



BULLETIN

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India's Military Procurement and Defence Cooperation Efforts

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India emerged recently as the largest importer of arms, and its ambitious modernisation programme will offer more opportunities to arms suppliers despite strengthened efforts to develop a domestic defence industry. Growing competition on this highly lucrative market may give another argument in favour of further consolidation of European defence industries. For Poland, India used to be a top arms export market, but maintaining this position will depend on the modernisation of the Polish defence sector and in finding specialised niches as well as the ability to engage in joint ventures and technological cooperation with Indian partners.

Military Modernisation and Domestic Capabilities. With more than 1.2 million regular personnel, India has the third largest army and the seventh biggest military expenditure in the world. Despite its slowing economy, the recent defence budget for 2013–2014 saw a 5.3% hike to \$37.7 billion (compared to increases of 17.6% and 11.6% in the previous two budgets), with the largest share allocated to defence acquisitions (42%). According to the secret 2012–2027 Long-Term Integrated Perspective Plan (LTIPP) and the 2012–2017 Five-Year Defence Plan, India is believed to be planning to spend more than \$100 billion on arms procurement in the next 5–10 years. Understandably, this is seen as an opportunity to develop a domestic defence industrial and technological base in India.

Today, the Indian military-industrial complex consists of eight government-owned Defence Public Sector Undertakings (DPSUs), 39 ordnance factories, and the Defence Research and Development Organisation (DRDO) and it has more than 1.4 million employees, including some 30,000 scientists and engineers. Yet, the public defence sector is generally considered ineffective and uncompetitive, and even though it can produce basic weapons, it is much less successful in developing more advanced armaments and technologies. Crucial projects such as the Tejas fighter or Arjun tank perform worse than foreign versions, have long delays in production and cost well more than their original budgets. Therefore one of the crucial aims of the most recent version of the strategy of arms acquisitions (the Defence Procurement Procedure, or DPP, endorsed in January 2011) is to achieve substantive self-reliance in the design, development and production of equipment, weapon systems, and platforms required for defence. It was argued that implementation of the policy should contribute to a reduction of the country's dependence on imported arms from the current 70% to 30% in a decade.

International Procurements and Cooperation. Despite a push to develop domestic weapon platforms, India is still heavily dependent on the foreign suppliers and in 2011 it replaced China as the world's largest arms importer. According to the most recent data by SIPRI, India's arms imports accounted for 12% of global arms imports in 2008–2012 (\$15.6 billion), far more than China, the second largest importer which is at 6%. Russia continues its traditional domination of the Indian arms market as it accounted for 79% of India's arms imports in the last five years, followed by the UK (6%) and Uzbekistan (4%). As India has aimed at the diversification of its weapons sources and access to state-of-the-art military technologies, it has started to buy more arms from other countries, including Israel, the U.S. and France. Among the major acquisitions expected this year alone are a more than \$10 billion contract for 126 French Rafale fighters, 22 Boeing AH-64D Apache Longbow attack helicopters (\$1.2 billion), six Airbus A330 Multi Role Tanker Transport (\$1.0 billion), and 145 ultra-light howitzers (\$647 million).

As India defence policy changes, more emphasis in international cooperation is being put on technology transfers and joint R&D collaboration instead of simple arms trades. According to the current DPP and the recent Offset Guidelines in force since August 2012, foreign bidders who sell arms to India worth more than 3 billion rupees (about \$67 million) are required to offer a minimum 30% direct offset, either in the form of counter-purchases of Indian defence equipment or foreign direct investment (FDI) in the Indian defence industry or to establish licensed production inside India. Thus far, Russia has been the most willing to enter into joint ventures and to transfer technology, as many Russian-licensed arms are already produced in India (SU-30MKI fighters, T-90M tanks) and more jointly designed and developed projects are in the pipeline (such as the Sukhoi-HAL Fifth Generation Fighter Aircraft).

Still, the DPP's effects are limited, and the Indian defence sector took in only \$4.12 million in FDI in the last decade as stronger cooperation has been hampered by complex and non-transparent decision-making processes, limits on FDI, concerns about intellectual property rights, and the high risk of corruption. In only the last few years there have been several bribery allegations involving foreign companies, which has created expectations for yet further changes in procurement policy and delayed the signing of new defence deals. In the aftermath of the most recent corruption scandal, linked to a contract for 12 VVIP helicopters from AgustaWestland and Finmeccanica, India's Ministry of Defence announced changes to the DPP would be made in the coming months to give much more priority to private Indian companies in supplying its army. At the same time, however, there is a new proposition on the table to raise the limit for FDI in the defence sector from 26% to 74% in order to attract more foreign capital and state-of-the-art technologies.

Opportunities for Poland. Poland used to be an important source of arms to India in the Cold War period, providing TS-11 Iskra trainer aircraft and landing ships, among other items. Although geostrategic changes after 1991 and the transformation of the Polish defence industry reduced Poland's share of India's imports, the Central European country was the ninth largest exporter of major conventional weapons to this market in the last two decades, with the largest deliveries recorded in 2006 and 2007 (ARV-3 armoured recovery vehicles). In January 2012, the Polish company Bumar signed a \$275 million deal with Indian DPSU BEML Ltd. for the delivery of 204 ARV-3s, but the contract has run into trouble in recent months (over pricing and delivery schedules) and its future seems uncertain. Despite this, Poland has still a lot to offer the Indian army, especially in terms of the modernisation of post-Soviet weapons, the delivery of certain high-tech components such as avionics and optoelectronics, and technological cooperation. As new areas for cooperation are being explored, Indian partners have been guests at major defence fairs in Kielce and Polish delegations regularly visit major Indian defence shows such as Defexpo in Delhi. Moreover, India has been included as priority market for 2012–2014 in the promotion sectoral programme for the defence industry, launched by the Polish Ministry of Economy. Military cooperation is also a major topic of the countries' political dialogue, including a Polish–Indian Joint Working Group for Military and Technical Cooperation.

Conclusions. While located in a difficult neighbourhood, with a hostile Pakistan to the west and a rising and more assertive China to the north, India will further increase its military spending in the future to match the growing needs of its armed forces. Despite a renewed push for the indigenisation of arms supplies, India has achieved little in this area in recent years and is rather unlikely to improve considerably in the next decade without a complete reform of the old system. Thus, India will continue to remain a highly lucrative and increasingly competitive market for arms exports, especially in a time of major defence cuts in crisis-hit Europe. This might encourage further consolidation of the EU technological and industrial defence base to avoid internal competition (such as the rivalry between France and its Rafale aircraft and other countries' Eurofighter Typhoon) and to offer better options compared to bidders from Russia or the U.S. European companies should also be more willing to forge long-term joint ventures with Indian partners and transfer technologies, as Russia does.

As India aims to diversify its arms supplies, it offers new opportunities not only for major exporters such as the U.S. or Israel but also for smaller players, including Poland. Thanks to decades of defence trade with India, Poland still enjoys significant goodwill, but this alone may not be a sufficient asset in an increasingly competitive market, where high quality arms and advanced technology matters now more than ever. As the market for post-Soviet equipment wanes in India, opportunities for strengthening Polish–Indian cooperation lies instead in joint collaboration in research and development of new weapons. Polish companies should further explore niches in this vast market, seek opportunities as suppliers of components for larger prime contractors, and find promising partners among Indian private companies that will soon play stronger roles in the country's defence sector. The intensification of political and military dialogue, organisation of joint exercises, and exchanges of military staff should further help promote Polish military technologies and create opportunities for a more beneficial relationship.