Rajanish Kakade/AP/SIPA

India and the EU: what opportunities for defence cooperation?

by Karine Lisbonne de Vergeron

Since Prime Minister Modi took office in May 2014, India has embarked on a number of measures to encourage the development of the country's economy and the streamlining of its indigenous defence capabilities. Probably the most prominent reform has been the raising of a foreign direct investment cap from 26% to 49% since August 2014, and above that limit for state-of-the-art technologies.

In addition to such initiatives, there has been a strong emphasis on promoting private sector participation in defence as part of the 'Make in India' programme. The withdrawal on the 1st of June 2015 of excise and customs duty exemptions for state-run defence entities should constitute another step towards providing a more competitive environment in procurement and thus further attract international engagement.

Much more, however, remains to be done. The decision last April to conclude the Rafale deal with France over the purchase of thirty-six aircraft directly at a government-to-government level, thereby bypassing the on-going MMRCA tender, was further testimony to the difficulty India has in achieving serious top-end technology capabilities.

The swift decision to order 'ready-to-fly' planes was, of course, partly driven by the urgent and practical needs of the Indian Air Force to replace its obsolete squadrons. But it also had a clear defence industrial edge since it would have taken much longer to produce the fighter aircraft in India rather than in France. So what are the challenges which India now faces to develop a more effective defence infrastructure? And what are the implications for Indo-European cooperation more generally?

India's rising defence expenditure

India became the world's largest arms importer between 2010 and 2014, accounting for almost 15% of the global market, and last year was ranked 8th in the list of top defence spenders globally (above Germany and South Korea). Although its military budget amounts to around 1.8% of the country's GDP (against some 3.6% for the US, 1.4% for China or 2% for the UK in 2014), the current levels of expenditure are, in many respects, considered as means to maintain existing capabilities, notably in homeland security and frontier protection, and to upgrade projection forces. With an emphasis on new fighters and helicopters, early warning systems, frigates and submarines (including possibly nuclear powered ones) and aircraft carriers, the logical conclusion is that there has been a step-change in Indian geostrategic thinking. This probably goes beyond a mere response to perceived higher threats, but one which remains, nevertheless, not as extensive as the ambitious trend seen in China in recent years. All of this is also, of course, set against the background of declining defence expenditure in the US and in Europe.

India's defence budget is forecast to continue to grow and could well overtake those of Japan, France and the UK by 2020. This is expected to go hand in hand with a reduction in the number of defence imports and a rise in domestic procurement ranging from 40%-70% over that period. The belief is that the Indian private defence sector now has to lead the way because of the difficulties experienced by state-owned enterprises when absorbing new technologies and managing swift high-end production.

Yet India still faces considerable challenges given the lack of highly-skilled labour, delays in procurement and the obsolescence of some of its equipment. It remains to be seen to what extent the further initiatives announced by the government – particularly the creation of a Technology Development Fund available to public and private institutions and the setting up of dedicated skill development centres – will reverse this trend.

The intended shift in the structure of India's defence industry also means that thousands of small Indian companies will increasingly look for foreign partners. Because India imports defence materials across the board (including rifles and even boots for its soldiers) this will see cooperation go beyond high-technology transfers.

In this regard, European countries are well positioned, including other non-traditional partners for India such as eastern European member states, which could provide small arms or basic armoured equipment. Moreover, the increasing need for foreign partnerships should be further conducive to European interests because of the emphasis which will be put on coproduction and/or codevelopment. This was, for instance, the case with the latest offer by Airbus to jointly develop the AWACS programme on an A330 platform with the Defence Research and Development Organisation of India (DRDO).

But whether India will be able to develop a fully-fledged domestic industrial base, and how this will positively influence its defence partnerships, will depend on its ability to ensure that private and state-run entities can coexist efficiently. Plainly, there are many outstanding issues as India's industry strategy and roadmap have still not been clearly defined in practical and longer terms. For example, whether or not civilian and military offsets in aeronautics will be sought, or how competition for and cooperation in defence procurement between the private and the public sectors will evolve – and what this will mean for foreign suppliers and investors.

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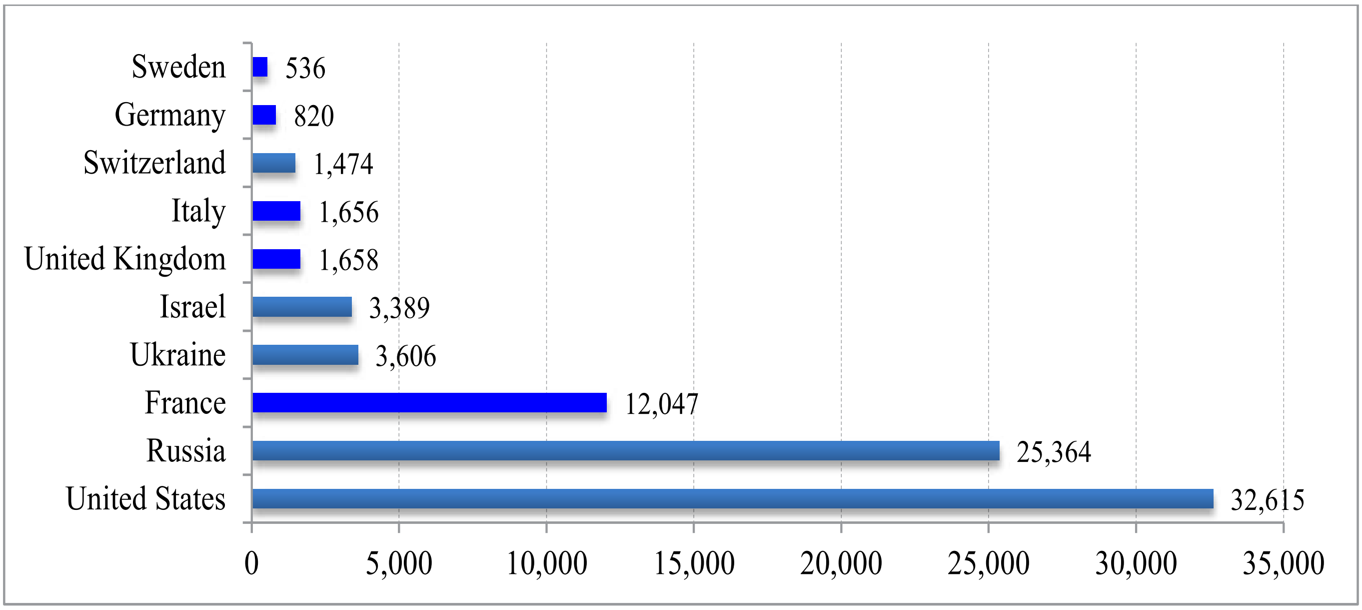
Indo-European ties: the strategic outlook

One question is whether India will continue to diversify its sources of supply or move further away from its more traditional armament partners, notably Russia, France and, to a lesser degree, the UK. Since defence cooperation between India and European countries is, in many respects, highly fragmented, such diversification could pose a particular risk to EU companies. Europe is not seen by India as a whole, but as a group of countries. As a result, it engages with each one separately on a bilateral, and case-by-case basis, not collectively and strategically over multiple projects. So can this change?

Among EU member states, France is by far the closest defence partner for India. This is not just because of the deal over the Rafale, or the 2005 sale of the Scorpene submarines equipped with Exocet anti-ship missiles or even the cooperation in the Mirage fighters and their upgrade – all of which are of vital importance to the Indian Navy and Air Force. It is also because France is the only European country which has around one million citizens in the Indian

India's primary defence suppliers (10 million Indian rupees – past three years)



Data sources: Times of India, Indian Ministry of Defence (August 2014)

Ocean, and is therefore considered as the most natural European partner in military and security issues.

The UK, Italy, Germany and Sweden (in descending order) come afterwards in terms of defence industry imports.

Whereas Britain used to be India's closest partner for historical and political reasons, the level of cooperation has significantly diminished since the 1950s, even despite the recent sale of the Hawk trainer jets. Germany has also remained a significant supplier, mostly providing parts for the construction of ships and submarines such as sonar and navigation systems. The Italians and the Swedes are also active, and provide naval equipment in particular.

At the same time, France holds regular, fully-fledged air and naval exercises with India, notably in the Indian Ocean. These have included aircraft carrier operations and anti-submarine warfare. The UK, too, has conducted naval exercises with India over the years, with the latest one taking place in 2013. There are, however, very limited exchanges of officers between India and European countries, especially when compared to the numbers of Chinese and American counterparts who visit the Indian National Defence College.

These developments are particularly relevant since the most recent and striking shift in India's defence partnerships has been the growing importance of the US, especially with regards to strategic lift and high-technology hardware. Although the US is often considered as a more difficult partner than Europe to work with for India (mainly because of export control constraints and the overriding focus of US foreign policy towards China), it has overtaken Russia as India's primary arms supplier over the past three years.

Almost all Indian military airlift systems are now American. The Defence Technology Trade Initiative (DTTI), launched in 2012, has been further reinforced since January through the selection of four 'pathfinder projects' to be pursued at governmental and industrial levels so as to boost coproduction of specific equipment, as well as cross-learning between the two countries. Moreover, a joint Indo-American working group has been set up to explore possible cooperation on the new Indian aircraft carrier technology with a view to shift from India's current ski jump platform to a more efficient catapult one.

By contrast, cooperation with Russia, India's historic partner, seems to be slightly in decline: a trend which could continue as Indo-Russian defence deals have always been more dependent on government-to-government relations rather than private industry links. Nevertheless, Russia retains the lion's share in India's overall military hardware inventory. Israel has also significantly increased its presence in the country over the years, particularly with regards to drones and homeland security, and now ranks third behind the US and Russia as India's top defence supplier.

But India's diversification in arms imports could go well beyond the list of its main partners in the future. Of particular note are the ongoing developments between India and Japan and the proposal to sell Japan's ShinMaywa US-2 amphibious aircraft to India. This could be accompanied by a possible transfer of technology and the building up of a manufacturing capability in India, which should eventually provide New Delhi with an export platform. There are obviously significant barriers to that happening, particularly given Japan's lack of military export culture – but there is also, it seems, clear political backing for such developments.

Exploring new horizons

Although India does not have defence relations with the EU as such, there is potential for them to develop. This would, however, also require Europeans to better coordinate their own actions and strengthen the European defence industry. There are also certain reservations on the Indian side: the EU does not rank highly in the list of India's foreign partners in geostrategic terms. In part, this is because of perceived diverging interests and priorities and because India views European foreign policy as somewhat fragmented.

Nevertheless, despite all these limitations, pragmatic choices will continue to be at the core of India's defence imports and industrial strategy. In that sense, European countries can play the role of the more 'independent' partner with less demands and a history of tested cooperation over the years. A key partnership could be developed which forms an integral part of India's strategy to diversify its suppliers, to avoid being tied too closely to one particular partner, and to pursue the economic benefits of eventually creating a defence export industry of its own. Both Europe and India therefore have much to gain by identifying areas of potential cooperation.

For example, greater interaction between European and Indian officers, facilitated at EU level, could be considered with a view to promoting joint understanding of defence expectations and priorities, as well as enabling a practical network of technical and procedural exchanges. This could go hand in hand with exploring the possibility of setting up joint exercises between the European and the Indian navies, especially for civilian crisis management or interoperability in anti-piracy missions. Given the extent to which the latter remains a major concern in the Indian Ocean, this is an area where Europe and India could certainly cooperate much more.

Of crucial importance for future defence ties will also be the ability to support existing and developing private industry links between Indian and European companies. This could be achieved, for example, by setting up regular encounters between European and Indian CEOs, for large and small defence companies alike.

Above all, the creation at a European level of a network tasked with providing and sharing information on India's current and future defence developments, including changes in its defence industry and/or doctrine, should further help European governments and private manufacturers to advance their individual bilateral cooperation. It could also provide a good basis for the development of a European defence dialogue with India to complement the existing EU-India dialogues on security and counter-piracy, perhaps in a similar format to the ad-hoc defence and security dialogue between China and the EU in 2014. This would be set up with the aim of fostering Indo-European consultations on defence industry priorities, technologies, and, if relevant, best practices.

Here again, the EU is well placed to act as a facilitator to help maximise benefits for all involved.

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