

MP-IDSA

Issue Brief

India-Israel Defence Trade and Defence Indigenisation

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Summary

With the Ministry of Defence (MoD) laying a lot of stress on defence indigenisation, domestic procurement and defence exports, the Srijan defence indigenisation portal is a limited but concrete example of the implications of India's defence indigenisation efforts on key strategic partnerships, for instance with Israel. Going forward, the quantum of defence imports from Israel, of products and equipment currently being imported, will reduce, if the indigenisation efforts of the MoD in conjunction with the Indian public and private sector industry, fructifies. Strategic partners like Israel, even as they continue to occupy an important place in fulfilling the modernisation and upgradation requirements of India's armed forces, will be expected to continue to work more closely with the domestic defence industry, to fulfil the critical requirements of India's armed forces.

The Ministry of Defence (MoD) is laying a lot of stress on defence indigenisation, domestic procurement and defence exports. During the period 2015–2021, over 60 per cent of capital procurement contracts of the MoD by number (190 out of 304) and 43 per cent by value (Rs 1,39,038 crore out of Rs 3,21,376 crore) were secured by the domestic industry.¹ The government's Aatmanirbhar Bharat Abhiyan (ABA) aims to unlock the potential of the domestic industry and manufacturers to meet the country's growing requirements. The ABA call has special significance for the defence sector, as the country has long been dependent on imports to fulfil most of its platform as well as niche equipment requirements.

To foster innovation and technology development in the defence and aerospace sector, the iDEX—Innovation for Defence Excellence, was launched in April 2018. Four Defence India Start-Up Challenges (DISC) have been held so far, in which over 1,000 Start-Ups have participated. Budgetary support of Rs 500 crore has been earmarked for iDEX till 2025–26, for Start-Ups, MSMEs and individual investors, through the Defence Innovation Organisation (DIO), an umbrella organisation formed with financial contributions from the aeronautics major, Hindustan Aeronautics Limited (HAL) and Bharat Electronics Limited (BEL).²

In the 2021–22 defence budget, Rs 1,000 crore has been exclusively earmarked for procurement from Start-Ups. Currently, over 80 Start-Ups are developing more than 30 cutting-edge products. The government aims to double the number of products developed by Start-Ups to at least 60 by 2024. In order to more actively involve the stakeholders in developing cutting-edge products most suited to the requirements of the armed forces, iDEX4Fauji was also launched in September 2020.

The Strategic Partnership (SP) model, first promulgated as part of the Defence Procurement Procedure 2016, is an effort to energise the domestic defence industrial ecosystem. The model seeks to encourage domestic industry to enter into tie-ups with global original equipment manufacturers (OEMs) to set up manufacturing and infrastructure supply chains with transfer of technology (ToT). The Defence Acquisition Council (DAC) approved the issue of Request For Proposal (RFP) for construction of six conventional submarines, in June 2021, the first such project to be pursued under this model.

The foreign direct investment (FDI) through automatic route is permitted up to 49 per cent and beyond that with government approval. The FDI limit was raised from 49 to 74 per cent in August 2020. The total FDI in the defence sector till January 2021 was Rs 4,191 crore. It is pertinent to note that a significant portion of this, Rs

¹ [“Government Spending on Military Modernisation”](#), Press Information Bureau, Ministry of Defence, Government of India, 8 March 2021.

² [“Innovations for Defence Excellence \(iDEX\)”](#), Press Information Bureau, Ministry of Defence, Government of India, 28 July 2021; [“Defence Start-Ups”](#), Press Information Bureau, Ministry of Defence, Government of India, 17 December 2021.

2,871 crore, was received since 2014. The government has approved 44 FDI proposals in the defence sector.³

The government has introduced a separate domestic capital expenditure (CAPEX) budget of Rs 51,930 crore in 2020–21, nearly half of the total CAPEX budget. In 2021–22, this figure increased to Rs 71,438 crore, out of the total capital expenditure budget of Rs 1,11,463.21 crore.⁴ The Policy for Indigenisation of Components and Spares used in defence platforms, which was notified in March 2019, had actually suggested that this domestic CAPEX be increased by 15 per cent every year. The actual increase in 2021–22, which was close to 30 per cent, therefore, was double to that suggested.

In August 2020, a ‘positive’ list of indigenisation, of 101 items, was released. The list included mostly major platforms like armoured fighting vehicles (AFVs), conventional submarines, light combat helicopters (LCHs), artillery guns and also items like radars. Going forward, the aim is to procure such items from the domestic industry, within specific timeframes, while embargoing their imports. The cumulative value of imports of these items over the past decade was Rs 1,40,000 crore.

Another list was released in May 2021, involving 108 items, including sensors, weapons and ammunition, radars, tank engines, AEW&C systems, which will be only sourced from the domestic industry by 2025.⁵ The DRDO also came out with a list of 108 systems and sub-systems in August 2020, which can be designed, developed and produced by the domestic industry exclusively.⁶ The contract for the 83 Light Combat Aircraft (LCA), worth over Rs 48,000 crore, is the biggest domestic procurement contract ever. Over 500 MSMEs will be involved in executing the project.

India has also made rapid strides in defence exports. India was listed at the 23rd position as the global arms exporter by SIPRI in 2020, the first time that India made it to the list. The aim is to achieve defence exports target of US\$ 5 billion by 2025. With a strong domestic defence industry and a strong exports profile, India aims to become an essential part of the global defence value chain. At the same time, the aim is to reduce the country’s dependence on defence imports. India has spent over US\$ 36 billion (SIPRI TIV) on imports during 2010–20. Over 90 per cent of imports were from Russia (accounting for 63 per cent), the US (11 per cent), Israel (8 per cent), France (7.5 per cent) and the UK (3 per cent). During 2015–19, India accounted for

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⁴ [**“Efforts to Encourage Domestic Manufacturing”**](#), Press Information Bureau, Ministry of Defence, Government of India, 2 August 2021.

⁵ Press Information Bureau, [**“MoD Notifies ‘Second Positive Indigenisation List’ of 108 Items to Promote Self-reliance and Defence Exports”**](#), Press Information Bureau, Ministry of Defence, Government of India, 31 May 2021; [**“Second Positive Indigenisation List”**](#), Press Information Bureau.

⁶ [**“DRDO Comes Out With List of 108 Military Systems for Production by Domestic Industry”**](#), *The Economic Times*, 24 August 2020.

more than 9 per cent of global arms imports. It is pertinent to note, however, that India's arms imports between 2011–15 and 2016–20 fell by 33 per cent.

The government has, therefore, as delineated above, taken significant policy changes in recent times to boost domestic defence manufacturing, facilitate defence indigenisation, reduce imports and enhance exports. There is a robust intent and resolve on the part of the government to make the Indian defence sector companies 'Vishwa Vyapi' (world-wide/world-famous) companies.⁷

Srijan Defence Indigenisation Portal

Given this policy framework, what will be the impact on India's key defence relationships with strategic partners like Israel? It is instructive to look at the Srijan Defence indigenisation portal, which became active in August 2020.⁸ The portal lists items which have been procured from foreign original equipment manufacturers (OEMs) by the DPSUs, ordnance factories and Service headquarters. The domestic industry is encouraged to engage and partner with the private sector in order to assist in the indigenisation efforts of the MoD. The domestic industry can either design, develop and produce these equipment on their own or through joint ventures with the OEMs.

The Srijan portal flows from the March 2019 Policy for the Indigenisation of Components and Spares used in Defence Platforms for DPSUs/OFBs. The policy document notes that the value of components imported by the DPSUs/OFBs during 2017–18 was nearly Rs 14,000 crore. The aim is to reduce the import bill of the DPSUs on this count. The MoD specifically pledges to support the development of capabilities relating to engine technology, materials technology and electronic chip technology. It also will give priority to indigenised components for testing and evaluation and encourage their exports.⁹

More than 18,000 products, imported during the period 2018–21, have been listed for indigenisation, by the target year 2025–26.¹⁰ In July 2021, the Indian industry had shown interest for indigenisation of nearly 3,000 items. The portal lists, as of end of January 2022, nearly 90 products worth Rs 50 million (Rs 5 crore) and above, which have been imported during 2020–21, for a cumulative value of Rs 20,000

⁷ Raksha Mantri Rajnath Singh used this term while speaking at a MoD-Industry webinar on the Defence Budget 2021–22, "Galvanising Efforts for Atma Nirbhar Bharat", held at New Delhi, on 23 February 2021.

⁸ "[Opportunities for Make in India in Defence](#)", Department of Defence Production, Ministry of Defence, Government of India.

⁹ "[Notification](#)", Department of Defence Production, Ministry of Defence, Government of India.

¹⁰ The Srijan portal maintains a dynamic list, where the parts and/or components are de-listed or categorised as 'indigenised'/'item not required' depending on the status of indigenisation, etc.

million (Rs 2,000 crore or about US\$ 270 million).¹¹ These include components like data link transmitters, guided missile components and navigation instruments, imported by the Bharat Dynamics Limited (BDL), from Israeli OEMs like Elbit Systems and the Israel Aircraft Industries (IAI). The cumulative value of the imported components, from 2019 onwards and projected requirement till 2023, is close to Rs 1,000 million (Rs 100 crore or about US\$ 14 million).

Earlier in September 2021, at least four such parts and equipment imported by the electronics major, Bharat Dynamics Limited (BDL) and the aerospace major, Hindustan Aeronautics Limited (HAL), from Israeli OEMs like Elbit Systems and the IAI, were listed. These include equipment for the beyond visual range (BVR) 'Astra' weapon system produced by the BDL and display head assembly by HAL Avionics Division, Korwa. The cumulative value of imports of these equipment till 2025 is expected to be more than Rs 1,300 million (Rs 130 crore/US\$ 18 million). The projected value of imports by HAL's Korwa unit from Israeli companies of products valued between Rs 10–50 million (Rs 1 crore–Rs 5 crore) till 2025 is expected to be nearly Rs 700 million (Rs 70 crore/US\$ 9 million). The projected value of imports by HAL's Korwa unit, apart from BDL, BEL and the HAL, from Israeli companies of products valued between Rs 0.5–5 million (Rs 0.05 crore–Rs 0.5 crore) up to 2025, is expected to be nearly Rs 138 million (Rs 13.8 crore/US\$ 2 million).

Previously, the portal had also listed equipment and parts being imported from Israeli OEMs related to the Akash missile system (by BDL) and electronic and niche items by BDL and HAL. In September 2020, for instance, at least 23 products, worth over Rs 10 million (Rs 1 crore) each, were being sourced from Israeli companies. In September 2021, this number has reduced to eight. Items like pressurised container system and sensor package unit for the Akash missile system made by the BDL, printed circuit boards and voltage control oscillators imported by the HAL, are no longer listed on the portal, perhaps signifying success in the indigenisation of such parts. In March 2016, Defence Minister Manohar Parrikar had informed Parliament that the imported content in the Akash missile system—touted as an indigenous system, was around 10 per cent.¹² If the BDL was no longer importing some parts for the Akash missile system, the imported components percentage would have surely come down.

The Srijan defence indigenisation portal, is therefore, a limited but concrete example of the implications of India's defence indigenisation efforts on key strategic partnerships like with Israel. Going forward, the quantum of defence imports from Israel, of products and equipment currently being imported, will reduce to the tune of at least Rs 7,000 million (Rs 700 crores or about US\$ 95 million), if the indigenisation efforts of the MoD in conjunction with the Indian industry and the DPSUs and ordnance factories, fructifies. Admittedly, this amount is not that

¹¹ For reference purposes, 1 USD is taken as equivalent to Rs 75. The portal lists the values of the components in Rs million.

¹² "[Achievements Made by DRDO](#)", Unstarred Question 1168, Rajya Sabha, 8 March 2016.

significant in the current overall context and volume of the Indo-Israel defence trade, but is useful to highlight given the MoD's robust indigenisation efforts. The cumulative impact of the policy measures that India is following in the defence sector, to attain self-reliance and promote indigenisation, if taken to their logical conclusion, will negatively impact the quantum of defence trade with key partners like Israel, less so in the near term but increasingly so in the medium-to-long terms.

Going Forward

Even as the three decades old India–Israel defence partnership is set to grow and solidify in the coming future, India's defence self-reliance drive will impact, to an extent, the quantum of the relationship. India's modernisation needs are huge, as well as the need to effectively meet the growing security concerns across the internal and external spectrum. The all-encompassing Pakistan–China defence cooperation, which equips Islamabad with sophisticated equipment and platforms, is too stark to be ignored for India's security planners.

India and Israel have developed an all-round defence and security partnership, with increasing focus on joint development and production. Exports of Indian-manufactured Israeli products like unmanned aerial vehicles (UAVs) to countries in Southeast Asia is another arena of cooperation where the two countries could focus their efforts, especially by the private sector companies. Indo-Israeli joint ventures in the category of small arms and ammunition have big plans not just to supply to the requirements of the India armed forces but also to export markets.

India's defence relationship with Israel is also being sought to be leveraged to improve the country's defence exports profile. The electronics major, BEL, for instance, has expressed an interest in having a tie-up with the IAI to boost the DPSU's exports profile. Way back in 2003, HAL had a tie-up with the IAI to market the Advanced Light Helicopter (ALH). It remains to be seen how BEL and the IAI can pursue this further. The IAI has a well-established international profile and marketing prowess, an element that Indian DPSUs as well as private sector companies can study and learn from.

Given the extraordinary range of cooperation in terms of procurement and joint development of equipment ranging from missiles like long-range surface-to-air missiles (LRSAM), medium-range SAMs (MRSAM), radars, UAVs, assault weapons, among others, we may not see an immediate drastic reduction of the quantum of the India–Israel defence trade, in the immediate to short term. The Israeli defence industry is also well-placed, given its long-standing exposure to the Indian market, to take advantage of the government's various measures to help in domestic manufacturing. These include relaxed norms for FDI, in case the foreign OEMs agree to transfer of technology.

Going forward, as India's indigenous capabilities in areas like AWACS or UAVs mature, dependence on foreign suppliers can be expected to reduce. India's big indigenisation focus in critical areas of aero engine, materials and electronic chip technology is expected to only witness higher volumes of procurement from indigenous sources—including niche equipment like active electronically scanned array (AESA) radars, among other equipment. These are the kinds of equipment that India has imported from Israel.

Domestic procurement of such equipment, therefore, will result in concurrently lesser quantum of imports from strategic partners like Israel. Even if Indian capabilities come up to speed in areas where there are deficiencies, it is also a fact that it is not economically viable or strategically prudent to build each and every weapon system in a country's defence inventory indigenously. Israeli defence industry strengths in niche technological areas can continue to add critical value to India's defence inventory.

India's defence market is one of the biggest in the world and there is space and scope for cooperation with critical strategic partners like Israel to continue to grow to fulfil the varied requirements of the Indian armed forces. India expects to spend significantly on defence modernisation in the near future. Strategic partners like Israel, even as they continue to occupy an important place in fulfilling the modernisation and upgradation requirements of India's armed forces, will be expected to continue to work more closely with the domestic defence industry—both the defence public sector units and the private sector—to fulfil the critical requirements of India's armed forces.

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