

Five Dilemmas Constraining India's Defence Industrial Indigenisation

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- On April 25, 2019, Brookings India hosted the fourth edition of its Foreign Policy & Security Tiffin Talk series, which features scholars presenting their evidence-based research to peers and practitioners. This series of closed-door seminars seeks to facilitate dialogue between researchers and policymakers on India's foreign and security affairs.
- **Dhruva Jaishankar**, Fellow in Foreign Policy Studies at Brookings India in New Delhi and the Brookings Institution in Washington DC shared his work on the obstacles hindering India's path to defense industrial indigenisation.
- **Dr. Constantino Xavier**, Fellow, Foreign Policy at Brookings India moderated the seminar, and **Lt. General Subrata Saha**, former Deputy Chief of Army Staff served as the lead discussant. In attendance were officials from the Ministry of External Affairs, National Security Advisory Board, scholars from India's leading think tanks, the private defence sector, and members of the media.

Why is indigenisation important?

The speaker highlighted that the paradox lying at the heart of India's defence production story is that despite having the fifth-largest defence budget of any country and a wide defence industry establishment, India consistently remains among the world's top importers of defence equipment.

What explains such patterns of defence production and procurement? While India's quest for indigenisation started in the 1950s itself, its defence exports—an indication of quality—have been negligible, a mere three percent of China's total exports.

Predictably of funding matters

In order to incentivise innovation, investment, and planning, panellists highlighted that predictability of funding and ensuring the assurance of orders was crucial. A few participants highlighted that in order for existing policies to thrive in the future, better linkages between research and development, defence production, and procurement are required during policy formulation. In order to overcome the systematic challenges present within the system, one participant suggested that the solutions lie in a top-down approach—while higher defence budgets are prioritised, having a higher defence

The presentation noted that in order for India to meet its growing political and economic ambitions on the global stage, it will have to increasingly start aligning its defence production to be self-reliant. To discuss the challenges that plague the Indian defence industry, panellists attempted to unwrap the structural deficiencies present in the system: they pointed to a lack of specialists in the defence ministry, the multi-layered decision-making process, lack of coordination between the defence ministry and other departments and ministries, and issues of trust, all contributing to a lack of effectiveness.

organisation that prioritises a synchronised budget is more critical. For defence indigenisation to work, one speaker noted that “it has to have the sanctity of organisation and budget.” Budget assurance allows for future planning and organisation. The seminar included a frank discussion on the financial non-viability of plans serving as a major obstacle to defence indigenisation in India. Some warned that recommendations to provide non-lapsable pool of funds would be difficult in the present budgetary environment.

Seeking models for reforming the public sector

The discussion provided an overview of the state of the public sector defence industry in India. Speakers noted that India's public sector defence industry consisted of three groups of entities: those performing efficiently, those who could benefit from private (domestic and international) collaborations and tie-ups, and those which were defunct and required transformation. Some participants questioned why India had not allowed for a more open defence industry, with more participation from the private sector. Most participants agreed that since there was enough capability in the private sector, competition should be encouraged and allowed. Is there

an existing model of defence industrial establishment in another country that India can replicate and adapt to develop a national industrial base? Most participants agreed that the Russian model of defence procurement and production could provide a suitable basis, given the centrality and presence of large public sector assets, with each sector having its own vendor base. Other models to draw inspiration from included Maruti Suzuki in creating a private-sector supply network and Indian Space Research Organisation (ISRO) with its freedom in decision-making, technical expertise and control, and private sector participation in providing diverse parts.

Incentivising transfers of technology

The discussion focused on the limitations of India's offset policy, which some noted, has not led to the degree of technology acquisition expected of it. To uncover the reasons behind this, some participants highlighted that the offset policy has not worked as it incentivised only minimum investment by manufacturers, rarely going into advanced research & development. Shedding light on the the debate on modernisation versus indigenisation, one participant concluded that short-term requirements may override the longer term process of indigenisation.

The trilemma currently facing Indian defence procurement involves the triangulation of procuring the highest quality defence equipment in the least amount of time at the lowest cost. Although challenges exist in acquiring equipment under ideal quality, cost and timeframe parameters, one speaker noted that existing policy has the scope to converge them, but is not being implemented. It was suggested that this issue could be resolved through price indexing of technology which could allow for the integration of technology in cost assessments.



From L to R: Lt. General Subrata Saha, former Deputy Chief of Army Staff; Dhruva Jaishankar, Fellow, Foreign Policy at Brookings India; Dr Constantio Xavier, Fellow, Foreign Policy at Brookings India.

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