U.S.-India Defense Trade: Opportunities for Deepening the Partnership
S. Amer Latif and Amb. Karl F. Inderfurth

The nineteenth century painter Georges Seurat devised a style of painting known as pointillism in which small dots of pure color were applied in patterns to form an image. Not unlike pointillism, U.S.-India defense relations could be taking shape in a similar fashion. With each defense dialogue, each defense sale, each military exercise, another dot is applied to the canvas of U.S.-India defense ties that is slowly, gradually, taking shape as an increasingly important defense partnership.

The latest dot applied to the canvas was Defense Secretary Leon Panetta’s visit to India at the beginning of June. The highlight of his trip was arguably his speech at the Institute for Defence Studies and Analyses (IDSA) in New Delhi in which he notably referred to India as a “linchpin” in America’s new defense strategy focused on “rebalancing” to the Asia-Pacific region.

While many in the Indian commentariat focused on the “linchpin” characterization, there was another notable item in the speech that did not receive as much attention, namely the appointment of Deputy Defense Secretary Ashton Carter as the point man for deepening bilateral defense trade. To accomplish this goal, Panetta said it was necessary to “cut through the bureaucratic red tape on both sides” in order to “make our defense trade more simple, responsive, and effective.”

Now that Carter has been appointed, it is time for India to appoint a similar individual who has appropriate rank, high-level backing, and a mandate to break through bureaucratic barriers on the Indian side. Much of the success for both officials will rely on these conditions.

The United States and India will also need some ideas on where to begin their task. To that end, the CSIS Wadhwani Chair has just released a major report on bilateral defense trade that offers some 41 recommendations for consideration.

As both sides chart a direction for the way ahead, there are a few recommendations in the report that each side should prioritize, either individually or bilaterally. First, both sides should consider consolidating the various working groups that touch on defense trade and licensing that are currently spread across a number of U.S. and Indian agencies and ministries. Having one group dedicated to defense trade could help focus efforts on eliminating confusion and provide one forum responsible for facilitating technology transfers and dealing with licensing.

Second, India should reexamine its approach to offsets. Offsets are viewed by many Indian policymakers as one of the key pathways to eventual self-reliance in
Technology transfers, as well as coproduction and codevelopment arrangements are key objectives for Indian decisionmakers in picking defense equipment. India is adamant on breaking out of the buyer-seller paradigm to build its own indigenous defense industry. Here, countries such as Russia and France have an edge due to their willingness to part with top-of-the-line technology and even facilitate its production in India. This practice highlights the fundamental difference in how technology is viewed by the United States and other foreign vendors. For the United States, technology is a strategic commodity that must be transferred with great care. For most other foreign vendors, technology is largely a commercial commodity sold for economic gain.

Equipment performance and follow-up maintenance have been a source of significant frustration for India in the past. Russia is notorious within India for having a poor maintenance record contributing to degraded readiness. Here the United States may have a distinct advantage with its excellent reputation for providing reliable, sophisticated equipment.

In addition to the factors mentioned above, corruption is still a major concern within the Indian defense industry. While the current defense minister, A.K. Antony, is known for his probity, corruption still prevails in various corners of the Indian defense market. For the United States, this environment presents an opportunity for U.S. vendors to serve as a change agent for the Indian acquisition process. Indian officials are hopeful that the presence of U.S. companies in India will compel other vendors to emulate the U.S. example of integrity, adding yet another benefit of close U.S.-India defense trade ties.

—S. Amer Latif

defense production. However, the reality is that the Indian defense sector does not have the capacity to absorb the billions of dollars of offsets it is poised to receive. The current system makes it difficult for U.S. companies to discharge offset obligations due to the lack of capacity within the various Defence Public Sector Undertakings (DPSUs). It is also a major challenge for U.S. companies to find good offset partners within India’s nascent defense private sector, even though the aperture for offsets has been opened to homeland security, civil aviation, and training possibilities. The Indian government needs to incentivize its private industry to build the necessary infrastructure and expertise that will build its defense capacity and create more attractive partners for U.S. companies. Absent such reforms, there is little prospect of India ever attaining self-sufficiency if a majority of its offsets are directed to DPSUs.

In addition to applying offsets for defense purposes, India should seriously consider aiming some of these resources towards nondefense purposes such as infrastructure, education, and job training. Investments in these areas could provide a more productive outlet for addressing India’s economic growth needs. Perhaps a national level commission, composed of prominent former Indian officials from diverse fields could take an objective look at how the country’s offset resources are being spent and whether other, nondefense areas should be considered for their use.

Third, India should increase the percentage of foreign direct investment in India’s defense sector to over 50 percent. The current amount of 26 percent does not provide an adequate incentive for a U.S. company to invest in the Indian defense sector. Increasing the amount to over 50 percent would incentivize U.S. companies to invest in India since they would have a stake in defense production. While such an arrangement may offend Indian sensitivities about excessive foreign investment in India’s defense sector, such an arrangement could ultimately be a boon to India’s efforts to develop its own defense industry through exposure to state-of-the-art defense industrial practices and technology transfers.

Fourth, the U.S. government should seriously examine the possibility of greater coproduction and codevelopment projects with India. While there has been a significant paradigm shift within the U.S. government on technology transfer, there could be improvement on coproduction and codevelopment. On coproduction in particular, a U.S. policy review on the parameters of an initial codevelopment project could be useful. Codevelopment need not initially delve into sensitive technologies that are difficult to release. Rather, focusing on nonsensitive defense equipment that provides value to both sides could be a good first step in building confidence between the respective defense industries and providing a public example of bilateral cooperation. The United States is already thinking about a relationship along these lines; as Secretary Panetta said in New Delhi, “Over the long term, I am certain that we will transition our defense trade beyond the “buyer-seller” relationship to substantial co-production and, eventually, high-technology joint research and development.”

Fifth, both sides should aim to shape a public narrative about the mutual benefits of defense trade. After the nonselection of U.S. entrants in the Medium Multi-Role Aircraft competition, there was disappointment in some quarters of the U.S. administration, Capitol Hill, and the defense industry about India’s decision. However, the United States has to put such decisions in the context of its overall success, accruing over $8 billion in defense sales thus far, and according to Ambassador Nancy Powell, “We are poised to sign an additional $8 billion in Direct Commercial and Foreign Military Sales.” Furthermore, the United States needs to temper the idea
that assisting India with its rise as a world power will inevitably lead to reciprocal benefits through defense sales. While there will be a substantial volume of sales, every competition will not end in success.

On the Indian side, officials should also craft a narrative about the benefits India receives from bilateral defense trade. Too often, Indian press and analysis contains inaccuracies about U.S. policies and intentions. While the Indian government cannot (and need not) respond to every inaccuracy in the public domain, communicating an accurate, coordinated, and balanced message to India’s strategic community about the value of U.S.-India defense ties could help dispel misinformation and myths. Such a narrative can also signal Washington that New Delhi values the relationship beyond the mere transfer of technology.

Finally, both sides need to take the long view of defense trade ties. For a U.S. company, it is sometimes difficult to justify its position in India when months pass without a single sale. On the Indian side, there is impatience with continued restrictions on technology transfer with the denial of the most sensitive technologies. There is a need for both sides to exercise some perspective on how far the relationship has come so quickly and a need for greater familiarity about how the other side operates.

To be sure, bilateral defense trade is going well, but it could be much better. The two countries have made major strides in defense trade but have a way to go before the relationship becomes a normal, routine interaction. However, like Seurat, Washington and New Delhi continue to apply dots to the canvas in the hope that one day this relationship will truly become a strategic one. The opportunity is there for both sides to seize it—if both sides so choose.

S. Amer Latif is a visiting fellow with the Wadhwani Chair in U.S.-India Policy Studies at the Center for Strategic and International Studies (CSIS) in Washington, D.C. He served as director of South Asian affairs in the Office of the Secretary of Defense from 2007 to 2011. The views in this article are his own and do not necessarily represent the views of the Department of Defense or the U.S. government.