
executive overview of Security Assistance Management which included classes on Legislation and Policy, FMS Process, Acquisition, Logistics and Financial Management. The participants in the seminar realized the rationale for the U.S. government legal requirements leading to the mutual protections offered by FMS agreements, as well as the other potential advantages of using the U.S. Defense purchasing system for military sales.

At the fourth meeting of the SCG in 2004, it was confirmed that a team of professors from DISAM would conduct additional courses in New Delhi in order to provide more in-depth information and train additional personnel. The DISAM Team consisted of Ms. Virginia Caudill, Director of Management Studies, who was accompanied by associate professors Mr. Tom Dop, and LCDR Ed McFarland, USN. The team was originally prepared to depart in May 2004, but the class was postponed until September 2004 because of the elections.

The DISAM instructors conducted a one-day Executive Level Seminar for twenty three senior military and civilian members of the Ministry of Defence. The executive seminar was designed specifically for those country officials involved in oversight, integration and management of the security assistance and defense sales process into overall country planning and requirements. The instruction focused on the legal requirements and processes for FMS in order to incorporate the customer requirements into the U.S. System for effective planning and program management. Other material presented included overviews of the FMS acquisition rules within the U.S. DoD procedures, logistics and sustainment support, and financial management of international military sales.



The Joint Secretary and Acquisition Manager, Ministry of Defense, Government of India and Official Representative to the India and U.S. Security Cooperation Group receiving the DISAM plaque from the Chargé d'Affaires, U.S. Embassy India.

In addition, DISAM conducted a Security Assistance Planning and Resource Management Course for thirty-six civilian and military representatives of the MoD. This course was specifically intended for the country officials directly involved in the functions and management of the international sales programs. The curriculum included the planning and resource processes of requirements generation, budgeting, acquisition and sustainment within a security assistance relationship. The two-week course included detailed operational and application details. The schedule of individual classes began with an introduction of the general policies of the Security Assistance Programs, and then progressed into analysis of the documents and requirements for an effective program.

A representative from the Office of Defense Cooperation (ODC) in India attended every class and contributed to the instruction by citing specific country examples. DISAM encouraged the Security Assistance Officers (SAO) to participate in their classes and the ODC members took maximum advantage of the opportunity to meet with students and discuss country affairs. This level of ODC participation clearly enhanced the educational objectives of the courses.

In addition to the ODC academic assistance, LTC Scott Denney, ODC Chief, opened and closed both classes. LTC Denney further augmented the instruction in both courses by providing a lecture on the operations of the ODC in India, explaining the office set-up and functions. The

Deputy Chief of Mission from the American Embassy, Mr. Robert Blake, gave opening remarks for the Executive Session and assisted in the distribution of diplomas in the Planning and Resource Management Course.

The team from DISAM would like to extend their appreciation to Mr. Harsh Chugh, a long time employee of the Office of Defense Cooperation in India, and international training manager and budget officer. In addition to setting up the course, and taking care of student enrollment, Mr. Chugh began communicating with DISAM as soon as the military education team was confirmed, making sure all administrative requirements for an effective course were in place. The instructors were able to concentrate on the academic elements, knowing that Mr. Chugh would have everything else taken care of.



**The DISAM Team Members and ODC Cooperation India
from left to right:**

DISAM Associate Professor
ODC Training and Budget Officer
DISAM Director of Management Studies
DISAM Associate Professor
Office of Defense Cooperation Chief
Office of Defense Cooperation
Office of Defense Cooperation
Office of Defense Cooperation

About the Author

Virginia K. Caudill is the Director of Management Studies at the Defense Institute of Security Assistance Management where she has been an associate professor for almost sixteen years. She came to DISAM with over fifteen years of security assistance experience in program management, acquisition, logistics and financial management with the United States Air Force. She has a Master of Arts degree in public administration and international programs from the University of Dayton, in Dayton, Ohio and a Bachelor of Arts in Spanish Language and Linguistics from the University of the Americas in Mexico. She is also a former Peace Corps volunteer.



LEGISLATION AND POLICY

Expanding the United States and India Economic Cooperation

**By
Robert O. Blake, Jr.
Chargé d'Affaires, United States Embassy India**

[The following remarks were presented at the 13th Annual Meeting of the American Chamber of Commerce, Maurya Sheraton Hotel, New Delhi, India, April 28, 2005.]

I have been asked to speak today about expanding United States and India economic cooperation. It has been the theme of several high-level contacts between Indian and United States leaders in recent weeks. The United States commitment to develop deep economic and commercial ties with India has never been stronger. In March 2005 Secretary of State Condoleezza Rice visited New Delhi to underscore the importance of developing those ties. That visit, along with one by Minister of External Affairs Natwar Singh to Washington earlier this month, marked a notable watershed in further expanding the strategic partnership between the United States and India. Our two ministers agreed that it is time to broaden and accelerate our strategic relations on a number of fronts:

- Secretary Rice and Minister Singh launched a strategic dialogue between our two countries;
- They established a joint working group to discuss how the United States and India can expand cooperation in space;
- They agreed to accelerate progress in the next steps in the Strategic Partnership Initiative by combining Phases two and three; and
- They formally announced an energy dialogue to be headed by U.S. Secretary of Energy Sam Bodman and Deputy Planning Commission Chairman Montek Singh Ahluwalia.

The energy discussions will address energy security, renewable energy, and for the first time the civilian use of nuclear power. We also are revitalizing the economic dialogue by introducing a CEO Forum. This will give the private sector greater input into the process. In New Delhi recently, U.S. Secretary of Transportation Norman Mineta and Civil Aviation Minister Praful Patel signed the *Open Skies Agreement*. This will empower the private sectors in both countries to expand and improve air service.

Last week the Planning Commission Co-Chairman Dr. Montek Singh Ahluwalia met in Washington with U.S. Energy Secretary Bodman on laying the foundation for the High Level Energy Dialogue. Dr. Ahluwalia also met with Dr. Allan Hubbard, the top economic official in the White House, on advancing the Economic Dialogue. They plan another such meeting in the near future.

On April 21, Lieutenant General Jeffrey B. Kohler, Director of the Defense Security Cooperation Agency (DSCA), visited Delhi to begin discussions about the capabilities of Lockheed Martin's F-16 fighter and Boeing's F-18. Both aircraft are under consideration in India's important Multi-Role Combat Aircraft tender.

On Monday of this week in New Delhi we hosted a sixty-five member trade and education delegation from the state of Virginia, led by Virginia Governor Mark Warner. On the calendar ahead, we look forward to a visit to the U.S. this June by Minister Nath, to advance our Trade Policy Forum and meet with Commerce Secretary Gutierrez and U.S. Trade Representative Portman, assuming he is confirmed. President Bush has invited Prime Minister Singh to visit the U.S. We expect that visit will take place in July. We hope the first meeting of the Economic Dialogue's CEO Forum will take place before that event. In late summer, we expect Treasury Secretary John Snow to visit India for a cabinet-level session of the Economic Dialogue. Finally, late this year or early next year, President Bush will visit India. That is quite an agenda. It marks an intense level of high-level contacts. The objective of all these contacts is to deepen American strategic and economic ties with India and to put them on a sustainable commercial basis so that the private sectors in both countries can unlock the full potential of their productive energies.

We also want to join with India to open up new fields, areas in which historically there has been little or no commercial or technical exchange, such as space research, civil nuclear energy, and the joint production of weapons systems. This is new ground for all of us policy makers, government officials, businesses, and trade associations like the American Chamber of Commerce.

Even as we look ahead to new opportunities, we will also use our high-level dialogues to address the trade and investment issues of the past. These are the so-called legacy issues. They include disputes involving specific companies, such as the U.S. investors in the power sector. They also include more general policy issues, such as government subsidies for fertilizer and liquefied petroleum gas (LPG) and non-tariff barriers and non-transparent standards. These practices restrict trade and investment opportunities for U.S. companies.

The Government of Prime Minister Singh is committed to market-oriented reforms. Last week the Prime Minister said in Jakarta:

We are committed to be more open economy, society and the winds of change are creating a situation for growth of India. We want to see the growth rate go up to 7.5 per cent in the future.

That sounds like a clear call for additional economic reforms. We encourage the United Progressive Alliance (UPA) Government to move forward with the next generation of economic reforms. Further reform would benefit Indian consumers by increasing their choice of goods and services. And they would establish the policy framework needed to pursue new opportunities with the U.S. in a variety of high-tech fields and sunrise industries. Let me give a few examples of areas needing further reform.

First, tariffs. I am glad the Minister is here and I know he will not mind if I speak frankly as good friends do. India has made important progress in lowering the peak rate. This year it is 15 percent, compared to 40 percent in 1999. But tariffs still have room to come down, especially to achieve the government's goal of aligning them with the tariff structure in the Association of Southeast Asian Nations (ASEAN) countries. Even as tariff rates have fallen, other forms of protection appear to have gone up. The government imposes sanitary and phyto-sanitary rules, technical standards, and registration rules, sometimes in non-transparent ways. For example, the government recently imposed sanitary measures that have stopped imports of pet food, poultry, and dairy products from the United States. Moreover, tariffs on agricultural imports remain very high by world standards. The average tariff on most foodstuffs is about 40 percent. According to the International Monetary Fund (IMF), only four countries on a list of 134 emerging markets have higher agricultural tariffs. Thus, despite the reduction in tariff rates, India still has a

restrictive trade regime. Because trade is restricted, Indian consumers have fewer choices and pay higher prices.

The situation with Foreign Direct Investment (FDI) is a similar story: although progress has been made, India still imposes restrictions on many types of FDI. To the outside observer, it appears as though the investment door is half open and half closed. The recently released roadmap for FDI in the banking industry is an example. It features a five-year delay before the door is open to FDI. And there is no full guarantee that will happen. The five years is intended to give domestic banks time to become more efficient so that they can meet the challenges of global banking. It is unclear under what circumstances any domestic bank would be allowed to merge with a foreign partner.

Indian banks are small and undercapitalized. They need foreign capital to grow. The delay in preventing foreign capital from entering India will be costly in terms of slower growth, fewer jobs, and less innovation in banking services. It will hinder India's emergence as a global economic power. India's banking industry and its entire financial sector has matured to the point where it can accommodate a faster pace of reform. This would facilitate the delivery of credit and other types of financial services to small-scale enterprises and to households with modest incomes.

These are large segments of the economy. They are untapped markets. When they need credit, they typically rely on family and the informal financial sector for loans. Only the private sector can pull these segments of society into the formal banking system. Liberalized foreign investment in banking would accelerate that process. Liberalizing FDI in banking would have another positive effect, it would help India finance its infrastructure needs.

India cannot be a world economic power without world-class infrastructure. It is as simple as that. There are many factors that have led to the inadequacy of infrastructure in India. One of them is the lack of a long-term debt market. In the United States, we have credit markets where borrowers can find financing for thirty years or longer for development projects. India does not yet have such a market.

To stimulate the creation of that market, the government should allow the private sector to increase the number and the different types of financial players. The creation of a long-term bond market depends on banks, insurance companies, pension funds, mutual funds, Foreign Institutional Investors, venture capital funds, even retail investors. They all have different incentives and different time horizons for their investments.

Policies that restrict the numbers and the types of financial players tend to result in shallow credit markets that are unable to provide long-term financing. Liberalizing FDI in banking as well as in insurance and pension fund management will bring in more capital, stimulate the creation of the long-term credit market, and provide financing for long-term infrastructure needs.

The retail industry is another example of an area needing reform. When I arrived in India in 2003, there was virtually no public discussion about opening up the retail sector to foreign investment. Although retailing is still off limits for FDI, today there is a public discussion about liberalizing that policy. India should allow foreign investors to participate directly in retailing, as well as in related industries like accountancy, real estate, and law practice. It would be a driver of economic growth. It would offer Indian consumers a wider variety of goods and services at lower prices. And it would have a truly transforming effect on the economy, unifying existing market fragments into a national whole.

Because of a variety of tax policies and government restrictions, India's market is fragmented. Allowing foreign retailers to enter would introduce "supply chain" business models. This would create a truly national market in terms of both the price and the quality of goods. Today,

international retail giants like Wall Mart buy billions of dollars worth of goods in India and sell them to foreign consumers abroad through their own outlets. However, the government prohibits these same companies from selling the same goods to consumers in India! That does not make sense.

Years ago the retail industry was closed in such markets as Mexico and China. But after U.S. retailers entered, they passed along cost savings to the consumer of up to 30 percent on many goods. For those with modest incomes, lower retail prices effectively means an increase in their disposable income. Opponents sometimes argue that opening retail would hurt local producers. But an editorial in the *Indian Express* on Monday pointed out that the presence of big local retail malls has not hurt local kirana stores. The same editorial noted that FDI in retail would be a boon to the exchequer because foreign retailers would pay the taxes that are currently evaded by thousands of informal retailers in the cash economy. In summary, the U.S. is launching a comprehensive relationship with India on economic, commercial, and strategic issues. This year will likely be remembered as a watershed year in U.S. and India relations.