

## MILITARISATION OF INDIAN ECONOMY\*

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### Abstract

*An attempt is made in this paper to highlight the fact that apart from strengthening the armed forces, defence spending gave birth to a well-knit military-industrial complex in India. With about forty ordnance factories, eight defence public sector undertakings, and a number of defence research laboratories, India's defence production sector ranks first among the Third World non-communist states in value, volume, diversification and R&D facilities. Contrary to the Industrial Policy Resolutions of 1948 and 1956, a number of private sector undertakings — big as well as small — are involved in defence production either as direct producers or as suppliers. The fate of hundreds of factories are closely interwoven with the defence production sector. Taking advantage of liberalisation policies of the government, the representatives of Indian industry are making every effort possible to consolidate, and further strengthen the ties between the private capital and the defence sector. Responding to their demands, the government is, on the one hand, encouraging the industrialists to produce for meeting the defence needs, and on the other allowing the private capitalists to utilise the idle capacities of ordnance factories and defence public sector undertakings to produce for civilian needs. Further, to overcome market and foreign exchange crises, the policy makers are pleading the civilian and defence sectors to make concerted efforts to boost the defence exports. As such, to spend or not to spend on defence, is no more a strategic question. Defence spending has become an economic consideration as well. Pumping money into defence is now being seen as an economic necessity to give artificial stimulation to the country's sagging capitalist economy. The policy makers in India have become aware of the spill over effects of defence budget on the country's economic and technological development, and hence they do not take any steps to curtail defence expenditure. Rather they fabricate imaginary threats to national security, even in times of peace, and continue to impose heavy tax burden on the people for maintenance of the military-industrial complex, which has very little to do with security and integrity of the nation.*

### INTRODUCTION

The Sino-Indian war of 1962 brought a dramatic change in India's Defence Policy.

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Before the war, the members of Parliament used to be skeptical about every proposal aimed at increasing the defence budget. It was then felt that excessive expenditure on defence would only curtail the scarce resources available for developmental activities. But the military set back in 1962, and the indecisive war with Pakistan in 1965 forced the nation to change its priorities. Since then, taking advantage of the state of insecurity that compelled the nation to acquire a soft attitude towards defence expenditure, the government diverted huge amounts for defence sector. From a modest budget of about Rs. 271 crores in 1960-61, the annual defence budget has crossed Rs. 20,000 crores in 1993-94. Though the government claims that it spends only four per cent of GDP, or about 17 per cent of the budget for defence purpose, if one includes the budget allocated to defence public sector undertakings, border roads, atomic or space research etc., which also have defence connotations, it becomes clear that the government spending on defence is much more than what it claims to be (Srikanth, 1991). Such a massive diversion of public funds for defence, has considerably strengthened the military preparedness of the armed forces in India. Indian military, with approximately 1.3 million men, is now recognised as one of the world's largest regular force. It is claimed that India has third largest standing army, fifth largest airforce, and eighth largest navy in the world. With many sophisticated weapon systems, its military supremacy in South Asia is unquestionable.

India, now at the threshold of the twenty first century is very different from the India of the mid-sixties. The country can confidently meet any threat to its security and integrity. At this stage, can't the government afford to divert its attention to other developmental activities? Does spending such huge amounts for defence continue to be a priority, which can make the nation ignore the necessity of attending to the socio-economic problems of the masses? Such questions, though very important, hardly get any public attention. Indian academicians are no different in this respect. Like any other lay man, most academicians in India justify the increase in defence spending by citing the real or perceived threats from the neighbouring countries. They normally ignore the fact that of late, the expenditure on defence is not meant for strategic purpose alone, and that a considerable part of the defence budget is being spent on maintaining a huge military-industrial complex. The structure of this edifice and the economic role performed by it has not been properly examined by the scholars. An attempt is, therefore, made in this paper to throw some light on the contributions of ordnance factories, defence public sector undertakings, and defence research centres, and analyse the consequences of increasing collaboration between the industry and the defence sector in India.

### **ORDNANCE FACTORIES (OFs)**

At the time of independence, there were only fourteen ordnance factories in

India. Most of them were set up during the Second World War to support the war efforts of the British India. After independence, the Government of India took steps to set up many more factories for the manufacture of defence stores and equipment in the country. At present, there are about forty ordnance factories in the country. There is a special Ordnance Factory Board to look after the functioning of these factories.

Initially, the ordnance factories used to meet only partial needs of the defence. Almost up to the sixties, the value added by the factories always remained less than Rs. 50 crores per annum. The situation has, however, changed after the mid-sixties. The value of production in the ordnance factories, increased from Rs. 65 crores in 1965-66 to over Rs. 2500 crores in 1989-90. The annual turnover grew by 130 times in less than 50 years (Government of India).

The ordnance factories produce sophisticated sighting devices, armoured vehicles, anti-tank guns, field guns, transport and armoured vehicles, self propelled guns, mortars, small arms, bombs, grenades, parachutes, telecommunication cables, and many others. Prestigious Vijayanta tanks are designed and produced by the ordnance factories. Now these factories have reached a stage where they can meet all the requirements of small arms and ammunition, maintain guns, jet aircrafts, electronic goods, and so forth, necessary for all the three services. Apart from having Research and Development centres attached to each factory, these ordnance factories maintain close links with the universities, Indian Institute of Technology (IITs), national laboratories, public and private sector organisations for exchange of ideas and knowledge (Military Year Book 1985-86).

In addition to ordnance factories, there are eight defence public sector undertakings (DPSUs) in India. Most of them were established in the sixties and early seventies. In spite of the fact that they also produce for the civilian needs, the DPSUs are primarily meant for meeting the wider industrial and advanced technological needs of India's defence. Hindustan Aeronautics Limited (HAL) designs, manufactures, and overhauls various types of aircrafts and helicopters. It manufactures Kiran, Jaguar, Chetak, Cheetah, Mig 21 etc. Bharat Electronics Limited (BEL) produces electronic equipment and components for defence purpose. Bharat Earth Movers Limited (BEML) manufactures rail coaches, trailers, crawlers, and tractors. Mazagon Dock Limited (MDL), Goa Shipyard Limited (GSL), and Garden Reach Shipbuilders & Engineers (GRS&E) are involved in the production of frigates, petrol craft, dredgers, and variety of vessels necessary for both civilian and defence needs. Bharat Dynamics Limited (BDL) looks after the production and development of missile weapon system and anti-tank missile rockets for the army and the navy. Mishra Dhatu Nigam Limited (MDNL) produces special metals and special alloys necessary for strategic industries.

The investment in the DPSUs, which employ over one lakh workers, show a

considerable increase over the years. Between 1965-66 and 1972-73 the investment rose from Rs. 58 crores to Rs. 115 crores. The government's allocation for them continued to increase even after the 1971 war with Pakistan. In 1989-90 all DPSUs together had paid up capital of Rs. 748 crores, apart from government loans amounting to Rs. 416 crores. The total production in these undertakings, which was about Rs. 400 crores in 1976-77, increased to about Rs. 3500 crores in 1990-91. Similarly, the sales turnover increased from Rs. 348.53 crores in 1976 to Rs. 3000 crores in 1990-91 (Government of India, 1990-91).

### DEFENCE RESEARCH

Research in defence production becomes essential to improve the standard of defence products, and to diversify the pattern of production to meet the growing needs of the defence sector. In India the Department of Defence Research and Development (DDR&D) looks after scientific and technological aspects of the defence research. The department operates with a nucleus of multi-disciplinary team of scientists, engineers and administrators. All the defence laboratories work under the control of Defence Research & Development Organisation (DRDO). At present there are about forty seven defence laboratories, employing about thirty four thousand employees, including 16,000 technical and scientific personnel (Government of India, 1990-91). So far, the DRDO handled thousands of projects, relating to different areas like missiles, electronics, aeronautics, radar technology, underwater naval weaponry, low level night photographic equipment, solid and liquid propellants. In recent years, the DRDO has diversified its research in many other areas.

Along with laboratories under the DRDO, Indian Space Research Organisation (ISRO) and Department of Atomic Energy (DAE) are also actively involved in defence research, contrary to the official claims that they were meant only for developmental needs. Further, the experience of 1965 and 1971 wars showed that the Defence Ministry was capable of extracting the services of many other laboratories and institutions placed under the civilian sector for defence needs. According to one estimate, approximately eleven per cent of government's R&D expenditure is being devoted to research in weapon system (Lawrence, 1978).

### PRIVATE PARTICIPATION IN DEFENCE PRODUCTION

The Industrial Policy Resolutions of 1948 and 1956 completely forbade private sector participation in defence production sector. However, almost upto the sixties, there was no visible criticism from the Indian capitalists of these provisions of the Industrial Policy Resolutions. It was only during the mid-sixties when the recession hit almost all groups of industry, that the industrialists felt the need for getting a foothold in defence sector to overcome the market crisis. Following the Indian

setback in the Sino-Indian war of 1962, the capitalist organisations like Federation of Indian Chambers of Commerce and Industry (FICCI), Indian Merchants' Chamber, etc., started making systematic campaign for private participation to "strengthen the defence of the motherland" (Editorials in Indian Express, February, 1963; Times of India, Oct. 23, 1965, Frontier Times, October 18, 1965). Their leaders effectively utilised personal contacts with the politicians and used media support to pressurise the government to involve them in defence production. They also demanded the government to help the civil sector with finance, capital, maintenance grants, and subsidies to enable them to meet the growing needs of defence.

The Indian State, responding partly to its own defence needs, and partly to the needs of the crisis ridden economy, gradually widened the scope for private participation in the defence production. The first attempt in this direction was made immediately after the Sino-Indian war when the Secretary of the Ministry of Economic and Defence Co-ordination met the representatives of the industry to discuss the manufacture of defence items by the private sector. Though both parties came to certain broad agreements, very little progress was made in the next two years. However, after the 1965 war with Pakistan, the government actively responded to the demands of the industrial houses. In 1965 a high-level meeting was convened by senior officials of the Departments of Defence Production, Industry, Supply and Technical Development Directorate to tone up the administrative machinery to meet the requirements of defence production. In November 1965, by placing orders with the main steel producers of India, namely TISCO, IISCO, Hindustan Steel, etc., the Defence Ministry legalised the civilian participation in defence sector(8). The liaison between them was further strengthened with the establishment of the Department of Defence Supplies. The department which was created to promote indigenisation of defence production, makes all efforts to tap the potentialities of engineering, chemical, textile, jute, electronic and other industries, for meeting the defence needs. In order to encourage the civilian sector, the department offers the whole package of promotional assistance such as design and drawings, identification and procurement of plant machinery, raw materials, release of foreign exchange, provision of import of scarce raw materials, and capital goods (Military Year Book, 1985-86). Exhibitions and sample rooms are arranged in Delhi, Calcutta, Bombay and Madras for informing the entrepreneurs about their needs.

Since its inception in 1965, the Department of Defence Supplies placed orders for about sixtyfive thousand items. Along with the number of items, the value of orders placed by the department has also increased considerably. The value of orders which was Rs. 62 crores in 1977-78, has increased to about Rs. 200 crores in 1989- 90. The Defence Ministry claims that more than half of its requirements are procured from the small scale industries. The policy of indigenisation of defence

stores encouraged establishment of twenty one ancillary units around the ordnance factories at Jabalpur alone. It is claimed that besides patronising 2276 small scale industries, the defence public sector undertakings have sixty eight ancillary units attached to them directly (Annual Report, 1990-91). The Defence Ministry proclaims that many more can live and grow with the ordnance factories and DPSUs.

The liaison between the big capital and the defence sector was facilitated by many committees and forums involving the defence personnel, and the representatives of Indian industry. Initially the monopoly houses were interested only in strategic and non-lethal items. But in 1991 the leading industrialists like Ratan Tata and Rahul Bajaj were directly involved in the reconstituted committee on Light Control Aircraft. The research institutes, sponsored by the big industrial houses are actively engaged in strategic defence research. Many industries belonging to big companies like Kirloskar, Greaves Cotton, Tata steel, TELCO, Ashok Leyland, Walchand Nagar, etc., are actively associated with defence production in India (Sunday Observer, Sept. 8, 1991).

### DEFENCE EXPORTS

Provision for export of defence stores to friendly nations was made in 1956 itself. The limited exports made up to the mid-sixties was, however, dictated by political considerations, rather than the desire to make profits. Only in 1967 the government, for the first time, hinted its desire to export arms and ammunition on commercial basis. In 1972 the Defence Ministry informed the Lok Sabha that it would enter the export market in a big way (Manwani and Palsh, 1989). A special cell was set up in 1973 in the Department of Defence Production to boost the exports. Consequently, the export of defence stores from the ordnance factories shot up from Rs. 10 crores in 1972-73 to Rs. 80 crores in 1989-90. Apart from the ordnance factories, the defence public sector undertakings like BEL, HAL, BEML, GRSE, etc., are also increasing their exports in recent years (Government of India, 1989-90).

For long India has been exporting only non-lethal items. But in recent years the mood is to make money out of export of weapons including tanks, air crafts, missiles, and even defence manpower. In fact the government is planning to dilute its policy to export defence goods only to friendly nations. Mr. G.C. Katoch, former Additional Secretary and Financial Advisor to the Defence Ministry, only expressed the changing opinion of the government when he said, "Once you have decided to be a seller of arms, then you can't be choosy about whom to sell. If you don't do that, you can't make money" (Times of India, August 17, 1991). Defence exports have been projected as a panacea for overcoming the foreign exchange crisis. All efforts are being made to boost defence exports by involving private capitalists as well as foreign companies. For the sake of certain parties which refrain to come to an agreement on government to government basis, Indian government makes use of the services

of private agents licenced by the Defence Ministry. In 1991 discussions were initiated with the Russian government for manufacturing under licence items for military exports to Third world countries. Project and Equipment Corporation, created to promote the role of private sector in defence production, has invited concrete proposals from the industrialists to boost defence production and exports. Mr. Sharad Pawar, who worked as the Defence Minister for a while in Mr. Narasimha Rao's cabinet, wanted the country to increase the defence exports to Rs. 500 crores per annum. In order to attract the foreign parties, the Defence Ministry participated in international defence exhibitions organised in Ankara, Baghdad, Paris, Singapore, and Kaulalampur. The countries to which India exported its defence products include Kenya, Egypt, Malaysia, Nigeria, Lebanon, Saudi Arabia, Iran, Iraq, Tanzania, Ghana, Indonesia, Spain, Czechoslovakia, Italy and Yugoslavia (Dutt, 1984).

Thus it is evident that development of military-industrial complexes in advanced capitalist countries has been recognised by many scholars. But when it comes to Third World countries like India, spending on defence is usually analysed in terms of threat perceptions or security concerns. Neither politicians nor strategic experts examined the militarisation process from the view point of India's changing political economy. It is true that factors such as real or perceived threats from the neighbouring countries, role of super powers, and India's own desire to become a big power in South Asia, contributed considerably to the soaring military budget. However, the fact that there are certain economic compulsions, apart from political and strategic considerations, compelling India's militarisation, has not received considerable attention in the academic circles.

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