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India’s Defense Procurement Policies and the Failure of Autarky

India has long believed that an advanced and self-sufficient defense sector is essential to its status as an emerging power. Yet, as Richard A. Bitzinger writes, the country remains saddled with a bloated and inefficient defense-industrial base that has contributed little to its great power aspirations.

By Richard A. Bitzinger for ISN

India is an aspiring great power that has long harbored the goal of possessing an arms industry capable of supplying its military with advanced equipment. These ambitions go back more than 50 years, when the country attempted to design and build its own fighter aircraft, the HF-24 *Marut*. Today, India possesses one of the largest and most diversified defense industries in the developing world. And yet, few nations have invested more time, effort, and capital in their defense industries and received so little in return.

Despite more than a half century of struggle, the history of India’s arms industry is a nearly unbroken story of ambitious overreach and spectacular failures. While the rest of India appears to be racing into the 21st century, powered by a dynamic, free-market-oriented economy, the defense sector seems mired in the country’s Nehruvian socialist and protectionist past. Consequently, the nation is still predominantly saddled with a bloated, non-competitive, non-responsive military-industrial complex – capable, it seems, of only producing technologically inferior military equipment, and even then, never on time and nearly always way over their original cost estimates. Given such longstanding deficiencies in its defense industrial base, it is little wonder why India’s drive for great power status has been so fitful.

India’s failing defense-industrial base

The Indian defense-industrial base consists of eight government-owned Defense Public Sector Undertakings (DPSUs), 39 Ordnance Factories (OFs), and, at the top, the all-powerful Defense Research and Development Organization (DRDO). India’s state-run defense sector employs more than 1.4 million workers, including some 30,000 scientists and engineers within the DRDO, and in 2010 it enjoyed revenues of approximately US$7.8 billion.

And yet, this huge defense industrial sector has consistently underperformed, both technologically and programmatically. In 2006, for example, a government audit of the Ordnance Factories revealed that about 40 percent of OF products had “not achieved the desired level of quality despite the fact that most items were in production for decades.” At the same time, costs have skyrocketed;

according to one source, the country's five most important weapons programs – including the *Tejas* fighter, the *Arjun* tank, and the *Kaveri* engine – are at least two-and-a-half times over their original budgets.

In addition, the Indian military remains as dependent as ever on foreign systems and technologies. Despite pronouncements made in the mid-1990s that India would increase the "local content" of weaponry in its armed forces from 30 percent to 70 percent by 2005, the current level of imported systems remains unchanged at 70 percent. The most advanced armaments coming out of Indian factories are still predominantly licensed-produced versions of foreign weapons systems, like the Su-30MKI combat aircraft and *Scorpène* submarine. Even the much-touted *BrahMos* cruise missile is basically a copy of the Russian *Yakhont*.

This, in turn, reflects that the problems with India's defense industry are structural, financial, and cultural. A "statist" mindset generally permeates the Indian military-industrial complex, and the government, DRDO, DPSUs, and OFs have long operated in a sealed environment. Under the guise of "self-reliance," state-run defense firms are pretty much guaranteed production work; traditionally, little stress has been put on meeting project milestones or ensuring quality or operational effectiveness. Additionally, the influential DRDO has persistently pushed indigenous projects over foreign armaments, while also tending to overestimate the technological abilities of the local defense sector and low-balling costs and development timelines for domestic arms programs. Customarily, the private sector has not been permitted to bid on major weapons contracts, while the Indian armed forces have usually been forced to accept indigenous military equipment, whatever their preferences. As one Indian defense ministry official put it, "the DPSUs have no need to be competitive as they face no competition and have a captive market in the military."

DPSUs and OFs are generally larded with bloated workforces and excess productive capacity; estimates are that much of the defense industry operates at barely 50 percent of capacity. India's defense industry has also been starved of capital for R&D and keeping pace with global state-of-the-art arms production.

Prospects for reform

However, things may be changing. The economic liberalization that began in India twenty years ago may finally be pervading the local arms industry. For more than a decade the Indian government has been engaged in a number of initiatives designed to open up the defense sector to competition; more recently, too, it has expanded efforts to bring in foreign technologies to improve the capabilities of home-grown armaments and establish the foundation for a more high-tech defense R&D base.

For instance, in an effort to formalize technology transfer obligations, the Indian government has over the past decade inaugurated and refined an official defense offsets policy. In the 2000s, New Delhi's Defense Procurement Procedures (DPP) guidelines outlined three broad acquisition strategies for the Indian armed forces: "Buy," "Buy and Make," and "Make." "Make" refers to military products that would be more or less wholly designed, developed, and manufactured within India. Its basic objective is to ensure the maintenance and expansion of indigenous R&D, design, and production capabilities on the part of the local defense sector, both state-owned and private. The "Buy" category entails products that are intended to be imported. Under the terms of the 2006 DPP, any arms import greater than 3 billion rupees (approximately US$67 million) required a minimum 30 percent direct offset, either in the form of counter-purchases of Indian defense equipment or foreign direct investment (FDI) in the Indian defense industry (such as co-development or co-production arrangements, or joint international marketing efforts).

The "Buy and Make" category applies mainly to major military programs – such as the *Rafale*, a

French fighter that will be built under the terms of the Medium Multi-Role Combat Aircraft (MMRCA) tender – that entail licensed production inside India and which therefore demand considerable technology transfers and industrial participation. In such cases, a 50 percent offset is usually mandated. To put it another way, the MMRCA program, which could be worth as much as US$10 billion, could generate up to US$5 billion in offsets.

Words of caution

However, it is still uncertain how much of an impact these new offsets and technology transfers policies will have when it comes to injecting much-needed cutting-edge technologies into the Indian military-industrial complex. For example, even if India *does* succeed in accruing US$10 billion worth of new offsets, it may turn out to be more work than the local industry can handle, at least in the short run. At the same time, India's arms producers could be hard-pressed to exploit the foreign technologies they are acquiring, if they are unable to also upgrade their capacities for technology absorption, innovation, and production. This could, in particular, undercut their efforts to make substantive contributions to joint venture programs, such as the FGFA, a Russo-Indian project to co-develop a fifth-generation fighter jet.

Additionally, India's rapidly growing defense budget could actually be counter-productive to reforming the state-run arms industry. Indian military expenditures have grown 60 percent in just the past decade, and analysts expect New Delhi to spend at least US$200 billion on new weaponry over the next 15 years. This huge windfall of orders will make it doubly difficult to encourage the DPSUs and OFs to become more efficient and market-oriented.

Undoubtedly, restructuring and reforming the Indian defense industry will be slow and incremental. At the same time, recent reform efforts have already produced some tangible results. India's private sector has made small assaults into the once-restricted arms-producing business. By 2010, local firms were earning about US$800 million annually from defense contracting. Private-sector bidding for local defense contracts is likely to grow, as these companies increase their investments in capabilities and facilities for armaments production, such as shipbuilding, military vehicles, and defense-related electronics. In addition, opening up the military contracting process to foreign firms, through joint ventures and offset arrangements, is also fundamentally altering the defense-industrial landscape of India.

Defense industrial reforms also have some powerful allies in the government and the military. In particular, both are keen to use the local private sector and foreign firm involvement to pressure the DRDO, DPSUs, and OFs to change their business-as-usual practices. In this regard, they are strongly supported by such powerful allies as the Confederation of Indian Industries (CII), which has long pressed for the liberalization and opening up of the country's defense business.

Nevertheless, many of these reforms continue to face stiff resistance, and for the present it is still uncertain what impact, if any, these efforts may eventually have on reforming and invigorating the Indian military-industrial complex. The state-owned defense sector is still very powerful, and the DPSUs and OFs will likely continue to strongly resist any initiatives to remove or reduce their role as the primary producers of the nation's armaments. Moreover, the DRDO still wields considerable influence within the national armaments planning process, and is thus a strong advocate for the *status quo*.

But one thing is certain; as long as India continues to shield and coddle its traditional military-industrial complex in the name of self-sufficiency and strategic imperative, it will never be able to remake it into something capable of supplying the Indian armed forces with the modern equipment it requires. That, in turn, will mean that Indian ambitions of becoming a great power will

always be circumscribed.

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