

Arms and Men

Make in India or Make for India?

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India is planning to push up domestic defence production by roping in the private sector, especially multinational corporations. Though this seems a laudable aim at first sight, the wisdom of letting in private players inspired by profits and a reluctance to be regulated into the strategically significant defence sector is suspect. The argument that the public sector has shown itself to be incapable of meeting the country's defence needs rests on flimsy ground. Above all, the government has so far shown that its dogmatism is its own worst enemy.

The Narendra Modi-led government plans to manufacture—“Make in India”—military hardware in India in “partnership” with the private sector. At February's Aero-India 2015 in Bengaluru, the Prime Minister pointed out that 2,00,000 people were employed in the public defence sector. He asserted that 1,00,000–1,20,000 skilled jobs could be created by reducing imports by 25% to 40% and also that no less than 2,00,000 workers would be required in the aerospace industry (Singh 2015). Modi invited defence multinational corporations (MNC) to join hands with India's private and public sector to manufacture in the country. On the face of it, manufacturing in India, which imports 60% of its military items, is a laudable notion. The annual output of India's domestic defence production is estimated to be Rs 4.4 lakh crore or \$7 billion. Which is to say that Rs 7 lakh crore worth of equipment is imported. But why is there a hurry to invite the private sector and MNCs into the defence sector?

The secretary in the department of industrial policy and promotion is quoted as claiming that given equal opportunities, the private sector has the “potential to streak ahead in the Make in India race” (Singh 2015). Meanwhile, the Chairman of Hindustan Aeronautics Limited (HAL) reminded us that the Defence Research and Development Organisation (DRDO), HAL, and other public sector undertakings (PSU) “are the engine powering it (defence production), while private sector players are like bogies,” using a train as an analogy. The question is whether the private sector ought to be involved in this at all. And if so, how?

First of all, what needs to be understood is that India has limited resources.

This was brought out sharply when the Ministry of Defence (MoD) recently shifted Rs 13,000 crore allocated under the capital account to the revenue side to meet day-to-day expenses (*Tribune* 2015). The news report says that Minister of Finance Arun Jaitley spoke of Rs 6,000–Rs 8,000 crore being required for the One Rank One Pension (OROP) Scheme which has been approved, whereas the Controller General of Defence Accounts (CGDA) had said that it will be Rs 14,200 crore. The point is that when resources are limited, and human-power augmentation and pension liabilities are nevertheless growing, there is little room for reckless growth in the name of Make in India.

A common argument of proponents of the private sector is that it is the public sector that has been splurging and shown itself to be incapable of meeting the country's defence needs. But wrongful use of scarce resources by the public sector should not hide the fact that there are PSUs that have been doing well (such as in the space and ship-building sectors). However, a bloated officer cadre and depleting workforce cannot be a good way to improve defence PSUs. Sweeping generalisations about PSUs hide more than they reveal. Defence is a sector where there is one buyer and several suppliers. While private suppliers will be keen to corner more and more funds, the goals of PSUs are qualitatively different in that it is indigenous development, not profit, that guides them.

True, one should not damn everyone in the private sector. But there are not too many like the Eicher group, which enjoys a credibility for enlightened self-interest. The question is how far can one depend on the private sector in an area where trust has grave implications. In an article that raised some serious concerns about India's corporate sector and how it invests, T K Arun wrote,

Banker Uday Kotak recently told this paper that Indian entrepreneurs need to put up real equity. The resounding truth of this statement is that much of the equity promoters put up is virtual (Arun 2014).¹

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There are good reasons for sounding a note of warning on public-private partnership in military matters. Anil Ambani was, in February 2015, quoted as saying that the “long shadow” of the three cs—Central Bureau of Investigation (CBI), Central Vigilance Commission (CVC), and the Comptroller and Auditor General (CAG)—should be replaced by two new cs—“courage and conviction” (*Times of India* 2015). The *Hindu* (2015) added that he said the “modernisation of armed forces cannot be held hostage to indecision and delay.” Although Minister of Defence Manohar Parrikar retorted that the three cs need not be “feared,” what is worth noting is that the private sector is reluctant to be under a regulatory regime. Given the nature of the defence sector and its “national security” dimension, which the government never forgets to remind us of, we need a stringent regulatory regime, not a weak one.

Just as tweaking specifications can work in favour of single vendors, a heightened threat scenario and jingoism can bring about a mad rush for “big ticket” military hardware. More fear can drive governments into bigger orders. Exaggerated fear of infiltration across the Line of Control (LoC) led to fencing it, and this created a need for sensors, radars, and night-vision facilities. Israel landed a lucrative contract for this. Each time an infiltration occurs, no one bothers to ask what went wrong with the thousands of crores spent on hi-tech fencing if it remains, as the army claims, porous as a matter of routine. And Indian generals are keen to try out new military toys at the Line of Actual Control (LAC) to send a message to China.

Still a Better Option

The example of the United States (US) ought to warn us about placing too much emphasis on involving the private sector in spending public funds. Auditing and oversight standards are not the best in the US for all their tall claims. If India follows the path travelled by US capitalism with one-twentieth of its wealth and four times its population, with a despicable record in the social sector and an

abominable record of transferring public funds to the private sector in the fields of education and health, it is heading for an economic abyss.

True, the PSUs and HAL, as well as the DRDO, have not delivered as much as expected. And the DRDO is working on everything from juices to nuclear-powered missiles. The pace of indigenisation has also been patchy and slow. But if the space sector could build indigenous capability, the problem lies not in the public sector being intrinsically inefficient or tardy. Rather, it looks like an ideological and dogmatic commitment to privatising and enriching the rich has been eating into the health of the public sector. To then have corporate houses, who have been egregious in looting public funds and engaging in everything unethical, speak of “courage and conviction” is like the devil quoting the scripture.

Major General Dhruv Katoch, Director of Centre for Land and Warfare Studies, has said that while India has two borders of “concern,” he does not “anticipate” any conventional threat on the Western border over the next decade. This, he said, was a “window of opportunity” to try out a new weapons system, “even if it is not the best” and build our own “military industrial base.” Retired Air Marshal B K Pandey was quoted as saying, “Air Force has looked away from Tejas. That’s a mistake. Tejas mk 1 is a low-cost respectable platform accepted by the test pilot community” (Raghotham 2014). There are arguments that not only does the Air Force “gold plate” its requirements, but also that it is enamoured of foreign weaponry. The Army is accused of using the demand for “modernisation” and sounding alarms about the “critical hollowness” of its stocks to go in for big-ticket acquisitions.

Israel Angle

This brings me to the last point. The government intends to open the economy to 100% foreign direct investment (FDI). It is primarily looking at Israel for this. That is, Indian money and Israeli technology. Vikram Doctor pointed out that it is not a “mere coincidence that the Defence Acquisition Committee cleared purchase worth \$525 million from Israel

on 25 October, three days after (Ajit) Doval met Joseph Cohen, his Israeli counterpart” (Doctor 2014). The National Security Agency (NSA), he wrote, has always been an advocate of closer ties with Israel. He was in perfect sync with Modi, whose ideological mentor, the Rashtriya Swayamsevak Sangh (RSS), sees Israel as a model. Reports suggest that it is the Israeli military industrial sector that India is looking at. Israeli Defence Minister Moshe Ya’alon, after meeting the prime minister and the minister of defence in February 2015, said that his country would set up an arms manufacturing base in India.

Israel has a robust military industrial sector. It is the only sector doing well in Israel, apart from US grants. India, as its biggest arms buyer, is second only to the US in keeping it afloat. The issue is not the robustness of Israel’s military sector or to what use it is being put, or at what cost. Even if these ethical issues are shunned, can anyone ignore Israel’s capacity to subvert and interfere in the domestic affairs of other countries, including its superpower mentor, the US? The point is that when Israel manages to interfere in US policies, playing Republicans in Congress against the Democrat President, India with its leaking government, malleable politicians, greedy corporate houses, bureaucrats, military commanders, and ideological proximity to the RSS, will be easy picking. If the Israeli tail can wag the US dog, so to say, it is going to keep the heat simmering in India against its enemies, who, or at least some, are India’s long-standing friends.³

But by far the bigger problem is the ideological blinkers on the government. Its jingoism and misplaced belligerency were apparent in the Coast Guard blowing up what appeared to have been a smugglers’ boat in international waters outside Gujarat on 31 December 2014, without keeping the Navy or even the Intelligence Bureau (IB) in the loop. This shoot-first-and-duck-questions-later attitude as well as the tendency to accuse critics of being anti-national does not inspire confidence that this government cares much for probity and enlightened self-interest. Turning shrill

when probed and going ballistic when cornered shows that a dogmatic government is its own worst enemy. That would, of course, not be a matter of concern if it did not affect the best interests of the Indian people.

Maybe one should switch from the rhetoric of “Make in India” to the more sober “Make for India” where the defence sector is concerned. It may then enable us to go beyond the rhetoric of heightened threats, and teach us to rely on diplomacy, invest in human security, and compel us to re-examine the shibboleths on which our national security doctrine rests.

NOTES

1 It is worth reading what Arun writes, “Take a Rs 10,000-crore project, with a 70:30 debt-equity ratio. The promoter needs to put up Rs 3,000 crore as equity. Suppose he can scrape together Rs 1,000 crore. He will inflate the project cost to Rs 15,000 crore. His required equity contribution now goes up to Rs 4,500

crore but he gets credit worth Rs 10,500 crore, more than enough to finance the entire project. During implementation through promoter-owned companies, money will be taken out of the project, to fund a part of his equity contribution and to grease the palms that allow such an inflated project cost to go not just unchallenged, but actually blessed.

While implementing the project, he will start another project, take money out of it to fund the remaining part of the original project’s equity contribution and to service the loan on the first project once its construction is over. Then he will start yet other projects, to actually finance the second project, and so on. The first project will turn into a cash cow, if this string of loan-financed projects can continue to mushroom long enough for the loan on the first project to be fully paid off.

At one level, this is an amazing story of entrepreneurship. Chutzpah, rather than capital, defines the promoter. At another level, this conversion of the public’s savings into private capital through the banks’ mediation is a tale of sordid politics” (Doctor 2014).

- 2 Paranjay Guha Thakurta in online daily The Citizen, <http://www.thecitizen.in/NewsDetail.aspx?Id=2636&THE/STORY/BEHIND/THE/STORY:/WHY/HAS/THE/GOVERNMENT/MOVED/AGAINST/RELIANCE/NOW?>
- 3 Historian Shlomo Sand in “I Wish to Resign and Cease Considering Myself a Jew” (Guardian 2014, 10 Oct) writes, “I am aware of living

in one of the most racist societies in the western world. Racism is present to some degree everywhere, but in Israel it exists deep within the spirit of the laws. It is taught in schools and colleges, spread in the media, and above all and most dreadful, in Israel the racists do not know what they are doing and, because of this, feel in no way obliged to apologise. This absence of a need for self-justification has made Israel a particularly prized reference point for many movements of the far right throughout the world, movements whose past history of anti-semitism is only too well known.”

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