Understanding 'Make In India' in the Defence Sector

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Introduction

In the end of Nov 2014 the Prime Minister of India gave a clarion call 'Make in India', to the Nation and indeed ignited the imagination of millions of intellectuals in this Country, who instantly grasped the fundamental progressive and nation building nature of this concept. So much so that in Feb 2015 during the Aero India show the author was amazed to see foreign business honchos vying with each other to be seen saying the correct things in the changed environment. The events between end 2014 and now have led to a bewildering array of interpretations of the make in India concept and after all the initial euphoria has settled down there is a strong need to understand the make in India concept, if it is to be customised for application to various business sectors.

At the stratospheric visionary level of the Prime Minister he has done his job by providing a patriotic long term practical vision which has to be adopted in letter and in spirit by all Indians at their respective levels of influence and capability to contribute to making this visionary idea a practical reality. At a political, social and national level the simplest way of defining the objectives of this mantra is increase of national economic activity, enhancement of job opportunities, skill development, self-reliance and an opportunity to enhance the quality and standard of life of all Indians. The extent of success can now be measured only by how well decisions and activities are taken in particular sectors to realise the national objectives mentioned above.

Practical Implications

The make in India concept is visualised for implementation in a variety of business sectors such as automobiles, automobile components, aviation, biotechnology, chemicals, construction, defence, electrical machinery, electronics, food processing, information technology and business process management, leather, media and entertainment, mining, oil and gas, pharmaceuticals, ports and shipping, railways, textiles and garments, thermal power, tourism and hospitality and the wellness industries.1 It is naïve to think that there is one common template that can be applied to all the industries. It is the collective duty of policy makers, business leaders (both private and public sectors) to evolve a coherent, non-antagonistic, enlightened, sector specific road map for each sector so that maximum national benefit is extracted out of this concept.

What role do foreign nations / business entities have to play in the make in India concept? As a general axiom the role of foreign institutions and businesses could be limited and indeed be in conflict with the concept of make in India. In principle, it would not be wrong to say that while any foreign contribution to the growth of make in India concept must be welcomed and accepted, inherently there is a likelihood of a clash of interests between a foreign nation / entity and the broader Indian national objective aimed to be achieved under this mantra. If this principle is accepted by all Indian stakeholders as a reality, then it automatically follows that a certain degree of caution has to be exercised whilst interacting with foreign parties so as to always be able to ensure that all decisions are in line with the national objective. Any laxity in this approach would be self-defeating and counterproductive. This is indeed a very tough call to make.

The success of the make in India mantra can only be evaluated after about three decades of dedicated hard work, which means that only two generations from now will be able to reap the benefits of the dedication and hard work of their forefathers or the results of their inadequate pursuit of the policy. Why this is a tough call is because the current stakeholders will not really be the beneficiaries of any short term immediate benefits. Politically the ruling parties will have to sacrifice the idea of deriving political mileage to help them win the next few elections. Business houses may have to give up short term profits for becoming long term winners. Indeed this movement has all the colours of a new freedom struggle – a national economic one, where we may have to compromise on our today for the benefit of our future generations. In the economic history of a Country that has dominated the world economic order for most part of the last millennium this is but a small price to pay if we have to reverse the aberration of India falling out of the list of top economies of the world in the last 200 years.

It has already been mentioned above that interpretation of make in India has to be sector specific. This paper seeks to analyse, what should be the nature of interpretation of this mantra in the Defence Sector?

Application to Defence Sector

Defending India has been a very important part of Indian history which has evolved very much due to influx of people into the plains of India from our northern borders. Before Independence from British rule, the concept of India as we know it now did not exist geographically as a Country but was very much the same as a cultural and social entity. Though the warring kings of Indian history did spend a lot of time battling one another there was always an undercurrent of the 'foreign threat' across the borders in the North well recorded from the times of Prithvi Raj Chouhan.

The task of defending our hard fought Independence has been carried out for the last seven decades with a curious mix of legacy. We began with British hardware when they departed from the shores of India, to decades of dependence on the erstwhile Soviet Union; who, to give credit where it is due, have been very dependable partners in the most extreme times of need. Over the last two decade, especially since the fall of the Soviet Union, India has found new defence partners in Israel, the USA, France and Germany whilst continuing with former Soviet Union entities like Russia and Ukraine. Besides these foreign sources of defence hardware, our own DRDO and defence PSUs have been leading a 'me too' existence since Independence with insufficient achievements to speak over decades. There has been almost no significant contribution from the private sector which has at best played a role of ancillary to a PSU with small scale industries being an exception, making a commendable contribution. Large private industry probably did not find it to be a lucrative market at all and were literally forced to surrender the available domestic market to foreign

players.

The dependence on foreign technology has spawned a culture of licensed production over the decades with the limited objective of having in-Country maintenance facilities for the hardware of our Armed Forces. So much so that our Defence PSUs like HAL with unit names such a Rotary Wing Research and Design Centre, Aircraft Research and Design Centre, Aero-Engine Research and Design Centre have evolved to be primarily sourcing agencies for components, technology and designs from abroad. They have taken on the role of integrators of these technologies which culminate in much to be desired local production facilities resulting in an eternal tussle between them and the user Services primarily on production quality and product delivery issues. Here the silver lining in this otherwise dark cloud is the policy followed by the Indian Navy who probably due to their in-house design capability (the Directorate of Naval Design) have slowly but surely been inching towards developing a much higher degree of indigenisation starting from humble beginnings of producing the Leander class frigates locally, the Navy has an admirable but not completely adequate, record of true indigenous design.

With the brief historical background provided above on the nature of defence hardware procurement in the Indian Armed Forces, the question naturally arises how should make in India be dovetailed in this sector? A one line response to this question is that make in India should be actually design in India. This is a loaded statement pregnant with many concepts and objectives and the same is being discussed in the succeeding paras.

National Objectives

Let us first list the various objectives and characteristics of operating in the Defence Industry. The key national objectives in this area are:-

(a) Self-reliance.

(b) Conserving foreign exchange.

(c) Develop export potential.

(d) Technology and skill development.

(e) Transforming India into a true global super power.

(f) Using defence manufacturing as an engine of national economic growth.

The primary stakeholders in achieving these objectives are Government through policy facilitation; the Armed Forces through development of future strategy, defining of qualitative requirements of future weapons in keeping with our political objectives and the DRDO-PSU combine, to develop the requisite technologies (with their head start in the business as compared to private industry). Last but not least, the private industries, who though are current toddlers in the business, must set themselves the American defence industry as role models.

The Role of Private Sector

The next question that needs to be addressed is to understand the objectives and role of the Private Sector. The long term objectives of this stakeholder are:-

(a) Should be based on a long term financially viable proposition.

(b) Supported by a government policy which will help the industry achieve long term goals.

(c) There are no big (compared to global scale) private industry players in India at the moment. As greenfield projects, they will require special attention to enter into the R&D area as the gestation periods are long.

(d) A true internalisation and understanding by the leaders of private industry that make in India should not be licensed production.

(e) The private industry should adopt a policy of buying talent and not technology to bridge technology gaps and reduce design time.

Role of the Government

For the private large industries to make the above points their committed ideal, they require the support of the Central and the State Governments (irrespective of the Party who rules the Country over the next 30 years at least). The Government again consists of two elements, the civil bureaucracy and the Armed Forces who unfortunately do not seem to be working as one unit at times; the area of conflict is primarily one of supremacy of policy over what is perceived to be the best available hardware. The Government should make a clear policy decision on being partial to indigenous production even at the cost of dilution of some QRs. Defence procurement has been a very tricky business, it has either been hijacked by the corrupt or ignored by the ‘clean’. Either way the Country has suffered and we will soon reach a stage when there will not be enough money to make all the necessary hardware purchases from abroad and at the same time the security of the Country will be compromised due to the very nature of import dependence. We have in our own Country the example of great self-reliance in the Indian Space and Research Organisation (ISRO) story brought about by the state of denial of technology by developed countries. This has led to the Country being today self-sufficient in cryogenic engines for space launchers but is unable to produce a jet engine to power our fighters. The real work that needs to be done by the Government is as follows:-

(a) Adopt a clear policy of preference for indigenous procurement and solemnly stick to it.

(b) The responsibility of the Services is to agree to a minimum QR list and not demand a complete wish list which cannot be supported at the current level of technology in the Country. Discussion on specific cases is beyond the scope of this paper, but examples could be the purchase of only Indian made field guns, purchase of only the armed light helicopter (ALH) etc.

(c) Such an indigenous policy should not result in raising the bogey of compromising national security. This issue can and should be tackled with the correct interpretation of threat perception to the Country and larger numbers, wherever possible.

(d) The Government needs to adopt a policy like that of China which has a 20 year head start in their indigenous arms programme over India, thanks to sanctions on all critical technologies to them by developed nations. A few years ago Chinese military hardware was scoffed at but today they are treated with respect and even awe. A simple case in point is the way China is confidently continuing with its programme of building two aircraft carriers when they have no experience of even operating one. The Government therefore needs to follow an enlightened policy of self-imposed sanctions.

(e) The growth of the Defence Procurement Procedure (DPP) itself is a lamentable story which is dealt with separately.

(f) Several indigenous systems are ready for export and can find foreign markets. The current production policy is so inward looking that meeting the needs of the Indian Armed Forces itself seems to be out of the reach of current installed capacity. Here the Government can demonstrate its commitment by offering these to private industry for production and marketing abroad.

The Defence Procurement Procedure and its Associated Problems

The bureaucrats in the Government in all sincerity have tried very hard to produce a DPP over more than a decade with several revisions trying to correct perceived problems at regular intervals. Without trying to be over critical of their efforts, for the sake of simplicity, the greatest shortcoming has been that though the DPP is a great financially audit worthy procedure, it has completely failed from the technological perspective. The review of the DPP itself is a complete study which requires serious consideration. Major inadequacies are discussed in the succeeding paras.

Offset Policy. The concept of offsets was brought in with great fanfare in the initial years of the DPP and in many ways was supposed to fulfil the requirements of make in India in terms of bringing foreign technology and helping Indian industries get acclimatised to the world of defence hardware manufacture and spawning jobs, cheaper production in the Country and ultimately help grow indigenous private industry in the defence sector. On the face of it this was a good idea, but a decade later unfortunately nothing significant in this direction has happened. The lacunae in the argument is the assumption that given the volumes that India imports with its dubious distinction as the world's largest arms importer, foreign companies would fall head over heels to meet the aspirations of the Indian DPP. This never occurred! The foreign companies did rush in to get the contracts but have done precious little by way of technology transfer. It is but unreasonable to expect them to part with intellectual property for the sake of one large purchase order. This is the reason why earlier in the paper the caution has been sounded that the role of foreign participation in make in India is only a matter of cautious optimism.

Transfer of Technology for Life Cycle Support. In line with the DPP several procurements have been made insisting on a Transfer of Technology (ToT) for life cycle support presumably to cater for in-Country support for the hardware purchased and presumably at a lesser cost. Even here detailed study of specific areas reveals that the stated objectives have not been achieved. In several cases, sending the equipment to the country of manufacture for major overhaul/repairs is far cheaper than indigenous maintenance support.

The Way Forward

Main recommendations are :-

(a) Make in India in defence sector must be seen as Design in India.

(b) The national policy should be mostly well defined indigenous procurement alone, with a concept of self-imposed sanctions.

(c) Private industry needs the assurance of indigenous procurement to be financially viable.

(d) Private industry must be allowed to build capacity to kick start exports, based on already government funded R&D and products developed.

(e) Private industry must buy talent and not technology.

(f) Continuation of this policy by all governments in the future for the next 30 years. For this political concessions would be required.

(g) Design a procurement procedure which is not only looking after financial correctness but also caters to technology needs. One way of doing this could be to make offset requirements meet nation building activities. In this way foreign companies may feel less threatened and promote more indigenous funding to R&D.

(h) Evolve a clear national threat perception and develop cost effective defence tactics and strategy, so that the QRs defined for future acquisitions are adequate and practical, and not necessarily 'the best' which is out of reach of present indigenous capability. To do this the Government must make use of the services of the large pool of ex-servicemen in an advisory role as a matter of policy.

(j) The private industry must give up their fixation for licensed production. They should look at it as being only an extension of agency business which actually finally results in much greater costs to the government in many cases.

Endnote

1. www.makeinIndia.com/sectors.

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