

Defense Import and External Sector of India

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Abstract

Non-availability of exact data may be the reason pertaining to the absence of heated discussions with regards to the import of defense equipments in India in relation to the external sector unlike the case of Petroleum, Oil and Lubricant (POL) and Gold imports. The analysis confirmed that arms import owes a great impact on lifting import payments, thereby generating more needs for foreign exchange.

Introduction

The defense sector is certainly an ideal and potential determinant to reflect upon Prime Minister Modi's 'Make in India' slogan, a mission campaign to manufacture products indigenously, as India tops in the list of countries having the largest arms imports in the period between 1990 and 2014. This proposition is essentially premised on the data released by Stockholm International Peace Research Institute (SIPRI) [1], an independent research institute in Sweden that records arms transfers across borders. The place of India as the biggest arms importer in the world is speculated to progress rapidly further as the government has fixed on to modernize armed forces and hence the pace of procurement in the approaching years will be inflated when compared to the previous years. The basic issue the paper attempts to explore is to get a clear sense of the arms import and thereby to understand the effects of such transactions on the external sector of India. Undeniably it has been engagingly hard to manage external sector in the post liberalization period. Therefore, the first section of this paper ventures to make an overview on the imports of arms and ammunitions to India in the post liberalization period and the second section seeks to measure the impact of arms imports on external sector, which is finally followed by the conclusion.

An overview of the imports of arms and ammunitions to India

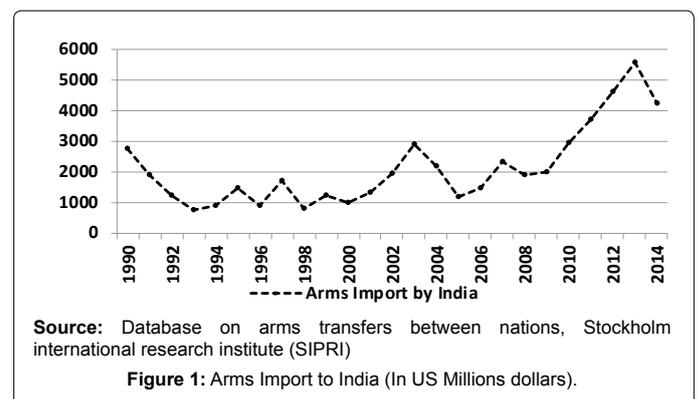
India's emergence as the world's largest arms importer over the last two decades has to be seen in conjunction with the tensions prevailing in neighborhoods along with the country's long-term geopolitical objectives. India imported 2,724 US \$ Million worth arms and ammunitions in 1990 and increased to 5,566 US \$ Million dollar in 2012 and went down marginally to 4,243 US \$ Million in 2014 (Figure 1). The surge of arms import was happen in 2009 with 1986 US \$ Million to 4,243 US \$ Million in 2014 which is 14 per cent of arms transfers in the world, accounts more than 80 per cent of Indian imports come from Russia, which has long been India's supplier of choice, followed by United States. Meanwhile, in recent times the place of the largest exporter of arms in the world has taken over by United States. Interestingly another factor that has to be noted in this connection is, though China remained one among the top arms buyers in the two successive periods along with India, the growth in the second period is noted to be relatively lower than that of India (Figure 2). This can be largely attributed to the indigenous development of arms production in China as opposed to India to become a more self-reliant nation in matters of arms and ammunitions.

Impact of arms imports on external sector

India meets around 70 percent of its defense needs through

imports. In opposition to India having 39 ordnance factories and eight public sector undertakings (PSU) employing over 3, 00,000 workforces towards the production of defense equipments, we still mostly depend on imports for defense requirements [2]. Notwithstanding the clear evidence of huge defense imports to India, in conformity with the nature of secrecy maintained on such strategic transactions, they are henceforth not recorded under Directorate General of Commercial Intelligence and Statistic's (DGCI&S) data. But at the same time, the transactions of arms and ammunitions are reflected in the import figures under Balance of Payment (BOP) of India. In other words, plainly speaking, due to the nature of import, there is no clearance for defense import equipments. Hence, it would hardly enter into the DGCI&S merchandise import data, while RBI covers the same when the imports are paid for [3].

High level BOP committee appointed by the government to review the BOP condition in 1991 under the chairmanship of Dr. C Rangarajan, noted that the presence of non DGCIS import (Excess of RBI imports over DGCI&S imports) [4] is the major evidence for defense import to India. Therefore, here we take a comparative analysis between import of

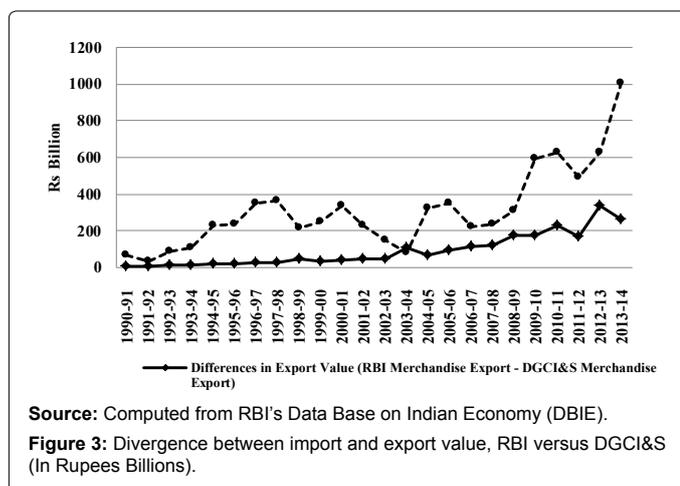
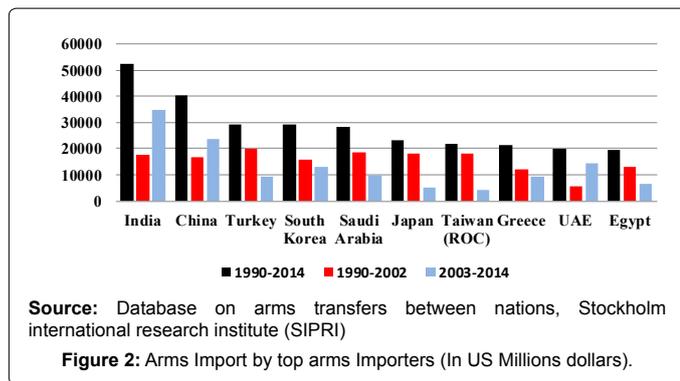


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RBI and DGCI&S to ascertain an approximate amount of arms imports to India. Divergence in merchandise import data between DGCI&S and RBI or high Non DGCI&S merchandise import is indeed one of the clear evidences to substantiate defense import to India (Figure 3). During the post liberalisation period, merchandise import reported by RBI has been found significantly higher than import reported by DGCI&S. When it comes to export, the divergence between exports reported by RBI and DGCI&S is considerably lower. Therefore the increased difference in import figures reported by the two agencies

point to the undeniable fact of increasing defense imports. However it needs mentioning of the existence of other reasons attributing to the divergence between the two data, that may include (i) divergence in the valuation method of foreign currencies between two agencies and (ii) leads and lags in physical import and payments. Yet, RBI import figure always stands higher than DGCI&S import and this divergence is found only between import figures and hence there is no much divergence in case of export value which in turn strengthens the argument of high defense imports to India. We could also expect that the variation in the import value divergence between RBI and DGCI&S might be a strong indicator to represent that modernisation is gearing up in the armed forces of India through imports.

Moreover, when compared to the previous decade, there is an absolute increase in the arms imports from the year 2000 onwards. Modernisation in defense sector after Kargil War [2] could be one of the reasons for escalating the amount earmarked for arms import in the post-2000 period.

Conclusion

Worsening geo-political issues in the critical neighboring regions could be one among the many reasons why India has been increasingly hiring defense equipments to modernize its armed forces which subsequently position the country as the largest importer of arms in the world. Our analysis confirms that arms import has a fundamental impact on lifting India's import payments that generates greater needs for foreign exchange. Paradoxically the effects of defense imports on external sector of India are neither discussed nor put to public scrutiny unlike the case of POL and gold imports. Non-availability of exact data may be the ascertaining constituent why not much heated discussions galore with regard to the import of defense equipment in connection with the external sector in contrast to the case of Petroleum, Oil and Lubricant (POL) and Gold imports.

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