

Gearing up for the Defence Exports: Challenges, Opportunities and Pitfalls

*B. Khaitan**

India has made rapid strides in defence technology in recent past and reached a stage of self-reliance. The objective was to have thrust in indigenous production and exploring possibilities of exports to other developing nations that may look forward to supplies from India.

In spite of the potential the country had in defence production, in the form of resource capability, know-how and technical expertise, but due to lack of clear policy had prevented its full exploitation. One can assume that our defence industrial policy broadly consists of the following-

- Maximization of indigenous production.
- Licence production of those equipments which are available and can be obtained from abroad.
- Direct procurement of those equipments not covered above, but considered essential for ensuring the security.

The recent change in the policy indicates the intention to involve the private sector in defence R&D and production through licensing and indirect opening of the defence industrial sector to foreign companies through FDI and the offset arrangement.

Defence Exports

As per the estimate country's defence exports of equipment and other systems during 2003-04 was approximate US \$93 million. Exports to

*B. Khaitan is Special Director (Specialist Vehicles). Ashok Leyland Ltd.

countries like Nepal and Mauritius includes ALH, Lancer attack helicopters and Dornier transport planes. The main defence exporters include state-run BEL, BEML and OFB besides HAL. Defence exports may likely to touch US \$130 million as per the government estimates. This is less than that of Israel, South Korea or even Singapore.

Areas which can be addressed for the defence exports are –

- System Engineering
- Maritime
- Armoured Fighting Vehicles / Infantry Combat Vehicles.
- Fixed wing Aircrafts.
- Helicopters.
- General Munitions.
- Communication Equipment.
- Logistics Vehicles/Vehicles for Weapon Platforms and Applications.
- Counter insurgency and Counter Terrorism Related Equipment.

Challenges

A closer examination of the stated policy would reveal that production under license did not help in obtaining the desired technical know-how for subsequent up gradation and further technological innovations. Also, such arrangements may not be the proven mechanism of transfer of technology.

Since the defence technology needs long term investment, its obsolescence is high with low economies of scale. Hence the policy of maximizing indigenous production without well supported R&D policy back-up may not bring tangible results. Therefore, the ultimate defence industrial policy should aim at fostering the defence exports without which the economic base of the defence industry would be difficult to sustain in the present competitive environment.

Defence exports supports “defence diplomacy” and in some countries may act as a key enabling activity for a bilateral defence relationship. This also contributes to building local operational capabilities and therefore enhances inter-operability with our own forces, especially during UN-sponsored peacekeeping missions.

Defence offset policy will also contribute to enhanced defence exports and expected to bring in US \$10 billion during the 11th five year plan period (2007-2012). However, nearly 80 per cent of all offsets are likely to be in the area of aerospace.

If we go into a country for exports and fail to deliver what is expected, we are unlikely to be considered for many years thereafter. Any new approach will be met with the comment that “We evaluate your product and which did not meet our requirements”. So an unsuccessful bid effectively 'poisons the well' for years to come.

Given that we have only one shot at each country, we must ensure that our offering has the maximum chance of being accepted. This means finding out as much as possible about what the customer would wish for – either via agents or by our diplomatic missions abroad. We must also be prepared to tailor our products to suit the customer's requirements.

Opportunities

There are about 200 countries around the globe and clearly we cannot put serious marketing efforts into all of them. Therefore, essentially we need to identify the markets that would be most attractive and where we would have a decent chance, keeping in view of our present capabilities and ability to deliver what is required.

When we look at the countries where we can export to, there are 169

possible countries in the world. When we exclude those, where the Government of India's restrictions apply, countries where we cannot hope to get sales (US, UK, France etc.), and those that are too small to be of interest (Belize, Timor Leste etc.) we are left probably with 104 countries, and of these 14 are most unlikely (Finland, Pakistan, North Korea etc.). So in reality we have only 90 potential customers.

Issues which merit consideration for the manufacturing of any defence products are-

- High cost and higher risk projects.
- High value and low volume products.
- International collaboration in design and development.
- High barrier to entry.
- Issues of safety, criticality, long service lives and faster obsolescence.

As a matter of fact, a general approach to identify the suitable export market would be to assess the following before hand-

- *Need for defence equipment* – Is it a big population country with big Army? Geo-political status and its standing in the world.
- *Ability to afford* – Can the country afford to buy large number of defence products? Has the country a high GDP and high per capita income? Is there a big defence budget?
- *Competitive factors* – Does the country make the defence equipment itself? Are they good (if not we can still compete, possibly by JV with an existing in country player)? Does it buy from abroad? Does it buy a few here and a few there, or does it show brand / country loyalty? What does it buy expensive, excellent defence equipment or inexpensive low-tech equipment which may not be using current technology?
- *Political environment* – Is there a threat (external or within – insurgency etc), that demand spending on defence? What are the

countries' relations with India? How acceptable would an Indian product be? Are there any trading agreements? Are there opportunities for licence, JV, etc?

Way Ahead

Most of the Indian products can be classified under the following category with respect to the competition-

- Technology- High to Medium
Medium to Low..... Indian products
- Cost- High to Medium
Medium to Low..... Indian products
- Quality- High to Medium
Indian products..... Medium to Low

In our assessment the export markets which may be attractive to begin with (i.e. the markets that can be tapped with Medium-Low technology products having Low-Medium price), for current technology products are few Sub-Saharan African countries (very price conscious, continual state of low level warfare, not capable of maintaining sophisticated US or European defence equipment). Also, some South American countries, Middle East and other developing countries of Pacific Rim would be other potential markets.

The internationalization of the defence industry has resulted in most of the products which are presently in market; contain a mix of sub-systems sourced from different suppliers regardless of whether they have been developed in collaboration with other nations or in response to a specific defence requirement.

With high level of foreign investment now in our defence industry base, there are greater opportunities for Indian defence industry to work with partnership or in collaboration with overseas companies, thus enabling us to have broader market access. An effective management and fulfilment of collaborations arising out of off-set obligations can also provide an important foothold in new markets and lay the basis for lucrative follow-on and spin-off deals.

Other issues which merit consideration are:

- A stable macro-economic and political environment.
- Low cost of manufacture.
- Transparent business environment which encourages fair competition.
- Government as facilitator for defence exports to friendly countries (with active assistance from Indian Diplomatic Missions abroad and having suitable clauses incorporated in the line of credit given to other countries).
- Increased FDI limit in the defence sector (a foreign investor is expected to invest resources presently in a venture without any significant control, capacity /product constraints and with no purchase guarantee and where preference may be accorded to the local PSUs- perhaps our policy need a review).
- There is also a need to draw list of dual use technologies for these not to be exported in the over-all national interest. The national security interest should be the dominant factor in determining the export of critical technologies.
- The other objective of the defence export policy should be to respond more expeditiously to the military equipment needs of our friendly countries.

Key drivers to effective execution of defence export orders are-

- Irrevocable LC at sight before shipment.

- Offer and recommend products which are best suited for the terrain in which these would be employed.
- Service / parts support to protect the image of the company and the product.
- Training programmes for the end user and maintenance personnel in advance.
- Exhaustive technical literature in local language.

Conclusion

India's defence industrial policy seems to be short of its objective to boost defence exports. As, the viable industrial base need to be sustained both for economic and technological requirements, exports are an essential element of the over all defence industrial policy. Our strategic depth in defence production also can be increased by offering internationally competitive products through the well defined policy objective of defence exports / offsets. 