Asia Pivot:
The U.S.-India Defense Initiative

A New Standard for Improved Cooperation and Trade

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Today many people have different attitudes when they try to formulate manufacturing technology transfer policies. On one hand, some proponents of technology transfer see it as a way to improve the U.S. international competitive position. On the other hand, concerns with undesirable and sometimes unanticipated side effects of the transfer of sensitive and critical technology have led to sentiments against technology transfer.

In the absence of consensus, U.S. policy makers, both in the legislative and executive branches, face the challenge of constantly evaluating what kind of U.S. technology that the leaders of other countries want to import. Can this technology safely be exported to help develop other countries’ industrial sectors and, more specifically, their manufacturing bases, while substantially enhancing U.S. strategic interests? What risks will these exchanges pose to specific U.S. industries and defense contractors?

These are complex questions, and the procedural hurdles are complex. There are different opinions on a whole range of issues. One opinion is that of U.S. Secretary of Defense Ashton Carter. In 2013, Carter spoke before the Confederation of Indian Industry (CII) in New Delhi. His views and recommendations and the expressed intentions of various administration officials interviewed by the author are that the U.S.-India relationship is global in scope. They see a convergence of our security interests, which include maritime security across the Indian Ocean region; Afghanistan, where India has done much to assist economic development and the Afghan security forces; and broader regional issues where the United States and India share long-term interests. Hence their view is that U.S.-India defense cooperation should be an essential part of a new partnership between the two countries.

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Carter spoke about practical steps the two countries can and should take to identify new opportunities and make new and innovative investments that will benefit both countries for generations. There is a need to define where we want to go and then make it possible to get there. The United States is building a force for the future, which Chairman of the Joint Chiefs of Staff Gen. Martin Dempsey calls the joint force of the year 2020. Former Secretary of Defense Leon Panetta added, “The joint force is going to be agile, lean, ready, technologically advanced, and able to conduct full spectrum operations and defeat any adversary, anywhere, anytime.”

Underlying the new strategy is the U.S. decision to rebalance in the Asia-Pacific region. New investments by the United States in technology, weapon systems, innovative operational plans and tactics—and regional alliances and partnerships reflect this rebalance. According to Carter, the U.S. partnership with India is a key part of the U.S. rebalance to the Asia-Pacific area for broader security and prosperity in the 21st century. He emphasizes that the United States wants to leverage “the unique strengths of India to confront critical challenges and meet emerging opportunities.” Toward that end, the United States is streamlining its internal processes and security cooperation programs to enhance sharing and cooperation with India.

U.S.-India military-to-military engagement has increased steadily over the years to include a robust set of dialogues, exercises, defense trade and research cooperation. India now is a top priority in U.S. export considerations, as the United States reforms the internal processes of the Department of Defense (DoD). (See author’s related article, “Defense Technology and Trade Initiative—Ashton Carter’s Strategy in India,” Defense AT&L magazine, March-April 2016, Page 26—http://dau.dodlive.mil/2016/02/16/defense-technology-and-trade-initiative-ashton-carters-strategy-in-india/)

These reforms make it easier for India to work with the United States. For example, Defence Research and Development Organisation (DRDO), an agency of the Republic of India, headquartered in New Delhi, is responsible for developing technology for the military. And the Indian Space Research Organisation (ISRO) harnesses space technology for national development, while pursuing space science research and planetary exploration. Both DRDO and ISRO have been removed from the Commerce Department Entity List, thereby allowing the United States and India to conduct joint research and co-develop technologies such as the unmanned aerial vehicles (UAVs).

The U.S. Government strictly controls foreign sales of larger UAVs, but approved sales of RQ-11 “Raven” built by AeroVironment Inc., whose partnership with its Indian counterpart will

The United States would do its due diligence and make approval decisions sooner. This is a new initiative to build exportability into its technology systems from the start and thereby avoid time-consuming delays and added expenses.
with India. There are programs underway to streamline procedures and processes and showcase what the United States and India can achieve together in the global arena. Secretary Carter points to Tata Advanced Systems, Ltd, and Lockheed’s joint efforts to produce parts for the C-130J in Hyderabad, India. Henceforth, every C-130J around the world will contain parts made from this joint production, exemplifying the kind of co-production that is the future. In his own words, Carter says, “it underscores what can be achieved when the two countries unleash the potential of the private industries in the two countries; ... when there is a common strategic view, when the bureaucratic barriers are down, and, importantly, when the strategic interests and genuine economic and business interests of the two countries and their private sectors are aligned.”

Export control reform is just one element of overall improvement. Recognizing that India was the second-largest foreign military sales (FMS) customer in 2011 with $4.5 billion in total FMS transactions, which included the six C-130Js delivered on time, the United States is improving its FMS programs. One advantage of FMS is that government-to-government agreement through FMS offers competitive pricing, slightly more than DCS. These costs go to DoD, which affords protections India cannot get from industry alone. Further, it addresses long-term sustainment needs.

The United States is prepared to adapt its system to the unique needs of India and India’s Defence Procurement Procedure (DPP). Carter referred to the programs under way to clarify the U.S. acquisition system, which can be difficult to interpret under some circumstances. First, a new fund allows the U.S. Government to procure long-lead high-demand items so that they are in its inventory in anticipation of partner requests. Second, a cadre of acquisition experts is ready to go to other countries to define their requests through cooperation and streamline the U.S. response. These programs will help India.

While U.S.-India high-value technology cooperation is gathering momentum, India can make changes to increase U.S. investment. One particular area where change has to be carefully planned is its ceiling on permitted foreign direct investment (FDI). It is reasoned that India raising its FDI ceiling to international standards could increase commercial incentives to invest in India. In August 2014, the Union Cabinet approved a proposal to raise FDI in defense to 49 percent from 26 percent. However, the U.S. defense industry was not satisfied with 49 percent FDI and preferred a controlling stake for “ground-breaking” weapons technology and manufacturing equipment transfer on par with its closest allies and in accordance with industry best practices and international quality standards. The Make in India online brochure published on the eve of the April 2015 international trade fair Hanover Messe in Hanover, Germany, enunciates India’s plans for a graduated scale in the FDI ceiling. This contentious issue will require India to process its FDI policy logically and judiciously.

Similarly, India needs to work on offset requirements, which, if carefully orchestrated, could be immensely helpful in growing industry capability. If offset requirements are too arduous or narrow, the interest on the part of companies so diminishes that alignment with strategic intent is lost. The bottom line, as Carter has emphasized, is that the U.S.-India provisions must make good economic and strategic sense for companies to participate. The challenge, as he pinpoints it, is to identify the right companies and ensure that absorptive capacity is there to apply or use the technology being transferred.

Absorptive capacity also implies that there should be administrative structures that manage and oversee integration of technology development, production and acquisition to ensure success in co-production and co-development. Carter believes that such changes in all these areas could be a real help.

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