



Vivekananda  
International  
Foundation

VIF PAPER | SEPTEMBER 2023

# INDIA'S DEFENCE EXPORTS

**RECENT TRENDS AND THE WAY FORWARD**



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Published in 2023 by  
Vivekananda International Foundation  
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ISBN: 978-93-91498-37-5

Cover Image Coursty: Department of Defence Production ([ddpmod.gov.in](http://ddpmod.gov.in))

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## Abstract

*In a highly competitive international defence market, India has recently made its mark and has huge opportunity to become a significant player. India's defence exports have reached to an all-time high of approximately ₹16,000 crore (US \$ 1.94 billion) in the Financial Year (FY) 2022-2023, an increase of more than ₹3,000 crore from the previous FY 2021-22. It represents a notable ten-fold increase from the FY 2016–17, when exports were merely ₹1,521 crore (US \$ 184.59 million). Presently, India's 100 defence companies are exporting defence products to over 85 Friendly Foreign Countries (FFCs) in Africa, South Asia, Southeast Asia and the West Asia, which reflects their rising capability to design, develop and manufacture for the world. It also shows that the reforms that have been brought in the last few years are now producing good results. This is a significant step towards India's stated goal of exporting ₹35,000 crore (US \$ 5 billion) worth of aerospace and defence equipment annually by 2025 and becoming a net defence exporter. However, important issues remain to be addressed, including adding high value weapon systems and equipment to its export basket, attracting FDI in defence sector, increasing the contribution of private sector in defence production and integrating the country into Global Value Chains (GVCs) in defence sector for achieving the set targets. India also continues to remain in a strategically-vulnerable position of being the largest arms importer in the world, despite its efforts to become 'Atmanirbhar Bharat' or 'Self-Reliant India' in defence sector under the Make-in-India initiative. Nevertheless, it is on the right path and its emergence on the world stage as an exporter is a major development, which would ensure the achievement of its defence and strategic priorities. Importantly, the GVCs have been reshaped as a result of the Covid-19 outbreak, the Ukraine war and US-China tech war where India through favourable policy measures and reforms has emerged as an appealing alternative to the traditional GVCs. It argues that India has a robust defence R&D and manufacturing capacity as well as geopolitical advantage to realise the goal of making the country a global defence manufacturing hub and a net defence exporter, provided it makes sustained efforts to address the existing bottlenecks. In this setting, this paper analyses and examines the driving factors that led to India's rising defence exports, emerging opportunities and challenges in the defence sector and the way forward.*

## **List of Abbreviations**

<b>AEP</b>	Act East Policy
<b>AWEIL</b>	Advanced Weapons and Equipment India Limited
<b>AIP</b>	Air Independent Propulsion
<b>AI</b>	Artificial Intelligence
<b>AIDef</b>	AI in Defence
<b>ALH</b>	Advanced Light Helicopter
<b>ATAGS</b>	Advanced Towed Artillery Gun System
<b>AFINDEX</b>	Africa-India Field Training Exercise
<b>AVANI</b>	Armoured Vehicles Nigam Limited
<b>AU</b>	African Union
<b>ASEAN</b>	Association of Southeast Asian Nations
<b>BEML</b>	Bharat Earth Movers Limited
<b>BEL</b>	Bharat Electronics Limited
<b>CET</b>	Critical and Emerging Technologies
<b>C4ISR</b>	Command, Control, Communication, Computer & Intelligence, Surveillance & Reconnaissance
<b>DAs</b>	Defence Attaches
<b>DMF</b>	Defence Modernisation Fund
<b>DPSUs</b>	Defence Public Sector Undertakings
<b>DRDO</b>	Defence Research and Development Organisation
<b>DoC</b>	Department of Commerce
<b>DDP</b>	Department of Defence Production
<b>DGFT</b>	Directorate General of Foreign Trade
<b>DPEPP</b>	Draft Defence Production & Export Promotion Policy
<b>EW</b>	Electronic Warfare
<b>FY</b>	Financial Year
<b>FDI</b>	Foreign Direct Investment
<b>FOEMs</b>	Foreign Original Equipment Manufacturers
<b>FFCs</b>	Friendly Foreign Countries
<b>GIL</b>	Gliders India Limited
<b>GRSE</b>	Garden Reach Shipbuilders & Engineers Ltd
<b>GVCs</b>	Global Value Chains
<b>GoI</b>	Government of India

<b>GDP</b>	Gross Domestic Product
<b>GTVs</b>	Gun Towing Vehicles
<b>HMVs</b>	High Mobility Vehicles
<b>HAL</b>	Hindustan Aeronautics Limited
<b>IDDM</b>	Indigenously Designed, Developed and Manufactured
<b>iCET</b>	Initiatives for Critical and Emerging Technologies
<b>iDEX</b>	Innovations for Defence Excellence
<b>IOL</b>	India Optel Limited
<b>JVs</b>	Joint Ventures
<b>LAC</b>	Line of Actual Control
<b>LOC</b>	Line of Credit
<b>LCA</b>	Light Combat Aircraft
<b>LRNOW</b>	Long Range Stand-Off Weapon
<b>MDL</b>	Mazagon Dock Shipbuilders Limited
<b>MEA</b>	Ministry of External Affairs
<b>MFDIS</b>	Modernisation Fund for Defence and Internal Security
<b>MRO</b>	Maintenance, Repair and Overhaul
<b>MSMEs</b>	Micro, Small and Medium Enterprises
<b>MoD</b>	Ministry of Defence
<b>MM</b>	Mission Mode
<b>MIL</b>	Munitions India Limited
<b>OFB</b>	Ordnance Factory Board
<b>OGEL</b>	Open General Export License
<b>PIB</b>	Press Information Bureau
<b>R&amp;D</b>	Research and Development
<b>SAGAR</b>	Security and Growth for All in the Region
<b>SCS</b>	South China Sea
<b>SCOMET</b>	Special Chemicals, Organisms, Materials, Equipment and Technologies
<b>SIPRI</b>	Stockholm International Peace Research Institute
<b>SOP</b>	Standard Operating System
<b>ToT</b>	Transfer of Technology
<b>TCL</b>	Troop Comforts Limited
<b>UAE</b>	United Arab Emirates
<b>UAVs</b>	Unmanned Aerial Vehicles
<b>USNS</b>	US Navy Ship
<b>WA</b>	Wassenaar Arrangement
<b>YIL</b>	Yantra India Limited

## 1. Introduction

India is generally known as a major arms importer in the world. In past, defence export was not a key priority of the domestic defence production. The Indian government on its part was also hesitant to promote defence exports to even Friendly Foreign Countries (FFCs).<sup>1</sup> It was only after the Vajpayee government brought policy measures to liberalise defence industry in 2001 and subsequently opened the defence sector for the private industries, defence exports really began to gain importance in India. The significance of defence export further accelerated by the present government of the Prime Minister Narendra Modi, who has brought several policy measures under the Make-in-India and self-reliant India campaign to revamp domestic defence production and arms procurement system. As a result of these policy measures, India has recently made its mark as an exporter in a highly competitive international defence market.

India's defence exports have reached to an all-time high of approximately ₹16,000 crore (US \$ 1.94 billion) in the Financial Year (FY) 2022-2023, an increase of more than ₹3,000 crore from the previous FY 2021-22 (see Table 1).<sup>2</sup> It represents a notable ten-fold increase from the FY 2016–17, when exports were merely ₹1,521 crore (US \$ 184.59 million). At present, India's 100 defence companies are exporting defence products to over 85 FFCs in Africa, South Asia, Southeast Asia and the West Asia, which reflects their rising capability to design, develop and manufacture for the world. Its rising defence exports and participation of 104 countries in Aero India 2023 truly reflects India's growing defence manufacturing capabilities. This is a significant step towards India's stated goal of exporting ₹35,000 crore (US \$ 5 billion) worth of aerospace and defence equipment annually by 2025. While India continues to remain the largest importer of arms in the world, its emergence on the world stage as an exporter is a major development and will help achieve its strategic priorities and become self-reliance in the defence sector.

Prime Minister Narendra Modi in a tweet on 1 April 2023 commended the rise of defence exports and described the achievement as a clear manifestation of India's talent and the enthusiasm towards 'Make in India' initiative. It also shows that the reforms brought in the defence sector in the last few years are now producing good results. Prime Minister Modi emphasised that the "Government will keep supporting efforts to make India a defence production hub". Defence Minister Rajnath Singh also said it was "a remarkable achievement" and asserted that the defence exports will "continue to grow exponentially". This is indeed an important milestone in the progress of India's indigenous defence industry. However, there is need of sustained efforts in the years ahead to realise the goal of making the country a global defence manufacturing hub and a net defence exporter.

**Table 1: India's Defence Exports from FY 2016-17 to FY 2022-23**

Sl. No.	Financial Year	Export Authorizations to Private Companies (Rs Cr)	Export by DPSU/ 7 New OF Companies (Rs Cr)	SCOMET Issued by DGFT (Rs Cr)	Contract Value(Rs Cr)	Total Export Value(Rs in crores)	Total Export Value(US \$ in current price, 1 US Dollar =82.35 Indian Rupee as on April 3, 2023)
1	2016-17	194.35	1327.51	0.00	0	1521.86	\$ .184 billion
2	2017-18	3163.16	1519.20	0.00	0	4682.36	\$ .569 billion
3	2018-19	9812.91	932.86	0.00	0	10745.77	\$ 1.304 billion
4	2019-20	8007.81	904.74	203.00	0	9115.55	\$ 1.107 billion
5	2020-21	7271.25	984.64	178.94	0	8434.83	\$ 1.023 billion
6	2021-22	5965.03	386.19	6.70	6456.60	12814.52	\$ 1.556 billion
7	2022-23	9050.84	385.78	351.28	6130.26	15918.16	\$ 1.933 billion
	Total					63,233.05	\$ 7.676 billion

Source: "Dashboard", Department of Defence Production (DPP), Ministry of Defence, Government of India, figures are as on 17 May 2023 at [https://ddpdashboard.gov.in/DefenceExport/Defence\\_Exports](https://ddpdashboard.gov.in/DefenceExport/Defence_Exports).

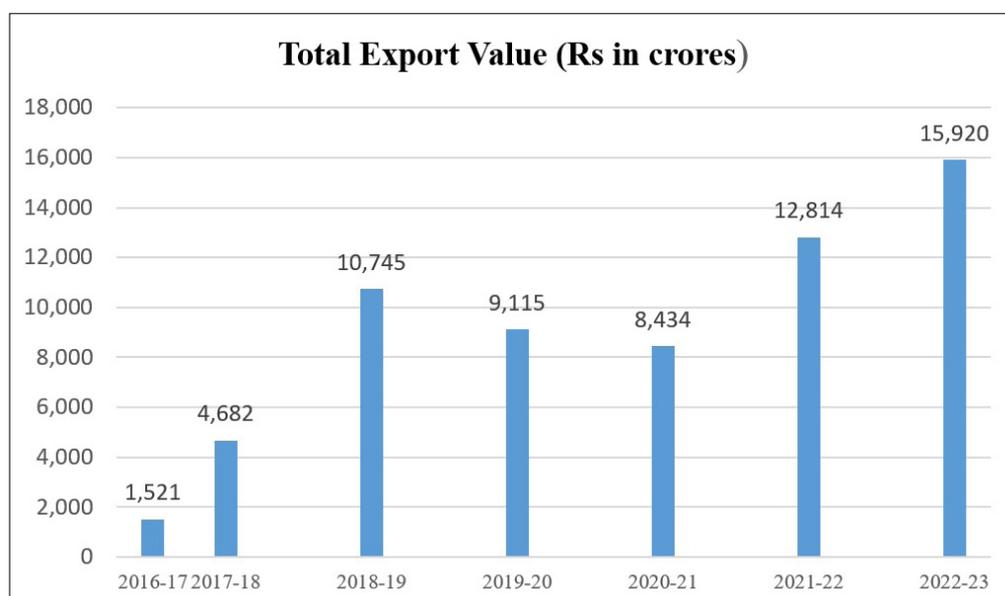
Note: Export by Defence Public Sector Undertaking (DPSU) or seven new defence companies, carved out of the erstwhile 41 Ordnance Factory Boards (OFBs) in October 2021. The total export value in terms of US Dollar could be higher for the Financial Year ending in March 2022 as well as previous financial years. The total export value in Indian rupees rounded up and converted to get an approximate value in US dollar, which is the most commonly held reserve and used currency for international trade. DGFT: Directorate General of Foreign Trade; SCOMET: Special Chemicals, Organisms, Materials, Equipment and Technologies.

India's defence exports from FY 2016-17 to FY 2022-23, as shown in the Table 1 above, indicate that there is an increase of over 10 times total export value from a mere ₹1,521 crore to about ₹15,920 crore. Following the FY 2016-17, there was a marked improvement in performance on the back of government policies to boost defence exports. The exports slipped during FY 2019-20 and FY 2020-21 because of the impact of global Covid-19 pandemic on the defence and technology sector before climbing back to healthier levels in the FY 2021-22 (see Graph-1). Defence exports reached the highest ever of about ₹15,918.16 crore in the FY 2022-23, a 3,104 crore increase from the previous FY 2021-22 of ₹12,814.52 crore.

This substantial rise in defence exports is also the result of increased partnership with the private sector. Additional Secretary, Defence Production, Sanjay Jaju said that 70 percent contribution came from the private sector during the FY 2021-22, while the remaining 30 percent came from the public sector.<sup>3</sup> In fact, 68-98 percent of India's total defence exports were from the private sector in the last seven years. This is a significant achievement for this sector, which was not part of the defence production until 2001. It was because of the Modi government, which accorded greater emphasis on the private sector's involvement in the defence sector and brought supportive policy measures, helped achieve this milestone in the defence export. Importantly, it has created a conducive atmosphere for the defence companies, especially for the private companies to play a larger role for making India self-reliant in the defence sector under the vision of "make-in-India" and "make for the world".

The domestic import ratio has also significantly improved. A degree of trust has been built with the private sector and its participation in the defence production and export. This resulted in the remarkable rise of private sector in defence manufacturing and has immense potential to further expand its footprint in the international defence market.

**Graph 1: India's Defence Exports from FY 2016-17 to FY 2022-23**



Source: Press Information Bureau (PIB), Government of India

However, the contribution of defence private companies to the total defence production is only 19 percent in FY 2022-23 (see Table 6). It is still ₹19,080 crore (US \$ 2.323 billion) short of the country's objective to achieve an annual export target of ₹35,000 crore by 2025 and become a net arms exporter. The recent upsurge in defence exports also does not portend a sustained rise of its defence exports. For further increasing its defence exports, thus, there is need to expand the role of private sector in defence manufacturing and find sustained major importers of the big ticket defence platforms such as Advanced Light Helicopter (ALH), Arjun Tanks, BrahMos missiles, Light Combat Aircraft (LCA)-Tejas, Offshore Patrol Vessels and surveillance systems in which a large number of FFCs have already shown interests to acquire these platforms.

It is important to note that the Modi government had introduced the Draft Defence Production & Export Promotion Policy (DPEPP) in August 2020 that set an ambitious target of ₹35,000 crore (US \$5 billion) export in aerospace and defence goods and services for the next five years.<sup>4</sup> This was part of the ₹1.75 lakh crore (US \$25 billion) turnover in defence manufacturing that the government is aiming to achieve by 2025. The DPEPP aims to bolster local production of weapon systems and components by developing "a dynamic, robust and competitive" defence industry to achieve the set target. Meanwhile, the value of local defence production has increased from ₹79,071 crore in 2019-20 to ₹106,813 crore (about US \$12.924 billion) in FY 2022-23 and, well on its way for achieving the US \$25 billion target.<sup>5</sup> The amount could be higher for the Financial Year ending in March 2023. Besides, the DPEPP promotes export

of Indian defence products and seeks to “become part of the global defence value chains”.

## **2. Export of Major Weapon Systems and Components**

Enumerating the systems, equipment, missiles and ammunitions that are exported, the Ministry of Defence (MoD), Government of India (GoI), listed major platforms such as 155 mm Advanced Towed Artillery Gun System (ATAGS), Akash Missile System, Armoured Vehicles, BrahMos Missiles, Dornier-228 Aircrafts, Mine Protected Vehicles, Radars, Simulators, Pinaka Rockets & Launchers, Ammunitions, Thermal Imagers and Body Armour. The exports also include Systems, Line Replaceable Units and Parts & components of Avionics and Small Arms. Hence, the increase of total export value is the result of the addition of these weapon systems and components in India's defence export basket. The MoD also stated that there is growing global demand of Aircraft Carrier; LCA-Tejas; Light Combat Helicopters; and Maintenance, Repair and Overhaul (MRO) activities. Thus, there is huge scope for further increasing India's defence exports and to make India a global defence manufacturing hub.

During the first-ever ‘AI in Defence’ (AIDef) symposium and exhibition organized by the MoD in New Delhi in July 2022, Defence Minister Rajnath Singh launched 75 newly-developed Artificial Intelligence (AI) products and technologies, including AI Platform Automation; Autonomous, Unmanned, Robotics systems; Block Chain-based Automation; Command, Control, Communication, Computer & Intelligence, Surveillance & Reconnaissance (C4ISR); Cyber Security; Intelligent Monitoring Systems, and Lethal Autonomous Weapon Systems. The AI products developed by the Defence Public Sector Undertakings (DPSUs) having dual use applications and good market potential, namely AI-enabled Voice Transcription and Analysis software developed by Bharat Electronics Limited (BEL); AI-enabled evaluation of Welding defects in X-rays of Non-destructive Testing developed by Garden Reach Shipbuilders & Engineers Ltd (GRSE) and Driver Fatigue Monitoring System developed by Bharat Earth Movers Limited (BEML) were screened during the event.<sup>6</sup> These products and technologies are expected to open up new business avenues for the Defence PSUs.

Besides, these 75 AI products and technologies, there are 100 more projects in various levels of development where a greater focus is given on R&D and use of emerging technologies such as quantum communication technologies and autonomous systems for improving defence products. Thus, the indigenous development and production of these state of the art defence weapon systems and components, and their potential exports to FFCs will further increase the total export value, India's share in the global defence market and grow into a net arms exporter in the coming years.

Importantly, the Global Value Chains (GVCs) have been reshaped as a result of the Covid-19 outbreak, the ongoing Ukraine war and US-China Tech war. While the global Covid-19 pandemic disrupted the GVCs in areas of Critical and Emerging Technologies (CET) such

as semiconductors, AI, quantum technologies, 5G/6G technologies and advanced materials which are critical to further enhance military capabilities. Russia, the second largest arms exporter in the world, has been constrained by the Ukraine war since February 2022 and facing increasing pressure to meet the defence and security needs of its partner countries. It now prioritizes supplies to its own army. Moreover, the US-China tech war has been intensified and the two countries are in race to develop and deploy CET to shape the military and economic power to their advantage.<sup>7</sup> The two countries are developing and implementing their defence and technology strategies to outcompete each other. Consequently, the global defence and tech companies are revamping their GVCs.

In this evolving geopolitical landscape of the 21<sup>st</sup> century, India has emerged as an appealing alternative to the traditional GVCs. Through favourable policy measures and reforms, it is attracting defence and tech companies for investments, joint development and manufactures of defence technologies to develop alternative GVCs to meet future defence and security needs of partner countries. Meanwhile, India, in partnership with other Quad member countries such as Australia, Japan and the US, has launched a Working Group on CET, which focuses on 5G diversification and deployment, technical standards, horizon scanning and technology supply chains. In January 2023, India and the US launched Initiatives for Critical and Emerging Technologies (iCET) for deepening and expanding the scope of defence and technology partnership between the two countries. The iCET was launched to place the two largest democracies as “trusted technology partners” by building technology value chains and support the co-development and co-production of CETs such as defence and space technologies. It elevated and expanded defence and technology cooperation between the two countries involving the governments, private companies and academic institutions. Such defence and technology partnerships will shape the evolving GVCs, where India is positioned to play an important role. The government's supportive policy measures and reforms will assist the country in effectively integrating into the GVCs. In fact, India is in a geopolitical sweet spot and its growing strategic partnership with major powers will strengthen its efforts to realise the goal of making India a global defence manufacturing hub and a net defence exporter.

### **3. Make-in-India and Self-Reliant India Campaign Drive Defence Exports**

Under the “Make-in-India” initiative, the Modi government has taken several policy measures in the last few years to encourage indigenous design, development and manufacture (IDDM) of defence equipment, there by promoting self-reliance in defence sector. The policy measures brought under the Make-in-India and Self-Reliant India campaign have revitalized domestic defence production and arms procurement system, which have significantly contributed to India's recent rise in defence exports. These policy measures include the government accorded priority to procure defence items from domestic sources under Defence Acquisition Procedure (DAP) 2020 and announced 18 major defence platforms for industry led design & development in March 2022.<sup>8</sup> Compared to Defence Procurement Procedure of 2016, the

DAP 2020 with a focus on 'Make in India' and 'Aatmanirbhar Bharat' provides the highest preference to 'Buy Indian (IDDM)' category of acquisition for boosting indigenous defence capability and reduction of reliance on imports. In fact, it has earmarked a record 75 percent of its defence capital budget (around ₹1 lakh crore) for 2023-24 towards procurement from locally made weapon systems and components, while it had earmarked 68 percent (₹84,598 crore) for 2022-23, 64 percent (₹70,221 crore) for 2021-22 and 58 percent (₹51,000 crore) for 2020-21.<sup>9</sup> Thus, the share of the domestic sector in the defence capital budget was never been higher. For strengthening Research and Development (R&D) in Defence, the Defence Research and Development Organisation (DRDO) has been allocated ₹23,264 crore, a 9 percent increase, in 2023-24 budget. It has also launched Innovations for Defence Excellence (iDEX) scheme by involving Start-ups & Micro, Small and Medium Enterprises (MSMEs); and, earmarked 25 percent of defence R&D Budget for private Industry, startups and academia led R&D to promote development of defence technology in the country.

For attracting Foreign Direct Investment (FDI) in defence sector, the government in September 2020 issued a revised FDI policy that further liberalised FDI policy allowing up to 74 percent under automatic route, from earlier 49 percent, and up to 100 percent through government route. In addition, the DDP brought out a number of policy initiatives for attracting FDI, including higher multipliers assigned in Offset Policy with thrust on attracting investment and ToT; regular consultations are done with Foreign Original Equipment Manufacturers (FOEMs); two Defence Corridors, one in Tamil Nadu and another in Uttar Pradesh, established which provide Plug & Play support to the industries; more than 40 Webinars are conducted with FFCs; and, Defence Investor Cell was created to provide all necessary information.

In another major move to boost indigenous defence production and reduce imports, the MoD has announced four 'Positive Indigenisation Lists' of 411 items of Services and three 'Positive Indigenisation Lists' of 3,738 items of DPSUs, for which there would be an embargo on import of these items beyond timelines specified against them of up to 2025.<sup>10</sup> There is a great deal of confidence that the Indian defence industries will be able to manufacture these items in the specified timeline to the satisfaction of the end-users. The import ban on 3,738 defence items will save more than ₹3,000 crore annually. In the next five to six years, these items will be indigenised in phases. The Ministry has uploaded more than 26,000 defence items on SRIJAN Portal and offered to the Industry for indigenisation. As of now, 7,031 defence items have already been indigenised, which provide to the domestic and international markets.<sup>11</sup> Through these policy initiatives the government aims to revitalise domestic defence production and arms acquisition system, thereby increasing India's defence export of \$5 billion by 2025.

Therefore, the focus on increasing defence exports has come along with a big push on the indigenization of weapon systems and components. The defence products, where imports have been almost replaced by domestic products, include artillery guns, a variety of helicopters, basic trainer aircraft, radars, LCA-Tejas, warships and various types of weapons and components. In a major push towards 'Make-in-India' in the defence sector, the MoD in March 2023 approved proposals worth over ₹70,500 crore (US \$ 8.601 billion) for buying various weapon systems under Buy Indian-IDDM.<sup>12</sup> The approval for proposals

to procure defence items, include indigenous BrahMos missiles, Shakti Electronic Warfare (EW) systems, Utility Helicopters-Maritime, Long Range Stand-Off Weapon (LRSOW), 155mm/52 Caliber Advanced Towed Artillery Gun System (ATAGS), High Mobility Vehicles (HMs), Gun Towing Vehicles (GTVs) and Advance Light Helicopters (ALH) MK-III for the Indian defence forces. Such indigenous procurement of weapon systems will galvanise the Indian industries towards achieving the goal of self-reliance in defence sector, while the potential export of these systems to FFCs will help achieve defence export targets. However, the government needs to procure these defence items in a time bound manner, which only then will propel the domestic defence industries to build their defence capacity and capability to manufacture advanced defence products that will create opportunities for exports as well.

#### **4. Initiatives for Promoting Defence Exports**

In the last few years, the Indian government has taken several policy initiatives for promoting defence exports. These initiatives include the defence export procedures have been simplified, which have been made industry-friendly. It has curtailed delays with end-to-end online export authorisation and has brought ease of doing business measures. In addition, the government has simplified Industrial licensing process with notification of three Open General Export License (OGEL), a one-time export license for export of Parts and Components; Transfer of Technology (ToT), and Major Platforms and Equipment. During the validity period of the OGEL, the industry can export specified items to specified destinations without seeking export authorisation.<sup>13</sup>

The government has also introduced specific incentives under the Foreign Trade Policy and the Ministry of External Affairs (MEA) facilitates Line of Credit (LOC) for FFCs which they can use to import India's defence products. India has vast expertise in operating the LoC in many FFCs, which can advance its defence exports. As part of the compliance with the multilateral export regimes such as Wassenaar Arrangement (WA), it has brought significant reforms in the Standard Operating System (SOP) for issuance of authorization for export of 'the Munition List' items covered in the Category 6 of the Special Chemicals, Organisms, Materials, Equipment and Technologies (SCOMET). The SOP has been streamlined to make the export authorization process more industry-friendly, by simplifying end-user requirements and inter-governmental consultations.

Moreover, the export leads received from various FFCs are disseminated through online portal, on real-time basis, to the registered Indian Defence Exporters for enabling them to respond to export opportunities. The government also holds regular reviews with Indian missions abroad to promote defence products and facilitate Indian industries. As part of defence diplomacy, the Defence Attaches (DAs) posted in the Indian missions perform a number of tasks, including engage with various stakeholders to promote Indian defence exports. In this regard, the government has introduced a new DA Scheme for Export Promotion under which funds are provided to DAs for export promotion of defence products of both public and private sector.<sup>14</sup>

The DAs have also been asked to distribute defence manuals in local languages, which help the FFCs to familiarize about India's defence products and export policy more easily. So the Defence Wings at the Indian Embassies have been integrated in to the overall defence export system. In order to boost defence exports, more than 40 webinars are organised with FFCs under the aegis of Department of Defence Production (DDP), MoD, through Indian Missions abroad and Industry Associations with active participation of senior MoD officials, delegates of Industry from India and concerned countries.

The Ministry has also proposed to set up a specific Export Promotion Body with the participation from Industry representatives that would "advise the government, increase awareness amongst the industry about various export facilitation measures and promotion of exports through specific marketing efforts in targeted countries."<sup>15</sup> The body will "identify the suitable export markets" in consultation with the Department of Commerce (DoC) and MEA, keeping in view India's foreign policy priorities and international export control regimes. Thus, India has developed a good defence production and export strategy, and has a right implementation plan which aim to make India self-reliance in the defence sector and boost its status as a net arms exporter in the years ahead.

## **5. India's Arms Export to Friendly Foreign Countries (FFCs)**

The Friendly Foreign Countries (FFCs) in Africa, Southeast Asia, South Asia, West Asia, and the US are the major buyers of India's defence goods and services. About 100 Indian defence companies have exported arms to over 85 countries like Armenia, Ethiopia, Mozambique, Seychelles, Myanmar, Philippines, Bhutan, Bangladesh, Maldives, Sri Lanka, Nepal, Mauritius, Saudi Arabia and United Arab Emirates (UAE). While India's growing defence cooperation with the FFCs have significantly expanded in recent years and reached in to new level of cooperation that include high-level visits, joint military exercises, and training. India's arms exports have added new dimensions to this evolving defence cooperation. It helps the FFCs meet their defence and security needs.

Within Africa, Mauritius accounted for 6.6 percent of India's arms exports during the period 2017-21, followed by Mozambique 5 percent and Seychelles 2.3 percent (see Table 2).<sup>16</sup> The Hindustan Aeronautics Limited (HAL) has recently signed a contract with Mauritius for exporting the ALH Mark III, which is already operating HAL built ALH and Dornier-228 aircraft. India has also exported Dornier aircraft to Seychelles; Chetak helicopter to Namibia, Mauritius and Surinam; Offshore Patrol Vessels to Mauritius and Seychelles; Fast Attack Craft to Mauritius; Fast Interceptor Boats to Mauritius, Mozambique and Seychelles; and, Coastal Surveillance System to Mauritius and Seychelles.<sup>17</sup> South Africa, Bahrain, Egypt, Kenya and Algeria among other African countries have shown interest in acquiring major military platforms such as Arjun battle tanks, Pinaka rockets & launchers, the BrahMos missiles and Akash missile systems, which can intercept hostile aircraft, drones, helicopters and subsonic cruise missiles at a range of 25-km.

Notably, India has extended a Line of Credit (LOC) about \$14 billion to 42 countries out of the 55 countries in the African Union (AU) and is looking at increasing the funds to support their defence capacity.<sup>18</sup> It wants to partner with the African countries to meet their defence and security needs to build a stable and secure environment. It has been providing the defence and other LOC generously, which the African countries can use to fund their defence expenditure. India recently held the first India-Africa Army Chiefs' Conclave in Pune where ten Army chiefs and senior military officers from 31 African countries participated in the event that focused on further strengthening defence cooperation. The African participants expressed their interests in India's armoured vehicles and air defence systems. In March 2023, the two sides also conducted the second edition of joint military exercise, 'the Africa-India Field Training Exercise (AFINDEX-2023)', where the majority of Indian made equipment was used, including load-carrying vehicles, drones and unmanned bomb disposal vehicles.<sup>19</sup> An 'Equipment Display' was organized on the sidelines of the exercise 'AFINDEX-2023', in which 75 indigenous products manufactured under 'Make in India' were showcased. Thus, the two sides see huge potential for strengthening defence cooperation.

**Table 2: India's Arms Exports to Top Eight Countries from 2018-2022**

Sl. No.	Name of Countries	2018	2019	2020	2021	2022	Total Export Value (Million Dollar)
1	Armenia				32		32
2	Bangladesh			0			0
3	Maldives			3			3
4	Mauritius				1	4	5
5	Mozambique		15				15
6	Myanmar		3	148			151
7	Seychelles	10					10
8	Sri Lanka	37				7	44
	Total	47	18	151	33	11	260

*Source:* SIPRI Arms Transfers Database. Figures are SIPRI Trend Indicator Values (TIVs) expressed in millions. Figures may not add up due to the conventions of rounding. A '0' indicates that the value of deliveries is less than 0.5m. For more information, see <http://www.sipri.org/databases/armstransfers/sources-and-methods/>. Generated on 5 April 2023. Note: while SIPRI provides 'unique resource' for analyzing international arms transfers, it uses the publicly available government and industry statistics on the value of national arms exports, which may not be complete representation of a nation's arms transfer data.

In Southeast Asia, over 50 percent of India's total arms exports went to Myanmar. The major arms that Myanmar bought from India include remote controlled Air-Defence Systems, Artillery Guns, Bullet Proof Jackets & Helmets and Military Ships. India also gifted one of its submarines, Kilo-class submarine, to the country which was inducted into Myanmar's Navy in October 2020. However, with 14 percent of export, it was the third largest arms exporter to Myanmar behind Russia and China at 42 percent and 29 percent respectively during the period 2018 to 2022. In January 2022, India signed a major defence export deal worth ₹2,770 crore (\$375 million) with the Philippines, not included in the SIPRI database as of this writing, for exporting BrahMos Shore Based Anti-Ship Missile System, along with training and support.<sup>20</sup> It was an important step forward for India's policy of promoting responsible defence exports to FFCs. The Philippines navy will use this as an anti-ship shore-based missile that has a range of 290-km. The Department of National Defence of the Philippines in a statement

said that “the BrahMos missiles will provide deterrence against any attempt to undermine sovereign rights in the Philippine Sea”,<sup>21</sup> a reference to the South China Sea (SCS) region, where it has conflicting territorial claims with that of China. So do claims of Indonesia, Malaysia and Vietnam in the SCS which conflict with those of China. This deal is expected to pave the way for more such deals with the Philippines as well as other ASEAN countries like Indonesia, Malaysia, Thailand and Vietnam, who have shown interest in acquiring the anti-ship missile.<sup>22</sup> In June 2022, India handed over 12 High Speed Guard Boats to Vietnam, which were constructed under India's US \$100 million Defence LOC to the country.<sup>23</sup>

This growing defence cooperation between India and Southeast Asian countries is strategically significant in the backdrop of China's growing military assertiveness in the region as well as an important milestone in India's quest to become a major arms exporter (see Table 3). It also marks a decisive step forward for Prime Minister Modi's SAGAR policy and engagement with Indo-Pacific countries through its Act East Policy (AEP). In the midst of China's increasing military assertiveness and the deterioration of relationship between India and China following the 2020 border conflict along the Line of Actual Control (LAC), India has been steadily improving its defence relations with the regional countries through joint military exercises, trainings, exchanges and now defence exports. The evolving geopolitical and technological competition between the great powers, especially between China and the democratic countries of the region will further strengthen India's defence cooperation with the regional countries and promote shared objective of a free and peaceful Indo-Pacific.

**Table 3: India's Arms Exports by Weapon Category from 2018-2022**

Sl. No.	Weapons Category	2018	2019	2020	2021	2022	Total Export Value (Million Dollar)
1	Aircraft	7		3	1	11	22
2	Artillery			0			0
3	Missiles		3	3			6
4	Sensors	3			32		35
5	Ships	37	15	145			197
	Total	47	18	151	33	11	260

Source: SIPRI Arms Transfers Database. Generated on 5 April 2023

In West Asia, India has exported Bullet Proof Jackets & Helmets to Iraq, Israel, Lebanon, Oman, Qatar, Saudi Arabia and United Arab Emirates (UAE); Armour Shielding to Saudi Arabia; Ammunitions to Egypt, Turkey and UAE; Firearm Components to Israel, Turkey and UAE; Batteries to Israel, Kuwait and UAE; Sub-Systems to Israel. Saudi Arabia and UAE among other countries have shown interest in acquiring the BrahMos missiles and the Akash missile systems. India is in talks with other countries for the potential sale of LCA-Tejas and helicopters as it focuses on increasing its share in international defence market. In South Asia, India is committed to developing friendly and mutually beneficial relations with all its neighbours under the 'Neighbourhood First' policy. Bangladesh, Maldives and Sri Lanka have all acquired India's weapon systems. India extended a total of 37 LOC worth US \$14.27

billion for 162 projects to Bangladesh, Maldives, Myanmar, Nepal and Sri Lanka.<sup>24</sup> India has exported ALH-Dhruv to Maldives and Nepal; Fast Interceptor Boats to Maldives; Batteries to Bangladesh and Sri Lanka; Coastal Surveillance System to Maldives; Ammunitions, Firearm Components and Chetak helicopter to Nepal; Offshore Patrol Vessels, Bullet Proof Jackets & Helmets, Electronics and Indra Mark II Radarto Sri Lanka and also gifted Dornier aircraft.

The DDP, MoD, has listed out Bhutan, Nepal, Sri Lanka, Maldives, the Philippines, Italy, Saudi Arabia, UAE, Israel, Ethiopia, Mauritius, Egypt, France, Poland, Spain, Russia and Chile as India's export destinations for defence items. It has also listed major defence platforms such as Advanced Light Helicopter, personal protective items, Offshore Patrol Vessels, and surveillance systems for potential export to these FFCs. Prime Minister Modi, during the DefExpo in Gandhinagar in October 2022, said that the world is trusting on India's defence technologies today because the defence forces have proved their capabilities.<sup>25</sup> While the countries in India's immediate and extended neighborhood have shown keen interest to procure Indian defence equipment. India needs to scale up its efforts to sale big-ticket military platforms and components. This will not only help increase the total value of India's defence exports, but also in achieving its strategic priorities, including countering China's growing influence in its neighbours. Beijing arms exports to these countries including Bangladesh, Myanmar and Pakistan have increased in recent years. India's defence exports, including in the form of gifts, not only helps counter China's increasing presence in its immediate and extended neighbourhood, but also expanding its strategic outreach to the regions.

So far as the defence export to the US is concerned, while the US has emerged as one of the largest defence and strategic technologies suppliers to India, the Indian defence companies have increasingly become part of the US defence companies' supply value chains. India has so far exported Aero Components, Bullet Proof Jackets & Helmets, Electronics, Firearm Components, Sub-Systems, and Engineering Services to the US. During joint military exercises and port calls, India's defence companies also provide critical MRO services. In August 2022, US Navy Ship (USNS) Charles Drew arrived at L&T's Shipyard at Kattupalli, Chennai for eleven days for undertaking repairs and allied services.<sup>26</sup> This has added a new dimension to the growing Indo-US strategic partnership and provided a huge boost to India's 'Make in India' initiative. Therefore, looking at the ten times increase in India's defence exports since FY 2016-17 and growing defence cooperation with FFCs, it can be expected that India's defence exports are going to significantly increase in the coming years. This is in line with India's objective to build a robust defence industry which not only caters to the domestic needs, but also fulfills international requirements under the 'Make in India, Make for the World' vision.

## **6. India's Share in Global Arms Market**

India's share in global arms exports market is very minimal, which accounts for only 0.2 percent. According to SIPRI 2022 report, with 0.2 percent share of global arms exports, India

ranked 23rd during the period 2017-21. In the 2023 report, however, India did not figure among the top 25 largest exporters of major arms during the period 2018–22. That means its share in the global arms exports was minuscule. So far as India's defence exports basket is concerned, it is largely exporting low-value and relatively less technology-intensive parts and components, with a few export of big-ticket platforms, such as BrahMos missiles to Philippines. Moreover, India's defence exports constitute a small percentage of its defence production. The highest ever defence exports of ₹15,918.16 crore, achieved in FY 2022-23, make up a meagre 14.9 percent of total defence production of ₹106,813 crore.

The US dominates the international arms market and its share has dramatically increased over the previous five years from 33 percent in 2013-17 to 40 percent in 2018-22. It supplied the majority of arms to top arms importers such as Saudi Arabia, India, Japan, and Australia. Following Russia-Ukraine war, the US arms exports to the Europe also significantly increased. The top five exporter of arms i.e. the US (40 percent), Russia (16 percent), France (11 percent), China (5.2 percent) and Germany (4.2 percent), together accounted for over three quarters i.e. 76 percent of all arms exports during the period 2018-22.<sup>27</sup> The US arms exports increased by 14 percent and French by 44 percent between 2013–17 and 2018–22. While Russian (–31 percent), Chinese (–23 percent) and German (–35 percent) arms exports decreased. Russia slipped to an increasingly distant second place and its share has declined from 22 percent to 16 over the last five years. It's role in the international arms market will further decline both because of arms are required for the ongoing Ukraine war and due to the US led western countries' sanctions aimed at reducing its capacity to manufacture more arms.

However, India's low share in the global arms market does not represent true potential of its defence R&D and defence production capacity. In the last few years, India has made significant progress in building a strong military-industrial complex. It has diversified development of a wide range of defence products, including artillery gun systems, missiles, fighter aircrafts, tanks, submarines, warships, radar and electronic systems and among others. As already mentioned, a large number of FFCs have expressed keen interest to purchase some of these products, such as Akash missile system, BrahMohs and LCAs. Notably, the DRDO has developed over 160 defence products in the areas of Aeronautical Systems, Armament & Combat Systems, Electronics & Communication Systems, Life Protection Systems, Micro Electronics Devices & Computational Systems, and among others which are available for export to FFCs.<sup>28</sup> Given defence exports of the DPSUs comprise less than 10 percent of their total turnover, the export of these items will significantly increase total defence export value.

Hence, there is immense opportunity for expanding India's role in the global arms market. In fact, India aims to increase the share of its overall exports in global trade to 3 percent by 2027 from the current 2.1 percent, and to 10 percent by 2047 by promoting hundreds of Indian brands as global champions.<sup>29</sup> The government's set target of achieving US \$ 5 billion by 2025 and becoming a net arms exporter will add significant value to India's economy.

## 7. India as the Largest Importer of Arms in the World

The rapidly evolving geo-political and geo-economic landscape, the great power competition and rivalry, the revolutionary changes in the defence technology and modern warfare have created an era of uncertain threats and challenges. India, which is located in one of the most challenging security environments of the world, continues to face multiple and complex threats and challenges to its national security from the land, sea and air. It is surrounded by two nuclear armed powers, China and Pakistan, with whom it has fought wars in the past and continues to have difficult relationship. It has unresolved borders with both of them and faces cross-border terrorism often aided and abetted by Pakistan. The nature of these traditional and non-traditional threats and challenges, including cyber, space, information, and drone attacks have grown significantly in recent years. For dealing with these external threats and challenges, India needs to continuously build its military capabilities to maintain an effective military deterrence, for which it has been relying on domestic defence production and procurement as well as arms import from foreign countries.

The government under its Make-in-India initiative has been prioritising to meet its growing defence needs through indigenously designed, developed and manufactured defence items. India continues to remain the largest importer of arms in the world. According to the SIPRI 2023 report, with an 11 percent share of total global arms imports, India was the world's biggest importer of major arms during the period 2018 and 2022, a position it has held for the period 1993–2022. The report points out that India's continued tensions with China and Pakistan largely drive its demand for arms imports. It retained this position even though its arms imports dropped by 11 percent between 2013–17 and 2018–22 (See Graph B).<sup>30</sup> Its defence expenditure on arms imports from foreign sources has reduced from 46 percent of overall expenditure in 2018-19 to 36.7 percent in December 2022.<sup>31</sup>

One of the major factors for decrease in India's arms imports was its efforts to replace imports with major arms that are designed, developed and manufactured domestically. In this regard, the government had earlier approved 162 proposals worth approximately ₹2,51,130 crore (over US \$30.738 billion), and in March 2023 over ₹70,500 crore (over US \$ 8.601 billion) for Capital procurement from domestic sources. The 'Self-Reliant India' campaign has helped the country by encouraging IDDM of defence equipment, thereby reducing the imports. The earmarking of record 75 percent of defence capital procurement budget in 2023-24 towards buying weapon systems and components from local manufacturers, along with issuance of four 'Positive Indigenisation Lists' of 411 major weapons platforms/systems and three 'Positive Indigenization List' of 3,738 items of DPSUs, effectively barring import of these items from specified timelines, will further reduce India's arms import from foreign sources.

**Table 4: India's Arms Imports during the Period 2013-2017**

Sl. No.	Name of Countries	2013	2014	2015	2016	2017	Total Value in Million Dollar
1	Brazil					10	10
2	Canada	11	9	87			106
3	Czechia	0	0	0	0	0	1
4	France	53	54	119	117	408	751
5	Germany	24	42	75	45	33	218
6	Israel	110	148	157	497	607	1519
7	Italy	6	11	6	3	3	28
8	Kyrgyzstan			4	5	5	14
9	Netherlands		10	10	10		29
10	Poland	11					11
11	Russia	3852	1719	1993	1906	1534	11004
12	South Africa	38				14	51
13	Switzerland	38	31	25			94
14	Ukraine	102	42	42	31	11	228
15	United Kingdom	140	150	150	130	2	572
16	United States	983	1115	261	38	265	2662
	Total	5367	3330	2928	2782	2892	17299

Source: SIPRI Arms Transfers Database. Generated on 3 April 2023

During the period 2018-22, India bought 30 percent of arms from France, which included 62 combat aircraft and four submarines. It is important to note that following Prime Minister Modi's visit to France in 2015, the two countries had signed a Memorandum of Understanding (MoU) in January 2016 for acquisition of 36 Rafale aircrafts in flyaway condition from Dassault Aviation. All the 36 Rafale aircrafts have been delivered in different phases by December 2022 and became fully operational. In August 2021, India also concluded a defence deal to acquire 24 phased-out Mirage-2000 aircrafts from Dassault. It has acquired around 51 Mirage-2000 aircrafts for its Air Force and these combat aircraft acquisitions significantly strengthened India's air power. The Mirage aircraft had taken part in the Balakot airstrikes against terrorist camps deep inside Pakistan territory and destroyed terrorist camps there. India had also signed a contract with France's M/s Naval Group (earlier DCNS) to build six Scorpene-class submarines under technology transfer at the Mazagon Dock Shipbuilders Limited (MDL) Mumbai. Four out of these six submarines have been commissioned by November 2021. These major arms acquisitions from France led it to displace the US as the second-largest supplier of arms to India after Russia.

Though Russia remained the largest arms supplier to India during both the five years i.e. 2013-17 and 2018-22, its share has declined from 64 percent to 45 percent that is from \$ 11.004 billion to \$ 6.964 billion in terms of total value (see Table 4 & 5). The SIPRI report noted that Russia's position as the largest arms supplier to India is "under pressure due to strong competition" from other suppliers such as France, US and Israel; India's indigenous arms production efforts, in addition to "constraints on Russia's arms exports related to its invasion

of Ukraine” since February 2022 as it prioritises supplies to its own army. Meanwhile, Russia has stopped delivery of military supplies to India of about \$10 billion worth of spare parts as well as the remaining two S-400 missile-defense system as the two countries “struggle to find a payment mechanism that doesn’t violate US sanctions”.<sup>32</sup> However, India continues to remain in a strategically-vulnerable position of being the largest arms importer in the world, despite its efforts to manufacture and procure domestically.

With ₹5.94 lakh crore (about \$72 billion) defence budget allocation for the FY 2023-24, a 13.02 percent increase over the previous budget FY 2022-23, India is positioned as the 4th largest military spender in the world. Of this, ₹1.62 lakh crore has been allocated for defence capital outlays, which is about 7 percent increase over the previous financial year’s capital budget of ₹1.52 lakh crore. However, the defence budget, which is 13.18 percent of the total budget, has fallen below 2 percent of its Gross Domestic Product (GDP). This has raised a concern, given the government’s plan to import big ticket defence platforms, including new fighter jets, submarines and tanks, and also a number of big projects running behind schedule because of the cost escalations of these projects, that budget should be pegged at 3 percent of the GDP. In fact, in 2018, the Standing Committee on Defence had recommended that the MoD should be allocated a fixed budget of about 3 percent of the GDP to ensure adequate preparedness of the defence forces. However, India’s defence expenditure has been consistently lower than this recommended level in the last ten years. Thus, 13 percent increase in the defence budget is reasonable, but not sufficient in view of requirements for the defence modernisation.

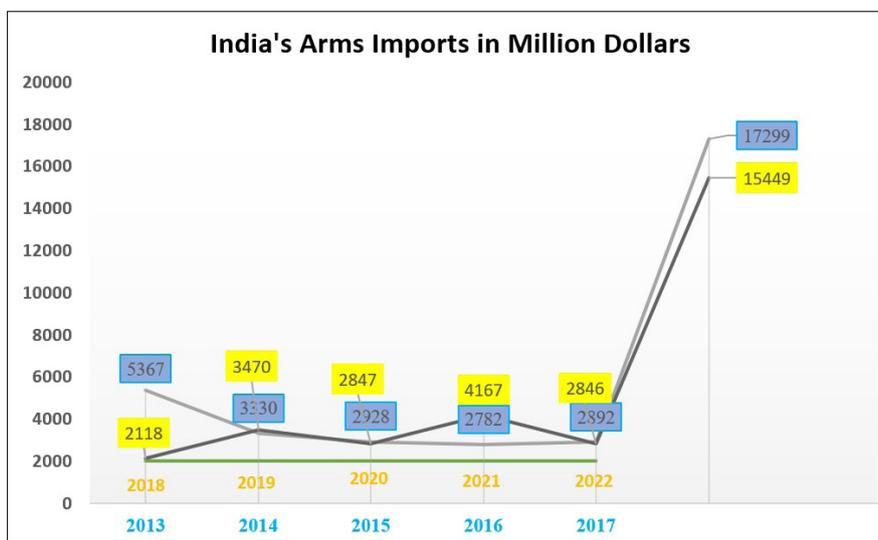
**Table 5: India’s Arms Imports during the Period 2018-2022**

Sl. No.	Name of Countries	2018	2019	2020	2021	2022	Total Value in Million Dollars
1	Brazil		10				10
2	Czechia	0	0	0	1	1	2
3	Denmark				5	10	14
4	France	192	712	730	1959	831	4424
5	Germany	5	84	75	44	13	221
6	Israel	524	118	108	200	247	1197
7	Italy			3	3	15	21
8	Netherlands				10	10	19
9	Russia	1322	1572	1274	1455	1342	6964
10	South Africa	14	19	19	2	13	67
11	South Korea	26	191	191	26		434
12	Ukraine	11			20	20	51
13	United Kingdom	4	13	28	137	121	303
14	United States	21	749	420	307	219	1716
15	unknown supplier(s)					5	5
	Total	2118	3470	2847	4167	2846	15449

Source: SIPRI Arms Transfers Database. Generated on 3 April 2023.

In a memorandum submitted to the 15<sup>th</sup> Finance Commission, the MoD had pointed out that the budget allocations for defence have declined over the years and are insufficient to fund large defence acquisitions. It estimated to receive ₹9.01 lakh crore for capital outlay against the defence plan projection of ₹17.46 lakh crore (48 percent shortfall). It was highlighted that continued shortfalls in the defence budget over a long period has led to serious capability gaps, including compromising the operation preparedness of the three services. This shortfall has forced the Ministry of Defence to manage its expenditure through ad-hoc mechanisms such as postponing procurements and delaying payments.<sup>33</sup> Therefore, the 15<sup>th</sup> Finance Commission had recommended the establishment of Modernisation Fund for Defence and Internal Security (MFDIS), a non-lapsable defence fund, to bridge the gap between projected budgetary requirements and budget allocation for defence and internal security.<sup>34</sup> Accordingly, a proposal for establishing non-lapsable Defence Modernisation Fund (DMF) is being worked out in consultation with the Finance Ministry. The defence budget allocations are also likely to increase as the economy recovers from the Covid-19 pandemic restrictions.

**Graph 2: India's Arms Imports Dropped by 11 percent between 2013–17 and 2018–22**



Source: SIPRI Arms Transfers Database. Generated on 3 April 2023

At present, the 23 projects out of 55 Mission Mode (MM) projects of the Defence Research and Development Organisation (DRDO) are running behind schedule because of cost escalations. These projects include Mark-2 LCA Tejas, the naval LCA and UAVs to Air Independent Propulsion (AIP) for greater underwater endurance of submarines, light machine guns and ATAGS, surface-to-air missiles, surface-to-surface missiles, and electronic warfare (EW) systems for fighters and warships.<sup>35</sup> Over the next 6-7 years, the government also plans to spend \$ 130 billion for fleet modernisation and capabilities across all armed services so that they can effectively deal with any possible threat arising from either China or Pakistan.<sup>36</sup> The plan includes procurement of a range of weapons, air defence systems, drones, fighter jets, missiles, submarines and warships, surveillance equipment and developing infrastructure for extensive use of artificial intelligence.

## 8. The Way Forward

In a highly competitive global defence market, India has made its presence felt and has immense opportunity to further increase its share in this market. However, a number of issues remain to be addressed to achieve the target of US \$5 billion defence export by 2025 and realise the goal of making India a net defence exporter. First, the MoD in a written reply to a question in the Lok Sabha in March 2021 informed that India exported arms to 84 countries, but there were not big-ticket weapon systems.<sup>37</sup> In another reply to a question in the Lok Sabha in August 2021, the Ministry informed that the major defence items exported by India included Armoured Protection Vehicles, Alarm Monitoring & Control, Coastal Radar System, Light Weight Torpedoes & Fire Control Systems, Night Vision Monocular & Binocular, Weapons Locating Radar, Tear Gas Launcher and Weapon Simulators.<sup>38</sup> These are very impressive list of defence items, but they are not of high value items. This will not lead to substantial increase in the total export value.

The Ministry also stated that most of the exported defence products included 'parts and components'. One cannot expect India to become a major arms exporter in the world by exporting with relatively low value weapon systems, parts and components.<sup>39</sup> Like the January 2022 BrahMos Missiles deal with the Philippines, India needs to export other big-ticket weapon systems such as Aircraft Carrier, Arjun Mark 2 tanks, LCA-Tejas and Light Combat Helicopters, in which a large number of countries have expressed interest to acquire, and offer training and efficient maintenance services of the exported items as an integral part of export deals, in order to build a credible image in the highly competitive global arms market. This would substantially increase the total value of defence export. In this regard, India can extend defence LoC to the FFCs and build a brand image to sustain defence exports in the future. Moreover, the 'Munitions List' items covered in the Category 6 of the SCOMET are generally exported to FFCs. There is huge potential for export of the Aerospace systems and equipment which are covered in the Category 5 of the SCOMET. Nonetheless, the recent announcement of the export of some big-ticket platforms such as ATAGs, Akash Missile System, Armoured Vehicles, Brahmos Missiles, Dornier-228 aircraft, Mine Protected Vehicles and Pinaka Rockets & Launchers are positive developments.

Second, there is need to further increase the contribution of defence private companies in the total defence production of India. In the FY 2022-23, India's defence production consisted of the DPSUs 59 percent, Ordnance Factory Board (OFB) 16 percent, Defence private companies 19 percent, and other DPSUs & Joint Ventures (JVs) 6 percent (see Table 6). The DPSUs and OFB together constituted 75 percent. It is important to note that in October 2021, the government of India had corporatized the functions of the 41 Indian Ordnance Factories by converting into seven DPSUs. The seven new DPSUs are: i) Advanced Weapons and Equipment India Limited(AWEIL); ii) Armoured Vehicles Nigam Limited (AVANI);iii) Gliders India Limited (GIL); iv) India Optel Limited (IOL); v) Munitions India Limited (MIL); vi) Troop Comforts Limited (TCL); and, vii) Yantra India Limited (YIL).

Presently, about 16 DPSUs are involved in the defence manufacturing sector and they are better positioned to leverage defence exports by taking advantage of Defence and other LOC. The DPSUs

avail Preferential Trade Agreements as well as the services of DAs posted at Indian Embassies, who play active role in promoting India's defence exports.<sup>40</sup> The DPSUs thus dominate both R&D and defence production, although private sectors are making rapid progress in the field. And, yet the contribution of the DPSUs was less the 30 percent of India's defence exports in 2021-22. The DPSUs were given a target of achieving 25 percent of their turnover through exports by 2022-23. However, the defence exports constitute less than 10 percent of their total production. Further, they were also targeted to indigenize ₹15,000 crores worth goods by 2022-23.

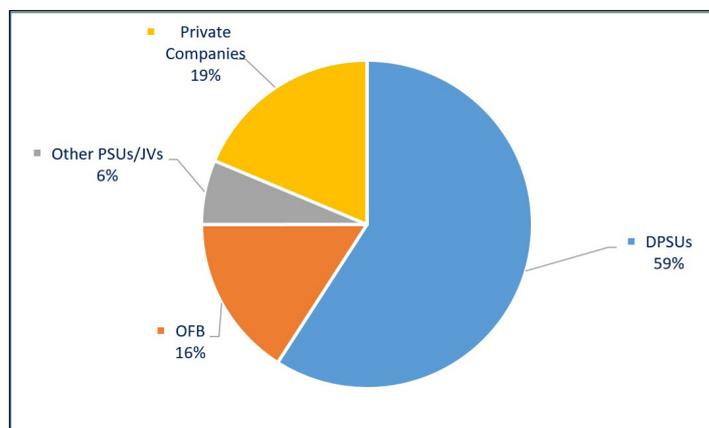
**Table 6: India's Defence Production Segment Wise from FY 2016-17 to FY 2022-23**

Sl No.	Financial Year	DPSUs (in Rs Cr)	OFB (in Rs Cr)	Other PSUs/JVs (in Rs)	Defence Private Companies (in Rs Cr)	Total Production (in Rs Cr)
1	2016-17	40,427	14,825	4,698	14,104	74,054
2	2017-18	43,464	14,829	5,180	15,347	78,820
3	2018-19	45,387	12,816	5,567	17,350	81,120
4	2019-20	47,655	9,227	6,295	15,894	79,071
5	2020-21	46,711	14,635	6,029	17,268	84,643
6	2021-22	55,790	11,913	7,222	19,920	94,845
7	2022-23	63,107	16,998	6,783	19,925	106,813

Source: "Dashboard", Department of Defence Production (DPP), MoD, GoI, at [https://ddpdashboard.gov.in/DefenceProduction/Defence\\_Production](https://ddpdashboard.gov.in/DefenceProduction/Defence_Production)

While the contribution of private companies is only 19 percent, their contribution to India's total defence export is more than 70 percent (see Graph 3). In FY 2022-23, the total export value of Defence Private Companies was ₹9,050.84 crore of their defence production of ₹19,925 crore, which make up over 45 percent. In fact, the private sectors defence exports value ranged from 68 to 98 percent in the last seven years. While Defence PSUs export value ranged from 4 to 10 percent during the same period. Thus, the share of private companies in defence production should be increased to at least 50 percent, which would boost defence exports because the private companies have inbuilt incentive to look for markets for selling their products. In addition, the private companies should be given incentives and big projects for production of big-ticket defence items. At present, they are mostly producing parts and components for the DPSUs under offset policy.

**Graph 3: Segment wise Defence Production during FY 2022-23**



Source: "Dashboard", Department of Defence Production (DPP), MoD, GoI, at [https://ddpdashboard.gov.in/DefenceProduction/Defence\\_Production](https://ddpdashboard.gov.in/DefenceProduction/Defence_Production)

Third, another area that needs improvement is the share of FDI in defence sector. For attracting FDI in defence sector, the Indian government revised FDI policy to allow FDI up to 74 percent under automatic route and up to 100 percent through government route. As already mentioned, the DDP has further brought various policy initiatives for attracting FDI in the defence sector. And, yet this sector has failed to attract big foreign investment, even the country having a significant defence market. For instance, since the revised FDI policy was issued in September 2020, it has received FDI of a meagre ₹494 Crores (US \$ 60.218 million) till May 2022.<sup>41</sup> It even received a dismal response with a paltry investment of just US \$2.37 million during the period 2014-15 and 2018-19.<sup>42</sup> Whereas the overall FDI inflows to India during the period FY 2018-19 and 2021-22 stood at US \$ 301.93 billion.<sup>43</sup> Notably, prior to India's liberalized FDI policy, the US was the most vocal about bringing such reforms in the defence, insurance and multi-brand retail sectors for investment. Assistant Secretary for Market Access and Compliance in the US Commerce Department, Michael Camunez had said that protectionist policies are increasing in India in areas like foreign technology transfer, Intellectual Property Rights (IPR) and manufacturing, and "these policies are hampering India's domestic competitiveness".<sup>44</sup> However, the US is yet to make any significant investment in the defence sector. Besides, its arms export control laws limit it to transfer advanced critical technologies with the Indian defence companies. Nevertheless, the government needs to make a holistic assessment of various internal and external factors, including defence companies owned and controlled by the Indians with an equity share of more than 50 percent only allowed to participate in an acquisition programme as a primary vendor, the defence manufacturing models such as products are designed before potential buyers are found, prevailing national security concerns, IPR issues, and arms export control laws that impede FDI flows to the defence sector, and take necessary measures for increasing FDI in this sector.

Fourth, India needs to become a part of the Global Value Chains (GVCs) and enter into the top ten arms exporters in the world to achieve the set target of US \$ 5 billion by 2025. According to SIPRI 2023 report, the top ten countries accounted for 90.7 percent of international arms export during the period 2018-22. These ten countries are: i) United States (40 percent), ii) Russia (16 percent), iii) France (11 percent), iv) China (5.2 percent), v) Germany (4.2 percent), vi) Italy (3.8 percent), vii) United Kingdom (3.2 percent), viii) Spain (2.6 percent), ix) South Korea (2.4 percent), and x) Israel (2.3 percent) respectively. All the P-5 members of the United Nations Security Council (UNSC) i.e. US, Russia, France, China and UK are in the top ten list. The remaining 15 countries share in the international arms trade ranges from 0.2 percent to 1.4 percent. The 25 largest arms exporters together accounted for 98 percent of the world's arms exports in 2018–22. India with 0.2 percent share was at the 23<sup>rd</sup> place in 2013-17, but did not figure among the top 25 largest arms exporter in 2018-22.

Moreover, the top ten arms exporters dominate the sustained global defence market and maintain their sphere of influence in the defence market. For instance, the United States, which leads the international arms market with 40 percent share, a 14 percent higher than in 2013–17, has its sustained buyers such as Saudi Arabia (19 percent), Japan (8.6 percent)

and Australia (8.4 percent) who are unlikely to abandon the US. China, which has emerged as the 4<sup>th</sup> largest arms exporter, has its sustained buyers such as Pakistan (54 percent) and other two largest buyers of Chinese arms include Bangladesh (12 percent) and Serbia (4.5 percent). While the largest importers of India's arms i.e. Myanmar (50 percent) Sri Lanka (25 percent) Armenia (11 percent) do not offer a sustained defence market. Getting into the top ten countries rank will not be easy for India. Therefore, in pursuit of its goal of becoming a net defence exporter, India faces stiff competition not only from the well-established leading arms exporter such as the US, France, Russia and UK, but also from the emerging arms exporters like Brazil, South Korea, Turkiye and UAE. Furthermore, India's major arms exports are going to FFCs with low paying capacity with which it has friendly political ties. In addition, most of these defence exports, except a few orders, are done through "non-competitive arrangements".<sup>45</sup> Nevertheless, there is some positive developments recently as some of the world's largest arms importers such as Saudi Arabia, Egypt and UAE have expressed interest to buy India's weapon systems. The Indian companies have also emerged as an integral part of US' arms supply value chains.

Finally, there is need to have a dedicated body to drive the defence export. In fact, the DDP has already proposed to establish the export promotion body. What it needs to do is to set up this body at the earliest possible. In addition, a Defence Diplomacy Division in the MEA should also be established as a dedicated division to implement India's defence diplomacy. Because defence diplomacy has now become a key component of foreign policy India needs to strengthen its defence diplomacy as it aspires to become a global power. The DAs posted at the Indian Embassies, who are playing active role in promoting defence cooperation and exports, the Defence Diplomacy Division at the MEA will help coordinate various activities undertaken by the DAs. In fact, the DAs have already become key part of India's diplomacy. They play important role during India's arms imports, which involve technical meetings and negotiations on behalf of the service headquarters, and follow up for joint defence production or upgradation projects, military training, conducting diplomatic and military assessments, among others. In this regard, the defence officials at the Headquarters in New Delhi regularly interact with Defence Wings in the Indian embassies.<sup>46</sup>

Therefore, India's defence diplomacy could play important role in increasing its defence exports and developing strong defence cooperation with FFCs. India now regularly conducts joint military exercises with almost all the FFCs in Africa, Southeast Asia, West Asia and the Quad member countries, and its defence contacts takes place at various levels, including high level visits, arms imports and exports, and military equipment training. The functional integration of civil-military bodies i.e. MEA and MoD would be critical to implement India's defence diplomacy that would catalyse in expanding India's defence cooperation and export. Moreover, clearly outlining of India's strategic priorities and interests would further boost its presence in the international arms market.

Nevertheless, India is on a right path. Under the 'Make in India, Make for the World' vision,

there is now greater incentive for the DPSUs, private defence companies, startups as well as MSMEs, and all of them on board to indigenously design, develop, manufacture and export defence products. In this endeavour, while India aims at becoming a self-reliant defence nation, it fulfills the defence and security needs of the FFCs. Most importantly, there is strong political and bureaucratic will and civil-military cooperation that strive to make India self-reliant in the defence sector and a net defence exporter in the coming years.

## Self-Reliance in Defence Manufacturing

Several policy initiatives and reforms have been taken by Government in the past few years to encourage indigenous design, development and manufacture of defence equipment, thereby promoting self-reliance in defence manufacturing in the country. These initiatives, inter-alia, include according priority to procurement of capital items from domestic sources under Defence Acquisition Procedure (DAP)-2020; Notification of four 'Positive Indigenisation Lists' of total 411 items of Services and three 'Positive Indigenisation Lists' of total 3,738 items of Defence Public Sector Undertakings (DPSUs), for which there would be an embargo on the import beyond the timelines indicated against them; Simplification of Industrial licensing process with longer validity period; Liberalisation of Foreign Direct Investment (FDI) policy allowing 74% FDI under automatic route; Simplification of Make Procedure; Launch of Mission DefSpace; Launch of Innovations for Defence Excellence (iDEX) scheme involving start-ups & Micro, Small and Medium Enterprises (MSMEs); Implementation of Public Procurement (Preference to Make in India) Order 2017; Launch of an indigenisation portal namely SRIJAN to facilitate indigenisation by Indian Industry including MSMEs; Reforms in Offset policy with thrust on attracting investment and Transfer of Technology (ToT) for Defence manufacturing by assigning higher multipliers; and Establishment of two Defence Industrial Corridors, one each in Uttar Pradesh and Tamil Nadu; Opening up of Defence Research & Development (R&D) for industry, start-ups and academia with 25 percent of defence R&D budget; Progressive increase in allocation of Defence Budget of military modernization for procurement from domestic sources, etc. These policy initiatives have given a push to the growth of Industries including MSMEs in defence sector which have created tremendous employment opportunities. However, no employment data is maintained by Ministry of Defence. The information cannot be shared being strategic and sensitive in nature.

The Aatmanirbhar Bharat initiative has helped the country by encouraging indigenous design, development and manufacture of defence equipment in the country, thereby reducing dependency on imports in long run. The expenditure on defence procurement from foreign sources has reduced from 46% of overall expenditure in 2018-19 to 36.7% in December, 2022. Moreover, the Indian defence export has risen by more than eight times since 2016-17. In 2016-17, the defence exports were worth Rs 1,522 crore which has gone up to Rs 13,800 crore till date.

This information was given by Raksha Rajya Mantri Shri Ajay Bhatt in a written reply to Shri Nalin Kumar Kateel and others in Lok Sabha today (3 April 2023).<sup>47</sup>

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