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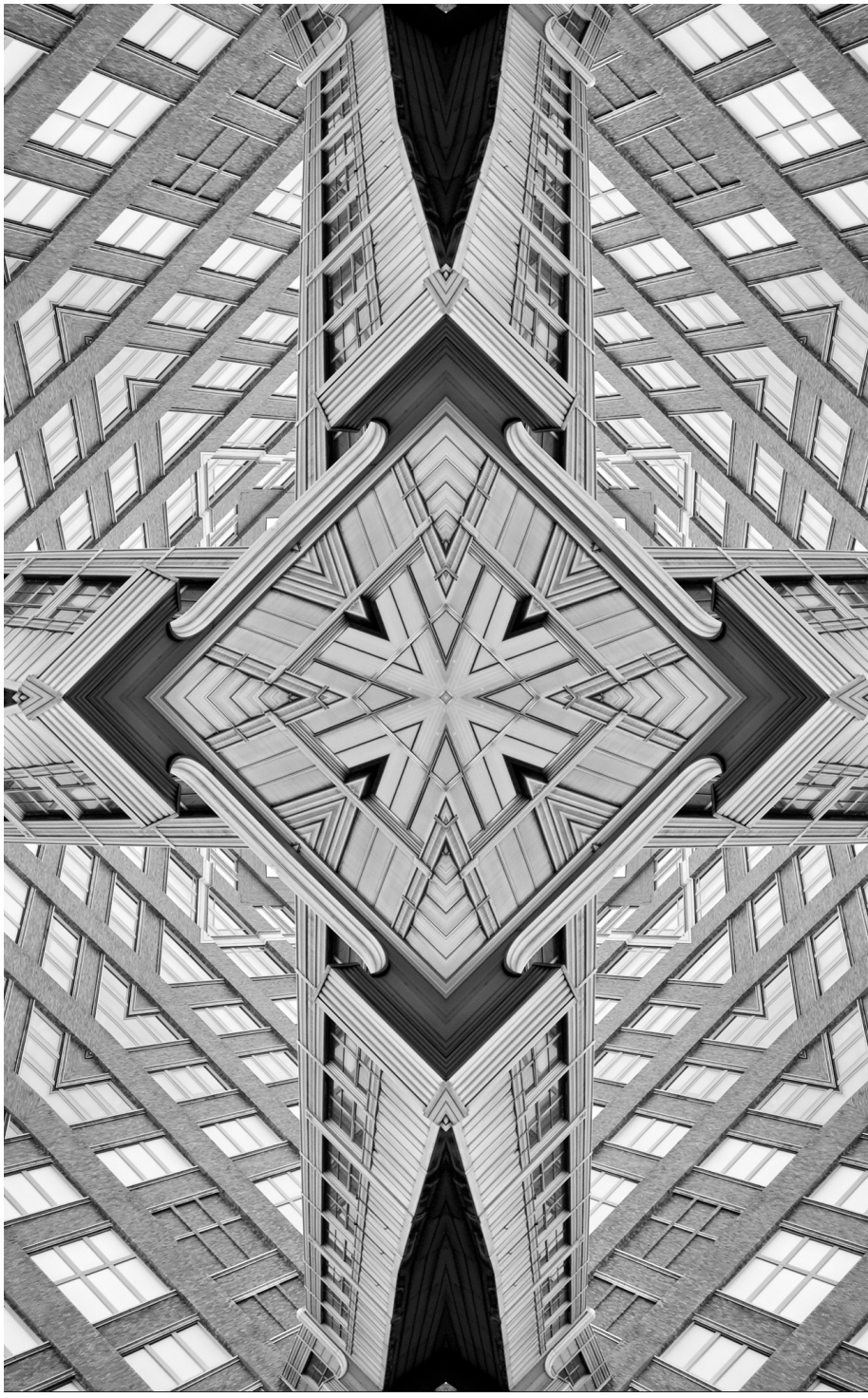

Policy Recommendations for Achieving India's Defence-Export Ambitions

Suchet Vir Singh

Abstract

This brief assesses the recent trends in India's defence exports and analyses the institutional and policy frameworks that have enabled a change in the country's approach towards defence exports, resulting in an upward trajectory. It offers specific policy recommendations to allow India to pursue its target of US$5 billion in defence export revenue. However, a discussion on the types and forms of weapons, platforms, systems, or sub-systems exported by India is beyond the scope of this analysis.

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Introduction

Since its independence in 1947, India has relied heavily on defence imports to arm its military, to the extent that there is a large asymmetry between the quantum of its defence imports and exports. Indeed, for many years now, India has been the largest arms importer in the world.[1] Despite multiple attempts at harnessing a robust domestic defence industry, it remains limited and largely controlled by state-owned corporations. Data from the Stockholm International Peace Research Institute (SIPRI) shows that India accounted for more than 10 percent of global arms imports between 2013–17 and 2018–22, making New Delhi the biggest importer globally. In recent years, India has reinvigorated its efforts to build a robust military–industrial complex while doubling down on increasing its defence exports.[2] Central to this effort has been the introduction of policies, schemes, and frameworks by the Union Government to grow the country's defence exports while bringing about ideational and institutional changes that prioritise the export of armaments.

At the core of these reconfigurations has been the Defence Production and Export Promotion Policy (DPEPP) 2020—which the government has used to set agendas and targets for defence production and exports. In its reorientation towards defence exports, the government's approach has been to first prioritise and augment the country's domestic defence manufacturing capacity and, consequently, increase its defence exports in the long term—the rationale being that exports cannot increase without a robust domestic manufacturing framework.

Alongside the DPEPP, the Union Government has also released multiple instruments aimed at achieving its US$5-billion target for defence exports. These include the Defence Acquisition Procedures 2020 (DAP), positive indigenisation lists, defence production incentives for both public and private manufacturers, liberalised licensing policies, easier export clearance mechanisms, and the emergence of a whole-of-government approach to promote defence exports.

The results of these changes are becoming slowly visible. In 2022–23, New Delhi clocked its highest-ever defence export revenue for a financial year, at INR 15,920 crores. This is in stark contrast to the defence export revenue for the financial year 2013–14, which was INR 686 crores.[3]

Introduction

Drawing on insights shared during interviews with practitioners, defence industry executives, and retired military officials, this brief provides policy recommendations to boost India's defence export trajectory and meet the US$5-billion defence export target. It first outlines an overview of India's defence ecosystem, including data on its import and export asymmetry; gives a brief history of the evolution of India's military–industrial complex; unpacks the policy frameworks, tools, and ideational and institutional changes facilitating the steady and gradual rise in India's exports; and highlights the challenges for the defence export ecosystem.

Background and Defence Import – Export Asymmetry

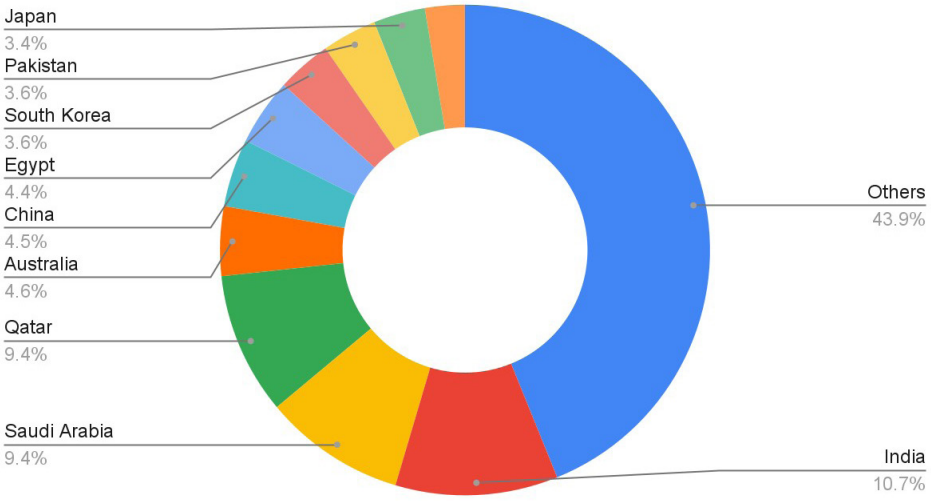
The target of achieving US$5 billion in export revenue as set by the DPEPP is part of a larger goal to have a turnover of US$25 billion in the defence sector by 2025.[4,5] However, both targets mark a significant deviation from the concurrent realities of India's current defence manufacturing capacity and export trajectory, leading to questions about their feasibility.

The focus on India's defence exports and manufacturing does not take place in isolation; rather, it is part of a more significant restructuring of India's defence ecosystem. The country is reorienting the entirety of the conceptual, operational, and recruitment bedrock that guides its military. These holistic changes have been initiated as India faces uncertainties on both its northern border with China, and the western perimeter with Pakistan.[6] Beyond economic policy, these externalities are also pushing the needle on India restructuring its military while also trying to enhance its defence production and export capacity.

Further, this is not the first time that India's government has tried to reorient policy frameworks to boost defence production and exports. Multiple government-appointed expert committees and panels have ideated on this subject. For instance, the Kelkar Committee Report 2005 provided the framework for the current defence offsets policy.[7] Much earlier, in 1992, the Abdul Kalam Committee recommended reorienting the asymmetry in India's defence import and export balance.[8] The Group of Ministers Report 2001 also extended multiple options for changing defence procurement policies and enhancing private sector participation.[9] The implementation and efficacy of these committee recommendations has hinged on, and is often stifled by, bureaucratic capacity and political will.

Despite an institutional focus on increasing exports, India has remained the largest importer of arms globally in the last decade. Between 2013 and 2017, the country accounted for 12 percent of global arms imports; the figure was 11 percent between 2018 and 2022.[10] From 2006 to 2010, India was the largest importer of arms globally, accounting for 9 percent of imports.[11]

Figure 1: Global Arms Imports (in %, 2022)



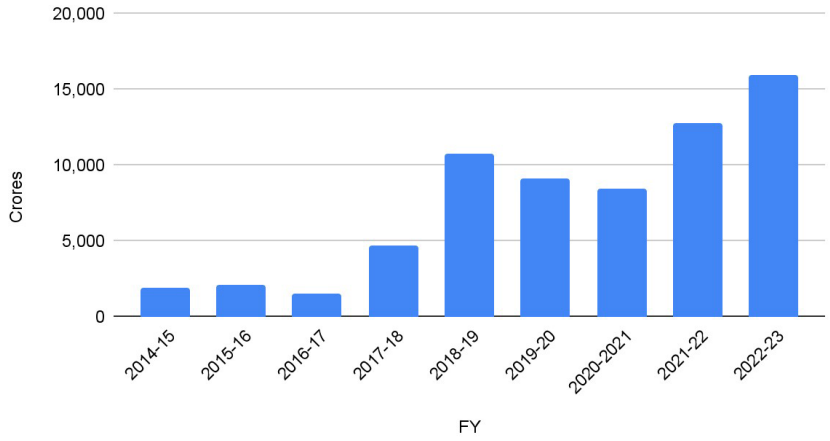
Source: SIPRI (2023)[12]

India's defence exports are in stark contrast to its imports. There has been a gradual increase in New Delhi's export revenue, from INR 686 crores in 2013 to an all-time high of INR 15,920 crores in 2023.[13] India's export value for 2022–23 also marks a tenfold increase from its export revenue in 2017.[14] Despite this, India still accounts for less than 0.2 percent of global arms exports. At the same time, in 2023, China remains the fourth largest exporter of arms, accounting for 5.2 percent of global exports.[15]

Government data shows that India's defence export revenue reached INR 1,910 crores[16] in 2014–15, increasing to INR 2,059.18 crores in 2015–16,[17] then falling to INR 1,521 crores in 2016–17. The export revenue graph surged to INR 4,682 crores in 2017–18, then jumped significantly to INR 10,745 crores in 2018–19. There was a drop in export value during the COVID-19 pandemic in 2019–20 (INR 9,115 crores) and 2020–21 (INR 8,434 crores).[18] The data shows that even before the policy interventions of 2020 to bolster exports, India had incrementally increased the value of its arms exports—reflecting a burgeoning military–industrial complex—which was supported through consequent policies.

After the COVID-19-induced dip, the export graph rose in 2021–22, with New Delhi increasing its export revenue to INR 12,814 crores. Significantly, the highest export value of INR 15,920 crores was achieved during 2022–23, which marked a 24.2-percent increase from the previous fiscal year.[19] Despite this rise, India is not part of the top 20 arms exporters globally.[20]

Figure 2: India's Defence Exports (2014-2023)



Source: Government of India, PIB[21]

India's defence exports are not limited to the South Asia region. It exports military products to 84 countries worldwide,[22] with helmets and bulletproof jackets emerging as the largest export category, being sent to more than 30 countries.[23] Myanmar has emerged as the largest buyer of Indian arms, with 50 percent of India's exports between 2017 and 2021 being sent to Nyapidaw.[24] The Maldives, Mauritius, and Azerbaijan also constitute a bulk of India's defence export market.[25]

A significant proportion of India's defence exports comprise small parts and components. However, the country also exports dual-use defence technologies,[26] and it has begun exporting major military platforms like the indigenously made Advanced Towed Artillery Gun System (ATAGS).[27] In 2022, it secured a contract with the Philippines for the BrahMos cruise missile.[28] It exports radars, thermal technology, and offshore patrol vessels and is reported to have sold the

Swathi Weapon Locating Radar to Armenia.[29,30] In the aviation sector, Indian firms manufacture small parts, critical components, and fuselage for other countries.[31] Notably, the Advanced Light Helicopter Dhruv is being exported to Nepal, Mauritius, and the Maldives, and the Light Utility Helicopter Chetak is being exported to Nepal, Mauritius, Suriname, and Namibia.[32]

Though India's export trajectory is on the rise, however, a large gulf remains between the US$5-billion target and the current export value of roughly US$2 billion. Meeting the benchmark will require a nearly 2.5 times cumulative increase in defence export revenue over the next two financial years. The Government of India must remain steadfast in its defence export philosophy and continue supporting its goals.

A growing defence manufacturing and export base will have two clear benefits for the country. First, the defence export revenue can be used to fund parts of the state's defence expenditure as well as to finance research and development (R&D) in the sector without compromising state expenditure in other developmental priorities. This is especially relevant for a country like India, which has an extensive welfare budget and subsidy expenditure.[33] Second, a robust indigenous defence manufacturing and export capacity will be a force multiplier for national security, insulating New Delhi from disruptions in supply lines during times of conflict.

A Brief History of India's Military – Industrial Complex

India's military–industrial complex is dominated by public sector firms across the R&D and manufacturing spaces. This includes joint ventures with foreign companies, collaborations with research agencies, and partnerships with governments of other countries. Over the last couple of decades, multiple private players have also entered the defence space.

Modern arms manufacturing in India can be traced to 1801, when the British East India Company established the Gun Carriage Agency near Kolkata (then Calcutta). However, till independence, the growth of India's defence industry was controlled by the British; during the Second World War, there were only six ordnance factories in the country.[34]

Due to independent India's limited industrial and technology base, the country prioritised defence industrialisation through the government via Defence Public Sector Undertakings (DPSUs). In essence, defence industrialisation became "the exclusive responsibility of the state". In the early decades, owing to these capacity limitations, the country prioritised the manufacture of basic military systems, with high-end systems being rarely manufactured.[35] Consequently, several state-owned defence production entities developed over time. These include Hindustan Aeronautics Limited (HAL), Bharat Electricals Limited (BEL), Ordnance Factory Board, Bharat Dynamics Limited (BDL), Hindustan Shipyard Limited (HSL), and Mazagon Dock, each of which specialised in different aspects of military technology and manufacturing. HAL was established in 1964 after the merger of Hindustan Aircraft Limited and Aeronautics Limited;[36] today, it is the largest DPSU, with a revenue of INR 24,620 crores in 2022–23.[37] HAL also exports gas turbines, spare parts, avionics, and software for various fighter aircraft, transport aircraft, and helicopters.[38,39] These DPSUs are also exporting defence equipment from India. However, their share in India's defence exports has decreased from 56 percent in 2013-14 to about 9 percent in 2021-22.[40]

As the economy grew after the 1990 reforms, the private defence industry also developed, with private defence manufacturers being allowed to function after 2001.[41] Through joint ventures, India's private defence companies have advanced their forays in this domain. For example, in collaboration with Airbus, Tata Advance Systems Limited manufactures C295 military transport aircraft in Gujarat for the Indian Air Force. The manufacturing unit is also used to export C295s to buyers from other countries.[42] Apart from Tata, other private companies like Bharat Forge, Adani-Elbit Aerospace, Larsen and Toubro Limited, and Mahindra Defence Systems have begun expanding their manufacturing capacities as well as catalysing exports.

Policy and Institutional Frameworks Boosting Defence Exports

A set of new policies and frameworks have been pivotal to the expansion of the volume and configuration of India's defence exports. Foremost among these has been the government's philosophy to augment domestic defence manufacturing capacity to increase exports in the long run. The government is following a logical and rational approach. If a country wants to dominate global export markets, it needs to have a robust domestic manufacturing framework that can supply to these external markets, and this is as essential in the defence sector as well.[43]

Enhancing domestic defence manufacturing

The DPEPP forms the overarching structure for India's defence exports push and targets US$5 billion in exports and US$25 billion in revenue by 2025. At the same time, frameworks such as the Defence Acquisition Procedure 2020 (DAP 2020) and the positive indigenisation lists have been integral to implementing the government's rationale for first augmenting domestic manufacturing capacity and consequentially increasing exports.[44,45] The DAP 2020 and positive indigenisation lists can be understood as part of a two-pronged and interlinked approach by the government to catalyse domestic defence manufacturing by creating new market opportunities.

The DAP replaced the older defence procurement process and reaffirmed the government's agenda to prioritise domestic military manufacturing. The government has prioritised capital defence procurement in the DAP to focus on domestic industry. The DAP prioritises military procurement from Indian vendors—especially military platforms that are designed, developed, and manufactured in India.

The positive indigenisation lists introduced by the Ministry of Defence are another fulcrum for enhancing India's defence manufacturing capacity. Formulated first in 2020, after the border conflict with China in Eastern Ladakh, the lists now cover 411 major military platforms and mandate that the armed services purchase these items only from Indian manufacturers.[46] The positive indigenisation lists also provide provisions for 4,666 small parts, components, spare parts, and line replacement units to be procured only through domestic manufacturers.[47] It is possible that the indigenisation lists have resulted in the development of markets for domestic manufacturers which were earlier

dominated by external players. This has catalysed current players and created opportunities for the emergence of new manufacturers. In the long run, these lists will allow domestic military manufacturers to diversify their products, become more competitive, and enhance quality.

Both the DAP and the positive indigenisation lists create opportunities and markets for domestic defence manufacturers. Taken together, the two initiatives can make military manufacturing in India economically more lucrative, enhance the technological quality of products, and increase competitiveness in the market. Further, as supply in the long term will outstrip the country's demand, manufacturers could more actively look for external markets and buyers. This, in turn, could have a multiplier effect on India's defence exports trajectory.[48]

Liberalised licensing and certification

Beyond manufacturing incentives, the government has also tried to create an enabling regulatory and institutional framework to boost defence exports from both private and public firms. The government no longer exclusively decides export markets, therefore allowing private and public manufacturers to determine where to sell weaponry; however, government clearances are still required for export.[49]

Further, the government's changed outlook towards exports has also manifested in liberalised industrial licensing and certification policies for defence manufacturers.[50] These have enabled manufacturers—public and private alike—to garner quick and efficient single-window clearances online to manufacture and sell equipment externally. Licences and industrial certifications that would earlier have expired in a short timeframe have now become long-term, thus preventing delays and inefficiencies from bureaucratic red-tape that inhibit both production and exports.[51]

Whole-of-government approach

The government has also assiduously incorporated the role of India's Ministry of External Affairs (MEA) to augment the country's defence exports, thus enlarging the ecosystem and framework for defence exports and pivoting towards a whole-of-government approach. The MEA has facilitated lines of credit to African countries to purchase weaponry and military platforms from

India.[52] Further, India's embassies are being roped in to promote domestic military platforms and enhance the country's defence exports, providing an additional fillip towards deal making.[53]

Table 1: Frameworks to Boost Defence Exports

Framework	Result
DPEP, 2020	Export and revenue benchmarks (2025)
DAP, 2020	Enhanced domestic defence manufacturing
Positive Indigenisation Lists	Market opportunities for domestic defence manufacturers
Liberalised Export Licensing	Enabling regulatory environment
Digital Certifications	Easier compliance
Role of the MEA	Whole-of-government approach

Source: Author's own

Challenges to India's Defence Exports

While there have been upswings in India's defence exports trajectory, and the government has adopted various measures to push the needle on domestic defence manufacturing, there remain significant challenges.

Distorted defence market

The economies of scale in defence manufacturing do not always match the conventions of other industries. Specifically, given the high costs of R&D and manufacturing of armaments, large orders are required to ensure profitability for manufacturers and scale. However, the requirement of the Indian Armed Forces for major platforms typically fluctuates between only dozens and hundreds, and does not reach the thousands. There are also no guarantees for repeat orders, thus creating more uncertainty for manufacturers. Further, in India, the defence market is a monopsony, with only one buyer, i.e., the Indian Armed Forces—which creates market distortions. Given the control and scale of DPSUs, there are often supply monopolies, compounding the existing imperfect market conditions. Due to these distorted market conditions, both DPSUs and private players do not always have inventory for export, nor do they consistently have capital to invest in R&D that can provide a diversified product mix to enhance defence exports.[54,55]

Lack of cohesion

There is a lack of cohesion between the Indian Armed Forces, the DPSUs, private manufacturers, and the Ministry of Defence regarding the export of indigenous defence products. Armaments earmarked for sale and promotion in other countries can often be stymied through administrative procedures due to miscommunication and mismanagement between the concerned parties. While the government has initiated a whole-of-government approach in defence exports, this needs to be enhanced. Significantly, there is no single-point agency that is responsible for coordinating between all stakeholders, executing plans, and meeting the targets for defence exports. This adds to the challenges faced by the defence export ecosystem in India.[56]

Ad-hoc institutional and policy focus

A lack of policy and institutional focus has historically inhibited the growth of the defence export ecosystem. While multiple committees have been formed and reports published by the government addressing the need to build a robust defence export ecosystem, this has rarely translated into action and usually results in ad-hoc measures. However, the DPEPP 2020 seems to be providing a more robust approach and initiating changes. However, its success will hinge on the results and longevity of institutional focus.

DPSUs and private manufacturer asymmetry

There is also a lack of equity between the DPSUs and private defence manufacturers in terms of control of market share. The majority of government-backed large-scale arms contracts go towards the DPSUs. This practice limits opportunities for private manufacturers to gain access to deals that can involve cutting-edge technologies and large financial volumes which can boost the manufacturing capacity and capital flow of private players. This, in turn, can reduce the ability of private manufacturers to be competitive in the defence export market.

Despite the recent measures adopted by the government, there remain institutional, financial, and market-oriented challenges that impede India's defence exports trajectory. These can only be solved in the medium to long term and cannot be overcome in the short run.

Policy Recommendations

For India to become a dominant force in the global arms market and create military dependencies similar to those in countries like France, Russia, and the United States (US) while also meeting its target of US$5 billion in export revenue, it needs to bring about certain changes. The following paragraphs outline recommendations for plausible pathways.

Widening the whole-of-government approach

India has incrementally moved towards adopting a whole-of-government approach for defence exports. However, there is a need for government institutions and bodies to stop working *in silo*. Further, the framework of the current approach needs to be expanded.

First, each service of the Indian Armed Forces has a Foreign Cooperation Directorate whose primary aim is to liaise with foreign defence attachés in India and oversee the visits of foreign defence dignitaries. The directorates also collaborate with defence services across the world for bilateral, trilateral, and multilateral exercises.[57] Given their institutional access to external defence establishments, the mandate of the Foreign Cooperation Directorate of the Indian Army, Navy, and Air Force should include supplementing India's defence export efforts. The directorates can promote varied weapons systems and platforms earmarked for exports to the foreign militaries and defence establishments with whom they interact. Further, they can ensure that these platforms are showcased during bilateral and trilateral exercises to supplement their case for exports. This weapons platform promotion must also be done in coordination with the MEA, India's embassies, and defence attachés posted abroad. They can play a central role in gauging which countries are interested in which defence products.[58,59]

DPSUs and private defence companies should also be part of the consultation process that determines weapons systems or platforms that are earmarked for export promotion. Finally, the MEA should play a more active role in the export push. Only a whole-of-government process can enable a revenue of US$5 billion in defence exports.

Set up a defence export promotion agency

To buttress the whole-of-government approach, the government needs to create a defence export promotion agency (DEPA), i.e., a single-point agency directly responsible for coordinating defence exports. This goes beyond the Government of India's current rationale of DPSUs functioning as export-promotion agencies in specific deals.[60]

For complete government synergy in defence export promotion, the DEPA must be structured to function under the Prime Minister's Office (PMO), which would prevent its ambit from being restricted by ministerial or departmental parochialism. The DEPA can serve as liaison between the armed services, their foreign directorates, the DPSUs, private manufacturers, the MEA, Indian embassies, and the MoD to coordinate and communicate with foreign governments and buyers while formulating strategies for weapon systems, platforms, and other equipment that could elicit interest. Further, the agency can ensure timely clearances for export deals that have agreements on paper. Finally, the DEPA could employ business managers and business development executives from outside the government to aid in creating marketing strategies and deal making.[61]

Securing the sales of high-value platforms

To further its ambitions as a major defence exporter, India must secure export deals for large-scale indigenous platforms that yield high monetary returns. This requires securing exports for fighter jets like the Light Combat Aircraft Tejas (LCA) or capturing newer markets for the BrahMos cruise missile, which is costly to manufacture and sell. India should also promote sales for other indigenously produced high-value and sophisticated platforms and weaponry.[62]

At present, most of India's defence exports are composed of spare parts and components. While not reducing its current exports of small parts and components, India needs to push the export of sophisticated weapons platforms and systems. This change will also endorse the capacity of India's defence industrial base and could prove to be consequential to the country's exports trajectory. Beyond BrahMos and LCA Tejas, there could also be possibilities for the export of other advanced platforms like the Pinaka Multi-barrel rocket launcher and the Akash surface-to-air missile—perhaps even the Advanced Light Helicopter Dhruv, despite its fraught export history in Ecuador.[63]

India can also aid the export of these high-value systems by ensuring that lines of credit are made accessible to countries that are willing to purchase but lack the required capital. These systems can be offered via the government-to-government route in order to enable quick and efficient deal making.[64] The rationale for prioritising these sales is that contracts for large-scale platforms and systems usually increase total export revenue due to their higher financial volumes. For example, the United States arms transfer, estimated to be worth US$153.1 billion for 2022, also includes the sales of high-value platforms like fighter jets, main battle tanks, and ballistic missiles, which play a central role in increasing the yearly export turnover.[65] The nearly 20-percent jump in India's defence export revenue, from INR 12,814 crores in 2021–22 to INR 15,921 crores in 2022–23, includes the export of the Advanced Towed Artillery Gun System (ATAGS) developed by the Defence Research and Development Organisation (DRDO).[66] While political will often plays a role in these high-scale defence exports, the data underscores their considerable impact on a country's export revenue, thereby reflecting the value of pursuing their sales abroad.

Export revenue to fund DPSU budget

Countries that are leaders in defence industrial innovation, manufacturing, and arms transfers use revenue from their defence exports to finance parts of their defence budgets. While countries like the United Kingdom, Russia, and France are known to implement this policy, it is especially applicable to Israel, which uses its defence export revenue to subsidise its defence R&D budget.[67]

India can implement a similar policy to suit its needs. New Delhi could institutionalise a percentage of export revenue from its DPSUs to fund their R&D budgets. Additionally, if the revenue exceeds R&D budgets, the export surplus can go towards the capital expenditure of the government in its defence budget, effectively covering the cost.[68]

Such a policy can incentivise DPSUs to double down on their export efforts, invigorating execution and likely boosting export revenue. While this may lead to minimal export revenue gains in the larger scheme, every percentage increase is a push towards the US$5-billion target.

Avoid autarkic defence production

In its push to be self-reliant and champion the cause of *Atmanirbhar Bharat* ('Self-reliant India'), the country must not fall into what scholars define as autarkic defence production, whereby a country stops collaborating with external governments, manufacturers, and scientists for technology.[69] An autarkic defence production structure would prevent India from gaining access to cutting-edge technologies as they emerge and develop.

As the geographical spread of defence production, technology, and innovation is vast and immense, a closed Indian defence ecosystem will not leverage technological breakthroughs and revolutions in military technology as they unfold globally. India should avoid an autarkic defence ecosystem, as it would not be economically viable and sufficient for the country's needs.[70]

These six frameworks—the synergised whole-of-government approach to exports, the setting up of a DEPA, securing sales of high-value indigenous platforms, establishing innovative pricing mechanisms, exporting the revenue funding DPSU budgets, and avoiding autarkic production—could enable New Delhi to continue its upward defence exports trajectory and reach the US$5-billion target.

Conclusion

Over the last few years, India has made strides in building its domestic defence manufacturing capacity while incrementally increasing its defence exports. The jump in defence exports from roughly INR 686 crores in 2013–14 to INR 15,921 crores within a decade is noteworthy. The government's strategy of augmenting domestic defence manufacturing to enhance exports is an effective framework to take the needle forward.[71,72]

Steps towards building a liberalised regulatory environment by introducing easier certification and licensing norms for manufacturing and export have also enabled the current upward exports trajectory. The increased role of the MEA and affiliated government bodies in promoting defence exports is also promoting a whole-of-government approach in India's defence transition.

However, India remains outside the top 20 arms exporters in the world. There is a massive gap between India's manufacturing and export capacity compared to those of dominant players like the US, France, Russia, and China. India also remains the largest arms importer globally, thus underlining the monumental task ahead.[73]

Fulfilling the US$5-billion target by 2025 will require a substantial upswing, of nearly 2.5 times the current defence export revenue, in the next two financial years. While this may seem unlikely, the target could be met within a couple of financial years after the 2025 deadline. The trends from current export data also bolster this notion; there has been a tenfold increase in export revenue between 2016 and 2023, and a 24.2-percent rise in revenue between 2022 and 2023—this sets India on the path to achieve the target sooner than later. The recommendations outlined in this paper can assist India in creating the requisite regulatory, institutional, and financial environment to push its defence exports trajectory towards achieving the target, and possibly even moving beyond it.

This paper has certain limitations. It does not holistically examine the types and forms of defence weapons, platforms, systems, and sub-systems being exported and how their quantities have changed with the rising export trajectory—data on these elements is lacking at this juncture. An assessment of these parameters can also provide ideas for the pathways ahead. This leaves scope for future research.

Conclusion

It would be fair to say that India has made incremental gains in its defence exports trajectory and formulated an enabling ideational and institutional framework to push this agenda. However, it must continue ideating and implementing reforms to achieve its target of US$5 billion in exports and move into the top 20 defence exporters globally, for the sake of both its economy and national security.

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