

# Defence Manufacturing-II: Maruti model can drive defence production

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*In the second and concluding article, The Tribune examines the need to do away with historical legacies and well-worn procedures as well as develop the fortitude to accept setbacks. Only a radical departure from all past practices may have the potential to help defence manufacturing stand on its feet.*

## Strategic dilemma

- *The government has taken a leap into the unknown with the strategic partnership model.*
- *Hard-headed questions are: Is corporatisation a panacea for OFBs and Defence PSUs?*
- *What safeguards are required for non-performance by chosen strategic partners?*
- *Which foreign firm should be chosen — with declining defence budgets in their countries or well-known giants?*
- *Maruti's emergence should be a model. It requires a different paradigm of decision making.*

The natural expectation is that government should do what it takes to achieve a breakthrough in defence manufacturing. Every new political executive discovers the strength of tradition and of the constituencies in favour of the status quo, as well as the inherently conservative nature of all bureaucracies which are comfortable only with incremental changes. Fortunately, a strong government enjoying continuing popular support with a growing nationalistic fervour should be able to take big decisions and implement them. There are complex issues to grapple with and difficult decisions to be taken.

In most technology and capital-intensive segments only one national entity can be supported to become strong enough to give autonomous capability. In the case of Europe, countries chose to consolidate their national air industries in European Aeronautic Defence and Space Company (EADS). After many years and considerable public spending, EADS succeeded in developing a real competitor to Boeing in the Airbus. In the Eurofighter, they developed a world-class military plane.

Hence, taking a clear view of the optimal industry structure 10 to 15 years down the road and the future of the present set of ordnance factories and the defence PSUs in different segments is unavoidable. Since the economic reform process began, large PSUs have ceded space to new private sector entrants and become white elephants where now they can neither be privatised as they have no value, nor can they be closed because of the large workforce. Air India and BSNL are good examples. Is it desirable to replicate this? Is corporatisation of ordnance factories doable? Is greater professionalization and empowerment along with gradual disinvestment to create, say, an equivalent of Boeing/Dassault in HAL, an option worth pursuing? Is strategic divestment to suitable Indian private firms with proven manufacturing ability a viable option and, if so, in which segments? Would having private strategic partners for a few platforms while leaving the rest of the system untouched, as seems to be under way now, the best way to go forward? Would it not be prudent to choose strategic partners only with proven manufacturing abilities, or, this is not relevant if there is sufficient financial depth? What safeguards, if any, are required in the eventuality of non-performance by chosen strategic partners? There are no easy answers. Taking a hard-headed view on these questions is necessary and is the intrinsic burden of leadership.

The implication of having private sector entry and at the same time continuing with the public sector for the same platforms needs to be thought through. To illustrate, having many aircraft and helicopter manufacturing facilities, where only final assembly, controlled by foreign technology providers, is undertaken in India,

without any real technological ability to develop new models growing in one organisation to become a world-class national player, would not serve the real purpose. There may be some less capital-intensive segments where genuine competition over time may be feasible and desirable. A rational calculated view needs to be taken on weapon systems where India should try and have one world-class player and where it can afford two players. This is equally relevant for sub-assemblies and components which are the actual building blocks and usually do not get the attention they deserve.

Then, there is the widely prevalent view in the Armed Forces that the DRDO has not yet given them weapons that they would really like to use whether it is the LCA or the battle tank. In any case, whatever has been developed is an assembly of primarily imported engines, sub systems and parts. So, does it make sense to write off whatever has been done and accept failure? Or, is the ability to design and develop a weapon platform even with imported sub-systems, not a significant enough achievement which should give confidence that succeeding rounds of development of newer versions are bound to be better? Does it not then make sense to continue from what has been achieved and see what more is needed to produce newer versions which appear good enough to the armed forces? Should such development not be funded and undertaken continuously to develop systems which may be equivalent to what is being used by the forces now and as a potential supplement, in the first instance? Is the present system of having a centralised DRDO responsible for technology and system development with production enterprises making only modest efforts in research and development, optimal? Or, having different verticals with responsibility for both platform development and production, as is the case with all western defence firms, a better model with the advantages of clear focus, accountability, incentives and rewards? Could not the successful experience of ISRO and Atomic Energy of working in genuine development partnerships with Indian firms to develop almost all that they needed to overcome the handicap of the international technology denial regime be replicated? Should PPPs in system and technology development as well as manufacturing be pursued? Could the armed forces moderate their expectations by lowering the bar to have, not the best in class in the world, but what is good enough for what our northern and western neighbours possess? (From this perspective, many have argued that even the present LCA is good enough.) Willingness to lower the bar also increases competition as well as the ability to seek a higher degree of technology transfer for new systems needed now and which have to be necessarily procured internationally. Since the procurement system is tied to procedure and paranoid about any deviation from what is set out in the beginning, negotiating the best terms for technology transfer is not permitted. As a result, India is unable to even begin making full use of the window of opportunity which is now there, with the US making India a major defence partner for technology transfer. Every procurement process should have the objectives of getting what the forces need and maximise national technological ability and reduce future import dependence.

A good Indian experience to recall is that of Maruti. Through a search and negotiation process, Suzuki was chosen as the technology and equity partner. A smaller player, it was willing to go the farthest in technology transfer and genuine partnership. Maruti selected vendors in a fair manner very quickly, but not through the rigid price-bidding process the only permissible route today. Vendors were helped with technology tie-ups and became long-term partners and suppliers with periodic negotiated price revisions. Maruti, like other global car companies, undertook only final assembly. The outcome exceeded expectations. India was able to evolve a globally competitive private sector national auto-component industry. It is now a leading global hub for competitive small car manufacturing. On the international scene many firms, with frontline platforms, critical sub-assemblies, or materials/components, do not see much of a commercial future with declining defence budgets in their countries. They may be willing to part with technology, go in for genuine joint-venture partnerships, and even be available for acquisition — presenting an opportunity for technological leapfrogging. An empowered, bold leadership, acting strategically to create medium-term national capabilities is required to take a holistic view of procurement for specific needs, along with technology development and acquisition. An altogether different paradigm of decision making needs to be put in place. Without this, it is unlikely to make progress in defence manufacturing at the speed that is needed and also possible. (Concluded)

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## 'Made-in-India arms will help us win wars'

India's military preparedness, which has to be fully backed by indigenous manufacture of weapon systems and platforms through a healthy competition between the public and private sectors, is the best deterrent to guarantee peace in the region.

“No country can indefinitely win wars and battles only on the strength of trying to buy or import equipment from outside. Its security preparedness would be incomplete if it relies only on that,” said defence minister Arun Jaitley on Tuesday .

Speaking at an awards function for defence PSUs, in the backdrop of the government recently finalising the “strategic partnership (SP)” policy to expand the Indian private sector's role in defence production, Jaitley stressed the need for India to “unleash its own potential” to become an arms-manufacturing hub.

Under the SP policy , selected Indian private sector companies will partner with global armament companies to jointly manufacture fighter jets, helicopters, submarines and armoured vehicles like tanks under the “Make in India” framework.

Sloppy performance by the DRDO and its 50 labs, five defence PSUs, four shipyards, and the 41 ordnance factories as well as the failure to attract the private sector to jump into defence production in a major way has meant that India still continues to import around 65% of its military hardware and software.

“Security requirements are dictated by the kind of neighbourhood you have, and obviously in view of the peculiar situation here from a geopolitical point of view, our preparedness is the best deterrent and which is a guarantee for peace as far as our region is concerned,” said Jaitley. He said, “Healthy competition between defence PSUs and private sector will bring out the best potential. Competition is always the best guarantee for competence, efficiency, and price control.

“Turning to the economy , Jaitley said it has been logging impressive growth over last three years. “Having completed seven decades after Independence, we have now for three years in a row achieved the distinction of being the fastest growing global economy among the major economies,” he said.

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## Weaponising Defence Buying

The Cabinet Committee on Security of GoI recently cleared the Strategic Partnership (SP) model for defence acquisitions. This essentially allows for joint ventures between Indian and foreign firms for defence manufacturing in India. This has been pending for more than a year after the revised Defence Procurement Procedure (DPP) was announced in March 2016.

Much of the changes to the DPP were based on the 27 recommendations of the Dhirendra Singh Committee Report submitted in July 2015. The committee had also recommended the SP model for certain areas of strategic importance. Later, the task force under former Defence Research and Development Organisation (DRDO) chief V K Aatre laid down the criteria for selecting SPs among Indian private sector companies that was made public in April 2016.

Over the years, all defence procurements were based on general staff quality requirements that allowed widely spread technical criteria, and then selection by the lowest price (L1) after necessary technical evaluation. The adherence to procurement guidelines strictly based on fair play and probity -and set under the guidelines of the Central Vigilance Commission (CVC) -often led to system acquisition. This was not necessarily the best deal, in terms of state-of-the-art and modern technical aspects in the long procurement cycle.

Also, indigenous capacity-building in most areas was never brought into focus. This resulted in continuing foreign acquisitions due to operational necessities. So, almost 30 years were frittered away , despite policy and intent to reduce defence imports.

So far, only four segments have been chosen to set the SP model rolling: single-engine fighter aircraft, helicopters, armoured fighting vehicles and submarines. In all these four segments, some level of collaboration exists, with Indian entities -mostly public sector undertakings (PSUs), ordnance factories and shipyards - partnering an original equipment manufacturer (OEM) as a serial manufacturer or providing its premises for such manufacturing.

However, the intent of the Narendra Modi government is very clear as to its focus on `Make in India' with defence as a major focus area. Also, the intent of the SP model is to clearly establish the base, have the supply chain system established, and imbibe in the latest technology for these equipments and systems. So, the focus on matching and mapping respective OEMs to Indian private sector players should be defined with the extent of technology available to build a modern and robust system.

While the platform-based approach might be a natural start with the absence of significant success via the DRDO or defence PSU route, the larger advantage of the SP model is to leverage the strengths that are residual in Indian industry and look at more futuristic areas in the system as well as subsystem stage. This way , optimal capacity-building would be possible in many areas. A case in point is the competence of Indian engineers in IT-based systems. With most platforms today performing under a Command, Control, Communications, Computers and Intelligence (C4I)-based tactical approach, focus on C4I systems integration can be very pertinent. Future warfare will be more around electronic approaches and focusing to complete the Tactical Command, Control, Communication and Intelligence (Tac3I) with superior competency .

Picking cyber security as a first-phase strategic area would have been more optimal today . As an increasing number of countries build cyber arsenals and treat this as a future battlefield, India's competence and advantage in the sector can be put to advantageous use.

Most of the OEMs in the fray in the SP projects have already focused and built their competency in technology aspects under various guises of C4I.It would be wise to involve them to orient our interests on these technologies, and at the same time, incorporate India's indigenous encryption.This way , it can be ensured that mandatory national security checks are always adhered to.