

'Strategic Partners' in Defence Production Deepening Dependence

GAUTAM NAVLAKHA

The blatant sidelining of technologically-competent public sector undertakings in defence procurement and the promotion of select private sector companies as junior partners of foreign original equipment manufacturers are deepening the country's technological dependence in the design, development and production of armaments.

After a delay of 14 months, the Cabinet Committee on Security cleared the "broad contours" of the government's policy approach on strategic partners for collaboration between Indian and foreign companies for joint military production. Like its predecessor, the Congress-led government which granted "Raksha Udyog Ratna" status to 12 private sector companies for preferential treatment in military procurement, the Bharatiya Janata Party (BJP)-led government too was to provide a list of "Strategic Private Partners" (SPPs) two years back. When the Defence Procurement Policy (DPP) was announced in Goa on 28 March 2016, it was without Chapter 7 which was to deal with "Strategic Partners." This was because of differences over the criteria for selecting private corporate business houses. The pattern of piecemeal announcements continues under the Narendra Modi-led government and so does the recourse to partial steps. For instance, the most critical part, namely, the regulatory regime for strategic partners and joint ventures remains conspicuously absent. Also missing was the penalty provision in the event of delay or default for such joint ventures.¹

Four segments have been identified for strategic partners—submarines, fighter jets, helicopters, and armoured vehicles and tanks. Defence Public Sector Undertakings (DPSUs) are barred from bidding for fighter jets and helicopters. Moreover, it remains to be seen if they will be selected for bidding for submarines and armoured vehicles and tanks, given the ideological bias against the public sector. From a shortlist of six strategic partners applying for each segment, one strategic partner will be selected for each segment and two or more Original Equipment Manufacturers (OEMs) identified for each segment. Companies must have a

turnover of at least ₹4,000 crore over the last three fiscal years, capital assets of at least ₹2,000 crore, demonstrable manufacturing and technical expertise, and the infrastructure and ability to absorb technology from the foreign partner. Foreign OEMs will be selected on the basis of the "range, depth and scope" of the technology they are willing to transfer. Indian industry partners will "tie-up" with OEMs to "seek technology transfer and manufacturing know how to set up domestic infrastructure and supply chains."² Of course, there are companies such as Bharat Forge, Larsen & Toubro, Tata Power, Mahindra and a few others who have been suppliers to the military and have acquired a degree of in-house expertise. But compared to the OEM behemoths, they remain marginal players, and are less qualified than DPSUs in every respect where in-house expertise in military production is concerned.

Besides, treating the private companies with experience on par with the new entrants entails other risks. How does the government ensure that the private companies, lured into defence production because of easy land acquisition, cheap loans, and assured government orders, are not vulnerable to accepting terms set by the OEMs which reduce them to the role of a mere "assembly house of a foreign OEM"?³

Although the Defence Minister-headed Defence Acquisition Council said that wilful defaults, debt restructuring and non-performing assets (NPAs) will be taken into account while selecting the strategic partner, there are also misgivings on this count. For instance, two of the shortlisted corporate houses, Anil Dhirubhai Ambani Group and Gautam Adani Group companies reportedly owe ₹1.25 lakh crore and ₹96,031 crore respectively to public and private sector banks which are reeling under NPAs.⁴ So why were they shortlisted in the first place? Surely, their selection sends a message that poor financial management is not considered serious enough to disqualify a company from the critical military sector. Indeed, the fact that Reliance Defence is a beneficiary of the ₹29,000 crore Rafale offset clause and has signed a deal for repair and alterations with the United States (US) Seventh Fleet in February 2017—the same fleet which tried to threaten India during 1971

Gautam Navlakha (gnavlakha@gmail.com) is a member of the Peoples Union for Democratic Rights, Delhi.

war—as part of the Indo–us Logistic Exchange Memorandum of Agreement signed in August 2016 by the Modi government corroborates this. The Government of India favouring lucrative collaborations of a financially vulnerable Indian entity with a French OEM and with a US naval fleet raises strategic concerns about the soundness of its defence policy.

Sidelining Defence PSUs

The Ministry of Defence has been plagued by pressures for diminution of the role of the DPSUs in defence production for the military. Instead of prioritising the public sector and letting private corporations play a secondary role, the 2005 report of the Vijay Kelkar committee placed the public and the private sectors at par for augmenting indigenous military production. This has now been taken one step further by privileging the private sector and ensuring a secondary role for the public sector. In June 2015, under pressure from foreign OEMs and the Indian private corporate sector demanding a “level playing field,” the preference given to DPSUs for military tenders was removed. Further, DPSUs were barred from participating in two segments listed for SPPs, namely, fighter jets and helicopters.

And now, the main demand of OEMs for firm orders has been accepted after the new Union Minister for Defence Arun Jaitley assumed office. He explained: “You don’t set up a manufacturing facility if you are not sure of an order; that is the rationale behind the model.” His predecessor, Manohar Parrikar was reticent on this issue and had drawn attention to a special feature of India’s military sector when he said that it is only the DPSUs who can afford to maintain idle infrastructure and “sustain such capacities.” The implication is that there may be periods when there are no orders or the size of the orders is reduced. Besides, to place or not place an order is the prerogative of the Ministry of Defence. In the military sector, our need for military equipment is dictated by our strategic requirement based on assessment of threat, which is subject to change and can shift.

Apart from restricting the public sector to just two out of the four segments opened up for strategic partners, the ordinance

factories have been asked to exit from the production of 87 items, including 39 weapon-related items. Further, they have been asked to list facilities which will become “idle” as well as possible “alternative” uses for their manufacturing capacities, as also, “re-deployment” of the “affected manpower.” Besides, the Prime Minister’s Office has asked for details of the land held by the 41 ordinance factories.⁵ Is this a precursor to divesting them of the land they possess as they exit armaments manufacturing?

So it appears that five DPSUs, 50 laboratories of the Defence Research and Development Organisation, 41 ordinance factories, and four shipyards will play second fiddle to Indian private and foreign equipment providers under the new DPP. In the process, the country’s dependence on foreign OEMs and foreign powers such as the US and its allies will deepen. The Joint Doctrine of the three services already speaks of the “country’s national interests” as if this includes foreign “strategic partners” in its definition.⁶ For a company to be considered Indian, just 50% of its equity capital must be owned by Indian citizens. With such definitional dilution, what is at stake is the very control of India’s military sector. To allow the Indian state’s sovereign function of defence to come under the sway of foreign powers and OEMs, to expand the definition of what constitutes an Indian company to include those controlled by foreign entities, and to encourage native capitalists to serve as junior partners of foreign OEMs are all inimical to our country’s interests.

What raises further alarm is the absence of a mechanism for regulating the country’s defence production sector which is being opened up to private and foreign suppliers. The latter will acquire a stake in the country’s military sector, all paid for by the public exchequer. Will the Comptroller and Auditor General (CAG) of India exercise jurisdiction over the strategic partners and the joint ventures? Will they be subject to parliamentary scrutiny? In short, how does the government ensure probity, transparency and accountability in the military sector? Or will the government yet again give in to the demand of private and foreign companies to leave them largely unregulated?

Conceding to the demands of private and foreign companies seems to be second nature to the Modi-led government. In the Rafale deal, the government, its tall claims notwithstanding, settled for a “comfort letter” instead of a guarantee from the French government. Thus, in the event of a dispute, like in any commercial deal, the Indian government has to first try to resolve the matter with the French OEM, Dassault.⁷ Thus, if there is no regulatory mechanism or it does not include mandatory auditing by CAG as well as Parliamentary scrutiny, then it only means that the new DPP policy disregards key issues relating to liability, probity, transparency and accountability.

The larger point is that the current policy regime, instead of lessening dependence on foreign suppliers and enhancing India’s strategic manoeuvrability, creates a new form of dependency. Threat scenarios will remain hyped up to justify large orders and the public exchequer will feed the voracious appetite of the military behemoths that establish their affiliates in India. The private corporate sector will be able to influence policy and the choice of defence requirements. The fallout, amongst other things, would be the undermining of self-reliance. All this will fuel rigidity, rather than provide flexibility, in the conduct of the country’s foreign-cum-security policy. Sadly, political parties shy away from critical scrutiny of the military sector and do not offer an alternative approach. The corporate media remains dogmatic in support of privatisation and globalisation of the military sector, and the public remains oblivious to a new form of colonialism in the making.

NOTES

- 1 Ajai Shukla, “Make in India: Will the Strategic Partners Spur Defence Manufacturing?” *Business Standard*, 17 May 2017.
- 2 Rajat Pandit, “Defence Ministry Finalises Big Private Role in Arms Production,” *Times of India*, 21 May 2017.
- 3 Same as Note 1.
- 4 Neeraj Thakur, “Shock and Awe: The Top 10 Indebted Companies in India,” *Catchnews*, 14 February 2017.
- 5 Chetan Kumar, “Def Ministry Cracks Whip on Ordinance Factories,” *Sunday Times of India*, 28 May 2017.
- 6 Ali Ahmed, “A Disjointed Doctrine—Reviewing the Military’s Joint Doctrine,” *Economic & Political Weekly*, Vol 52, No 21, 27 May 2017.
- 7 Gautam Navlakha, “A Hard Look at National Security,” *Economic & Political Weekly*, Vol 51, No 29, 16 July 2016.