538	5,866	8,258	12,411	6,400	8,587	55,731
Russia	6,300	4,500	3,200	2,100	3,600	8,000	5,200	5,000	37,900
France	2,500	1,100	4,300	2,400	1,100	1,900	500	1,000	14,800
United Kingdom	600	2,700	1,000	1,000	1,100	0	0	700	7,100
China	200	900	1,300	700	2,400	600	800	300	7,200
Germany	200	100	100	1,500	2,000	1,000	100	100	5,100
Italy	700	300	300	0	400	100	200	300	2,300
All Other European	1,700	3,000	1,600	1,400	4,100	1,200	1,300	1,100	15,400
All Others	1,600	2,100	700	1,200	1,600	1,900	1,100	600	10,800
TOTAL	**17,862**	**21,309**	**16,038**	**16,166**	**24,558**	**27,111**	**15,600**	**17,687**	**156,331**
*Dollar inflation Index:(2002=1.00)	0.8401	0.8572	0.8756	0.8947	0.9158	0.9376	0.9617	1	

Source: U.S. Government. **Note**: Developing nations category excludes the U.S., Europe, Canada, Japan, Australia and New Zealand. All data are for the calendar year given except for U. S. MAP (Military Assistance Program), IMET (International Military Education and Training), and Excess Defense Article data which are included for the particular fiscal year. All amounts given include the values of all categories of weapons, spare parts, construction, all associated services, military assistance, excess defense articles, and training programs. Statistics for foreign countries are based upon estimated selling prices. All foreign data are rounded to the nearest $100 million. The United States total in 2000 includes a $6.432 billion licensed commercial agreement with the United Arab Emirates for 80 F-16 aircraft.
*Based on Department of Defense Price Deflator.

Source: CRS Report for Congress, Conventional Arms Transfers to Developing Nations, 1995-2002, September 22, 2002

Table 7:
Arms Transfer Agreements with the World, by Supplier, 1995-2002
(Expressed as a percent of total, by year)

	1995	1996	1997	1998	1999	2000	2001	2002
United States	34.26%	33.66%	34.08%	35.51%	34.46%	46.22%	40.16%	45.50%
Russia	28.69%	15.14%	16.01%	8.90%	13.05%	21.30%	18.79%	19.54%
France	10.76%	7.86%	22.13%	11.49%	4.54%	10.39%	13.22%	3.77%
United Kingdom	3.19%	15.41%	4.71%	7.41%	3.97%	1.56%	1.39%	2.74%
China	0.80%	2.83%	6.12%	3.34%	8.51%	1.56%	2.78%	1.03%
Germany	1.59%	0.63%	2.83%	18.53%	11.35%	3.12%	4.17%	3.77%
Italy	3.59%	1.26%	1.41%	2.22%	1.99%	0.52%	1.74%	5.14%
All Other European	8.76%	12.26%	8.95%	7.04%	16.74%	9.61%	12.52%	13.03%
All Others	8.37%	10.69%	3.77%	5.56%	5.39%	5.72%	5.22%	5.48%
*[Major West European**	*19.13%*	*25.16%*	*31.08%*	*39.65%*	*21.85%*	*15.59%*	*20.52%*	*15.42%*
TOTAL	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

* Major West European category includes France, United Kingdom, Germany, Italy.

Source: CRS Report for Congress, Conventional Arms Transfers to Developing Nations, 1995-2002, September 22, 2002

Table 8:
Arms Transfer Agreements with the World in 2002:
Leading Suppliers Compared
(In millions of current U.S. dollars)

Rank	Supplier	Agreements Value 2002
1	United States	13,272
2	Russia	5,700
3	Ukraine	1,600
4	Italy	1,500
5	Germany	1,100
6	France	1,100
7	Finland	1,000
8	Israel	1,000
9	United Kingdom	800
10	Spain	300
11	China	300

Source: U.S. Government.

Note: All foreign data are rounded to the nearest $100 million.
Where rounded data totals are the same, the actual rank order is maintained.

Source: CRS Report for Congress, Conventional Arms Transfers to Developing Nations, 1995-2002, September 22, 2002

Table 9:
Arms Transfer Agreements with Developing Nations, by Supplier, 1995-2002
(In millions of constant 2002 U.S. dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	TOTAL 1995-2002
United States	4,920	7,830	4,107	6,638	9,134	13,380	6,655	8,587	61,251
Russia	7,631	5,331	3,714	2,376	3,982	8,624	5,407	5,000	42,065
France	3,028	1,303	4,991	2,716	1,217	2,048	520	1,000	16,823
United Kingdom	727	3,199	1,161	1,132	1,217	0	0	700	8,136
China	242	1,066	1,509	792	2,655	647	832	300	8,043
Germany	242	118	116	1,697	2,212	1,078	104	100	5,667
Italy	848	355	348	0	442	108	208	300	2,609
All Other European	2,059	3,554	1,857	1,584	4,535	1,294	1,352	1,100	17,335
All Others	1,938	2,488	813	1,358	1,770	2,048	1,144	600	12,159
TOTAL	**21,635**	**25,244**	**18,616**	**18,293**	**27,164**	**29,227**	**16,222**	**17,687**	**174,088**

Source: CRS Report for Congress, Conventional Arms Transfers to Developing Nations, 1995-2002, September 22, 2002

Table 10:
Arms Transfer Agreements with Developing Nations, 1995-2002:Leading Suppliers Compared
(In millions of current U.S. dollars)

Rank	Supplier	Agreements Value 1995-1998
1	United States	20,075
2	Russia	16,100
3	France	10,300
4	United Kingdom	5,300
5	China	3,100
6	Germany	1,900
7	Ukraine	1,900
8	Belarus	1,700
9	Israel	1,600
10	Italy	1,300
11	South Africa	900

Rank	Supplier	Agreements Value 1999-2002
1	United States*	35,656
2	Russia	21,800
3	France	4,500
4	China	4,100
5	Germany	3,200
6	Sweden	2,000
7	United Kingdom	1,800
8	Ukraine	1,400
9	Israel	1,000
10	North Korea	1,000
11	Italy	1,000

Rank	Supplier	Agreements Value 1995-2002
1	United States*	55,731
2	Russia	37,900
3	France	14,800
4	China	7,200
5	United Kingdom	7,100
6	Germany	5,100
7	Ukraine	3,300
8	Israel	2,600
9	Sweden	2,600
10	Italy	2,300
11	Belarus	2,000

Source: U.S. Government.
Note: All foreign data are rounded to the nearest $100 million. Where rounded data totals are the same, the actual rank order is maintained. *The United States total includes a $6.432 billion licensed commercial agreement with the United Arab Emirates in 2000 for 80 F-16 aircraft.

Source: CRS Report for Congress, Conventional Arms Transfers to Developing Nations, 1995-2002, September 22, 2002

Table 11:
Arms Transfer Agreements with
Developing Nations in 2002:
Leading Suppliers Compared
(In millions of current U.S. dollars)

Rank	Supplier	Agreements Value 2002
1	United States	8,587
2	Russia	5,000
3	France	1,000
4	United Kingdom	700
5	Ukraine	500
6	Spain	300
7	China	300
8	Italy	300
9	Iran	200
10	U.A.E.	100
11	Germany	100

Source: U.S. Government.

Note: All foreign data are rounded to the nearest $100 million.
Where rounded data totals are the same, the actual rank order is maintained.

Source: CRS Report for Congress, Conventional Arms Transfers to Developing Nations, 1995-2002, September 22, 2002

Table 12:
Arms Transfer Agreements with Developing Nations, by Supplier, 1995-2002
(Expressed as a percent of total, by year)

	1995	1996	1997	1998	1999	2000	2001	2002
United States	22.74%	31.02%	22.06%	36.29%	33.63%	45.78%	41.03%	48.55%
Russia	35.27%	21.12%	19.95%	12.99%	14.66%	29.51%	33.33%	28.27%
France	14.00%	5.16%	26.81%	14.85%	4.48%	7.01%	3.21%	5.65%
United Kingdom	3.36%	12.67%	6.24%	6.19%	4.48%	0.00%	0.00%	3.96%
China	1.12%	4.22%	8.11%	4.33%	9.77%	2.21%	5.13%	1.70%
Germany	1.12%	0.47%	0.62%	9.28%	8.14%	3.69%	0.64%	0.57%
Italy	3.92%	1.41%	1.87%	0.00%	1.63%	0.37%	1.28%	1.70%
All Other European	9.52%	14.08%	9.98%	8.66%	16.70%	4.43%	8.33%	6.22%
All Others	8.96%	9.85%	4.36%	7.42%	6.52%	7.01%	7.05%	3.39%
[Major West European*	22.40%	19.71%	35.54%	30.32%	18.73%	11.07%	5.13%	11.88%
TOTAL	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

*Major West European category includes France, United Kingdom, Germany, Italy.

Source: CRS Report for Congress, Conventional Arms Transfers to Developing Nations, 1995-2002, September 22, 2002

Table 13:
Arms Transfer Agreements with Near East, by Supplier
(In millions of current U.S. dollars)

Recipient Country	U.S.	Russia	China	Major West European*	All Other European	All Others	Total
1995-1998							
Algeria	0	400	200	0	800	100	1,500
Bahrain	500	0	0	0	0	0	500
Egypt	4,300	400	100	100	100	0	5,000
Iran	0	400	900	100	300	100	1,700
Iraq	0	0	0	0	0	0	0
Israel	2,600	0	0	100	0	300	3,000
Jordan	200	0	0	0	0	100	300
Kuwait	400	0	200	700	100	0	1,400
Lebanon	100	0	0	100	0	0	200
Libya	0	0	0	0	100	100	200
Morocco	0	0	0	200	200	200	600
Oman	0	0	0	300	100	100	500
Qatar	0	0	0	900	0	0	900
Saudi Arabia	4,900	0	0	1,500	200	0	6,600
Syria	0	200	0	0	100	200	500
Tunisia	0	0	0	0	0	0	0
U.A.E.	100	400	0	6,000	800	0	7,300
Yemen	0	0	0	200	300	100	600
1999-2002							
Algeria	0	200	0	0	100	100	400
Bahrain	500	0	0	0	0	0	500
Egypt	6,800	300	400	100	100	100	7,800
Iran	0	100	100	300	100	400	1,000
Iraq	0	0	0	0	200	0	200
Israel	7,000	0	0	0	0	0	7,000
Jordan	400	0	0	300	0	100	800
Kuwait	1,600	100	0	0	0	200	1,900
Lebanon	0	0	0	0	0	0	0
Libya	0	100	0	0	100	600	800
Morocco	0	0	0	0	0	100	100
Oman	800	0	0	300	100	100	1,300
Qatar	0	0	0	0	0	0	0
Saudi Arabia	2,800	0	0	300	1,000	0	4,100
Syria	0	100	0	100	0	100	300
Tunisia	0	0	0	0	0	0	0
U.A.E.**	7,100	1,000	0	500	300	100	9,000
Yemen	0	300	100	0	100	0	500

Source: U.S. Government.

Note: 0=data less than $50 million or nil. All data are rounded to nearest $100 million. *Major West European includes France, United Kingdom, Germany, and Italy totals as an aggregate figure. **The United States total for 1999-2002 includes a $6.432 billion licensed commercial agreement with the United Arab Emirates in 2000 for 80 F-16 aircraft.

Source: CRS Report for Congress, Conventional Arms Transfers to Developing Nations, 1995-2002, September 22, 2002

THIS PAGE INTENTIONALLY LEFT BLANK

IV. FOREIGN MILITARY SALES: ANALYSIS OF THE CURRENT STATUS

A. BUSINESS MODEL OVERVIEW

The purpose of this project is to identify the current status of the FMS program. Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis is a suitable model to use, because it helps generate a list of factors for strategic considerations. [Ref 42: p.46] SWOT identifies strengths and weaknesses as internal factors and opportunities and threats as external factors that interact with the FMS program business environment. For an external factor to be considered a threat or an opportunity it must interact with FMS. A threat is an external interacting factor that impairs the efficiency of the FMS program. An opportunity is an external factor whose interaction would provide a potential increase in FMS efficiency.

SWOT analysis can help assess the FMS program's competitive position and strategy. This analysis was based on two types of competitors to the FMS program, U.S. Direct Commercial Sales and Foreign weapons producers.

This analysis assists in determining the status of the FMS program. The analysis also recommends measures to expand and improve the FMS program from a business point of view. Even though analyzing the FMS program from the national security point of view is important, the unpredictably changing security environment and interests makes that type of analysis very difficult.

B. DATA ANALYSIS

1. Internal Strengths of the U.S. FMS Program

- The FMS program is well thought of by buyers as it provides secure transactions through government-to-government obligations and the benefits it provides
- The U.S. has become the acknowledged market leader, offering sophisticated and quality products, transparency, supportability, good governance and management, and sound business practices. It has well-established defense support agreements. It concentrates on selling major weapons systems and peripheral systems, including a wide variety of support for those systems (upgrading, modifications, training, ammunition and ordnance)
- It has well conceived functional area strategies with integration and coordination between the defense industries and U.S. Government agencies that support the national policy
- Significant economies of scale have been achieved for both the U.S. and foreign governments due to consolidated requirements
- Advertising campaigns are well managed through the defense representatives in U.S. embassies, at air shows, through the media, etc.
- Innovation is continuously achieved through DISAM and SAMM training for FMS management and foreign buyers, in addition to website educational information

- The program exhibits strong selling capabilities due to the support provided by the domestic defense industries, creative financing programs and the efficient use of the human resources to manage it
- Advanced technological, technical, legal, and administrative skills, and the use of political measures in negotiation are all key strengths

2. Internal Weaknesses of the U.S. FMS Program

- Weapons sales and transfers to foreign governments are subjected to their support of U.S. national security objectives. This constrains the FMS program from garnering more sales
- Releasing only weapons systems that are inferior to the ones being used by U.S. forces results in customers going to other suppliers that will supply them with systems as good or even better than those exported by U.S.
- The FMS program is influenced by individuals (e.g. The President) and interest groups for personal/group gains and does not always contribute directly to national security objectives
- Government bureaucracy results in slow procedures
- The program is unable to expand its management capacity. This causes customers to wait (problem of back orders) and priority is given to the U.S. military
- Agreements result in fixed administrative charges

3. Potential External Opportunities

- The national policy goals serve as an opportunity for FMS to increase sales as they provide for the framework to acquire technological superiority and arming customers (own forces and allies)
- There is strong capacity to serve additional customer groups or expand into a new markets or segments (developing countries – the countries that are not interacting with FMS, e.g. Warsaw Pact, ex-Soviet countries)
- There is a recognized ability to expand product lines to meet a broader range of customer needs (huge manufacturing infrastructure)
- Licensing and offsets (co-production) could be used to gain more customers and prevent them from going to DCS systems and other foreign producers
- Trade barriers are falling in attractive foreign markets (Warsaw Pact, third world, countries supporting the Global War On Terrorism)
- Some rivals firms don’t have the ability to individually finance R&D programs for product improvement
- U.S. defense firms have demonstrated the ability to grow rapidly in response to strong interests and market demand
- There is a host of emerging new technologies

4. Potential External Threats

- The sales and transfer of weapons to foreign governments are very sensitive to the global economic situation and oil prices.
- Reduction or elimination of FMF and/or using it for DCS could impact FMS
- Lower cost foreign competitors could enter the market
- The collaboration of European arms producers and consolidation of the European Union coupled with strong government marketing support for foreign arms sales could significantly impact the FMS program
- Reduction in defense industry manufacturing capacity will have a direct impact on the FMS program
- Rising sales of substitute (DCS) products could affect the program
- As countries deem they have sufficient security there will be slower market growth
- Growth in bargaining power and changing needs of customers resulting from changes in regimes or Government policies could have a significant impact on the FMS program

C. SUMMARY

This chapter analyzes the information collected in Chapter II and III by using the SWOT Business Model. It categorizes the information into four internal and external categories of factors to identify the present strategy and competitive position of the FMS program.

V. CONCLUSIONS AND RECOMMENDATIONS

A. CONCLUSIONS

The Foreign Military Sales program is an enabler of the National Military Strategy and acts as a crucial and critical bridging mechanism linking the NMS and the NSS. The FMS program enhances security by training and equipping foreign forces, adding to the interoperability of those forces with the U.S. in coalition operations. FMS bolsters U.S. prosperity by supplementing federal spending, reinforcing the U.S. industrial base, and supporting the U.S. job market. It supports the NMS by promoting peace. FMS will continue to be a key foreign policy tool and a means for promoting American values and ideals abroad and assisting in nation building.

Basing on the literature and our analysis, the following points summarize our findings:

- The NSS objectives is and will always be a constraint on the FMS program because of shifting interests and the changing security environment, which in turn affect the number of recipients.
- Decision-makers have a great impact on the smooth and quick approval or disapproval of FMS transactions due to their oversight and interpretation of NSS objectives. Their decisions are and will always be subjected to the influence of interests groups (e.g. defense industries and congressional districts).

- The FMF program accounts for 25% on average of FMS total annual sales. More than 90% of FMF program funds go to specific countries, while the remaining 10% are distributed to other countries depending on current interests and changes in the security environment
- There are two types of competitors to the FMS program, domestic (DCS) and international (Foreign Arms suppliers)

    - DCS accounts for approximately 25% of U.S. arms sales. DCS is mainly used by experienced customers. In the long run, most of the customers will become more experienced in dealing with U.S. systems, which may increase DCS sales. FMF is used to fund the DCS in some cases, which directly affects the FMS program sales.
    - Foreign Arms suppliers consist of two main and effective competitors: the Major European Group (U.K., France, Germany and Italy) and Russia. The Major European Group could potentially become a major threat to the U.S. arms export (FMS) programs, especially after the Warsaw Pact and other European countries enter the European Union. They will be comprehensive arms suppliers, achieving economies of scale and scope through collaboration with one another, venturing into the U.S. arms market through joint ventures with U.S. manufacturers. The latter change could increase the prospects of European manufacturers acquiring the latest American technology. On the

other hand, Russia's strength is in capturing the market from those countries not on the U.S. list of recipients. It grabs at any open opportunities to get hard cash while applying numerous payment options.

For the years following the collapse of the Soviet Union, the U.S. has been the leader in the arms market, with annual shares almost the same except for the increase during wars and/or conflicts. As a commodity, the demand on principal weapon systems is relatively inelastic, which contributes to unstable weapons sales. The demand of after sales support is somewhat more elastic. Together, there is a balance in the overall demand elasticity. The after sales support makes the U.S. arms export program more stable than other competitors. The FMS program is the main contributing factor to the stability of overall weapons sales.

Despite this encouraging status, FMS possess no immunity against future likely challenges, such as the likely Major European Group collaboration and the prospect of the Russia's joining the Major European Groups.

B. RECOMMENDATIONS

Based on this analysis, our recommendations are geared towards converting weaknesses to strengths and threats to opportunities. The following points are recommended for FMS program stakeholders:

- FMS must be strictly used to support NSS objectives and not individual or group interests. The government should continuously back up the defense industry through financing research and development programs to ensure continuous running and improvement of its production lines.
- The U.S. government must secure a strong and adequate pool of customers by providing balanced FMS between regions and more flexible financing. It also must reconsider amending the administrative fixed charge so that it reflects the actual administrative efforts spent on FMS administration. It must also provide customers with a flexible and more responsive system to reduce lead times and backorders.
- The U.S. government must be ready to release superior weapons systems that no other suppliers can match and strive to acquire even better systems through continuous research and development programs.
- The government must provide adequate FMF funding to ensure an appropriate level of FMS sales and, at the same time, stop funding DCS sales. In addition, the government should increase and/or reallocate FMF funding in an effort to increase the number of recipients to preserve a wide customer base.

C. SUMMARY OF QUESTIONS

1. Primary Question

What is the current status of the United States Foreign Military Sales (FMS) program?

The United States Foreign Military Sales (FMS) program is very strong. Being the leader in global arm sales, the U.S. has future prospects to improve. However, it is also subject to strong challenges from foreign arms suppliers.

2. Secondary Questions

- What are the purposes of Foreign Military Sales and Foreign Military Financing (FMF) programs and were they achieved?

  The purpose of Foreign Military Sales is to allow for a responsible transfer of defense articles and services to U.S. friends and allies, including international organizations and foreign governments, according to a set of rules and procedures determined by the US government. Foreign Military Financing appropriated for use by close, long-standing allies, is used to finance purchases of U.S. weapons system through the FMS and DCS agreements.

  We think that the FMS program has achieved its purposes, but FMF program funds were not fairly distributed among U.S. friends and allies.

- What are the policies governing Foreign Military Sales and Foreign Military Financing (FMF) and what would be the effects of changing these policies?

  The FMS and FMF programs are governed by U.S. foreign policy, which depends on current interests and the security environment as expressed by the NSS. Any changes in the policy are due to the changing interests and security environment. These have a direct impact on who will receive arms or funding.

- What would be the impact of changing the Foreign Military Financing (FMF) budget on Foreign Military Sales (FMS) program?

  The reduction of FMF funding would have a direct negative impact on FMS since it accounts for a significant amount of FMS sales.

D. RECOMMENDATIONS FOR FUTURE RESEARCH

1. What is the status of Direct Commercial Sales?
2. What is the impact of the collaboration of European Union countries on U.S arms export?
3. What would be the effect of establishing a non-governmental import and export bank in place of FMF funding?

APPENDIX A

FOREIGN MILITARY FINANCING (FMF)

1990-2002 BY REGION

Source of data:
Federation of American Scientists,
U.S. Security Assistance Database Search,
http://www.fas.org/asmp/profiles/aid_db.htm

Table A1: Africa Appropriated FMF 1990-2002 (In Thousands $)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Angola	0	0	0	0	0	0	2,000	0	0	0	0	0	0	0
Benin	77	0	0	250	0	0	3,200	0	0	0	0	0	0	0
Botswana	996	2,600	0	1,800	0	0	0	0	0	0	0	0	1,000	1,000
Burkina Faso	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Burundi	65	250	0	0	0	0	0	0	0	0	0	0	0	0
Cameroon	188	840	0	0	0	0	0	0	0	0	0	0	0	0
Cape Verde	0	1,860	225	0	0	0	0	0	0	0	0	0	0	0
Central African Republic	120	250	0	0	0	0	0	0	0	0	0	0	0	0
Chad	3,792	854	0	0	0	0	0	0	0	0	0	0	0	0
Comoros	85	0	0	0	0	0	0	0	0	0	0	0	0	0
Congo	0	13	0	0	0	0	0	0	0	0	0	0	0	0
Congo	2,986	0	0	0	0	0	0	0	0	0	0	0	0	0
Cote d'Ivoire	490	2,327	0	0	0	0	0	0	1,200	500	0	0	0	0
Djibouti	2,076	1,505	0	0	0	0	0	0	0	0	0	0	0	0
ECOMOG	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Equatorial Guinea	319	0	0	0	0	0	0	0	0	0	0	0	0	0
Eritrea	0	0	0	0	200	460	2,613	1,750	1,000	0	0	0	250	500
Ethiopia	0	0	0	0	500	300	1,430	1,000	1,000	2,900	0	0	250	500
Gabon	115	242	0	0	0	0	0	0	0	0	0	0	0	0
Gambia	50	500	100	1,300	0	0	0	0	0	0	0	0	0	0
Ghana	0	950	200	600	285	0	0	0	3,300	1,300	0	0	400	500
Guinea	440	750	150	100	0	0	0	0	0	0	0	0	0	0
Guinea-Bissau	405	250	100	1,700	0	0	0	0	0	0	0	0	0	0
Kenya	379	0	0	0	0	0	0	0	0	0	0	0	0	1,500
Lesotho	0	200	0	0	0	0	0	0	0	0	0	0	0	0
Liberia	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Africa Appropriated FMF Continued

Libya	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Madagascar	449	112	0	0	0	0	0	0	0	0	0	0	0	0
Malawi	1,391	100	0	0	0	0	0	569	900	0	0	0	0	0
Mali	0	0	100	747	0	0	0	0	1,600	600	0	0	0	0
Mauritania	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mauritius	0	650	0	0	0	0	0	0	0	0	0	0	0	0
Mozambique	0	0	0	0	400	0	200	0	0	0	0	0	0	0
Namibia	0	3,000	100	600	0	270	400	0	0	0	0	0	0	0
Niger	1,893	2,576	600	600	0	0	0	0	0	0	0	0	0	0
Nigeria	0	34	0	0	0	0	0	0	0	0	10,000	0	6,000	6,000
Reunion	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Rwanda	135	219	0	525	0	300	400	0	0	0	0	0	0	0
Sao Tome & Principe	225	70	100	190	0	0	0	0	0	0	0	0	0	0
Senegal	1,853	5,000	5,000	2,700	0	0	0	1,965	900	2,600	0	0	400	500
Seychelles	65	340	40	110	0	0	0	0	0	0	0	0	0	0
Sierra Leone	313	2,675	60	0	0	0	0	0	0	0	0	0	0	0
Somalia	0	0	0	0	0	0	0	0	0	0	0	0	0	0
South Africa	0	0	0	0	0	0	0	0	350	300	250	0	6,700	6,000
Sudan	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Swaziland	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Tanzania	50	0	0	100	0	0	0	0	0	0	0	0	0	0
Togo	190	158	0	0	0	0	0	0	0	0	0	0	0	0
Uganda	40	0	30	425	0	0	2,000	3,965	3,900	0	0	0	0	0
Zambia	0	0	150	300	0	0	0	0	0	0	0	0	0	0
Zimbabwe	0	1,100	250	890	0	0	0	0	0	0	0	0	0	0
Total	19,187	29,425	7,205	12,937	1,385	1,330	12,243	9,249	14,150	8,200	10,250	0	15,000	16,500

Table A2: Americas Appropriated FMF 1990-2002(In Thousands $)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Anguilla	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Antigua & Barbuda	780	630	870	80	37	40	50	225	310	410	515	0	0	0
Argentina	0	3,500	1,000	0	0	0	0	0	1,250	1,850	450	1,000	1,000	2,000
Aruba	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Bahamas	0	0	0	0	0	40	75	75	140	130	50	140	100	100
Barbados	620	1,220	850	80	37	95	200	100	75	75	55	0	0	0
Belize	0	500	500	500	160	0	75	75	100	100	100	200	200	300
Bermuda	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Bolivia	38,228	35,000	25,000	18,595	2,967	3,229	0	0	0	0	250	0	500	2,000
Bolivia	1,000	0	0	0	0	0	0	0	0	0	0	0	0	0
Brazil	0	0	0	0	0	0	0	0	0	0	0	0	0	0
British Virgin Islands	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Canada	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cayman Islands	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Chile	0	3,000	3,000	0	0	0	0	0	300	400	0	0	500	1,000
Colombia	69,734	47,000	47,000	27,000	7,700	10,000	0	0	0	0	0	0	0	98,000
Colombia	1,996	0	0	0	0	0	0	0	0	0	0	0	0	0
Costa Rica	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cuba	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Dominica	700	530	470	110	37	40	50	100	115	145	150	0	0	0
Dominican Republic	1,276	1,000	1,000	500	300	0	0	100	225	370	400	650	350	320
Ecuador	0	2,000	2,339	1,150	130	0	0	0	0	0	0	0	0	1,000
Ecuador	485	0	0	0	0	0	0	0	0	0	0	0	0	0
El Salvador	79,635	65,945	21,250	11,000	0	0	0	0	0	0	0	0	1,000	2,500
French Guiana	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Greenland	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Americas Appropriated FMF Continued

Grenada	600	530	477	200	37	40	350	100	145	190	165	0	0	0
Guadeloupe	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Guatemala	2,887	0	0	0	0	0	0	0	0	0	0	0	0	0
Guyana	0	0	0	0	180	0	75	0	100	100	100	125	200	400
Haiti	498	1,500	0	0	0	3,000	0	225	650	300	300	450	300	400
Honduras	20,163	31,900	5,000	317	0	0	0	0	0	0	0	0	0	0
Jamaica	1,000	1,000	2,500	399	300	299	600	415	450	475	500	585	600	700
Martinique	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mexico	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Montserrat	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Netherlands Antilles	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Nicaragua	0	0	0	0	0	0	0	0	0	0	0	0	500	500
Panama	0	0	0	0	0	0	0	0	0	590	0	0	0	1,000
Paraguay	0	0	250	0	0	0	0	0	0	0	0	0	0	0
Peru	0	0	0	0	0	0	0	0	0	0	0	0	0	1,000
Peru	1,000	5,879	0	0	0	0	0	0	0	0	0	0	0	0
St. Kitts & Nevis	500	530	470	190	37	40	50	100	130	155	125	0	0	0
St. Lucia	500	530	470	610	168	40	50	100	160	195	165	0	0	0
Vincent & Grenadines	500	530	470	80	37	40	50	100	110	130	125	0	0	0
Suriname	0	0	0	0	0	0	75	0	0	0	0	0	150	250
Trinidad & Tobago	650	500	500	550	100	95	300	285	290	225	250	300	300	400
Turks and Caicos	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Uruguay	0	0	0	0	0	0	0	0	800	800	300	0	1,000	1,000
Venezuela	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	222,752	203,224	113,416	61,361	12,227	16,998	2,000	2,000	5,350	6,640	4,000	3,450	6,700	112,870

Table A3: East Asia and Pacific Appropriated FMF 1990-2002(In Thousands $)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Australia	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Brunei	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cambodia	0	0	0	0	750	1,300	2,000	1,000	0	0	0	0	0	0
China	0	0	0	0	0	0	0	0	0	0	0	0	0	0
East Timor	0	0	0	0	0	0	0	0	0	0	0	0	1,000	2,000
Fiji	0	0	0	0	0	0	0	0	0	500	350	0	0	0
French Polynesia	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Hong Kong	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Indonesia	0	25,000	0	0	0	0	0	0	0	0	0	0	0	0
Japan	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Kiribati	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Laos	0	0	0	0	0	0	500	0	0	0	0	0	0	0
Macau	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Malaysia	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Marshall Is.	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Micronesia	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mongolia	0	0	0	0	0	0	0	0	0	0	350	2,000	2,000	1,000
Nauru	0	0	0	0	0	0	0	0	0	0	0	0	0	0
New Caledonia	0	0	0	0	0	0	0	0	0	0	0	0	0	0
New Zealand	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Niue	0	0	0	0	0	0	0	0	0	0	0	0	0	0
North Korea	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Palau	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Papua New Guinea	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Philippines	140,395	185,543	25,000	15,000	0	0	0	0	0	1,000	1,437	2,000	19,000	20,000
Singapore	0	0	0	0	0	0	0	0	0	0	0	0	0	0

East Asia and Pacific Appropriated FMF Continued

Solomon Islands	0	0	0	0	0	0	0	0	0	0	0	0	0	0
South Korea	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Taiwan	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Thailand	3,017	0	0	0	0	0	0	0	0	0	0	0	1,300	2,000
Tonga	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Tuvalu	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Vietnam	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Wallis & Futuna	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Western Samoa	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	143,412	210,543	25,000	15,000	750	1,300	2,500	1,000	0	1,500	2,137	4,000	23,300	25,000

Table A4: International Appropriated FMF 1990-2002(In Thousands $)

	1,990	1,991	1,992	1,993	1,994	1,995	1,996	1,997	1,998	1,999	2,000	2,001	2,002	2,003
Antarctica	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Classified	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Int'l Org. & Various	0	0	0	0	0	0	0	0	0	0	0	0	0	0
United Nations	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Various Countries	0	0	0	0	0	0	0	0	0	0	0	0	6,000	6,130
Total	0	0	0	0	0	0	0	0	0	0	0	0	6,000	6,130

Table A5: Europe Appropriated FMF 1990-2002(In Thousands $)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Albania	0	0	0	0	0	0	2,525	100	1,700	4,000	1,600	4,500	4,000	5,000
Andorra	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Armenia	0	0	0	0	0	0	0	0	0	0	0	0	4,000	3,000
Austria	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Azerbaijan	0	0	0	0	0	0	0	0	0	0	0	0	4,000	3,000
Belarus	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Belgium	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Bosnia-Herzeg.	0	0	0	0	0	0	0	0	0	4,000	0	3,000	2,250	2,500
Bulgaria	0	0	0	0	0	0	4,275	3,000	4,200	9,400	5,000	8,500	8,500	9,500
Croatia	0	0	0	0	0	0	0	0	0	0	4,000	0	5,000	6,000
Cyprus	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Czech Republic	0	0	0	0	0	0	8,900	9,087	16,250	7,100	6,000	9,000	10,000	11,000
Czechoslovakia	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Denmark	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Estonia	0	0	0	0	0	706	1,500	1,500	8,300	4,700	4,000	6,350	6,250	6,750
Faroe Islands	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Finland	0	0	0	0	0	0	0	0	0	0	0	0	0	0
France	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Georgia	0	0	0	0	0	0	0	700	5,350	7,950	3,000	4,500	11,000	7,000
Germany	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gibraltar	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Greece	348,495	350,000	350,000	315,000	283,500	229,635	224,000	122,500	0	0	0	0	0	0
Hungary	0	0	0	250	0	0	3,200	10,087	16,600	7,100	6,000	9,000	10,000	11,000
Iceland	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Ireland	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Italy	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Kazakhstan	0	0	0	0	0	0	0	1,500	2,250	1,800	1,500	1,900	2,750	3,000
Kyrgyzstan	0	0	0	0	0	0	0	800	1,350	1,550	1,000	1,600	2,000	4,000

Europe Appropriated FMF Continued

Latvia	0	0	0	0	0	706	1,500	1,500	6,950	4,700	4,000	5,350	6,250	7,000
Liechtenstein	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Lithuania	0	0	0	0	0	706	1,500	1,500	6,950	4,700	4,000	6,500	6,593	7,500
Luxembourg	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Macedonia	0	0	0	0	0	0	750	1,648	19,257	6,000	0	7,900	10,500	11,000
Malta	0	0	0	0	0	0	0	0	0	300	450	0	0	1,000
Moldova	0	0	0	0	0	0	0	800	3,450	1,250	1,250	1,500	1,250	1,500
Monaco	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Netherlands	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Norway	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Poland	0	0	0	0	0	1,000	16,475	12,587	124,700	66,000	8,000	12,300	12,000	13,000
Portugal	84,635	100,000	100,000	90,000	81,000	0	0	0	0	0	0	0	0	0
Romania	0	0	0	0	0	0	9,275	6,500	13,900	6,500	6,200	11,000	9,000	10,000
Russia	0	0	0	0	0	0	0	2,250	2,250	0	0	1,000	0	0
San Marino	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Slovakia	0	0	0	0	0	0	3,550	6,000	3,200	3,200	2,800	8,400	7,750	9,000
Slovenia	0	0	0	0	0	0	400	1,000	2,500	2,600	2,000	3,500	4,000	5,000
Spain	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Svalbard & Janmayen	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Sweden	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Switzerland	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Tajikistan	0	0	0	0	0	0	0	0	0	0	0	0	700	0
Turkey	497,850	600,000	500,000	450,000	405,000	328,050	320,000	175,000	0	0	0	0	20,000	17,500
Turkmenistan	0	0	0	0	0	0	0	500	450	600	600	700	0	700
Ukraine	0	0	0	0	0	0	0	5,250	3,800	5,000	3,250	4,000	4,000	4,000
U K	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Uzbekistan	0	0	0	0	0	0	0	1,000	1,550	1,650	1,750	1,700	25,207	8,750
Yugoslavia	0	0	0	0	0	0	0	0	0	0	0	0	0	1,000
Total	930,980	1,050,000	950,000	855,250	769,500	560,803	597,850	364,809	244,957	150,100	66,400	112,200	177,000	168,700

Table A6: Middle East and Asia Appropriated FMF 1990-2002(In Thousands $)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Afghanistan	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Algeria	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Bahrain	0	0	1,000	500	0	0	0	0	0	0	0	0	0	0
Bangladesh	0	0	0	0	0	0	0	0	1,250	800	0	0	0	0
Bhutan	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Egypt	1,294,410	1,300,000	1,300,000	1,300,000	1,300,000	1,300,000	1,300,000	1,300,000	1,300,000	1,300,000	1,300,000	1,300,000	1,300,000	1,300,000
Gulf CC	0	0	0	0	0	0	0	0	0	0	0	0	0	0
India	0	0	0	0	0	0	0	0	0	0	0	0	0	50,000
Iran	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Iraq	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Iraqi Nat. Congress	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Israel	1,792,260	1,800,000	1,800,000	1,800,000	1,800,000	1,800,000	1,800,000	1,800,000	1,800,000	1,800,000	2,820,000	1,980,000	2,040,000	2,100,000
Jordan	67,794	20,000	20,000	9,000	9,000	7,300	100,300	30,045	50,000	95,900	124,915	75,000	75,000	198,000
Kuwait	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Lebanon	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Maldives	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Morocco	42,815	39,600	22,000	40,000	0	0	0	0	0	4,000	1,500	2,500	3,500	5,000
Myanmar	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Nepal	0	0	0	0	0	0	0	0	800	500	0	0	2,000	3,000
Oman	0	3,000	500	1,000	0	0	0	0	0	0	0	0	0	20,000

Middle East and Asia Appropriated FMF Continued

Pakistan	184,369	0	0	0	0	0	0	0	0	0	0	0	0	0
Qatar	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Saudi Arabia	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Sri Lanka	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Syria	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Tunisia	29,871	10,000	10,000	2,000	0	0	0	0	0	2,000	3,000	2,500	3,500	5,000
UAE	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Yemen	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	3,411,519	3,172,600	3,153,500	3,152,500	3,109,000	3,107,300	3,200,300	3,130,045	3,152,050	3,203,200	4,249,415	3,360,000	3,424,000	3,681,000

Table A7: Total FMF 1990-2002(In Thousands $)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Grand Total	4,727,850	4,665,792	4,249,121	4,097,048	3,892,862	3,687,731	3,814,893	3,507,103	3,416,507	3,369,640	4,332,202	3,479,650	3,652,000	4,010,200

Note: Supplemental Appropriation was excluded due to variability of the figure from one resource to another.

THIS PAGE INTENTIONALLY LEFT BLANK

LIST OF REFERENCES

1. U.S., Department of State, Publication 1983, Peace and War: United States Foreign Policy, 1931-1941 (Washington, D.C.: U.S., Government Printing Office, 1943), pp. 598-607.
2. Lend-Lease Act, 11 March 1941.
3. U.S., Department of Defense, Annual Report to the President and the Congress 2001, http://www.defenselink.mil/execsec/adr2001/M.pdf
4. The Arms Export Control Act (AECA) of 1976.
5. FMS Customer Financial Management Handbook (Billing), 12 June 2002.
6. The problem with foreign military sales reinvention. World Affairs, Summer, 2001, by Isaiah Wilson, III, http://www.findarticles.com/cf_0/m2393/1_164/80774911/p6/article.jhtml?term=
7. Foreign Military Sales, Foreign Military Construction Sales and Military Assistance Facts, September 30, 2002, http://www.dsca.mil/programs/Comptroller/2002_facts/fy02_facts_book.pdf
8. Security Assistance Management Manual (SAMM) Chapter 9, Financial Policies and Procedures, http://www.dsca.osd.mil/SAMM/Chapter%209%20Financial%20Policies%20and%20Procedures%20change%202.pdf
9. Mortsolf, Larry A. et al, Security Assistance Perspective: The Congress and U.S. Military Assistance, Part II.
10. The Constitution of the United States.
11. U.S. Arms Deals, The Global Arms Trade Index and Archives, http://projects.sipri.se/expcon/natexpcon/USA/us_decisionmaking.htm.
12. Jordan A. Amos, et al., American National Security, Fifth Edition, John Hopkins University Press, Baltimore and London, 1999.
13. Foreign Assistance Act of 1961.

14. Klare, Michael, Fueling the fire: How we armed the Middle East, Bulletin of Atomic Scientist, Vol. 47, no.1 Jan/Feb 1991, http://www.bullatomsci.org/issues/1991/jf91/jf91klare.html

15. The Federation of American Scientists, The Arms Export Monitoring Project, Top Ten List for the 106th Congress: Make U.S. Arms Exports More Accountable and Less Costly to Taxpayers, http://www.fas.org/asmp/library/policy/topten106.html

16. "Fact Sheet: Conventional Arms Transfer Policy," White House Press Office, Washington, DC, February 17, 1995.

17. Mora, Frank O., et. al., U.S. Arms Transfer Policy for Latin America: Lifting the Ban on Fighter Aircraft, Aerospace Power Journal, Spring 1999, http://www.airpower.maxwell.af.mil/airchronicles/apj/apj99/mora.doc

18. Hartung, William D., Weapons at War, Arms Trade Resource Center, World Policy Institute, May 1995, http://www.worldpolicy.org/projects/arms/reports/wawrep.html

19. 108th Congress, 2nd session, in the House of Representatives as introduced in the House, 2004 H.R. 4021; 108 H.R. 4021.

20. Hartung, William D., et al., Increase in Military Spending and Security Assistance Since 9/11, Arms Trade Resource Center Fact Sheet, October 4, 2002, http://www.worldpolicy.org/projects/arms/news/SpendingDOD911.html

21. Department of Defense, Defense Security Assistance Agency, Fiscal Year series, September 30, 1993.

22. Naval War College Press, China’s Closing Window of Opportunity, Justin Bernier and Stuart Gold, Summer 2003, http://www.nwc.navy.mil/press/Review/2003/Summer/art3-su3.htm

23. Hartung, William D., Welfare for Weapons Dealers: The Hidden Costs of the Arms Trade 1996, Arms Trade Resource Center, http://www.worldpolicy.org/projects/arms/reports/hcrep.html#brother

24. The National Security Strategy of the United States of America, September 2002, http://www.whitehouse.gov/nsc/nss.pdf

25. Increases In Military Spending And Security Assistance Since 9/11/01, act Sheet Prepared By The Arms Trade Resource Center-Tom Paine.common sense, Public Interest Journal, http://www.tompaine.com/feature.cfm/ID/6504

26. Rachel Stohl, Senior Analyst, Center for Defense Information, Post Sept 11 Arms Sales And Military Aid Demonstrate Dangerous Trends, January 15, 2003, http://www.e11thhour.org/foreign.policy/arms.sales.html

27. National Defense University Strategic Assessment 1996, Element of U.S. power, Chapter 9, http://www.ndu.edu/inss/Strategic%20Assessments/sa96/sa96cont.html

28. Guidelines For Foreign Military Financing Of Direct Commercial Contracts, Defense Security Cooperation Agency, August 2001, http://www.dsca.osd.mil/DSCA_memoranda/fmf_DCS_2001/2001_guidelines.pdf

29. CRS Report for Congress, Conventional Arms Transfers to Developing Nations, 1995-2002, September 22, 2002.

30. Tim Smart, U.S. Arms Makers Rely On Exports for Survival: Developing Countries Turn Into Major Market, *International Herald Tribune,* February 18, 1999, http://www.globalpolicy.org/security/issues/weapon.htm

31. U.S. Congress, Office of Technology Assessment, Global Arms Trade, OTA-ISC-460. (Washington, DC: U.S. Government Printing Office, June 1991).

32. Lawrence F. Skibbie, Flurry of Association Activities Prompted By Critical Government Policy Initiatives, National Defense Magazine, September, 1999,http://www.nationaldefensemagazine.org/article.cfm?ID=106

33. William Drozdiak, War Fuels French Debate on Arms; Forces in Gulf Faced Higher-Tech Weapons Sold by Paris to Iraq, The Washington Post, Washington, D.C., Apr 6, 1991.

34. The Columbia Encyclopedia, Sixth Edition, 2001- Iran-Iraq War], http://www.bartleby.com/65/ir/IranIraq.html

35. Reference, allrefer.com, Country study and country guide, Iraq, Arms from the Soviet Union, May 1988, http://reference.allrefer.com/country-guide-study/iraq/iraq94.html

36. U.S. Congress, Office of Technology Assessment, Global Arms Trade, OTA-ISC-460. (Washington, DC: U.S. Government Printing Office, June 1991).

37. Anna Rich, U.S. Exports Arms to the World, Resist Newsletter, May 1999, http://resistinc.org/newsletter/issues/1999/05/usea.html

38. U.S. Department of Defense, Defense Security Assistance Agency, Foreign Military Sales, Foreign Military Construction Sales, and Military Assistance Facts as of September 30, 1996 (Washington, DC: U.S. Department of Defense, 1997).

39. Stephen Engelberg, Jeff Gerth, and Tim Weiner, "U.S.-Saudi Deals in 90's Shifting Away from Cash Deals Toward Credit," New York Times, August 23, 1993.

40. "Fact Sheet: Conventional Arms Transfer Policy," White House Press Office, Washington, DC, February 17, 1995.

41. Brian Awehali, New World Disorder: How US Arms Dealers & Their Cabinet-level Cronies Profit from the War on Terror, LiP Magazine, November 11, 2002, http://www.lipmagazine.org/

42. Cornelis A. Kluyver and John A. Pearce II, Strategy: A View from the Top, Prentice Hall, 2003.

INITIAL DISTRIBUTION LIST

Defense Technical Information Center
8725 John J. Kingman Road, Suite 0944
Ft. Belvoir, Virginia 2206-6218

Dudley Knox Library
Naval Postgraduate School
Monterey, California

Professor John E. Mutty
Naval Postgraduate School
Monterey, California

Professor Bill R. Gates
Naval Postgraduate School
Monterey, California

Lt. Colonel, Najmuddin Jaafar
Malaysian Army
Malaysia

Major, Abdulmonem A.R. Malallah
Bahrain Defense Force
Kingdom of Bahrain

Major, Mohamed A.R. Sharif
Bahrain Defense Force
Kingdom of Bahrain