

Strategic Analysis Paper

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India's Defence Budget, Strategic Orientation and Military Modernisation

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Key Points

- The July 2014 Union Budget sets the military's allocation at US\$38.35 billion and raises the foreign investment limit in the domestic defence industry from 26 per cent to 49 per cent, to boost modernisation.
- The defence budget accounts for 1.78% of GDP and 12.76% of total central government expenditure.
- Although the Modi Government is seeking to enhance its strategic position with the defence budget's focus on military modernisation, it effectively preserves the *status quo* by continuing to focus its strategic orientation on Pakistan.
- Without some attempt to sketch a Defence White Paper, the defence budget is not able to explicitly reflect India's strategic orientation and priorities.

Summary

The Modi Government is trying to advance its strategic position by enhancing its diplomatic reach, but internally, the defence allocation has focussed on Foreign Direct Investment, modernising the armed services and fine-tuning their priorities.

In the early 2000s, the government saw the need to have a strategic blueprint for defence spending and planning. To achieve this, it announced such policy initiatives as a Defence Procurement Procedure in 2002, a Defence Offsets Policy in 2006, a Long-Term Integrated

Perspective Plan (LTIPP) in 2009 and a Defence Production Policy in 2011. Eight committees/task forces were set up to look into various aspects of national defence, but no White Paper was ever produced. It is a situation that continues to this day.

Analysis

The new government's budgetary allocation for the armed services is essentially a continuation of the interim budget allocation tabled in February 2014 by the previous United Progressive Alliance (UPA) government. The defence budget accounts for 1.78% of Gross Domestic Product (GDP) and 12.76% of total central government expenditure. This figure is substantially less than the three percent of GDP that had been hoped for, but which could only have been achieved through more fiscal discipline elsewhere in the budget.

Strategically, the budget aims to offset the increased Chinese military presence on India's northern borders and Beijing's growing naval presence in the Indian Ocean. Despite that, two-thirds of India's military strength is deployed against Pakistan, even though it hardly poses any conventional military threat to India. As the budget confirms, India has not yet transferred its defensive strategic orientation towards China (both in respect of its continental and maritime military capabilities) and its sense of a primary security threat remains fixed on Pakistan.

As IHS Janes noted in February 2013, India will become the world's fourth-largest defence spender by 2020, spending about US\$65.4 billion (\$70.2 billion) in that year. That figure will be just behind the US, China and Russia, but surpassing the expenditures of France, the United Kingdom and Japan. Estimates indicate that India's defence import bill will reach US\$130 billion (\$139.5 billion) over the next seven years even as internal security purchases are likely to exceed US\$110 billion (\$118 billion). In this year's budget, the military was allocated US\$38.35 billion (\$41.15 billion) and the foreign investment limit in the domestic defence industry was raised from 26 per cent to 49 per cent.¹

Sharing the Budget Allocation among the Services

In a continuation of the February 2014 interim budget, the July budget allocated approximately 53 per cent of the total defence budget to the Army, 24 per cent to the Air Force, 17 per cent to the Navy, five per cent to the Defence Research and Development Organisation (DRDO) and one per cent to the Ordnance Factories. Among the three services, the Army received the greatest increase (19 per cent). While the Navy's budget was increased by a modest 3.5%, the Air Force actually had its share reduced by 5.6%. The DRDO, on the other hand, received a substantial funding increase of 13 per cent.

Apart from the budget, the major proposal to receive approval is a US\$1.5 billion tender to provide five fleet support ships for the Navy's two Operational Fleets. Another proposal, which remains in the pipeline, is to increase the existing budgetary allocation for two new

¹ 'India Military Budget', GlobalSecurity.org.
<<http://www.globalsecurity.org/military/world/india/budget.htm>>.

naval bases – one each on the east and west coasts – that are intended to enhance India’s operational reach across the Indo-Pacific maritime region.

Military Modernisation

The Modi Government has made the Military Modernisation Plan a priority. The Plan is a long-term approach to equipping the armed forces for fourth- and fifth-generation warfare; bearing this in mind, the allocation of funds under the Plan is interesting.

For example, the Navy – the fifth-largest in the world – is to receive a funding increase to cover ten new projects involving both the modernisation of, and improved logistics for, existing weaponry systems. This is an interesting development, because the main focus of naval expansion so far has been on the acquisition of aircraft carriers, to boost operational capabilities in the Indo-Pacific region.

In a further confirmation of India’s continued prioritisation of its continental, rather than maritime, commitments, the budget allocates US\$166 million (\$178 million) to accelerate the development of the railway network in border areas.

Apart from that, the majority of the modernisation plans seek to develop a robust infantry and a mechanised mountain strike corps, aimed at neutralising the threat from Pakistan. A complete modernisation of Indian ground forces should, however, include the development of three mountain strike corps, which could be deployed along the border disputed by China.²

Strategic and Operational Imperatives of the Defence Budget

The key unanswered question about the way India’s strategic and operational priorities are reflected in the defence budget is how the mountain corps could be raised within the current allocation of resources for the Indian Army.

A second problem for New Delhi, the increased Chinese naval presence in the Indian Ocean, means that India may very well feel obliged to increase the strength of its Eastern Fleet. Doing that, however, could mean shelving the plans for raising the Army’s mountain corps.³

Third, China’s Second Artillery Strategic Forces received an increased allocation of funds in the latest Chinese budget. Consequently, there is probably an attendant need to redeploy the existing three strike corps in India’s central region, from their orientation towards Pakistan, to China on the Tibetan Plateau. Such a drastic change would help to counter any increased Chinese assertiveness along India’s northern borders, but it would also mean a complete re-thinking of the Army’s existing system of strategic deployment.

Fourth, the main problem in the defence budget is that the Indian Government has not produced either a Defence White Paper, as in many other parliamentary democracies, or

² Chandramohan, B., ‘India’s Defence Budget: Implications and Strategic Orientation’, *Future Directions International Strategic Analysis Paper*, 16 July 2013, p. 5.

³ Standing Committee on Defence, ‘Demands for Grants (2012-13),’ Ministry of Defence, New Delhi, 30 April 2012, pp. 70-71.

employed a Defence Review System, as in the United States. In contrast to the US, where the Department of Defence allocates funds to the armed services with a clear perception of Grand Strategy, the Indian Ministry of Defence, in most instances, allocates funds with a view to operational readiness.⁴

It therefore becomes difficult to clearly identify the strategic priorities that determine where and when forces will be deployed. That strategic foresight is needed to push for increases to operational capabilities and to improve co-operation in the planning of operations, acquisitions and deployments; all of which might best be overseen by the Chief of the Defence Staff. At present, the Chief of Staff Committee fulfils that role, under the oversight of the Ministry of Defence, but greater coherence can only be achieved if the political establishment clearly conveys its strategic priorities to the military.

Conclusion

The key question surrounding India's strategic and operational priorities, and the defence budget, is how the Indian armed forces will establish themselves as a counterweight to China, especially in the maritime region, while New Delhi continues its strategic fixation on Pakistan. This is of interest to countries, including Australia, which have embarked on greater strategic co-operation with India.⁵

The defence budget has tried to solve the problems affecting the Indian armed forces at the operational and tactical levels, but not at the strategic level. Consequently, it is often ambiguous. For that to change, greater civil-military interaction in determining the country's strategic goals will be required. One way of doing that is to give the armed forces a greater say in the formulation of national strategic objectives. That would include instituting a single point of military advice to the government, by introducing either a Chief of Defence Staff model, as followed in many Commonwealth countries, or the Joint Chiefs of Staff model used in the United States. While the Chief of Staff Committee is presently doing that job, greater coherence would be achieved under the Chief of Defence Staff model; ideally, combined with the development of a Defence White Paper.

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⁴ Singh, R., 'United States Reforms to Its Higher Defence Organisation: Lessons for India', Institute of Defence Studies and Analyses, New Delhi, Monograph No 41, July 2014, pp. 57-59.

⁵ Green, M., 'India's Military Modernisation: What Does It Mean for Australia?', Centre for Defence and Strategic Studies, Canberra, December 2013, pp. 15-20.

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