

DEFENCE INDIGENISATION IN INDIA: RECENT TRENDS AND CHALLENGES

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Recently, India has been working to enhance defence indigenisation through increasing foreign direct investment (FDI) and private-foreign companies' partnerships. Whether India wants to strengthen its national defence through indigenisation or increase its prestige and power projection regionally and globally?

India's defence budget was estimated at US\$71.9 billion in 2022-23, making it the third largest military spender in the world. India had been the largest arms importer between 2017-2021.¹ India depends on imports for 70 per cent of its defence requirements, with 90 per cent of its defence imports coming in from Russia, Israel, the US and France. This led to restricted defence trading with few selective partners.² Israel's 50 per cent of weapons exports to India, makes Israel the third largest arms exporter to India.³ It should be noted here that India depends on Russia for 60 per cent of its defence equipment.⁴ It's unlikely that India can reduce its dependence on these exporters as soon as India's National Security Advisory Board implied, "weapon systems are not soap and

- 1 Global Data, "Indian Conglomerates making a move to Diversify into the Defense Sector," Army Technology, June 10, 2022, <https://www.army-technology.com/comment/indian-conglomerates-defence-sector/>.
- 2 Rahul Nath Choudhury, "Big Barriers on FDI in Indian defense," East Asia Forum, August 19, 2021, <https://www.eastasiaforum.org/2021/08/19/big-barriers-on-fdi-in-indian-defence/>.
- 3 Furqan Khan, "Appraisal of Indian Military Modernisation: Implications for Regional Strategic Stability," *The Journal of Political Science* XXXVIII (2021): 40-61, https://www.researchgate.net/publication/350131181_APPRAISAL_OF_INDIAN_MILITARY_MODERNIZATION_ON_IMPLICATIONS_FOR_REGIONAL_STRATEGIC_STABILITY.
- 4 Ashok Sharma, "India Ramps up Domestic Defense Production," *The Diplomat*, April 07, 2022, <https://thediplomat.com/2022/04/india-ramps-up-domestic-defense-production/>.

shampoo.”⁵ Even the Defence Public Sector Undertakings (DPSUs) that are responsible for about 30 per cent of defence manufacturing in India heavily rely on large import content at different systems and sub-systems levels.

The monopoly of public sector defence organisations in the defence production sector for decades is another major issue. Most of the defence projects were given to either the Defence Research and Development Organisation (DRDO) or DPSUs. This led to the lack of participation of private companies, technological stagnation and decreased FDI in the defence sector.⁶ However, Modi’s government is changing this trend through “Make in India” to attract FDI. Since DRDO had most of the bids for the development of defence arms, the defence ministry proposed a strategic partnership between Indian companies and original equipment manufacturers (OEMs) to boost the transfer of technology (ToT) and fast-track indigenisation process. Indian defence indigenisation policy is ambiguous as it calls for defence indigenisation on one hand, while simultaneously calling for foreign investment in their defence sector on the other hand. Despite the ambiguity, this policy shift has attracted various domestic private companies to partner with foreign companies to get future Indian military contracts of up to US\$130 billion. In 2020, India decided to upgrade its FDI in the defence sector from 49 per cent to 74 per cent through automatic means while the other 26 per cent could be done through the government route.⁷ However, increasing FDI is neither an effective nor sustainable measure as OEMs are also subjected to export controls from their home state.

The Ministry of Defense (MoD) announced in the 2022-2023 budget that 68 per cent of capital defence procurements would be for indigenous manufacturing. The ministry website also discussed the possibility that approximately US\$28 billion in military orders might be given to Indian state-run and private defence manufacturing institutions.⁸ Moreover, there have been measures taken to increase the participation of private companies in the Indian defence sector in the coming decades through joint ventures of private-OEMs partnerships. However, it seems unlikely that major arms exporters would allow OEMs to transfer their latest technology to India. The private Indian companies partnering with foreign companies for defence production and ease of ToT is a step by

5 Ash Rossiter, Brendon J Cannon, "Making arms in India? Examining New Delhi's renewed drive for defense-industrial indigenization," *Defence Studies*, 19(4), October 30, 2019: Pg 353-372, <https://doi.org/10.1080/14702436.2019.1685880>.

6 Dhruva Jaishankar, "The Indigenisation of India Defense Industry," *Brookings India Impact Series*, August 2019, Brookings Institute India Center, <https://www.brookings.edu/wp-content/uploads/2019/08/The-Indigenisation-of-India-Defence-Industry-without-cutmar-for-web.pdf>.

7 Rahul Nath Choudhury, "Big Barriers on FDI in Indian Defense," *East Asia Forum*, August 19, 2021, <https://www.eastasiaforum.org/2021/08/19/big-barriers-on-fdi-in-indian-defence/>.

8 Sharma, "India Ramps up Domestic Defense Production."

India to prevent major influence and monopoly of few partners over its defence sector,⁹ which can backfire. While these measures can lead to prospective commercialisation as an Indian arms market with larger stakes for the private sector and foreign OEMs might lead to private stakeholders having greater interests in increasing trade of arms to gain more profit, and enter into the global arms market.

Recently, the MoD asked defence shipyard Mazagon Docks and private shipbuilding corporation L & T, who are going to partner with five OEMs including Naval Group DCNS (France), Rosoboronexport (Russia), ThyssenKrupp Marine Systems (Germany), Navantia (Spain), Daewoo (South Korea) to present bids for the Indian mega-project of making 6 diesel-electric submarines without air propulsion. There have also been talks of other projects like replacing old Chetak helicopters, the Indian Air Force's (IAF) plan to acquire 4.5 generation fighters, Indian Army's plan to acquire 1770 tanks.¹⁰ Other instances of partnerships include Tata Group partnering with Honeywell International and Airbus, while Mahindra Group, Hero Group, Bharat Forge and Reliance Anil Dhirubhai Ambani Group are partnering with Israel's Rafael and Hinduja Group with Larsen & Toubro. In 2017, Indian Kalyani Group and Israel's Rafael signed an agreement to manufacture Spike Anti-Tank Guided Missiles ATGM but to meet its operational requirements the Indian Army is working on importing 240 Rafael Spike Medium Range ATGM, along with 12 launchers. While India is also working on importing Rafael fighter jets from France. India is also trying to advance in the field of network-centric warfare through a strategic partnership between Japan and India, because of deals between Japan's Renesas Electronics and Tata Motors of Tata group and Tejas Network. All three parties will work on semiconductors, 5G technology and advanced Driver Assistance Systems (ADAS). While Tata Elxsi is also working with Renesas to bring innovation to electronic systems.¹¹

India's ability to manufacture domestic arms has been lagging ever since its independence.¹² "India's manufacturing of arms, to promote defence indigenisation has been straggling...it could take five years to see major progress," said Lt Gen (Retd) Hooda.¹³ India's defence imports are highly likely to increase in near future, as it is in the process of acquiring equipment and weapons. Its joint projects with OEMs for weapons, which are already in the market, are set to take more than 5 years. Keeping

⁹ Ash Rossiter and Brendon J Cannon, "Making Arms in India? Examining New Delhi's Renewed Drive for Defense-industrial Indigenisation," *Defence Studies* 19, 4 (October 2019): Pg 353-372, <https://doi.org/10.1080/14702436.2019.1685880>.

¹⁰ Rajat Pandit, "5 years on, 'Strategic Partnership' Defence Projects yet to take off," *The Times of India*, May 4, 2022, <https://timesofindia.indiatimes.com/india/5-years-on-strategic-partnership-defence-projects-yet-to-take-off/articleshow/91296132.cms>.

¹¹ Scott Foster, "Tata and Japan's Renesas ink Tech Cooperation Deal," *Asia Times*, July 13, 2022, <https://asiatimes.com/2022/07/tata-and-japans-renesas-ink-tech-cooperation-deal/>

¹² Rossiter and Cannon, "Making arms in India?"

¹³ Sharma, "India Ramps up Domestic Defense Production."

in view the fast pace of technological advancement in defence, the weapons would lose their utility at the time of materialisation and operationalisation. The Indian Defence Minister, Mr Rajnath Singh, highlighted how he wants India to be a defence manufacturing hub, which seems unlikely considering the rapid advancement in technologies have made equipment production costs even higher, while many OEMs have created a whole transnational enterprise of exporting arms that makes it very difficult for weapon importing states to become weapon exporters. Moreover, Indian services have been dissatisfied with the domestic efforts for arms production, which to them are inefficient. They still rely on foreign sources to fulfil their defence needs. Not to mention, various research suggests that states which acquire huge quantities of arms can be more prone to using these arms to resolve conflict.¹⁴ A heavily militarised India is not in the best interest of the region, as the Hindutva ideology has now become part of the strategic culture of India. The commercialisation of the indigenisation of the defence sector of the extremist set-up of India should not be taken lightly.

¹⁴ Paul Holtom & Mark Bromley, "The international Arms Trade: Difficult to Define, Measure and Control," Arms Control Association, <https://www.armscontrol.org/act/2010-07/international-arms-trade-difficult-define-measure-control#bio>.