

# Defense News Conclave

## *Stories of U.S. - India Defense Partnership*

## India's Defence Exports

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India's defence export has witnessed significant growth in recent years, reflecting the nation's emergence as a key player in the global arms market. With a focus on self-reliance in defence production, India has expanded its export portfolio, offering a diverse range of military equipment to various nations. This surge in defence exports not only contributes to the country's economic growth but also enhances its strategic influence on the international stage. India's prowess in manufacturing defence systems, including missiles, rocket launchers, Coastal surveillance systems, and naval vessels, has positioned it as a reliable supplier. This briefing paper aims to provide an in-depth analysis of India's dynamic defence export landscape, offering insights into key achievements, existing challenges, and future prospects. Through a comprehensive examination of the nation's evolving role in the global arms market, the paper seeks to offer an authentic understanding of India's contributions, hurdles faced, and potential trajectories in the realm of defence exports.

### Introduction

India is experiencing a significant increase in defence exports, marking a noteworthy shift from being a prominent importer to emerging as a substantial contributor to the international arms market. India's defence sector has been subsumed in the notions of self-reliance and indigenisation, giving it a strategic and economic edge in the recent past. Portraying an able 'Atmanirbhar Bharat,' India's defence exports have grown by leaps and

bounds, increasing from Rs. 686 crore in FY 2013-14 to an estimated Rs. 16,000 crore in FY 2022-23, representing a remarkable 23-fold increase. In fact, as mentioned by the Indian Minister of Defence, Rajnath Singh, there is also a probability of the defence export to cross Rs. 20,000 crore, 25 per cent up from FY 2023, primarily due to the "synergy between government and the domestic companies".<sup>1</sup> The surge in defence exports is being seen as a testament of significant progress made by the global defence manufacturing industry. Export



Source:

<https://twitter.com/rajnathsingh/status/1641999409188839425>

procedures have been streamlined to be more straightforward, and an online export authorization system now facilitates end-to-end processing. This has significantly reduced procedural bottlenecks, rendering delays nearly obsolete. As a result, the streamlined process supports and enhances the overall ease of doing business. Over the last five years, the total defence exports have now crossed Rs. 52,000 crore, as in October 2023. Some notable

instances of defence exports recently include the indigenous production of aircraft such as the Dornier-228, artillery guns, Brahmos Missiles, PINAKA rockets and launchers, radars, simulators, and armoured vehicles. India's successful foray into the global defence market showcases its expertise and potential to meet the diverse needs of nations worldwide.

At present, India's 100 defence companies have been exporting defence products to over 85 Friendly Foreign Countries (FFCs). In addition, Argentina and Egypt are among a list of countries who have expressed an interest in purchasing India's Light Combat Aircraft - Tejas. It is believed that teams have also visited India to inspect the aircraft as well. Though the optimism induced by these numbers and interest is encouraging, India needs to follow systemic reforms to emerge as a globally competitive player exporting defence products.



Source: [yajiram IAS CCS approves Tejas 2.0 mega project](#)

## Defence Exports in India

Historically, the public sector has led the way in manufacturing and export of defence equipment in India. The Defence Research and Development Organization (DRDO), Defence Public Sector Undertakings (PSUs), and Ordnance Factories have served the operational needs of the Indian Armed Forces since independence. While the private sector has been on the periphery, its profile and involvement has grown over the last decade or so. India has been exporting a range of defence equipment, including helicopters, naval vessels, aircraft, missiles, and armoured vehicles, among others. The Government has set an ambitious target of achieving US\$5 billion in defence exports by 2025.



### PINAKA ROCKET LAUNCHERS

**Mobility-** Mounted on a tata truck for high maneuverability on diverse terrain.

**Firepower-** Launches a salvo of 12 high explosive rockets in just 44 seconds.

**Range-** Different versions offer varying ranges, with the Mark-I reaching 40km and the enhanced Mark-I reaching a remarkable 120km.

**Accuracy-** Equipped with an onboard inertial navigation system for precise targeting.

**Deployment-** Successfully used in the Kargil war against Pakistani positions, proving its effectiveness in mountainous regions.

Defence items being exported by India, currently include “major platforms like Dornier-228, 155 mm Advanced Towed Artillery Guns (ATAGs), Brahmos Missiles, Akash Missile System, Radars, Simulators, Mine Protected Vehicles, Armoured Vehicles, PINAKA Rockets & Launchers, Ammunitions, Thermal Imagers, Body Armours, besides Systems, Line Replaceable Units and parts & components of Avionics and Small Arms,”.<sup>2</sup> The private sector accounts for only 21 per cent of the exports. Around 79 per cent of the exports are from Defence Public Sector Undertakings, erstwhile Ordnance Factory Board and other public sector undertakings/ joint ventures. The size of the Defence industry, including Aerospace and Naval Shipbuilding Industry, is currently estimated to be about Rs 80,000 crore (2019-20). The defence industry has demonstrated its prowess in design and development by exporting to more than 85 countries, with over 100 firms currently involved in defence product exports. While the contribution of the Public Sector is estimated to be Rs 63,000 crore, the share of the Private Sector has steadily grown to Rs 17,000 crore over the years.<sup>3</sup> As many as 104 countries participated in the Aero India Show 2023, which is an indication of India’s growing defence manufacturing capabilities.<sup>4</sup>

India’s future defence requirements must have the overarching guiding vision for building a domestic base. Though India exports defence-related equipment to 42 countries, the major public sector exports are limited to a few countries like Myanmar (46 per cent), Sri Lanka (25 per cent) and Mauritius (14 per cent). The other countries



where defence equipment is being exported to at the platform/ system level are Azerbaijan, Seychelles, Estonia, Indonesia, and Guinea.

However, imports still continue to meet a bulk of India's domestic defence requirements. Accounting for 11 per cent of the global defence arms imports, India continues to be the world's biggest arms importer. Notably, the expenditure on defence procurement from foreign sources has reduced from 46 per cent of the overall expenditure in 2018-19 to 36.7 per cent as of December 2022, but the value of imports in FY 2022-23 stood at Rs. 40,839 crore. Further, India continues to rely on foreign players for most critical defence equipment such as fighter aircraft, air defence systems, and armed drones.

## Policy Initiatives to Boost Defence Exports

A number of policy initiatives have been undertaken to drive up defence exports over the last decade. The government's push for defence exports is driven by a consideration to reduce dependency on foreign players for imports. The notable shift in India's defence landscape has transformed the country from primarily being an importer of defence equipment to emerging as an exporter of significant platforms.

**Table 1: Defence Exports over the years**

Financial Year	Total Export Value (in crores)
2016-17	1,521
2017-18	4,682
2018-19	10,745
2019-20	9,115
2020-21	8,434
2021-22	12,814
2022-23	15,920 <sup>5</sup>

In line with the objectives of the Make in India initiative, the Government of India has set up an Export Promotion Council (EPC) to focus on driving defence exports. A series of measures have been taken to promote defence exports, including the following:

### Simplification of Export Procedures:

Addressing a key concern of exporters, the Government of India has taken steps to simplify the procedural loop for companies exporting defence equipment and technologies. The **India Defence Mart** is an online portal for defence exports, which enables companies to submit applications for obtaining export licences and track the status of such applications online. Steps have also been taken to streamline the process of obtaining no-objection certificates (NOCs) from multiple agencies involved in the process of defence exports.

**Financial Incentives:** The Scheme for Promotion of Defence Exports (SPDE) was introduced with a view to promote exports of defence products, including financial support for exhibiting and publicising Indian defence exports in foreign countries. The scheme envisages incentives for attending global defence exhibitions/workshops, marketing indigenous products, and efforts to publicise these products before the stakeholders concerned. In addition to this, the government has also launched a Technology Upgradation Fund Scheme (TUFS) to further modernisation of the indigenous defence industry. This scheme offers financial assistance for technological modernisation and upgradation of domestic manufacturing capacities.

**Strategic Partnership Model:** The Strategic Partnership Model seeks to boost the capacities of the domestic manufacturing industry by leveraging the strengths of leading foreign arms makers. The Model envisages increased domestic production of defence equipment through partnerships with foreign companies. Under this model, Indian industry will tie up with global OEMs to absorb knowledge of key technologies and manufacturing know-how. The BrahMos missile is a testament to the strong defence cooperation between India and Russia, and the two countries are committed to further enhancing their strategic partnership in the defence sector in the future.

**Defence Offset Policy:** Under India's Defence Offset Policy, buyers of products from foreign suppliers get additional benefits

in the form of additional investment in local businesses. Foreign OEMs that win contracts worth more than Rs 2,000 crore would be required to invest at least 30 per cent of the contract value in Indian businesses as offsets. Previously, the threshold for the use of offsets was Rs 300 crores. The objective of this policy is to increase domestic production and technology transfer in the defence sector.<sup>6</sup>

### **Promoting exports through Defence Attaches**

The MoD has introduced a new scheme to promote defence exports through defence attachés (DAs) and funds have been allocated for export promotion to 34 countries. The OEMs/DPSUs may also be required to expand their presence through foreign offices in key countries thereby increasing the Indian footprint<sup>7</sup>

### **Lines of Credit**

India has been increasingly using Lines of Credit (LOCs) to several countries as a tool for strategic engagement and to promote its defence exports. Under Lines of Credit, concessional loans are offered by the Indian government to other nations for their development projects and to buy military hardware in India.

Bangladesh, Myanmar, Mauritius, Nepal, Sri Lanka, Maldives, and Seychelles are the countries in India's immediate neighbourhood, which enjoy half of the allocated LOCs extended by India in 2022. That is US\$16.095 billion of the total US\$30.59 billion<sup>8</sup>.

## Reorientation of Defence Exports: Moving Beyond Numbers

First, a country must have a wide variety of export-worthy “major military equipment” to make a dent in the global market. However, as indicated above, a bulk of India's arms exports are mainly low-value products, coupled with the modest size of export orders.<sup>9</sup> Therefore, there is a need to expand India’s outreach to move towards more ‘high value’ products, which can significantly contribute to value enhancement in the long run. In the meantime, it is important that efforts are made into scaling the value in a systematic manner to achieve results in the short as well as the medium term. Though the rise in value of defence exports is welcome, it is not the most appropriate indicator to measure progression of the country’s domestic manufacturing base.

The existing policy architecture places great reliance on hand-holding by the

government to raise the capacities of the domestic defence industry. However, a conducive atmosphere needs to be created for organic growth of the industry, independent of government efforts. Government support should be streamlined to devolve greater focus on specific segments of the defence export base. At present, most manufacturers of defence equipment are focused on developing specific components of major defence systems. Therefore, government support should initially focus on identifying a set of major components, based on their export potential. This should be followed by integrating the capacities of component manufacturers to develop a base for platform and subsystem manufacturers. While government support and assistance are crucial, the OEMs in their own capacity should also identify key opportunities, especially in the major arms/equipment importing economies of the world, through a combination of voluntary efforts and incentive-induced action<sup>10</sup>.



## **Streamlining Indigenisation List with Export Requirements**

In May 2023, the Ministry of Defence of India came out with a fourth positive indigenisation list, comprising 928 important subsystems and components. The items in this list will have to be sourced only from domestic manufacturers over a period of four-and-a-half years from the date of issue.<sup>11</sup> As the idea behind the pursuit of indigenisation is to wean India away from a reliance on foreign manufacturers, the Government should take a step forward and examine the export worthiness of items in the indigenisation list.

A critical examination must be made to identify a set of items within this indigenisation list, which have the potential to be pitched as exports in the overseas market. It must be noted that the objective of preparing indigenisation lists is to achieve a position of self-reliance in the making of defence equipment, considered critical for India's operational requirements. Therefore, these products must be globally competitive to serve the needs of both domestic as well as foreign markets. Defence requirements of countries, which could be possible export destinations must be continually assessed and inputs must be developed to foster strategic defence partnerships with such nations.

In order to boost defence exports, India has to focus on a full range of medium and high military technology weapons and equipment like Brahmos missile, Pinaka multi-barrel rocket launcher, Advanced Light Helicopter (ALH), naval craft/ships, Tejas fighter aircraft, Akash air defence system,

Astra air-to-air missile, radars and artillery guns. However, the range and volume of Indian exports in this segment is limited. And the market presently is restricted to countries with poor paying capacity that have to rely on our credit line. As indicated above, the situation is unlikely to change until Indian weapons/equipment become globally competitive in terms of quality.

## **Recommendations**

### **Have in place an ecosystem for high-value defence exports**

Developing an ecosystem for high-value defence exports will require durable and sustained focus by the Government, industry and business chambers. As indicated earlier, India's domestic defence manufacturing industry does not possess the requisite capacity to produce globally competitive high-value defence equipment. While the thrust on indigenisation is welcome, strategic defence partnerships with foreign players must be leveraged to plug capacity gaps, where they exist. While cultivating these partnerships, attention must be paid to development of 'processes', in addition to development of products. Effectiveness of such partnerships will be determined by the progress made by India in the high-value export segments.

### **Develop a select group of world-class MSMEs**

MSMEs form the backbone of the Indian industry, being the source points of numerous components and spare parts for bigger industries. Enhancing the capacities of

Key Players in Indian Defence Market		
Public sector Undertaking	Private Players	International Players
Hindustan Aeronautics Limited	TATA Advanced Systems Ltd	Lockheed Martin
Mazagon Dock Ltd	L&T Defence & Aerospace	General Electric
Bharat Electronics Ltd	Hinduja Group-Ashok Leyland Defence	Boeing
Bharat Dynamics Ltd	Godrej and Boyce Mfg. Co. Ltd	Rockwell Collins
Bharat Earth Movers Ltd	Mahindra Defence Systems	Dassault Systems
Ordnance Factory Board	Pipavav Defence & Offshoring Company	Honeywell
BrahMos Aerospace Private Ltd	Kalyani-Bharat Forge	Northrop Grumman
Mishra Dhatu Nigam Limited (MIDHANI)	Adani Aero defence Systems & Technologies Ltd	Raytheon
ECIL	Alpha Design Technologies	Thales
Hindustan Shipyard Ltd	Kalyani Group- Kalyani Strategic System Ltd	General Dynamics
Garden Research Shipbuilders and Engineers	Dynamatic technologies	Paramount Group
Goa Shipyard Ltd	Reliance Naval and Engineering Ltd	BAE Systems
	TATA POWER SED	

defence MSMEs is imperative for the development of a defence manufacturing base in India. However, the real value of capacity addition will be manifested in the ability of MSMEs to transform themselves into bigger enterprises. MSMEs, which have a strong, integrated network must be encouraged as anchors in different geographical zones of the country. The Government's focus should be to catalyse the

transformation of a select group of MSMEs as globally competitive makers of critical equipment.

### **Synergising Defence and Strategic Ties**

With many countries expressing an interest in Indian manufactured defence systems and platforms, India has an opportunity to demonstrate its credentials of being a preferred partner to meet the former's



defence requirements. The South-East Asian region is becoming a spectre of contestation, owing to the Indo-Pacific's growing importance. Against the backdrop of China's growing assertiveness, ASEAN countries perceive India as a prospective counterweight to moderate Beijing's aggression. India must expend diplomatic capital to build strategic defence partnerships in the region, which would pave the way for seamless defence exports in the region.

### **Role of Defence Attaches**

Efforts should be made to ensure that prospective buyers can deal with Defence Attaches as a one-stop solution for all information regarding equipment on offer. While picking officers to serve as Defence Attaches in these countries, the Government must assess the ability of officers to understand the technical complexities of defence imports sought by the host country. Based on specific inputs received by Defence Attaches, production ecosystems must be aligned to suit the long-term strategy of importers' concerns.

### **Co-production and Co-development**

With uncertainty marking the contemporary global order, many countries, (including from the ASEAN region) are keen to reduce their reliance on foreign sellers in key sectors such as defence. Like India, these countries may want to shape a robust indigenous domestic base, with a gradual draw-down in the share of foreign arms

sellers. In such situations, India must not hesitate to step forward by becoming a partner in the growth of the domestic manufacturing industry of these nations. India must explore possibilities of co-production and co-development in some of the destinations, as and when necessary.

## **Conclusion**

The boom in Indian defence exports is a demonstration of the country's potential to significantly upscale the size of this segment. However, in a quest to establish itself as a globally competitive player in the global defence industry, India must make long-term investments in developing a quality defence industrial base. Domestic efforts to give shape to a robust defence industrial base must be complemented by cultivating high-value strategic partnerships with leading global defence manufacturers. As India works to build a robust defence industrial base, it must deepen its position in existing supply chains while also becoming a source of new supply chains. As indigenous arms and components are absorbed by the Indian armed forces over time, the global faith in Indian defence manufacturing capabilities will gradually strengthen.

The growing defence exports market is certainly a base to build on, as India seeks to emerge as a globally competitive manufacturer and exporter of defence products.

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- <sup>1</sup> Dalip Singh, "Defence exports soon to cross Rs. 20,000 crore, says Rajnath Singh," business line, *The Hindu*, September 12, 2023, accessed at <https://www.thehindubusinessline.com/news/defence-exports-soon-to-cross-20000-crore-says-rajnath-singh/article67299944.ece>.
- <sup>2</sup> <https://theprint.in/opinion/indias-quantum-jump-in-defence-exports-is-high-on-rhetoric-and-low-on-substance/1500976/>
- <sup>3</sup> <https://www.ddpmo.gov.in/sites/default/files/DraftDPEPP.pdf>
- <sup>4</sup> <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1912885>
- <sup>5</sup> <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1912885>
- <sup>6</sup> <https://www.investindia.gov.in/team-india-blogs/exploring-rise-indias-defence-exports>
- <sup>7</sup> <https://aidat.in/wp-content/uploads/2020/08/Point-of-View-on-Defence-Exports.pdf>
- <sup>8</sup> <https://www.mea.gov.in/Lines-of-Credit-for-Development-Projects.htm>
- <sup>9</sup> <https://thewire.in/government/india-defence-top-25-arms-exporter-sipri>
- <sup>10</sup> <https://aidat.in/wp-content/uploads/2020/08/Point-of-View-on-Defence-Exports.pdf>
- <sup>11</sup> <https://economictimes.indiatimes.com/news/defence/indias-defence-ministry-approves-fourth-positive-indigenisation-list-to-boost-local-manufacturing/articleshow/100223718.cms?from=mdr>

*This Briefing Paper has been researched and written by Sohini Nayak, Senior Research Associate and Dhruv Bansal, Research Associate, CUTS International.*

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