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## **The Indo-Russian Defence Partnership: A Framework for the 21<sup>st</sup> Century**

*Since the 1960s defence trade has been the raison d'être for strategic relations between India and the Soviet Union/Russia. However, in consonance with India's enhanced geopolitical status and the strategic rapprochement with the United States, New Delhi has found new partners in the West. India's military-technical relationship with Russia is no longer an exclusive partnership. The resultant downgrade in Indo-Russian defence engagement has unsettled longstanding geo-political equations. Given the export-dependent nature of the Russian military-industrial complex, the Kremlin has begun to revise elements of its arms policy in South Asia. Russian military export overtures towards Pakistan are now perceptible. In order to recapture their old charm and take their military partnership into the 21<sup>st</sup> century, recurring problems in Indo-Russian defence engagement must be ironed out.*

Jayant Singh<sup>1</sup>

### **Introduction**

Defence trade has been the cornerstone of the Indo-Russian strategic partnership since the 1960s. Today, with Russia's share of military sales to India steadily declining, the defining

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aspect of their bilateral relationship is threatening to become a heavy burden for both partners. Russian concern over this loss of market share is fast turning into 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.<sup>2</sup> The nebulous nature of India's Defence Procurement Policy (DPP) notwithstanding, Russian military engagement with India could benefit from a rethink. This paper seeks to rationalise the recent slowdown in Russia-India defence relations before discussing possible methods of recapturing their old charm. Given the interlinked nature of defence engagement and bilateral relations, it is also necessary to consider the long-term impact in the South Asian region due to a downgrade in the Indo-Russian military partnership.

## **A Historical Context**

The origins of India's much-vaunted defence partnership with Russia can be traced all the way back to October 1959. Following Chinese military incursions into Indian territory during this period, it became increasingly apparent that India's armed forces had not been given enough investment since independence. Almost overnight, Nehruvian military pacifism was replaced by an urgent requirement for military modernisation. In the face of Chinese aggression India sought military assistance from the US only to find the latter reluctant in its support.<sup>3</sup> At this crucial juncture, amidst limited options, India benefited from previously unlooked for Soviet diplomatic and military support. In dire need of military assistance, India was able to purchase from the Union of Soviet Socialist Republics (USSR) twenty-four Ilyushin Il-14 transport aircraft in 1960; ten Mi-4 helicopters, eight An-12 transport aircraft and six jet engines for India's indigenous HF-24 aircraft in 1961; and sixteen Mi-4s and eight An-12s in 1962.<sup>4</sup> Then in 1965, following the breakout of hostilities between India and Pakistan, the US went one step further and cut off all weapon supplies to India, allowing the

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<sup>2</sup> 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>

<sup>3</sup> Stephen P. Cohen, "U.S. Weapons and South Asia: A Policy Analysis", 57. US policy makers were reluctant to extend unconditional military assistance to India. This refrain was born out of an unwillingness to undercut an ally, Pakistan, and the perception that India was on the "verge of fragmentation and disintegration".

<sup>4</sup> P. R. Chari, "Indo-Soviet Cooperation: A Review", 232. Cited in Jerome M. Conley "Indo-Russian Military and Nuclear Cooperation: Implications for U.S. Security Interests".

Soviet Union to become New Delhi's foremost military supplier. In the decades that followed, Indo-Russian defence cooperation went from strength to strength and became the centrepiece of their strategic partnership.

The economic dimensions of this bilateral defence partnership are an important indicator of the strength of this relationship. Within this bilateral trade, the structure of exports is heavily in favour of conventional arms. In 2012, the total bilateral trade between India and Russia stood at US\$ 11 billion, and Russian exports to India were valued at US\$ 8 billion, out of which arms sales comprised US\$ 3.8 billion or approximately 50% of total Russian exports to India. The volume of Russian arms exported to India between 2007 and 2012 was valued at US\$ 14.1 billion, which constitutes 35% of total Russian arms exports.<sup>5</sup> This makes India the largest importer of Russian arms, with China coming in at a distant second having imported 16% of Russia's total arms exports during the same period. Conversely, 79% of all Indian military imports were of Russian origin.<sup>6</sup> In economic terms, military commerce with India has been hugely beneficial for the Russian establishment. The funds generated through military exports were used to offset losses incurred during the financial crisis in 1997 and also helped Russia breathe life into its defence industry which was reeling from the dissolution of the Soviet Union.<sup>7</sup> Similarly, the defence partnership has greatly benefited the Indian military. India's proliferation policies and "peaceful nuclear detonations" in 1974 and weapon tests in 1998 provoked US-led export controls, military technology denial regimes and unilateral sanctions. At a time when few countries were willing to share critical technologies with India, New Delhi was able to acquire strategic armaments from the Soviet Union and then Russia, allowing for conventional military superiority over Pakistan and minimum deterrence vis-à-vis China.

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<sup>5</sup> Data taken from SIPRI Arms Transfer Database; accessed 10 March 2014. Available at: <http://portal.sipri.org/publications/pages/home>

<sup>6</sup> It should be noted that these SIPRI figures only indicate the value of armaments that have already been transferred and do not take into account the value of military contracts that are on order. Consequently, military contracts awarded to the US and Israel, for which the Indian Government is still awaiting delivery, do not show up in the database.

<sup>7</sup> "Economic Dimensions of Soviet and Russian Arms Exports", in *Russia and the Arms Trade*, edited by Ian Anthony, Oxford University Press, 1998. The Indian Government reached a deal with Russian President Yeltsin in 1993 to restructure Indian military debt to the Soviet Union. Money was paid to a Russian account in the Central Bank of India and was subsequently used to "purchase Indian goods and finance joint projects in India".

Over the years, the Indo-Russian strategic relationship has matured into a comprehensive partnership that includes cooperation in several other high-technology sectors. In addition to the design assistance that Russia provided to India for its indigenous nuclear submarine programme, there is a well-established framework of civil-nuclear cooperation. There exists between the two countries a nuclear cooperation agreement whereby Russia would construct two nuclear reactors - 1 GW each - in Kudankulam, Tamil Nadu. The first reactor was synchronized with the Southern power grid in October 2013, and reports suggest that technical negotiations for a third and fourth reactor are at an advanced stage.<sup>8</sup> India's indigenous space programme, which has shown remarkable progress in recent years, has also benefited from Russian assistance. Indian Space Research Organization (ISRO) programmes, including the Chandrayaan-1 lunar probe and the Geosynchronous Satellite Launch Vehicle (GSLV) programme, share a legacy of Russian scientific and technical support. Though Russian support has not always been seamless – the GSLV programme went through a series of failures prior to its successful launch in 2014 – it ultimately paid-off. In this case, it put India into an elite group of nations that can use cryogenic propellants to place heavy satellites (2 plus tonnes) into orbit.

Given the broad scope of bilateral relations that India has enjoyed, first with the USSR and then with Russia, it is not surprising that from time to time there have been impediments in the relationship. In the late-1970s and early-1980s, there was a concerted Indian effort to diversify imports. This was in large part due to the irregular supply of Soviet spare parts and a residual dissatisfaction over the Soviet Union's ability to manipulate Indian military readiness through "spare parts diplomacy".<sup>9</sup> Then in 1993, following the breakup of the USSR, Russia succumbed to US pressure and delayed the transfer of cryogenic engines to India. The trade liberalisation policies instituted by the new Russian Federation and the sudden release of price- and currency-controls had made Russia highly susceptible to a financial crisis. President Yeltsin decided to consolidate Russia's financial position by attracting foreign aid from advanced western democracies; towards this endeavour, Moscow

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<sup>8</sup> Rajeev Sharma, 'India, Russia to sign deal for KNPP 3 and 4 in March', *Russia & India Report*, 3 March 2014. Available at: [http://indr.us.in/economics/2014/03/03/india\\_russia\\_to\\_sign\\_deal\\_for\\_knpp\\_3\\_and\\_4\\_in\\_march\\_33441.html](http://indr.us.in/economics/2014/03/03/india_russia_to_sign_deal_for_knpp_3_and_4_in_march_33441.html)

<sup>9</sup> Raju G. C. Thomas, "Aircraft for the Indian Air Force", 89. Cited in Jerome M. Conley "Indo-Russian Military and Nuclear Cooperation: Implications for U.S. Security Interests".

tempered its alignment with New Delhi and began tilting westwards.<sup>10</sup> However, this ‘pro-Atlantic’ policy found few takers at the Kremlin, and was eventually overturned by prominent Eurasianists such as Yevgeny Primakov who advocated a ‘near-abroad’ policy and realignment with traditional partners like India. Thus, despite intermittent downturns and attempted “course-corrections”, Russia retained its Soviet era ‘Eurasian’ policy outlook and was able to preserve its longstanding relationship with India.

The Russo-Indian defence partnership has once again come under sustained pressure in the new millennia. Despite showing strong numbers in absolute terms, Russia’s share in India’s defence pie will continue to decrease in the short-term. In recent years, Russia has lost out to other emerging export hubs for big-ticket Indian defence contracts. These include, amongst others, the 126 MMRCA (Medium Multi-role Combat Aircraft) contract worth US\$ 12 billion to France; 10 C-17 Globemaster-III strategic airlift aircraft worth US\$ 4.1 billion to the US; and 8 P-8I maritime patrol aircraft worth US\$ 2.1 billion to the US. Currently, Russia’s defence industry is sustaining its considerable ties with India on the strength of previous contract implementation. Barring the upcoming US\$ 11 billion contract for the joint design and development of the Fifth Generation Fighter Aircraft (FGFA) programme with Russia, there are no concrete plans for purchasing new Russian arms. And although Russia is participating in various Indian military tenders currently open to foreign firms, it is not a clear frontrunner in any.<sup>11</sup> Thus, with the fulfilment of contracts signed in previous years, there is a considerable risk that Russia will lose its decades-long stranglehold over the Indian arms industry.

## **Downgrade in Military-Technical Relationship?**

Already there is trouble brewing over the horizon, all signs point towards Russia downgrading its military-technical relationship with India from that of an exclusive partner to

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<sup>10</sup> Richard Weitz (2012): The Maturing of Russia-India Defence Relations, *Journal of Defence Studies*, Vol-6, Issue-3. pp- 75.

<sup>11</sup> The EADS Airbus A330 MRTT has emerged as the preferred vendor over Russia’s Ilyushin Il-78 to supply six aerial tankers for the Indian Air Force in a \$1 billion contract. The Indian Army will acquire American-made 155mm M777 ultra-light howitzers for its ambitious artillery modernisation programme. Russian platforms have also fared poorly in the rotary-wing aircraft category: Boeing’s AH-64 Apache and the Chinook CH-47F won the Indian attack and heavy-lift helicopter tenders respectively, while Russian systems face stiff foreign competition in the light-utility helicopter and multirole helicopter tenders.

a preferred partner. Such pragmatism should come as no surprise, given that India has diversified its own military import portfolio and no longer considers Russia as its exclusive trading partner. But perhaps the biggest revelation in all of this is the Russian decision to supply Mi-35 *Hind* attack helicopters to Pakistan. Prior to this development, Moscow had refrained from supplying lethal military equipment to Pakistan on account of New Delhi's strained relationship with Islamabad - the legacy of this Indo-Russian military exclusivity can be traced all the way back to the Indo-Soviet Treaty of Peace, Friendship and Cooperation of 1971. However, Moscow's recent repositioning on the matter heralds a revised Russian arms policy for the region.

The deal has caught many geo-political commentators by surprise; some have even gone so far as to call it an "important, key change in Russian policy in the region".<sup>12</sup> Conscious of Indian sensitivities Russian diplomats have been quick – perhaps too quick – to point out that the negotiations are part of an "ongoing cooperation with Pakistan in the field of defence and counter-terrorism".<sup>13</sup> This may be true for the short-term; the supply of attack helicopters might be intended towards countering rising Islamic extremism within Pakistan, and given the limited number being supplied it will not affect the overall strategic balance in the region. However, akin to "a canary in a coal mine", such an agreement between Russia and Pakistan could signal an imminent change in the operating environment wherein Moscow slowly increases its share of military exports to Pakistan in order to make up for declining exports to India.

This shift is significant, and is driven by what one author calls Moscow's "compulsive" need to sell weapons.<sup>14</sup> One of the most important issues following the dissolution of the Soviet Union was the distribution of its external state-debt and assets among the fifteen successor states. Russia inherited a mammoth military-industrial complex (MIC) that comprised of 1,600 defence enterprises staffing nearly two million people.<sup>15</sup> Today, that number has grown

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<sup>12</sup> 'Russia lifts arms embargo to Pakistan: report', *The Express Tribune*, 3 June 2014. Available at: <http://tribune.com.pk/story/716673/russia-lifts-arms-embargo-to-pakistan-report/>

<sup>13</sup> Mateen Haider, 'Pakistan negotiating MI-35 helicopter deal with Russia: envoy', *Dawn*, 10 June 2014. Available at: <http://www.dawn.com/news/1111815>

<sup>14</sup> Jyotsana Bakshi, 'Russia-China Military-Technical Cooperation: Implications for India', *Strategic Analysis*, 24/4 (July 2000). Available at: <http://www.idsa-india.org/an-jul-100.html>

<sup>15</sup> *Rossiskaya Gazeta*, July 27, 1999.

to include 2.5-3 million workers, representing twenty per cent of all manufacturing jobs in Russia.<sup>16</sup> However, Russia did not inherit an equally robust economy to support its expansive MIC. In its first year Russian military expenditure as a percentage of GDP fell to 4.8% from 12.3% under the USSR in 1990.<sup>17</sup> Consequently, in order to make up for the deficit in military expenditure as well as maintain economies of scale to sustain its resource-hungry defence and R&D facilities, Russia became increasingly reliant on military exports. Former Russian Deputy Prime Minister, Ilya Klebanov, stated in July 1999 that arms exports were the "life buoy for our defence industries now that the defence budget is so small and military state orders are so few". Thus, in addition to fostering strategic cooperation with other countries, the sale of Russian weapons to foreign nations is driven by the financial imperative of bankrolling its own domestic defence industries. And Russia's decision on military exports to Pakistan is essentially motivated by economic considerations of maintaining a high level of military exports.

The recent upsurge in Sino-Russian military cooperation has also not gone unnoticed in India.<sup>18</sup> 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 particularly true for the aerospace sector where a major portion of the Indian Air Force fleet is made up of imports from Russia. 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 in India. The fact remains, New Delhi 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 their customer base; the Chinese arms industry is known for reverse engineering foreign-origin military hardware and has already burned Russia in the

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<sup>16</sup> 'Russian defense industry production up 2.5% in 1Q09', *Ria Novosti*, 2 June, 2009. Available at: <http://en.ria.ru/russia/20090602/155148607.html>

<sup>17</sup> The average military expenditure as a percentage of GDP in the three years leading up to the break-up of the Soviet Union was 14.1%, whereas average Russian military expenditure as a percentage of GDP between 1992 and 2013 is 3.8%. Data compiled from *SIPRI Military Expenditure Database*.

<sup>18</sup> '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>

past when it acquired a small number of Russian Su-27 Flanker jets and then reverse-engineered the J-11B aircraft.<sup>19</sup> 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.

## **Revaluating the Terms of Engagement**

The pursuance of a "strategic partnership" with India is perhaps the most enduring foreign policy legacy of US President George W Bush. On the back of rising religious extremism in South Asia, the Bush administration was convinced that India could be a driving force for political stability in the region. Taking confidence from what Washington perceived were convergent geo-political interests, the US initiated proceedings to elevate India to the status of a strategic ally. What followed was the reversal of a decades-old non-proliferation policy that culminated in the signing of the Indo-US civil nuclear agreement in 2005. America's strategic rapprochement with New Delhi marked a watershed moment in India's defence engagement with the world. Sanctions against many Indian defence entities were lifted and high technology export controls were slowly eased. India gained access to critical technologies – provided it had the funds – without having to compromise on its military nuclear stockpile.

Having brought India into the nuclear fold, foreign aerospace and defence majors were given expanded access to Indian markets. 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.<sup>20</sup> 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

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<sup>19</sup> 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).

<sup>20</sup> Data taken from SIPRI arms transfer database. Available at: <http://portal.sipri.org/publications/pages/home>



defence market.<sup>21</sup> 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 the 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 Russia repeatedly expressing its unhappiness over losing out on Indian military tenders; 'miffed' Kremlin officials point out that Russia has always been a reliable partner to India and has shared sensitive military technologies even when the latter faced strict sanctions.<sup>22</sup> It is clear that Russia would prefer government-to-government military sales with India absent a competitive bidding process. However, this is no longer possible given the varied procurement options now available to New Delhi. In order to remain India's chief military trading partner Russia must adapt to the current state of affairs and not confuse its strategic past with India as a future commitment for military acquisitions.

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 were no longer being considered for the MMRCA, the 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.<sup>23</sup> 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.

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<sup>21</sup> 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.

<sup>22</sup> 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>

<sup>23</sup> '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/>

## 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.<sup>24</sup> 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.

Also worth reconsidering is Russia’s approach to bilateral military exercises with India. Currently, joint-operations are limited to a biannual naval exercise and an annual counter-terrorism exercise, both of which are called *Indra*. Such interactions present a unique opportunity for Moscow to showcase its suite of weapon-systems on offer to India. Consider the Javelin anti-tank guided missile (ATGM) that was test-fired by Indian soldiers during the *Yudh Abhyas 2010*, a joint US-India military exercise; operated by Indian Army gunners it scored multiple direct hits and greatly impressed the army leadership, following which it came into contention to replace India’s ageing arsenal of French Milan ATGMs. Herein lies an opportunity for the Russian MIC to directly advertise its military equipment with the user; although India’s Ministry of Defence (MOD) wields ultimate authority over military acquisitions, it can be influenced by the end-user of the weapon-system in question.

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<sup>24</sup> See Rod Thornton, ‘India-Russia Military Cooperation Which Way Forward?’, *Journal of Defence Studies* (2012) Vol. 6, Issue -3, PP 99-112.

Such situations are further exacerbated by the fact that India cannot deal directly with the Original Equipment Manufacturer (OEM); MOD officials must go through a heavily centralised process and parley with the central Rosboronexport Company, which is responsible for ‘prospecting, negotiating, finalising and executing the arms sales contract’.<sup>25</sup> 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.

## **Navigating India’s Defence Procurement Procedures**

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.<sup>26</sup> 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.<sup>27</sup> The Ministry of Defence, in its biennial review of procurement procedures in 2013, tweaked policy to benefit the domestic defence industry and achieve self-reliance in arms production; the DPP 2013 aims to reduce Indian dependence on foreign imports by first trying to meet the requirements of the armed

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<sup>25</sup> See Louis-Marie Clouet, ‘Rosoboronexport, Spearhead of the Russian Arms Industry’, *IFRI Russia/NIS Center*, (2007).

<sup>26</sup> Even though the 2015-16 defence budget increased by 8 per cent over the previous year, there was no increased allocation for capital expenditure. However, allocation for revenue expenditure increased by 13.2 per cent and now accounts for 61.7 per cent of the defence budget (a 3 per cent increase from the previous budget cycle). Furthermore, revenue expenditure under the defence budget will continue to increase over the near-future on account of the ‘one rank, one pension’ scheme and the raising of a new Mountain Strike Corps in the North East. The old model of military modernisation through foreign acquisitions is no longer sustainable and indigenisation of defence production is the new imperative. For more on India’s defence budget see: Laxman K Behera, ‘India’s Defence Budget 2015-16’, *IDSAs Issue Brief*, 02 March 2015. Available at: [http://www.idsa.in/issuebrief/IndiasDefenceBudget2015-16\\_lkbehera\\_020315.html](http://www.idsa.in/issuebrief/IndiasDefenceBudget2015-16_lkbehera_020315.html)

<sup>27</sup> As early as 2004, the UPA Government set up the Kelkar Committee to recommend changes in acquisition procedures to enable greater participation of the private sector in defence production. The Kelkar Committee Report – ‘Towards Self-Reliance in Defence Preparedness’ – was submitted in April 2005 and was the first to propose a direct offsets policy to bring in technology and investments into the Indian defence sector.

forces through the Indian industry.<sup>28</sup> Although at first glance it appears as though this will further inhibit Indo-Russian defence trade, there is much that Russia can do to take advantage of the situation.

Russia has shown signs of transforming its buyer-seller relationship with India towards a more collaborative effort. Moscow already has an institutionalised military-technical cooperation (MTC) framework with India. In fact 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. The *Brahmos* missile programme is a joint venture between India's Defence Research and Development Organisation (DRDO) and Russia's NPO Mashinostroeyenia. Such a form of collaboration where an Indian vendor and foreign Original Equipment Manufacturer come together to indigenously manufacture equipment falls under the Buy and Make (Indian) category of the DPP 2013 and is the second highest preference category. The missile system has proven so successful that current orders for different versions of the missile by India's armed forces have already exceeded US\$ 6 billion.<sup>29</sup> Whereas till now Russian companies have only teamed up with the DRDO to jointly develop and produce weapon systems, there are many reasons for Russia's MIC to explore working directly with India's private sector: *Firstly*, the DRDO is renowned for its inefficiency, time- and cost-overruns and bloated management which often make them a suboptimal partner for co-development programmes; *Secondly*, given the Modi Government's determination to use India's private sector as a vehicle for indigenising defence production, joint ventures between Indian private defence majors and Russian OEMs shall be viewed favourably under the current policy dispensation. Russia has reached a crucial fork in its defence engagement with India, henceforth it can either choose to supply weapons to India on a ToT basis – the scope for which is rapidly decreasing, or it can choose to keep one eye on the future and enter into co-development programmes that subsidise its own R&D costs as well as have export potential both within India and without. Such partnerships offer Russia an opportunity to expand its defence trade with India through territories previously uncharted.

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<sup>28</sup> The DPP 2013 lays down a strict order of preference for procurements; the hierarchy is as follows: Buy (Indian), Buy and make (Indian), Make (Indian), Buy and make through transfer of technology, and Buy (Global). Furthermore, the MOD will now have to explain why it chose not to buy from Indian sources or excluded a higher preference category.

<sup>29</sup> Ruslan Shamukov, 'BrahMos missile orders exceeded \$6 billion in India', *ITAR-TASS*, 14 July 2014. Available at: <http://en.itar-tass.com/economy/740460>

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 is 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 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).<sup>30</sup> The decision to share such sensitive technologies with the Indian defence establishment was taken at the highest levels of the Russian government, and Moscow must convey to their Indian counterparts that sharing R&D expertise remains an important priority for them. 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.

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

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<sup>30</sup> 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](http://indrus.in/economics/2013/10/18/india_believed_to_be_unhappy_with_share_of_work_in_fgfa-_report_30233.html)

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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