



Delhi Policy Group

Advancing India's Rise as a Leading Power



DPG POLICY BRIEF

India's Defence: From Policies to Capabilities

Author

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Cover Photographs:

Prime Minister Narendra Modi visiting the 11th edition of DefExpo, at Lucknow, Uttar Pradesh on February 05, 2020. Source: aviation-defence-universe.com

India carries out maiden mid-air refuelling of the indigenous Tejas fighter, joins elite club. Source: Business Standard News

Rajnath Singh on Twitter: "An E-book titled '20 Reforms in 2020' released today" (June 07, 2021).

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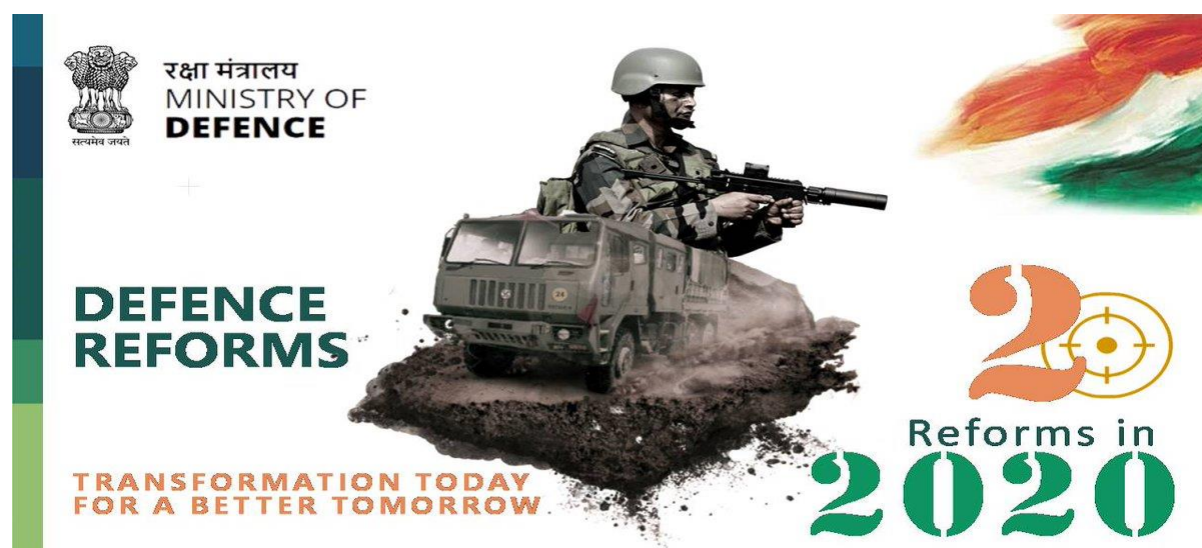
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Introduction

On June 07, 2021, India's Raksha Mantri (Defence Minister) released an e-booklet listing "20 Achievements of the Ministry of Defence in 2020"¹. This booklet, according to an official press release, provides an overview of the reforms implemented in the field of defence to bring about greater cohesion and modernisation of the Indian armed forces through policy changes, innovation and digital transformation. It also highlights the efforts made at achieving self-reliance (Atmanirbharta) through increased collaboration with industry, boosting of defence exports, reforms in defence acquisition, and transformation in R&D². Besides the measures covered in this booklet for the year 2020, other enabling provisions have been instituted in recent months, aimed at reforming the defence sector and extricating India from the unenviable position of perpetually being the largest/second largest global arms importer³.



Source: Twitter. Dr Ajay Kumar, Defence Secretary. 2020 Year of Reforms for Defence.

¹ Ministry of Defence. June 07, 2021.

<https://www.mod.gov.in/sites/default/files/MoD2RE7621.pdf>

² Press Information Bureau, New Delhi. Raksha Mantri Shri Rajnath Singh releases E-booklet on 20 MoD reforms in 2020; Terms it as a reflection of the Government's resolve to make the defence sector stronger and more efficient. June 07, 2021.

<https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1725091>

³ SIPRI Fact Sheet. TRENDS IN INTERNATIONAL ARMS TRANSFERS, 2020 March 2021. Pg 6.

https://sipri.org/sites/default/files/2021-03/fs_2103_at_2020.pdf

For these policies and intentions to get translated into the desired capabilities, a constant review must be carried out of these programmes and mid-course corrections made, wherever required. This analysis is essentially directed towards that end.

Recent Policy Decisions for Capability Development in the Defence Sector

Some of the policy decisions contained in the recently released Ministry of Defence (MoD) document are: appointment of the Chief of Defence Staff (CDS) and creation of the Department of Military Affairs (DMA), a new department in the MoD; promulgation (in August 2020) of a 'negative list', banning imports of 101 defence related weapons and equipment, over the period 2020-2025; enhancement of the FDI limit in defence sector, in the automatic route, from 49% to 74%; promulgation of a revised (updated over 2016) Defence Acquisition Procedure (DAP-2020), with enhanced emphasis on indigenisation; refining of the offset policy for global acquisitions; setting aside nearly 58% (approximately Rs. 52,000 Crores, or USD 7 billion) of the allotted capital- modernisation budget for acquisitions from domestic sources; 87% of the capital acquisitions approved during the Year 2020 being sourced from domestic industry; greater emphasis on technology development and innovation; emphasis on digitisation of internal processes; incentives to boost MSMEs and start-ups; and substantial emphasis on enhancing defence exports (which increased from Rs 1941 Crores, or USD 262 million in 2014-15 to Rs 5711 Crores, or USD 772 million in 2020-21)⁴, ranking India 24th amongst arms exporters (although the India's share of arms exports for the period 2016 – 2020 is only 0.2%)⁵. An ambitious export target of Rs 35,000 Crores, or USD 5 billion in Aerospace and Defence goods and services have been set for the year 2025, in the draft Defence Production and Export Promotion Policy 2020⁶. It was with this intention that the government had, in the budget for the year 2018-19, announced the establishment of two defence industrial corridors, one each in Tamil Nadu and Uttar Pradesh⁷.

Continuing the process of defence reforms, another slew of measures has been announced in the first few months of the year 2021. In keeping with the

⁴ Op.Cit. e booklet. Ministry of Defence.

⁵ SIPRI Fact Sheet 2021. March 2021. Pg 2, Table 1. https://sipri.org/sites/default/files/2021-03/fs_2103_at_2020.pdf

⁶ Draft Defence Production & Export Promotion Policy - DPEPP 2020. <https://www.ddpmod.gov.in/dpepp>.

⁷ Defence Corridors. Press Information Bureau, Government of India, Ministry of Defence. July 17. 2019. <https://pib.gov.in/Pressreleaseshare.aspx?PRID=1579096>

precedent set the previous year, the share of the capital modernisation budget earmarked for procurement from domestic industry has been enhanced from 58% to 63% (Rs 70,221 Crores)⁸. Going a step further, from the funds earmarked for indigenous acquisitions, nearly 25% of the budget (Rs 17,500 Crores) has been sub-allocated for acquisition from the domestic private sector defence industry⁹. In addition, Rs. 1000 Crores have been reserved for procurement from "Innovation for Defence Excellence (iDEX)" start-ups to give a major boost to defence technology¹⁰. Budgetary support of Rs. 499 Crores. has also been promised to support nearly 300 start-ups/MSMEs/individual innovators and 20 partner incubators under the Defence Innovation Organisation (DIO) framework, over the next five years¹¹.



Defence Minister Rajnath Singh at a webinar on the Defence Budget, February 22, 2021. Source: The Hindu/PTI

⁸ Ministry of Defence. Press Information Bureau. February 22, 2021. <https://pib.gov.in/PressReleaseDetailm.aspx?PRID=1699992>

⁹ The Economic Times. 02 June 2021. <https://economictimes.indiatimes.com/news/defence/defence-min-reserves-17k-cr-for-private-sector-buys-this-yr/articleshow/83183323.cms?from=mdr>

¹⁰ Op.Cit. MOD PIB. February 22, 2021.

¹¹ Rajnath Singh approves budgetary support of nearly Rs 499 crore for innovations in the defence sector. The Indian Express. June 13, 2021. <https://indianexpress.com/article/india/rajnath-singh-approves-budgetary-support-of-nearly-rs-499-crore-for-innovations-in-defence-sector-7356887/>

A significant step has been the promulgation of the second 'negative list' for imports on May 31, 2021. Under this list, 108 additional defence related items will be progressively banned for imports during the period December 2021-2025. The emphasis is on curtailing imports of weapons and systems which are currently being manufactured or under development/trials in India.

Yet another bold step was taken on June 16, 2021 to reform the functioning of Ordnance Factories. The 246 year old Ordnance Factories Board (OFB), set up in 1775, which hitherto controlled the existing 41 Ordnance factories, has been dissolved. This will be replaced by seven holding companies.

The introduction of these reforms suggests a positive intent and a resolve to enhance self-reliance in defence. An objective review, however, needs to be carried out to identify the challenges in implementation and to assess the results achieved.

Analysing the Policy Pronouncements

One of the primary reasons for India's inability to become self-reliant in the defence sector, despite being the third-largest spender on defence and largest/second-largest importer of global arms, has been the dichotomy between the need to remain operationally ready against potential threats from across the borders and the time required for indigenous design, development and induction of weapons and equipment through the process of spiral development, i.e., a choice between Atmanirbharta (self-reliance) and operational preparedness. The recent promulgation of the negative import lists needs to be viewed in this context.

Negative Lists

Commencing August 2020, a total of 209 weapons and items of military equipment have been banned for imports in the two 'Negative lists' issued by MoD. This ban is staggered for implementation over the period December 2020 to December 2025, and includes items in which India has developed indigenous capability as well as some weapon systems which are still under development. It is the latter category that is of particular concern. A range of helicopters, transport aircraft, trainer and maritime reconnaissance aircraft, airborne early warning and control systems, close-in weapon systems, medium artillery guns etc. have been included in the negative list. Many of these are still at early development stage. It would clearly be counterproductive if the negative lists are used as a tool to 'keep the slot reserved', along with continuing capability voids, till such time the indigenous development is

completed and production actually commences. This apprehension is borne out by years of experience of the Indian Armed Forces.

The Defence Procurement Procedure (DPP) 2016 and the Defence Acquisition Procedure (DAP) 2020 have five well-defined categories for Capital acquisition listed in 'decreasing order of priority' with the most preferred category being 'Buy Indian-Indian Designed Developed and Manufactured (IDDM)' and the least being 'Buy (Global)' ¹². It has always been an imperative to procure the equipment indigenously under the 'Indian' categories if available (operational) at that point in time. Each progressive step towards the global purchase or partnership category has to be justified in detail to the Defence Acquisition Council. The intent of the 'negative list' was thus already inherent in the procedure and was achieved, without sacrificing operational readiness or unduly constraining either the services or the Defence Acquisition Council (DAC). That this was occasionally 'negotiated', in the interests of operational expediency, led to the formal promulgation of the 'negative list'. While the intent may be laudable, it remains to be seen whether this will work for the good or become a self-created impediment.

With the stand-off in Ladakh continuing and the two-front threat a reality, there is need for a much deeper politico-military deliberation to decide between adherence to this negative list embargo or making an exception. The decision on such waivers (or otherwise) to the negative list should preferably be taken by the Cabinet Committee on Security (CCS), elevating it beyond the purview of the MoD (DAC). This is because any such decision would entail consideration of political, diplomatic, military and financial aspects. This process should also entail imposing greater scrutiny and accountability of the development and production agencies (DRDO, OFB, DPSUs and others) to monitor slippages in the schedule. To prevent delays, these agencies should be made to take up commitments as 'mission mode projects'.

¹² Defence Procurement Procedure (DPP) 2016. Chapter 1, Pg 1, Para 4.
https://www.mod.gov.in/sites/default/files/dppm.pdf_0.pdf

Defence Acquisition Procedure (DAP) 2020. Chapter 1, Pg 2, Para 5.
https://www.mod.gov.in/sites/default/files/DAP2030new_0.pdf

The five categories for Capital Acquisition in decreasing order of preference being: Buy (Indian – IDDM), Buy (Indian), Buy and Make (Indian), Buy and Make, and Buy (Global).



Indigenous Pinaka Multi-barrel Rocket Launcher. Source: en.wikipedia.org

A possible answer for meeting critical operational requirements would be to resort to 'Leasing' through this newly introduced category for acquisition¹³. An urgent operational gap may be bridged by short term 'leasing (global)', without blocking prospects of indigenous induction for the next 30-40 years. This option should, however, be resorted to as an exception, with strict time limits set within which the domestic equipment must be made available to the services as a final product. Penalties need to be considered in the event of unjustified slippages.

On Defence Being at the Core of Atmanirbhar Bharat

The Prime Minister has been making repeated assertions that the Defence sector has been identified as one of the core areas to boost 'Make in India', where immediate transformation is required¹⁴. The 'foreword' to the DAP 2020 alludes to its ethos and spirit being derived from "the clarion call of an Atmanirbhar Bharat and Make in India, which define India's growth story and a dream to become a USD 5 trillion economy by 2024".

The major themes incorporated in the ambitious DAP 2020 include: promoting design and development; enhancement of indigenous content in all defence

¹³ Defence Acquisition Procedure (DAP) 2020. Chapter 1, Pg 5, Para 18.
https://www.mod.gov.in/sites/default/files/DAP2030new_0.pdf

¹⁴ Ministry of Defence. Press Information Bureau. Raksha Mantri Shri Rajnath Singh highlights Atmanirbhar Bharat initiatives of MoD at Defence Industry Outreach Webinar. August 27, 2020. <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1649023>

products (ranging from 40% to 60%); promoting innovation for defence excellence; promoting MSMEs; incorporating the use of indigenous raw material, software and components; and making India a global manufacturing hub. To achieve ALL this alongside building the operational capability of the armed forces to meet real-time operational threats in multiple domains, within the modest defence budget allocations, merits a serious reality check. While both are laudable objectives, they are not always complementary. A balance, weighted in favour of building operational capability to meet prevailing or imminent threats, needs to be clearly spelt out.

Meeting Expectations at 'shoe-string' Defence Budgets

During the last few years, the defence budget allocation (less the pensions) has generally hovered around 1.5 to 1.65% of GDP and has constituted nearly 13% to 14% of the Union Government's expenditure. The capital budget, which, besides allocations for force modernisation, also includes allotments for construction works, Ex-Servicemen Contributory Health Scheme (ECHS), NCC, and Ordnance factories, has been around 1.1 to 1.35 Lakh Crores, or USD 15-18 billion approximately during the period 2019-20 to 2021-22. According to rough estimates, 90% of the capital budget allotted for the current year is likely to be utilised to meet the committed liabilities¹⁵. This leaves a meagre amount for the modernisation /capability development of the armed forces.

Consider this against the policy pronouncements (detailed above), where over 60% of this allocation (Rs. 70,000 Crores plus) has been earmarked for acquisition from domestic industry, with a further 25% of this earmarked for acquisition from the domestic private sector. Add to this Rs. 1000 Crores. reserved for procurement from 'Innovation for Defence Excellence (iDEX)' start-ups and budgetary support of Rs 499 Crores. for MSMEs/individual innovators over the next few years.

The foremost objective of the defence capital budget has to be to equip the armed forces appropriately. The other industry-related objectives, though pertinent, are secondary. In case, however, multiple objectives are sought to be achieved through the vehicle of defence indigenisation, additional allocations would need to be made to augment the defence capital budget. The 15th Finance Commission has recommended the creation of a 'Modernisation Fund

¹⁵ Raghuvanshi Vivek. India releases details of new defence budget. Defense News. February 03, 2021. <https://www.defensenews.com/global/asia-pacific/2021/02/02/india-releasesdetails-of-new-defense-budget/>

for Defence and Internal Security (MFDIS)¹⁶. Whenever created, some resources from this could be utilised to achieve the desired objective of defence indigenisation.

Also, while we strive for self-reliance and promote indigenous industry, some global procurement would be inevitable for acquiring niche weapons and technologies, which often come tied to each other. Further, strategic partnership with friendly countries entails an inherent expectation of defence trade. This aspect needs to be factored in at least in the near to medium term and budgets planned accordingly.

In our effort to bridge the capability gap with the PLA in multiple domains, particularly in the field of high technology weapons, it seems inconceivable that the demand of weapons and equipment for the armed forces would conform largely to what is produced indigenously by Indian industry and to planned budget sub-allocations between domestic PSUs, private industry and global procurements.

Industry Orientation to Future Battlefield

While efforts are in hand to create a defence industrial base in India, the process merits consideration of a framework and a road map, taking into account various interlinked factors.

The first is to define the contours of future wars likely to be fought in the Indian subcontinent. The classic infantry, armour, artillery dominated battles on land; predominantly a surface ships equipped Navy, complemented by submarines and its integral air arm for tasks at sea; and the Air Force, primarily utilising manned aircraft, to augment the land and maritime operations; are all set to change in the near future. Besides the traditional domains, capability also needs to be created in the cyber, electronic warfare, space, Intelligence Surveillance and Reconnaissance (ISR) domains. Furthermore, even kinetic war-fighting is progressively shifting to the use of long-range vectors, unmanned platforms, Artificial intelligence (AI) based decision support systems and much more. A glimpse of recent battles between Armenia and Azerbaijan and Israel Defence Force operations against Hamas clearly indicates

¹⁶ 15th Finance Commission, Main Report. Vol1. Chapter 11. Pp 350-351. Paras 11.54 to 11.58. <http://finance.cg.gov.in/15%20Finance%20Commission/Report/XVFC-VOL-I%20Main-Report-E.pdf>

the changing pattern of war-fighting. Israel claims that its operations marked the world's first use of artificial intelligence (AI) and supercomputing in a war¹⁷.



Indian Navy Sea Guardians. Source: indiandefensenews.in

This calls for the services and industry to jointly evolve a future concept of operations, based on emerging technologies, calibrated for the period 2035-2040. A decision could then be made whether the Indian defence industry should continue to grow in the domain of the traditional battlefield using legacy equipment, or shift to the visualised future domains. The level of 'saturation' in the legacy domains, in the domestic and export market, may dissuade industry from investing further, despite a degree of 'comfort of reservations' provided by the 'negative lists'. An earlier policy paper by the Delhi Policy Group, titled "Informationised Warfare with Boots on Ground: A concept for the Defence of India in the Continental Domain¹⁸", was an endeavour at visualising the concept of operations for the future battlefield, as has been suggested above. It alluded to adopting a doctrine of "Technology intensive, Light Positional Defence with Augmented Offensive Capability" along India's Western borders in the deserts and plains sectors (Page 13); the concept of "Strong Positional Defence Augmented with Technology and Fire Power" along the Line of Control (LoC) with Pakistan in Jammu and Kashmir (Page 15); and adopting "Positional Defence by tailor-made Integrated Battle Groups supported by Specialised Mobile Reserves" along the Line of Actual Control (LAC) against China (Page 20). A similar multi-domain exercise could be carried forward by the services, industry and think-tanks to determine the way forward.

¹⁷ Younis Dar. Israel Says It Fought World's First "Artificial Intelligence War" Against Hamas. The Eurasian Times. May 22, 2021. <https://eurasianimes.com/israel-sys-it-fought-worlds-first-artificial-intelligence-war-against-hamas/>

¹⁸ DPG POLICY PAPERS. **Informationised Warfare with Boots on Ground: A Concept for the Defence of India in the Continental Domain.** Vol V, Issue 32, August 22, 2020. <https://www.delhipolicygroup.org/publication/policy-papers/informationised-warfare-with-boots-on-ground-a-concept-for-the-defence-of-india-in-the-continental-domain.html>

Secondly, there is a need to at least broadly align supply and demand, while making allowance for the incremental growth of exports. In most segments of defence, the Indian armed forces are the primary customers of indigenous industry. What they buy depends on the budgets allocated. It would thus be appropriate that an updated¹⁹ intra and inter-service prioritised integrated capability development plan is evolved, which is aligned to an indicative budget allocation with a reasonable year on year increase. According to the Raksha Mantri, India plans to spend USD 130 billion (Approx. Rs. 9, 62,000 Crores) over the next 7-8 years on defence modernisation²⁰. This could form the basis for industrial capacity building across the public and private sectors put together. The manufacturing capacities need to be aligned to the recurring needs of the services. For instance, capacities for the production of various categories of munitions, missiles etc. need to be related to the recurring expenditure on training and wastage due to shelf-life constraints. Over capacities are as wasteful and undesirable as under capacities.

Thirdly, in the long term, the country has to so plan the size of its defence industry that there is neither a monopoly of a handful of major defence manufacturers, creating cartels and manipulating prices, nor is there an excessive fragmentation, creating non-viable entities. An appropriate size of the industry, in different segments, supports healthy pricing and encourages innovation.

The US defence industry, which has matured substantially, saw a period of consolidation at the end of the Cold War. During the decade of the 1990s, there were nearly 60 prime contractors in the defence market, spread over 12 segments²¹. These shrank to less than half. The US Department of Defence (DoD) had then encouraged the defence industry to consolidate facilities and eliminate excess capacities to remain competitive and financially viable²². In

¹⁹ The current Technology Perspective and Capability Road map (TPCR), is of 2018 vintage, perhaps based on the older integrated capability development plan and does not adequately factor in emerging technologies. <https://www.mod.gov.in/sites/default/files/tpcr.pdf>

²⁰ India to Spend \$130 Billion on Military Modernisation, Says Rajnath Singh Amid Border Standoff with China. News 18. February 3, 2021. <https://www.news18.com/news/business/india-to-spend-130-billion-on-military-modernisation-prepared-to-defeat-misadventures-at-border-rajnath-singh-3385139.html>

²¹ The 12 segments being: Tactical missiles, strategic missiles, fixed-wing aircraft, rotary-wing aircraft, surface ships, submarines, expendable launch vehicles, satellites, tactical wheeled vehicles, tracked wheeled vehicles, munitions, and torpedoes. <https://www.govinfo.gov/content/pkg/GAOREPORTS-T-NSIAD-98-112/pdf/GAOREPORTS-T-NSIAD-98-112.pdf>

²² DEFENSE INDUSTRY CONSOLIDATION, Competitive Effects of Mergers and Acquisitions. <https://www.govinfo.gov/content/pkg/GAOREPORTS-T-NSIAD-98-112/pdf/GAOREPORTS-T-NSIAD-98-112.pdf>

recent years, however, there is growing concern over major consolidation within the defence industry, where nearly half the US DoD contracts are bid for by five arms majors (Lockheed Martin, Raytheon Technologies, General Dynamics, Boeing and Northrop Grumman). According to the US Government Accountability Office, this has resulted in substantial cost growth and contracts being awarded without full and open competition²³. There are a few lessons to learn from this as India develops and restructures its defence industry.

In the recent restructuring of the Ordnance Factories announced by the Government of India, the existing 41 companies are now being regrouped into seven separate entities, a subgroup of factories producing similar products²⁴. This seems to be a deft measure, which achieves two things simultaneously. It has downsized a major conglomerate, which had emerged as an inefficient mammoth arms major with a price and product monopoly in certain segments for the Indian armed forces. Concurrently, however, it has regrouped the 41 fragmented companies into seven consolidated entities, producing near similar products. This seems like a good beginning in re-shaping the defence industry and needs to be carried forward. Aspects of privatising certain segments and creating strategic partnerships around them are some of the aspects which merit further consideration.

Recommendations

Flowing from above, the following steps could be considered:

- A periodic review of the policies for defence reforms, carried out between the MoD, Services and Industry (public and private sector including industry bodies), to monitor the impact on operational preparedness and the percolation of the desired benefits to the industry.
- Judicious implementation of the 'negative list', particularly for the weapons and equipment still under development. This must ensure that a balance is maintained between operational preparedness and indigenisation, with priority being accorded to the former. Short term leasing of equipment, though a sub-optimal option, may be resorted to in order to bridge the induction gap.
- A pragmatic review of budget allocation and sub-allocation for the public and private sector, and mapping this against the actual acquisition

²³ Mark Thompson. The Incredibly Shrinking Defense Industry. POGO. August 01, 2019. <https://www.pogo.org/analysis/2019/08/the-incredibly-shrinking-defense-industry/>

²⁴ The seven segments in which the 41 existing Ordnance Factories will be grouped are: Ammunition and explosives group; weapons and equipment group; vehicles group; Optoelectronics group; parachute group; troop comfort items group; and Ancillary group.

requirements of the armed forces. It must be ensured that this apportioning does not become an impediment to capability development, or a mirage for the domestic defence industry.

- A clear understanding that with the modest defence capital budget allotted, building multi-domain operational capability is a greater priority. Achieving 'Atmanirbharta', though important, is a supplementary objective. To promote the defence industry, MSMEs, start-ups and innovators alongside, additional budgetary allocations need to be built in to support this national vision. The Modernisation Fund for Defence and Internal Security (MFDIS), recommended by the 15th Finance Commission, needs to be created at the earliest.
- There is a need to regulate the overall size and structure of the defence industry. Neither should it consolidate around a handful of arms majors, with the ability to orchestrate prices and competition, nor must it be split among numerous small entities with wasteful overlaps. An optimum size ensures healthy pricing and encourages innovation. The process of corporatisation and restructuring of the Ordnance Factories that has been started needs to be followed through with vision.
- The production capacities of the defence industry should be aligned to the expected demand from the armed forces, with an inbuilt stretch capacity for potential exports. This in turn should be linked to the likely budget allocations. Over capacities are as undesirable and wasteful as under capacities.
- Finally, the services and industry must jointly evolve a clear idea of the likely shape of the future battlefield, based on emerging technologies and the ground realities in the Indian context. This should, thereafter, guide building capacities and capabilities in emerging domains, rather than stagnating in the field of legacy weapon systems, whose place on the battlefield and space in the market is shrinking domestically and globally.

Conclusion

The foregoing analysis is aimed at critically examining the recent policy announcements of the government in the defence sector to achieve Atmanirbharta, which is undeniably a laudable objective. There is, however, the need to pragmatically temper this goal to maintain the armed forces in a state of readiness to meet looming external security threats. A successful policy lies somewhere in between. Ultimately, it is only well-designed policies, applied pragmatically, that will help us achieve both combat readiness and self-reliance in defence.



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