

Defence exports: A strategic imperative

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India's rise as a reliable exporter of defence equipment provides an excellent opportunity to embellish its growing stature on the global stage

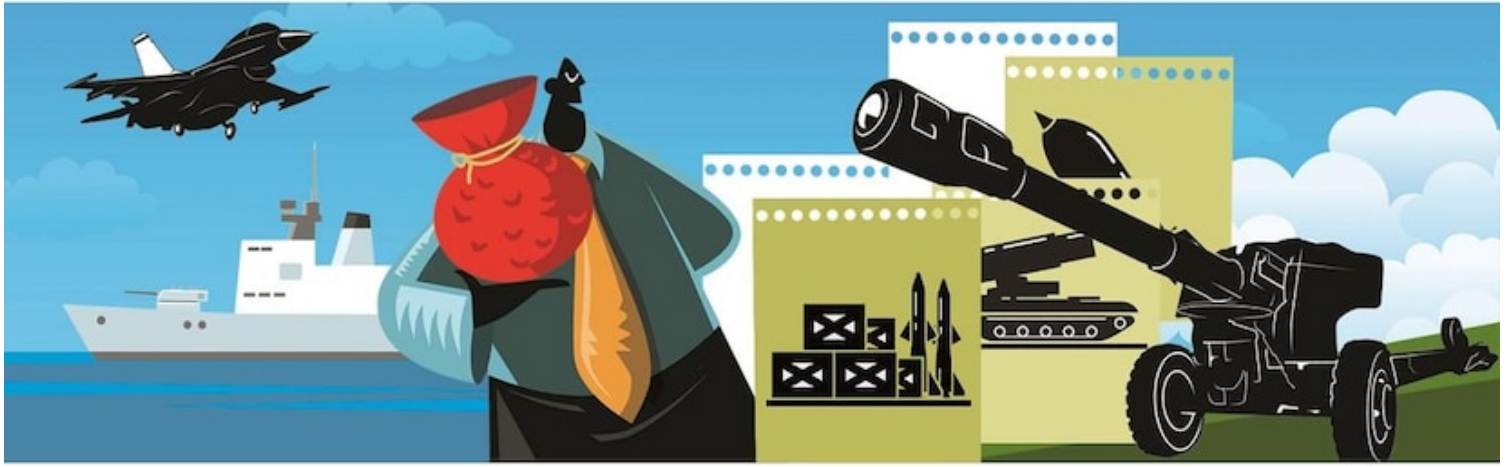


Illustration: Binay Sinha

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Amidst escalating geopolitical tensions, analysts foresee a rapid expansion of the global defence and aerospace industry, from \$750 billion in 2022, to \$1.38 trillion by 2030. Beyond economic gains, defence exports offer substantial strategic advantages. The deployment of defence equipment from a specific nation establishes technological dependencies, influencing maintenance, repair, overhaul, spares, components, and future upgrades. Compatibility between exporting and receiving nations enhances military interoperability, expanding options for joint operations. These dependencies significantly impact the diplomatic and strategic geopolitical stance of partner nations, highlighting the broader implications and significance of defence exports.

The United States, currently the world's largest arms exporter with over 40 per cent of global exports, did not always dominate the market. In the 1870s and '80s, the American shipbuilding and strategic metals industry lagged behind Europe. Prior to the 1880s, the navy and war departments procured ships and armaments from the government naval yards and arsenals. Faced with the transition from wood-sail to

steel-steam fleets, the US had to decide whether to import from Britain or encourage domestic production. They opted for the latter, legislating that all ships and components must be sourced domestically, fostering a private defence industry.

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Along with this fundamental change, other key policy measures transformed the defence industry in the US. The Government Metal Testing programme subsidised industry testing cost, amendment to the basic procurement law allowed direct negotiation instead of competitive bidding in emergency conditions or when competition was impractical. Another landmark decision involved the State promoting foreign sales of US firms, arguing that it was crucial for maintaining the military-industrial complex for national defence.

The transformation of the US into a world-class defence industry ecosystem holds valuable insights for India as it embarks on a similar journey. India's defence exports surged to a record Rs 16,000 crore in 2022-23, a staggering 800 per cent growth in five years and reaching 85 countries across continents. This propelled India into the top 25 defence exporters globally. Interestingly, nearly 80 per cent of this growth is attributable to private industry. India's expanding defence exports encompass missiles, rockets, torpedoes, artillery-guns, and drones, among others. Integration of hundreds of Indian Micro, small and medium enterprises (MSMEs) into global defence original equipment manufacturer (OEM) supply chains, coupled with a surge in exports, positions India favourably for future growth. Notably, DefExpo 2022 in Gandhinagar witnessed around 20 ministerial level delegations expressing interest in sourcing defence equipment from India.

External factors contribute to this optimistic outlook. China's declining arms exports, marked by a 7.8 per cent drop between 2016 and 2020, apparently due to poor quality and unreliable performance creates an opportunity for India. Myanmar's grounding of Chinese jets, Nigeria's return of Chengdu F-7 fighters, and Pakistan's issue with F-22 frigates highlight the challenges faced by China's arms industry. Amidst Russia-Ukraine conflict-related supply chain disruptions, Israel's preoccupation with Hamas, and the US tied up on multiple fronts, India emerges as a reliable partner attracting countries keen on diversifying arms sourcing.

India's expertise in servicing Russian platforms has gained prominence from countries possessing Russian inventory. As the Indo-Pacific region gains significance, Indian shipyards find opportunities to service the increasing presence of US and European naval fleet. The rising importance of software and artificial intelligence (AI) in defence platforms aligns with India's strengths, fostering the establishment of global capability centres by global defence OEMs.

Government's Innovation for Defence Excellence (IDEX) programme has created hundreds of startups, which are serving the Indian armed forces and are poised for global licensing of their technologies in areas such as wireless communication, image sensors, quantum communication, AI, and swarming. Above all, Prime Minister Narendra Modi has been able to transform the global perception of India, branding it as a rapidly reforming and growing innovation economy, lending credibility to the burgeoning defence industry.

The surge in defence exports is the result of a number of other recent initiatives, including enabling participation of private sector and startups in defence industry ecosystem, streamlining export permissions via a web-enabled system, which has reduced delays, an online system to share enquires and leads with defence industry, instituting open general export licence, including defence exports as a key result area for evaluating performance of defence attaches posted in Indian embassies abroad. Moreover, liberal availability of defence lines of credit (LOC), repositioning DefExpo and Aero India as world-class exhibitions showcasing India's defence innovation ecosystem have also helped.


While a significant beginning has been made, the opportunity is much larger. Positioning India among the top five defence exporters over the next decade is a realistic target. Some policy initiatives that require consideration are as follows: The state needs to proactively promote defence exports by Indian firms. Rules and procedures should be developed for government-to-government sales to make it easier for foreign governments to procure from Indian firms. While the reciprocal procurement agreement being discussed with the US is a starting point, a more generic framework akin to US's foreign military sales framework would be helpful. Distinct terms for defence LOC are necessary, considering the inherent limited competition in defence production. A framework allowing empanelled defence firms to bundle defence LOC as part of their market pitches could be considered. Interest rates for defence LOC need to be reduced to bring them on a par with those offered by competing nations. Additionally, since innovative technologies developed by IDEX startups are being sought by other countries, establishing a licensing template safeguarding national and startup interests is essential.

Defence exports provide an excellent opportunity to embellish India's growing stature on the global stage and improve strategic leverage with friendly nations. Possibly an agenda for the new government to prioritise after elections.

The writer is distinguished visiting professor, IIT Kanpur, and former defence secretary, Govt of India

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