

## Armed Forces Modernization

### Introduction

More than 9 soldiers (including officers) have lost their lives in two different accidents on Indian submarines last year. In such a scenario it is important to ask questions like “who is responsible for the loss of these precious lives and equipment?” “Why do these incidents keep happening time and again?” “What did the successive governments do to secure the nation after Mumbai 1993, Kargil 1999, New Delhi 2001 or Mumbai 2008, beyond criticizing existing institutions?”

Did we do anything to improve the quality of the recruits, their numbers, training and acquisition and maintenance of equipment keeping up with today's needs and adequate for future threats

We are short on fighter aircrafts, artillery guns, and naval vessels. We have shortages of manpower in the armed forces, paramilitaries and intelligence services. Are Indian forces half equipped to fight battles against modern forces like that of China?

### 1. Are Indian armed forces modernized enough?

Almost fifteen years ago the government had drawn up a 30-year submarine modernisation plan to acquire 24 submarines by 2030. Half-way through this acquisition period India now has more than half of the 14 submarines which have completed three-fourths of their operational lives. To add to it, the Navy, with its aging fleet, is increasingly deployed on coast guard anti-terror duties and not for its primary role, preparing for the defence of the nation in times of war with other nations.

There are a number of critical defence deals which have either been postponed for lack of funds, delays at the bureaucratic end or political inability to take a final call as well as hugely stretched procurement process (We will discuss all of these as we go ahead). For example, consider the case of the purchase of 126 Dassault Rafale. It was way back in 2001 that Indian Air Force had intimated the Defence Ministry about the need to replace the ageing and depleting fleet of Mig-21s with that of 126 units of a 4th generation fighter jet. It took the Defence Ministry another six years to send out a Request for Proposal (RFP) and after extensive trials, it was in January 2012, Dassault Rafale was selected and Dassault was invited for price negotiations for the 126 Rafales with an option of another 63.

It's been two years since then and the final contract has not yet been signed. Generally it takes four years for the first lot of aircrafts to get delivered after the final contract is signed. This means that if the contract is hopefully signed by 2014, even the first aircraft would not arrive before 2018. This kind of delay in acquiring weapons is indeed a cause of concern.

## 2. Defence expenditure a problem?

*Some of the experts and critics highlight the low levels of defence expenditure when compared to other countries. Is it really the lack of funds and low expenditure or is it something completely different that is ailing India's defence sector? Let us ponder over such questions in this section of the document.*

Almost all the members of Indian strategic community, a chunk of which are retired members of the armed forces or bureaucracy, criticise the allocations in the defence budget on the ground that they are was insufficient and the outcome of such allocations would impinge negatively on India's military modernisation efforts.

### Defence Budget- A comparative Analysis

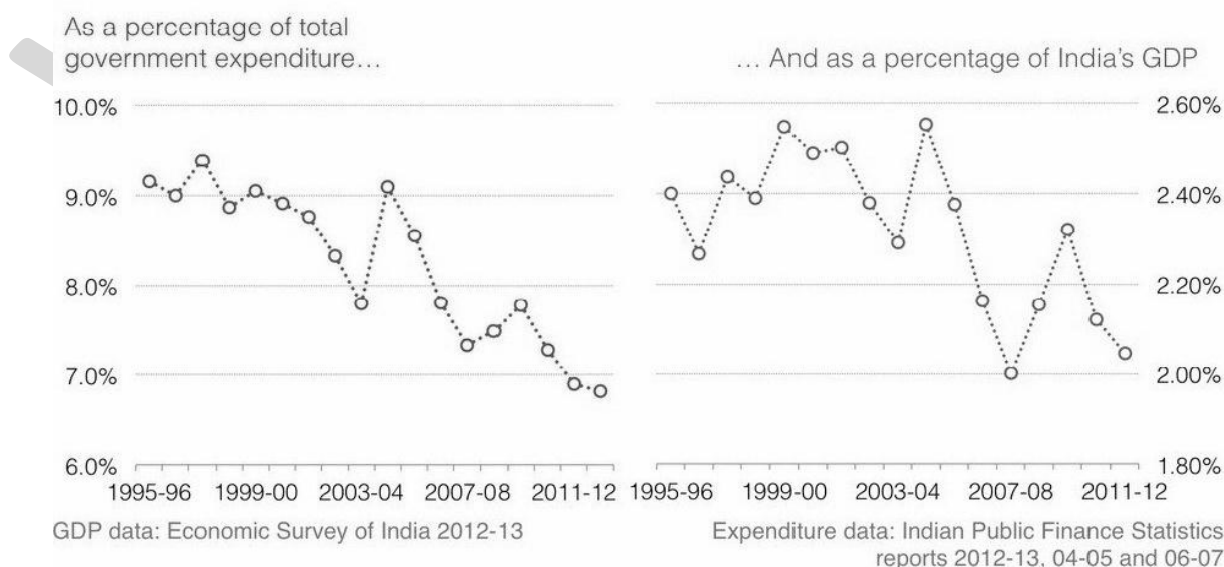
Before one analyses the Indian defence budget, it is important to look at the universe of global military efforts and associated trends witnessed so far. The global defence expenditure was USD 1.46 trillion in 2008, representing an increase of 4 percent in real terms compared to 2007 and 45 percent over the ten year period 1999 – 2008. While the US remained the largest contributor to global defence expenditure, it is interesting to note that regions like North Africa (94 %), South America (50 %), East Asia (56%), Eastern Europe (174 %) and Middle East (56%) registered robust growth in defence expenditure. South Asia and Europe in comparison registered lesser growth than the rest at 41 and 14 percent respectively. In comparable terms, even though India possesses a million plus armed forces, its **per capita expenditure on national defence stands at USD 25** while that of the **world stands at USD 217**. Similarly, while **the world spends about 2.4 percent of global gross domestic product, India spends less than 2 percent of its GDP**.

Although India spends more on defence (USD 37 billion) than countries like South Korea or Brazil or Canada, its expenditure is far behind than even neighbouring countries like China (USD 85 billion), forget about the USA (USD 651 billion excluding expenditure incurred for operational purposes in Iraq and Afghanistan) which accounts for 42.5 % of global expenditure. Even, countries like Saudi Arabia spend more than India on their defence.

Whatever be the indicator that one may employ to judge trends in defence expenditure, it can be assumed that India's efforts in pure monetary terms are not sufficient vis-à-vis its size, economic might, real or perceived threats and most importantly its grand strategic ambitions to play the role of a major player in world affairs.

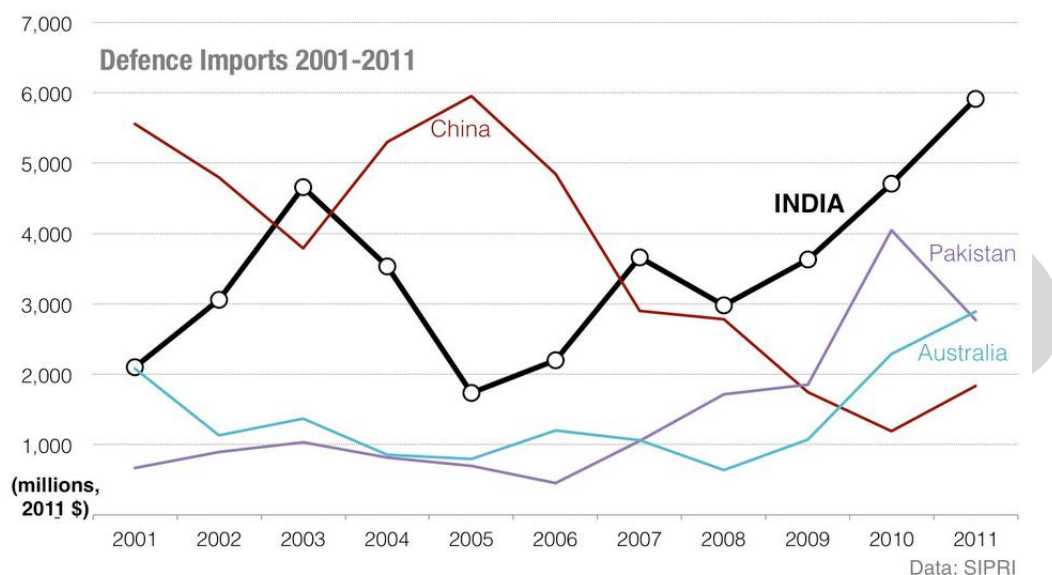
In the last 10 years, **China, Russia** and **Saudi Arabia** have all increased their defence spending faster than India.

In the mean time, India's defence expenditure is steadily falling...



The above graph is a startling revelation, India's spend on defence has been increasing by each passing year since 1990's yet the expenditure as a percentage of GDP has been progressively falling. **But then why is so much written about India's defence expenses?**

The answer lies in India's arms imports. India's defence imports have been rising with every passing year and **in 2011 India became the world's largest arms importer**. In comparison, **China which was the largest importer of arms between 2002 and 2006, has now become the fifth largest arms exporter in the world**.



This particular point of data is a sign of India's weak manufacturing ability domestically rather than any aggressive military expansion by India. Both private and public sector defence manufacturing houses in India lack capacity and technological ability.

In the mid-1990s, a committee headed by A.P.J. Abdul Kalam said it would increase the indigenous content of weaponry from 30 to 70 per cent by 2005. But **in 2013, we were still importing 70 per cent of our arms needs**. We are manufacturing high-end products like the SU 30 MKI fighters, Brahmos missiles and Scorpene subs, but these are licence productions of foreign designed weapons, and even here we know that key assemblies will be imported till the very end of the programme.

India is among the few countries in the world that has developed, or is in the process of developing, a fourth plus generation fighter aircraft, an aircraft carrier, a nuclear submarine, a main battle tank, and the intercontinental ballistic missile (ICBM). However, at the same time, India is probably the only country in the world which, despite having a vast defence industrial base, still imports the majority of its armaments, including several low-tech items (including military transport vehicles), from external sources. While India needs to become more self-reliant this can be achieved by greater FDI in India's defence sector, than closing down the foreign competition.

### 3. FDI in Defence Sector- A never ending debate

Let us explore a brief background of FDI in defence sector in the country first. The production of defence equipment was, until relatively recently, entirely a government function. The Industrial Policy Resolution, 1948, restricted the entry of the private sector into this industry in national interests. The defence industry in India was thrown open to the private sector in May 2001 when the government permitted a maximum of 26 percent FDI component, subject to licensing requirements.

However, the policy of 26 percent cap on FDI has failed to attract any substantive FDI in the defence sector, with only approximately Rs 70 lakh flowing in as FDI between 2001 and 2009. A look at the table given below would substantiate this particular issue.

Rank	Sector	Amount of FDI inflows ('000 \$million)	% of total FDI inflows
1	Services	34	19.24
2	Construction	21	11.97
3	Telecommunications	12	7.11
5	Pharma	9	5.47
61	Defence	.04	0

**Table: Select Sector wise FDI inflow, April 2000 to July 2012**

### Concerns regarding FDI in Defence Sector

1. Foreign companies could eventually restrict defence supplies to host governments especially at the time of a conflict. Case in point is the GPS technology during attack on Iraq;
2. Foreign companies could use acquired technologies to harm host government's security interests;
3. Foreign-acquired domestic firms could be used for surveillance, infiltration and sabotage against the host governments; and
4. Particularly from a developing country perspective, foreign ownership could result in widespread infusion of low-end technologies that could wipe out nascent defence industrial bases in the host countries. Hence, hurting the host countries interest both economically and strategically.

The last prospect can be particularly problematic for developing countries, in the absence of credible evidence that higher FDIs necessarily result in transfer of high-end technologies.

### The need for FDI in defence sector

Greater FDI in flow in defence sector provides substantive economic advantages. Some of them have been listed below:

1. Other than the increased flow of funds from a foreign source, greater FDI leads to more employment opportunities for the local population.
2. It also means that taxes and other revenues will flow back to the local economy.
3. The cap is a dissuading factor towards the entry of foreign firms into the Indian defence market. Few foreign firms are keen to invest resources in a venture where they have no significant control, strict capacity/product constraints, no purchase guarantees, no open access to other markets (including exports) and an unfair advantage to the local public sector. Moreover when MoD is already buying directly from foreign suppliers there is no incentive for the foreign firm to create a 26 percent-owned company in this country.
4. Most major defence manufacturing units need a transfer of technology. But no foreign major is comfortable with transferring proprietary technology to a company in which it does not own a major share. Advanced technologies cost billions of dollars to develop and the returns likely to be generated on the basis of current FDI regulations—coupled with the lack of control they would have over the technologies and know-how they are being asked to provide—make it unattractive for a foreign firm to enter the Indian market.
5. Increasing the FDI cap will allow the foreign firms a larger share of the risks and profits and the confidence to transfer sensitive technology to joint ventures in India.
6. Furthermore, due to the current FDI restrictions, India is losing out on a number of foreign companies who would be keen on developing India as a 'home market', i.e. both as a major domestic sales market and a global manufacturing hub in its supply chain.
7. United States remains home to some of the biggest and most advanced defence manufacturing firms in the world. Rather than being restricted to transactional defence deals with the United States, raising the FDI cap in defence sector will attract US firms and make India's relations with the United States truly strategic in nature. Larger Indian firms seeking to diversify into defence production would also benefit from raising the FDI cap. Increase in FDI limits would help them secure the transfer of key technologies from foreign firms and boost the foreign capital investment available to them.
8. Most importantly, it fulfils their need to mitigate commercial risks in the highly fraught development environment of defence production. Defence systems, which are usually at the cutting edge of

technology, require enormous capital to develop and there are never any guarantees of actual orders. Private Indian defence manufacturers in effect have little choice but to look abroad for partnership, funding and technology.

*But the fact remains that there is a great amount of opposition to enhancing FDI limits from private Indian companies which have existing capabilities in defence manufacturing in the country. It would therefore be prudent to look at the issue from the point of view of these Indian companies.*

#### **What do the Indian manufacturing companies say?**

Those in favour of maintaining the status quo of FDI cap in defence sector highlight the **offset policy** as a tool for attracting latest technology without compromising the national security interests. So what is this offset policy?

The offset policy obliges every foreign company winning a defence contract to produce in India defence goods and services of the value of 30 percent of the contract. Although offsets amounting to 30 per cent for contracts exceeding Rs 300 crore have been made mandatory since Defence Procurement Procedure-2005 (DPP 2005), they provide a poor alternative for greater FDI flow.

India ostensibly does not have the industrial capacities and knowhow to absorb the offsets obligations, estimated to be about \$9 billion by 2012. In such cases, foreign vendors, faced with significant offset obligations, would be forced to seek non-commercial and artificial offset trades with Indian businesses simply to meet these obligations.

There is also the risk that offsets could be directed by the foreign vendor to its Indian offset partner for low technology components with a minimal technology value addition, just to discharge its offset obligations. It is thus presumptuous to assume that the level of technology required by the country can be achieved within the existing FDI limits, merely by offsets.

*Possible way ahead and suggestions have been dealt with in the recommendations and conclusions section of this document.*

#### **4. Civil- Military relations – Recent undercurrents**

Civil-military relations in India have been shaped, as in other countries, by the colonial legacy, political system, administrative structures, historical precedents and established social norms. Political control is exercised through the office of the defence minister who heads the Ministry of Defence. The MoD is staffed by civilian bureaucrats who are mostly, but not exclusively, from the Indian Administrative Service (IAS), which is a generalist civil service providing bureaucrats who, more often than not, lack domain expertise. As a result, officials in the MoD often have limited experience of working with the defence forces and on military issues.

##### **Civil military relations in India are problematic for three main reasons.**

First, as a result of the 1962 Sino-Indian war, in which alleged civilian and political meddling was widely criticised, Indian politicians rarely interfere in what is considered the domain of the military. Of course, in all matters which may have political consequence or an impact on foreign and diplomatic affairs, such as choosing an international training partner for joint exercises, the military must check with the MoD first. However, the military does have control over most of the internal functions of the services, with very little civilian or political oversight. This level of military autonomy also stems from a lack of civilian expertise in military affairs. In other words, politicians rarely interfere not only because this is now the established norm, but also because they do not know enough about the military. As a result, there is a lack of dialogue and understanding between the political class and the armed forces.

Second, the Ministry of Defence is staffed by a temporary, generalist civilian bureaucracy that is hampered by a lack of expertise and information asymmetry. This is unlike the UK, where bureaucrats are not usually shuttled



between other non-related departments, although here are rare exceptions to this general rule. In India, as the civilian bureaucrats tend to lack the requisite knowledge, they are unable to contribute much to the discussion of important issues. However, these bureaucrats also possess considerable financial and file-processing power which they exercise with varying degrees of efficiency and competence over the military headquarters.

The confused nature of civil-military relations and the division of powers creates certain problems. Hence, for instance, service headquarters frame their own defence plans without any interaction with the civilian authorities. At the same time, the military is unable to obtain financial sanctions for their five-year plans from the MoD, thereby making the entire process irrelevant. Civilians, both bureaucrats and politicians, have limited knowledge of the military's operational plans as this is usually an affair limited strictly to the services. Major procurement decisions are made by the MoD but since they give frequent preference to the state-owned industries armed forces often have objection with it.

Third, the services have considerable autonomy over what is considered their own domain. This includes force structures, doctrine, training and promotions up to a certain rank. In these matters there is little that civilians, hampered in any case by a lack of expertise and information, can do to shape the decisions made by senior military officers. In practice, this means that policies can change rapidly with a change in command. Often this results in ad-hoc and personality-based decision-making.

A combination of all these factors-lack of civilian expertise but retention of some powers, service headquarters functioning as attached offices and an overall lack of positive civilian guidance for the military – has resulted in considerable civil-military tension and discord. To be sure, some of this is inevitable but India's experiences have been an issue for a while now and have not been systematically addressed. The result is a relationship that can best be characterised cumulatively as 'an absent dialogue' between the relevant parties in essence minimal interaction between the two.

## 5. Conclusion and Way ahead.

### ➤ **Modernization of armed forces**

Today, India needs to purchase nearly a 1000 helicopters and between 3000-4000 artilleries to consider it battle ready for future warfare especially given the kind of modernisation drive that the Chinese military is undergoing as well as the kind of assistance China is giving to Pakistan for developing its own arsenal. Similar modernisation of infantry weapons is also critically important today just as India's depleting strength of submarines is a real cause of concern. It is to be noted that the modernisation approach followed by the MoD so far is something like a 'first come first serve' (i.e., a service which succeeds in processing its procurement proposal first, gets the government approval. It does not give due importance to the needs of other services which may be of greater significance but is struck in the bureaucratic process). This may serve the procurement requirement of a particular service, but may not be an ideal solution to address the modernisation issue holistically, keeping in view the resource constrain. Since the challenges, as discussed above, are serious, what the MoD needs now is to have an institutional capability to prioritise its modernisation plan keeping in view the likely shortage of funds and the vital security requirements of the country.

### ➤ **Budget Planning for Defence Sector**

While budgets would come and go, from a long term perspective, it is important to give serious thought to financial planning, which involves addressing issues like how the requirement is to be assessed, how the allocations are to be utilized, how the liabilities are to be managed, how the allocations are to be related to the outcomes, and so on.

If the plans continue to be made on the basis of unrealistic assumptions about the resources likely to be available for defence and little attention is paid to financial management in defence, we will forever remain mired in a simple equation – mismatch between projection and allocation.

### ➤ Improving the civil-military relations

It is true that some of the problems lie within our system including the forces themselves. Inexperience in governance among temporary civil servants rapidly rotating between two unrelated jobs is matched by war battle inexperience of the generals whose knowledge is now more and more theoretical while the political leaders are more concerned with their electoral prospects than the defence of the nation. The consequence of this is an unending battle of egos in the corridors of power. The entire system is now far more complicated, systems are far more technology driven, the linkages are far greater and requires continued in depth expertise built over a number of years. This also leads to superficial assessments and faulty decisions. There is much to be said for a greater component of armed forces in the MoD and a greater presence of civilians in the armed forces for them to understand what it means to be posted in Siachen or in the deserts of Rajasthan or distant Walong, to be on the high seas for weeks or undersea for days, to experience g-force in a fighter aircraft.

There is a need to create a greater awareness of, and to facilitate an informed public debate about, national security issues. The best way to do this is to adopt transparency in functioning of these institutions. Without them, the debate on security issues will remain dominated by former military officers or bureaucrats who, in turn, base their arguments on opinions and claimed experience. While their views should be considered, scholarly studies based on primary documents would be more analytically useful.

Not only that, there is a need to create a specialised civilian bureaucracy that is only employed in national security institutions. Since 1967, successive administrative reform committees have recommended 'domain specialisation' in the generalist Indian Administrative Service. However, for a variety of reasons this has not been accepted. The current system of shifting bureaucrats between different ministries, and only for relatively short placements, is simply illogical. In 2001, the N N Vohra Committee on internal security, recommended the creation of a specialist cadre of bureaucrats to work in the ministries of defence, home affairs, external affairs and the National Security Council, with postings to associated departments in their state cadre.

India's democratic values and systems have ensured that its armed forces remain apolitical. While many central and state services in India are getting more and more politically influenced, the armed forces are among the last bastions to have escaped this trend. The credit goes not only to the military and its traditions but also to the political leadership, our egalitarian society and other well-established democratic institutions. If we wish to see the men and women in uniform remain professional and apolitical, the nation will need to be vigilant and help them to maintain such a tradition. Our political class, our defence establishment, and our media, all have to realise this responsibility. Unless we reinvent systems, and ourselves rapidly, we wait for the next disaster.

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