

CURRENT ISSUES

No. 24: India's Defense Spending and Military Modernization (3/29/2011)

Introduction: Why India? Why Now?

Between 2006 and 2010, India surpassed China as the world's largest importer of weapons systems, reflecting the nation's intent to modernize its armed forces and project military capabilities beyond the subcontinent.¹ Accordingly, India's Ministry of Defense (MOD) plans to spend approximately US\$80 billion on military modernization programs by 2015, which some analysts predict will keep India on track to be one of the largest defense customers over the next decade.²

At the same time, a long-running debate continues among India's government ministries, Indian manufacturers, and international defense contractors over the viability of building a more robust domestic defense-industrial base in the country. Although India has asserted its pursuit of self-reliance in defense manufacturing since the late 1950s, the nation's aspiration to command a first-rate military has routinely outpaced these efforts, perpetuating India's reliance on foreign suppliers – most notably Russia. Nevertheless, defense management reforms since 2001 have encouraged broader privatization of the Indian defense industry and reinvigorated the debate over self-reliance.

As the MOD's spending continues to rise in real terms, it has drawn fresh international interest to its budget allocation, the recent release of its first defense production policy, and the prospect of new business ties with U.S. and European defense contractors.

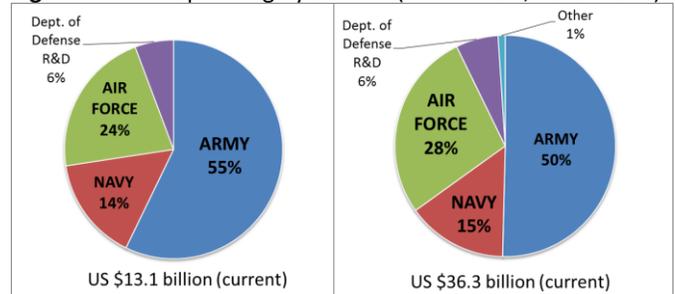
Recent Trends in India's Defense Spending

Since 2001, India's defense spending has grown roughly 64% to US\$36.3 billion in the current budget.³ Over the

past decade, spending on defense has remained between 2.3% and 3.0% of India's GDP.

During this same period, the MOD shifted about 5% of its total expenditure away from the army in favor of the nation's air force and navy (Figure 1). Expenditure for the MOD's Department of Defense R&D, which oversees nearly fifty research labs, has remained consistent at about 6% of the MOD's budget.

Figure 1: MOD Spending by Service (2001-2002; 2010-2011)



Source: Ministry of Defense, India, *Annual Reports 2002-2011*, CSIS Analysis

In support of its modernization efforts, the MOD has devoted approximately 40% of total defense spending to capital outlays across the military services.⁴ In this case, capital outlays constitute the MOD's expenditure on arms procurements, construction, infrastructure, and other military equipment. The air force has consistently received the largest portion of the MOD's growing capital outlays over the past decade (Figure 2).

Figure 2: MOD Capital Outlays by Service (2002-2012)



Source: Ministry of Finance, India, *Union Budgets 2002-2012*, CSIS Analysis

¹ SIPRI, [India World's Largest Arms Importer According to New SIPRI Data](#), March 14, 2011.

² Deloitte and Confederation of Indian Industry, [Prospects for Global Defence Export Industry in Indian Defence Market](#), 2010; Bradley Perret, [India Projected to Spend \\$80B on Military Acquisitions through 2015](#), *Aviation Week*, June 21, 2010.

³ Government of India, Ministry of Finance, [Union Budgets and Economic Surveys](#), 2001-2012, Ministry of Defence, [Annual Reports](#), 2001-2011.

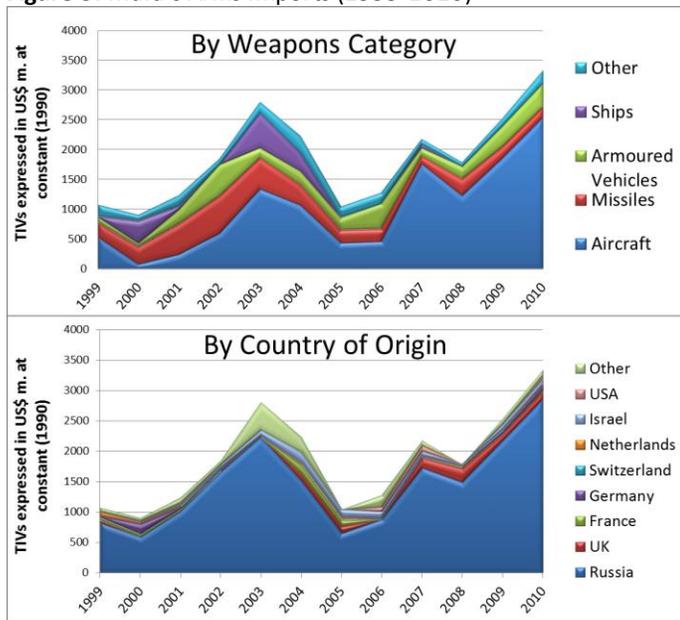
⁴ Government of India, Ministry of Finance, [Expenditure Budget, Vol. II, Union Budget 2011-2012](#).

These trends represent India's desire to develop a military force that is more capable of curbing external threats, mitigating internal unrest, and engaging in peacekeeping efforts. However, as Dr. Amer Latif, visiting fellow at CSIS's Wadhvani Chair in U.S.-India Policy, points out, "India also believes strongly that providing for its own defense requirements is indicative of being a global power."⁵

Defense-Industrial Indigenization: Still a Distant Dream

The MOD has maintained a policy that India should produce 70% of its required military equipment domestically by the end of this decade, rather than the 30% produced currently.⁶ Yet, India's foreign arms procurements have continued unabated, especially in the aerospace market (Figure 3). India's Minister of Defense, A.K. Antony, concedes that, "self-reliance is our motto, but it is still a distant dream."⁷

Figure 3: India's Arms Imports (1999-2010)



Source: SIPRI 2011, CSIS Analysis

In January 2011, the MOD took an important step toward realizing that dream by releasing its first-ever Defense Production Policy (DPrP). The DPrP is significant in that it concisely articulates the MOD's agenda for supporting a domestic defense-industrial base, rather

⁵ Amer Latif, interview by author, Washington, DC, February 14, 2011.

⁶ Vivek Raghuvanshi, [Indian Defense Chief Urges Public-Private Industry Cooperation](#), *DefenseNews*, February 15, 2010.

⁷ Neelam Mathews, [India Confirms MMRCIA Ineligible for New Offset Policy](#), *Aviation Week*, January 13, 2011.

than couching these intentions in dense procurement documents, as had previously been the case.

Although currently lacking in great detail, the document will be updated periodically and is intended to serve as a guide for India to 1) achieve substantive self-reliance in the design, development, and production of equipment, weapons systems, and platforms; 2) create conditions conducive to private industry taking a more active role; 3) enhance potential of small and medium enterprises (SMEs) in indigenization, and 4) broaden the defense R&D base of the country.⁸

Will This Time Be Different?

The concurrence of India's first defense production policy with the nation's current potential to generate vital international partnerships represents a unique moment in India's defense-industrial evolution. The DPrP comes at a time when India's military modernization agenda offers attractive opportunities to European and American vendors facing austere budgets in their home markets, possibly compelling them to make greater concessions to gain territory and key partnerships in the Indian defense market.

The MOD should leverage this situation by continuing to pursue more generous offset policies and substantive technology transfers. "We have seen a number of innovative tie-ups and partnership agreements between foreign and Indian companies, both public and private, giving us the confidence to adopt a cautious, calibrated approach in opening up the defense sector," said M. Mangapati Pallam Raju, Indian Minister of State for Defense, "We are now entering a new age of international cooperation in defense."⁹

After decades of touting self-reliance, India's most recent round of defense governance reforms has the potential to produce greater openness with international firms and to reshape the nation from the world's largest arms importer into a primary partner and supplier in the global defense market.

-Nicholas R. Lombardo

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⁸ Government of India, Ministry of Defence, [Defence Production Policy](#), 2011.

⁹ Vivek Raghuvanshi, [Mangapati Pallam Raju](#), *DefenseNews*, March 7, 2011.