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469A Bukit Timah Road
#07-01, Tower Block, Singapore 259770
Tel: 6516 6179 / 6516 4239
Fax: 6776 7505 / 6314 5447
Email: isasec@nus.edu.sg
Website: www.isas.nus.edu.sg



Indo-Russian Defence Trade:

A Recipe for Revival¹

Jayant Singh²

Defence trade has been the cornerstone of the Indo-Russian strategic partnership since the 1950s. Today, with Russian military sales to India steadily declining, the defining aspect of their bilateral relationship is threatening to become a heavy burden for both partners. Furthermore, Russian concern over this loss of market share is fast giving way to discontent. Recent reports have the Russians complaining that Indian military tenders are designed to the benefit of some and to the detriment of others, specifically Russia.³ The nebulous nature of India's Defence Procurement Policy (DPP) notwithstanding, Russian military engagement with India could benefit from a rethink.

¹ This paper is a preliminary study of the changing dynamics in India's defence engagement with its foreign partners and will be followed by a detailed working paper.

² Mr Jayant Singh is Research Assistant at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore. He can be contacted at isasjs@nus.edu.sg. Opinions expressed in this paper, on the basis of research by the author, do not necessarily reflect the views of ISAS.

³ Rahul Singh, 'Miffed Russia may stop arms sale to India', *Hindustan Times*, 25 April 2013. Available at: <http://www.hindustantimes.com/india-news/newdelhi/miffed-russia-may-stop-arms-sale-to-india/article1-1049963.aspx>

Revaluating the Terms of Engagement

The Indo-US civil nuclear agreement marked a watershed moment in India's defence engagement with the world. Following the signing of this landmark deal, sanctions against many Indian defence entities were lifted and high technology export controls were slowly eased. This simplified conducting defence trade with India and allowed the US and Israel to emerge as viable markets for arms imports into India. Within the space of a decade, Indo-Israel defence trade rose to US\$10 billion, while India's defence trade with the US has crossed US\$9 billion.⁴ This has greatly altered the prevailing environment in which India conducts its military business. With India emerging as the largest arms importer in the world, no major arms manufacturer can afford to ignore the Indian defence market.⁵ New Delhi now finds itself in a unique position where it has the opportunity to interface with several nations that are more than willing to conduct arms trade with India. This intense supplier competition has given India an upper hand, allowing New Delhi to dictate terms to its foreign military suppliers. Given the magnified scope of India's choice, Russian equipment is increasingly being judged against those made in US, Israel and Europe. Where Russian hardware has been found wanting or lacking in comparison, it has been overlooked for Indian contracts. The resultant pressure has 'miffed' Kremlin officials pointing out that Russia has always been a reliable partner to India and has shared sensitive military technologies even when the latter faced strict sanctions.⁶ Ostensibly it appears as though Russia is guilty of equating its long-term strategic partnership with India as a commitment from New Delhi to treat Russia as its chief trading partner with first right of refusal on all military acquisitions. Clearly such a mistaken notion is not helping the Russian cause.

In this, the US response to the Medium Multi-role Combat Aircraft (MMRCA) contract should serve as suitable example for the Russians. Following the announcement that the US-made F-18 and F-16 fighter jets will no longer be considered for the MMRCA, the

⁴ Data taken from SIPRI arms transfer database. Available at: <http://portal.sipri.org/publications/pages/home>

⁵ India has surpassed China as the largest importer of weapons systems in the world. Its annual defence spending is approximately 1.90% of its GDP. With US\$100 billion allocated for its military modernisation programme over the next decade, there is a huge opportunity for Indian and foreign firms across the supply chain.

⁶ Rahul Singh, 'Miffed Russia may stop arms sale to India', *Hindustan Times*, 25 April 2013. Available at: <http://www.hindustantimes.com/india-news/newdelhi/miffed-russia-may-stop-arms-sale-to-india/article1-1049963.aspx>

Americans responded by voicing their commitment to strengthening India's armed forces and vouched for the quality of the products that were on offer to India.⁷ Immediately thereafter there were statements made in Washington that the US would consider offering the F-35 stealth fighter to India if New Delhi showed an interest in the Joint Strike Fighter. Unlike the Russians, the Americans were careful and controlled in their response so as not to make it appear that they are questioning Indian judgment on the matter.

A More 'Businesslike' Approach

Whereas the US approach to Indian military acquisition is underpinned by sound economic rationale, the Russians favour geo-political manoeuvrings to win military contracts in India. Recent trends, however, suggest that the former approach yields greater dividend. Where Russian hardware has proven cutting edge, sophisticated and outside the reach of India's military industrial complex it has been readily procured by India. The most recent examples being the lease of the nuclear-powered *Akula-II* attack submarine and the acquisition of six *Talwar* class stealth frigates. Instead of appealing to Indian nostalgic sentiment, Russia should revise its sales strategy to win complex Indian military contracts. No longer can they rely on selling India merely upgraded equipment, modern and advanced platforms are the need of the day.⁸ Within this paradigm, Moscow must also improve the manner in which it interfaces with New Delhi during negotiations. A heavy-handed approach, as witnessed during the renegotiation of the *Admiral Gorshkov* aircraft carrier deal, only serves to antagonise Indian officials. That Russia had a case for renegotiating the *Admiral Gorshkov* deal is immaterial given the strong-arm tactics it employed to secure a new contract. Not only does this threaten the equation of Indo-Russian military cooperation but in the future, *ceteris paribus*, Indian officials could refrain from entering into contracts with their Russian counterparts.

Such situations are further exacerbated by the fact that India cannot deal directly with the Original Equipment Manufacturer (OEM); Ministry of Defence (MOD) officials must go through a heavily centralised process and parley with the central Rosboronexport Company,

⁷ 'US disappointed India rejected its fighters', *Indian Express*, 28 April 2011. Available at: <http://www.indianexpress.com/news/us-disappointed-india-rejected-its-fighters/782934/>

⁸ See Rod Thornton, 'India-Russia Military Cooperation Which Way Forward?', *Journal of Defence Studies* (2012) Vol. 6, Issue -3, PP 99-112.

which is responsible for ‘prospecting, negotiating, finalising and executing the arms sales contract’.⁹ Those in the know argue that such a system leads to miscommunication, clientalism and bureaucracy. Movement away from such an ad hoc set-up towards a formalised and commercial operation in tandem with a more competitive product line would go a long way in protecting Russian market share. This is not to suggest that the geo-strategic element be removed from the process; rather, the modern approach to arms trade requires the geo-strategy be supplemented with commercial logic.

Military Co-development

Any arms manufacturer desirous of gaining a foothold in the Indian defence market must factor in New Delhi’s aspirations of becoming self-sufficient in defence production.¹⁰ Joint ventures, co-production and development-sharing are terms that instantly draw Indian attention and are infinitely more attractive to an Indian defence establishment that is increasingly drawn towards indigenising production. Russia has shown signs of transforming its buyer-seller relationship with India towards a more collaborative effort. Till date, the *Brahmos* supersonic cruise missile - an Indo-Russian joint venture - remains the gold standard of defence collaboration between India and a foreign nation. Not surprisingly, even here the Russians are facing stiff competition from Israel and the US; the former has several collaborations currently under way with India whereas the latter has realigned its strategic policy towards co-producing military equipment with India. The Russians can, however, take heart from the fact that Indo-Israeli projects to produce Long Range Surface-to-Air Missile (LR-SAM) and Medium Range Surface-to-Air Missile (MR-SAM) systems have been delayed and face major hurdles. What’s more, given US parsimony in sharing sensitive dual-use technology with foreign nations, there is inevitably going to be a lag in executing Washington’s policy of co-producing military equipment with India.

Russia should capitalise on its head-start in joint military production with India and make every effort to iron out the difficulties that various Indo-Russian projects are facing. Indian

⁹ See Louis-Marie Clouet, ‘Rosoboronexport, Spearhead of the Russian Arms Industry’, *IFRI Russia/NIS Center*, (2007).

¹⁰ Over the past two years, the slowdown in India’s economy and an unfavourable exchange rate has led to cuts in the defence budget and less money being allocated for capital acquisitions. Consequently, India’s military modernisation programme can only be sustained through indigenisation of defence production.

officials have repeatedly voiced concerns about work share during the ‘design and development’ phase of joint defence projects; according to them, Russian reluctance in allocating work share to Indian research establishments prevents India from truly developing indigenous research expertise. Critics of the Fifth-Generation Fighter Aircraft (FGFA) project point out that the current balance of research and design does not favour India; although India is funding 50 per cent of the project, it is only responsible for 15 per cent of the research and development (R&D).¹¹ In order for such projects to be justifiably beneficial for India, Russia must be genuinely inclined to share R&D expertise with its Indian counterparts. This would involve allowing Indian designers greater access to advanced technologies, design processes, and systems integration expertise. From a technology procurement standpoint, New Delhi must not feel Russia is holding back technical details in order to maintain a competitive advantage. Russia has a rare opportunity to institutionalise collaborative defence production with India and gain a competitive edge against their closest rivals; high-handedness and erratic manoeuvrings, on the other hand, could scupper such an endeavour from gaining any momentum.

Sino-Russian Cooperation

The recent upsurge in Sino-Russian military cooperation has also not gone unnoticed in India.¹² By selling the advanced Su-35 fighter aircraft to China, Russia is potentially creating a conflict of interest for itself. With every sale of military equipment to China, Russian military hardware becomes less appealing in the Indian market; this is because the Indian military establishment has greater ambitions than just attaining military parity with China. Some argue that the configuration of equipment supplied to India surpasses that which is supplied to China, but such a claim is hard to conclusively verify given that the Chinese configuration does not go through technical evaluations or trials. The fact remains, India could then be tempted to pursue military hardware from alternative sources, preferably from a manufacturer that could guarantee a competitive edge against Chinese imports. Furthermore, when crafting conventional arms transfer policies, Russian decision makers must prioritise

¹¹ Alexander Korablinov, ‘India believed to be unhappy with share of work in FGFA- report’, *Russia & India Report*, 18 October 2013. Available at: http://indrus.in/economics/2013/10/18/india_believed_to_be_unhappy_with_share_of_work_in_fgfa-_report_30233.html

¹² ‘India threatened by Russia-China cooperation: analysts’, *Want China Times*, 28 July 2013. Available at: <http://www.wantchinatimes.com/news-subclass-cnt.aspx?id=20130728000051&cid=1101>

their customer base; the Chinese arms industry is known for reverse engineering foreign-origin military hardware and has already burned Russia in the past when it acquired a small number of Russian Su-27 Flanker jets and then reverse-engineered the J-11B aircraft.¹³ In comparison, Indo-Russian military transfers do not have such a chequered past. If China's questionable reverse engineering practices and its already developed industrial base were factored into Russia's decision making calculus, India would emerge as a far superior long-term partner for Russian arms trade.

Even though bilateral defence trade between India and Russia has lost momentum recently, a quick turnaround is still possible. A future reset in relations rests upon whether Moscow can transform its outmoded approach in interfacing with India. The *realpolitik* of past decades has little relevance to the multi-polar system within which India conducts its bilateral and multilateral relations today. Going forward, if Russia and India want their future involvement in arms trade to mirror their productive past relationship, they should endeavour to work as partners and foster greater cooperation between their respective defence establishments.

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¹³ After acquiring complete knock-down kits (CKD) for the Su-27, the Chinese violated the 1996 co-production agreement with the Russians by using their own sub-systems in the J-11B. For further details see: Phillip C. Saunders and Joshua K. Wiseman, 'Buy, Build, or Steal: China's Quest for Advanced Military Aviation Technologies', *China Strategic Perspectives*, Institute for National Strategic Studies (December 2011).