

# A Study on Make in India as the Center of the New Indo-Vietnam Defense Alliance

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## ABSTRACT

When the National Democratic Alliance (NDA-II) administration took office in May of 2014, the parameters of India-Vietnam ties in general and the defence partnership in particular received a big boost. The 'Make in India' plan, launched in September 2014 with the primary goal of improving the world's perception of India, has become an essential component of India's and Vietnam's cooperative efforts in the field of defense and also a desirable location for international financial investments. Since it was first implemented almost four years ago, the plan has assisted in making the regulatory climate more conducive to foreign investment. It has helped to make the Indian market more user-friendly for investors. This optimism was reciprocated "during the late President of Vietnam, Tran Dai Quang's visit to India in March 2018", when he stated that the 'Make in India' initiative would provide more chances and "enable Vietnamese companies to pour investments in India." As an additional benefit, the execution of the Defense Production Policy is anticipated to expand the potential avenues for collaboration and investment in the defense sector. In this context, this study aims to analyze the elements boosting defense collaboration between India & Vietnam within the context of the 'Make in India' Policy and to identify the problems.

## 1. Introduction

Since the "National Democratic Alliance (NDA-II) Government" took its position at the helm of affairs in May 2014, the outlines of India-Vietnam partnerships in general and defense collaboration in particular, have received a significant boost. This boost can be attributed to the fact that the NDA-II government has been at the helm. The graph of Indo-Vietnamese relations has seen important milestones over the previous three years, which has opened up chances for stronger and more widespread collaboration across various domains. The 'Make in India' plan, launched in September 2014 with the primary goal of improving India's worldwide image as an appealing investment destination, is a significant component of the bilateral collaboration.<sup>[1]</sup> This initiative is an essential pillar of bilateral cooperation. To accomplish this goal, the programme has made the regulatory environment more conducive to foreign investment and has increased the attractiveness of the Indian market to investors. This hope was voiced during the late President of Vietnam, Tran Dai Quang's visit to India in March 2018. "During this trip, he noted that the 'Make in India' project would generate more chances and enable Vietnamese companies to pour investments in India."<sup>[2]</sup> Inside the context of the 'Make in India' initiative, the incentives provided by opening "new sectors to Foreign Direct Investment (FDI), extending the sectoral limit of current sectors, and simplifying other requirements of the FDI policy are of special value." These incentives are intended to provide ease of doing business, lowering minimum capitalization, simple withdrawal from projects, and accelerating the pace of foreign investments within the nation. These clauses open up enormous possibilities for "India and Vietnam" to work together and engage in joint ventures in the field of defense, an important area of cooperation currently being developed between the two

countries. Among the many industries being considered, cooperation in "defense technology, co-development, and co-production" is receiving the most attention. These areas offer "opportunities for investment" in the production of defence products and sourcing opportunities for supply chains and defense offsets. Permitting "Foreign Direct Investment (FDI)" at 100%, together with the elimination of the condition of the necessity of single greatest "Indian ownership of 51% of equity and a lock-in term of three years on equity transfer," further simplifies the issue and makes it easier for everyone involved. The adoption of the Defence Production Policy -2018, pertinent to the "ambitious vision of catapulting India into the top five manufacturers of defence platforms worldwide," is expected further to widen the avenues of defence cooperation and investment. This is expected to be the case due to "the ambitious vision of catapulting India into the world's top five manufacturers of defence platforms. The Policy suggests permitting 74% FDI using the automatic route for niche technological fields" to increase the amount of FDI invested in the manufacturing of defence goods. In light of this context, this article aims to analyze the elements supporting the convergence of interests and enhancing defence cooperation between "India and Vietnam" within the back drop of the 'Make in India' strategy. In conclusion, there is an examination of the difficulties the trajectory poses and the opportunities ahead. The following is a rationale for the convergence of Indo-Vietnam in the field of defence.

## 2. The 'Make in India' slogan serves as the foundation

When it comes to matters of defence, India and Vietnam have a great deal of impulses in common with one another. These impulses are essential to promoting and strengthening collaboration and investments between the two

countries. Vietnam's pivotal role in India's "Act East" strategy architecture provides the primary justification for the growing convergence of the two countries foreign policies. The basis of Indo-Vietnamese ties is rock solid, having been bolstered by more than a decade of Strategic Partnership (beginning in 2007) and recently "been elevated to the level of Comprehensive Strategic Partnership (2016). The Joint Vision Statement on India-Vietnam Defence Relations was signed in May 2015, and its goal is to provide a new direction, momentum, and substance to our bilateral cooperation." [3] This is done for India and Vietnam to act as "the anchor of stability, security, and prosperity in the Asia-Pacific region." The 'Act East' strategy recognizes Vietnam as a key pillar. Hanoi has shown its appreciation by supporting the Policy and accepting India's expanded and more responsible role in the region's dynamics.[4] Numerous mechanisms, including high-level visits, yearly discussions, service-to-service collaboration, frequent visits by navy ships and people, comprehensive training and capacity development, and defence equipment, have contributed to the positive tenor of defence cooperation under the 'Act East framework'. Procurement, as well as the transfer of associated technologies, and collaboration in regional and international "forums, such as the ASEAN Regional Forum (ARF), the East Asia Summit (EAS), and the ASEAN Defense Ministers Plus (ADMM-Plus) platforms are important attributes of the cooperation between these two countries." Second, India and Vietnam have an agreement allowing them to possess and operate some Russian-made combat systems jointly. India possesses nearly two hundred Russian-built "Su-30MKI fighters and nine Kilo-class diesel-electric submarines." It intends to acquire "five S-400 long-range surface-to-air missile systems" capable of combating ballistic missiles and stealth aircraft China is building. Additionally, "India has been supplying parts for certain Russian-origin equipment to the Vietnamese Navy," such as the Petya class destroyers and the OSA-II class missile boats. Other Soviet-era military hardware used by the Vietnamese military, such as the T-54/55 main battle tanks and the BMP series of infantry combat vehicles, are among the systems recognized as candidates for upgrading in conjunction with India. For its part, Vietnam has in its arsenal Su-30 jets manufactured in Russia, employs the S-300 air defence system, and has placed an order with Russia for more jet fighter bombers.[5] From 2013 to 2017, imports of Russian hardware made up 62% of the country's total weapons supply, compared to 79% from 2008 to 2012. Given the circumstances above, it would be very beneficial for India to provide aid in the form of technological transfers if Vietnam is serious about improving its stockpiles. This common lineage also serves as a platform for lobbying their consolidated weight behind provocations and difficulties, such as the threat of United States (US) sanctions on Russian military exports, to derail the arms deal among the Indo-Vietnam-Russia triumvirate. This illustrates how this common lineage is a platform for lobbying their consolidated weight behind provocations and exigencies. Given that the United States would avoid the risk of disrupting its defence relations with New Delhi, the concerted pressure that India and Vietnam exert on Washington may be successful in winning the grant of waivers from secondary sanctions. This is due to the fact that India and Vietnam would be working together.

Another similar thread is the drive in both nations to strengthen their defensive arsenals by acquiring new weapons. According to estimates provided by the Stockholm International Peace Research Institute (2017),[6] India occupied fifth place in terms of global military expenditure in 2017. This spending totalled US\$ 63.9 billion and represented a 45% increase from 2008. Compared to 2016, India's military expenditure increased by 5.5% in 2017, and the country moved up one spot in the rankings, with France falling farther and further behind. Regarding the amount of money spent on the military, India is now in second place in the Asia-Pacific region, accounting for 3.7% of the total, just behind China. New Delhi has increased its allocation for defence spending by 7.81% for the 2018-2019 fiscal year, bringing the total to Rs. 2.95 lakh crore, up from Rs. 2.74 lakh crore in the previous year's budget. This increase is being made to expand, modernize, and improve the operational capability of India's armed forces. Although the rise in the budget for the defence department was 6.2% higher in 2017-2018 than in 2016-2017, the increase was 9.76% higher in 2016-2017 compared to the budget allocation for 2015-2016. On the other hand, Vietnam's defence expenditures were 4.9 billion US dollars in 2017. It is anticipated that they will reach 7.1 billion US dollars by 2022, expanding at a compounded annual growth rate of 7.08%. In 2016, it surpassed the previous record high of US\$ 4.4 billion, reaching a new all-time high of US\$ 5 billion. This is a significant increase from 2005 when Vietnam spent around US\$ 1 billion on defence. In addition, it is predicted that the country's per capita defence expenditure will increase from \$53.4 in 2017 to \$72.5 in 2022 due to the moderate growth of the country's population. It is interesting to note that Vietnam's publicly available defence budget shows a growth of 258% over a decade (from US\$ 1.3 billion in 2006 to US\$ 4.4 billion in 2015). Vietnam's determination to "improve and upgrade defence and security ties with partners execute seriously & consistently the agreements and plans on defence and security cooperation with significant nations like Russia, India, Japan, and some other prospective partners like Australia and Israel, and progressively extricate ourselves from the regional security dilemma" is reflected in the country's increased military spending.[7] This naturally envisions the strengthened convergence of defence ties and collaboration with India, as the two nations are confronted with the problems that come from an increasingly aggressive China in the surrounding territorial and littoral area.

### 3. Emerging Patterns of Cooperation between India and Vietnam: Defense and the 'Make in India' Initiative

With the launch of its flagship 'Make in India' campaign in September 2014, the Government of India has successfully attracted foreign investment by demonstrating India's investor-friendly demeanor and a considerably more relaxed regulatory environment. Overall, 'Make in India' is to reform the FDI cap, "open new sectors to FDI, increase the sectoral limit of existing sectors, and simplify other conditions of the FDJ policy." This is done with the primary intention of providing ease of doing business, reducing minimum capitalization, "raising the foreign investment limit for some sectors, easing the conditions for others, and putting many on the automatic route (not requiring pre-approval by the Government) for approval, and easy exit." In addition, The

Union Budget for 2016–2017 put forward several reform ideas and loosened restrictions on foreign direct investment (FDI) in fifteen different industries, including defence, energy/power, real estate, private banking, insurance, civil aviation, single brand retail, news broadcasting, and others. In addition, the Foreign Direct Investment (FDI) Regulations were further revised in January 2018 to liberalize and simplify the FDI policy.<sup>[8]</sup> This was the second significant liberalization effort in FDI policy in one go, after large revisions implemented in June 2016. With foreign investors investing 49% FDI through automatic routes and the primary market, a considerable overhaul has been obvious in the case of power exchanges. This provision was introduced to make power exchanges more transparent. The 'Make in India' plan has made it easier for businesses to invest in India by improving both the policy environment and the environment in which businesses operate. At the local level, initiatives and procedures have been developed with the goal of monitoring projects to ensure that they are implemented on time, with a focus on the general development of the business environment and infrastructure. In addition, each state government has been granted its incentive policy, which enables them to provide a variety of financial benefits to businesses in exchange for certain criteria, such as the amount of money invested, the location of the project, the likelihood of the creation of new jobs, and so on. The incentives are normally outlined in each state's industrial strategy, although they vary from one state to the next. The regulations that governments have implemented to make it easier to do business include using an online single-window approval procedure with an enforced timeframe for each service, the design of uniform application forms, and other similar measures. Exemption from the payment of stamp duty while purchasing property, exemption from the payment of electricity duty are some of the wide categories of incentives that are given by the governments.

In addition, at the introductory level, all investor assistance for the "Make in India" initiative, including facilitation and hand-holding support, is supplied by "Invest India, which is the official Investment Promotion and Facilitation Agency of the Government of India." It is hoped that it will serve as the initial point of reference for prospective investors, and the team of domain and functional experts that it employs will provide investors with inputs that are industry- and state-specific as well as hand-holding support throughout the entirety of the investment cycle, beginning with pre-investment decision-making and ending with after-care services. In addition, the support will cover the selection of a site, the acceleration of any regulatory clearances, the facilitation of meetings with appropriate business executives, and finally, after-care services. When placed within the larger framework of 'Make in India,' one might say that the defence industry has profited significantly from the initiative and that the defence-industrial base has been given a makeover. Draft Defence Production Policy 2018 expands opportunities in line with New Delhi's goals of developing "two defence industrial production corridors and facilitating an industry-friendly military production policy while fostering the dual dimensions of the local defence industry and foreign partnership (DProP 2018)"<sup>[9]</sup> "The ambitious goal of catapulting India into the top five makers of defence platforms in the world with active engagement from

both the public and commercial sectors is relevant to the Policy, and the Policy is pertinent to the ambitious aim. The plan calls for the export of defence-related products and services totalling US\$ 26 billion by 2025, with a portion of those exports amounting to US\$ 5 billion in the following seven years. DProP (2018)"<sup>[10]</sup> suggests permitting 74% FDI through the automatic route for "niche technological fields," which is a significant increase from the present level of 49% FDI allowed in defence manufacturing. This is done in order to increase foreign direct investment. "The provision of boosting export via Government-to-Government agreements and line of credit/funding" is spelt out in this section. Cooperation in defence technologies, "co-development, co-production", and investment prospects in the manufacture of defence goods has greatly expanded the investment and collaboration landscape. "The push toward opening up the defence sector to private partnership makes it easier for international original equipment manufacturers (OEM) to form strategic partnerships with Indian companies; as a result, Vietnam would be able to take advantage of opportunities in both the domestic and international markets if it participated in these partnerships. India's state-owned arms manufacturer, the Defence Research and Development Organization (DRDO), has developed over two dozen platforms in the past few years. Some of these platforms, such as the Arjun tank, the Tejas fighter, the airborne early warning and control (AEW&C) system, the advanced towed artillery gun system (ATAGS), the weapon locating radar, the high-speed heavyweight ship-launched torpedo, the anti-torpedo decoy system, and an additional factor that acts as a stimulant is the DProP's requirement that India becomes self-sufficient in thirteen different areas by the year 2025." These include the production of "fighter aircraft, medium lift and utility helicopters, warships, land combat vehicles, autonomous weapon systems, missile systems, gun systems, small arms, ammunition and explosives, surveillance systems, electronic warfare systems communication system, and night fighting enablers. This may be viewed in the context of India's acceptance of the defence cooperation with Vietnam as among our most important ones and its ardent commitment to the modernization of Vietnam's defence and security forces,"<sup>[11]</sup> which naturally complements the former's "steadily increasing efforts to build a credible defence sector. This may be viewed in the context of India's affirmation of the security cooperation with Vietnam as "among our most important ones. This synchronization becomes relevant when one considered Vietnam's rising defence budget. These shortfalls include a lack of "fighter and multi-role aircraft, naval ships, patrol vessels, maritime patrol aircraft, submarines, and surveillance equipment like coastal radars." Additionally, Vietnam is pushing for joint production or research and development to assist in the upgrading of its armed forces; depending on Vietnam's requirements, India may take into consideration exporting to Vietnam several different types of missile systems, "Unmanned Aerial Vehicles (UAV), and other types of defence systems and weapons." These may include "a basket of Dornier surveillance aircraft, mini-UAVs, upgraded T-72 tanks, and artillery equipment manufactured in India." Although the Su-22s are still in use, Vietnam is presently mulling over whether or not to replace its magnificent fleet of MiG-21s and Su-22s from the 1960s. Both types of aircraft are still in operation. Since 2014, Hanoi has spent more than 950 million

dollars upgrading the law enforcement capacities of its Coast Guard and Fisheries Surveillance Force. This investment was made possible by Hanoi's allocation of these funds. During "Narendra Modi's visit to Hanoi in September 2016, the first by an Indian Prime Minister in fifteen years, India extended a line of credit to Vietnam for the purchase of Indian defence systems for US\$ 500 million" [12]. Of this amount, US\$ 99 million was allocated to produce an undisclosed number of patrol crafts for the Vietnamese Coast Guard, including the license to begin local production. This information is common knowledge. In addition, the sale of an anti-ship missile called a BrahMos to Vietnam is now being considered. There is a possibility that such a system will be installed at the "coastal defence unit located in Phu Yen, which is located north of Cam Ranh." As a result, it would be prudent for the Indian defence sector to investigate the myriad of possible means by which it may contribute to "the growth of the Vietnamese defence industry." The Fourth Meeting of the Vietnam-India "Defence" Industry Businesses in Hanoi was a major step toward realizing this. It closely followed "President Tran Dai Quang's State visit to India in March 2018". He stated that the 'Make in India' initiative would offer more chances and "enable Vietnamese industry to pour investments in India." This gathering of representatives from sixteen West Indian companies that operate in the defence sector allowed defence businesses and agencies from the two Ministries of Defence to discourse on and deepened their shared trust and knowledge of one another. It is a significant gateway for uncovering new business investment prospects, with an emphasis on collaboration in research, designing, manufacturing, and technology transfer, as well as the acquisition of defence equipment, cooperation within the defence industry, and the training of human resources. This will further strengthen bilateral cooperation in the defence industry & contribute to the enhancement of the avenues of "the Comprehensive Strategic Partnership." In this regard, the Indian Minister of Defense, Nirmala Sitharaman's emphasis on not only including the purchase of technology or weapons systems but also the setting up of facilities in Vietnam that could facilitate export to third countries substantiates the incremental expansion of India's footprints in this sector.[13] This is certainly consistent with the pronouncements that Indian Defense Public Sector Undertakings have made about their plans to export defence equipment. For example, Bharat Dynamics Limited (BDL) is investigating the possibility of exporting several different types of antitank guided missiles, such as the "Konkur and Milan ATGMs, as well as surface-to-air missile systems," such as the Akash missiles, etc. According to recent reports, BDL is now engaged in early conversations with Vietnam to capitalize on the export potential of the military systems. It has identified fifteen different weapon systems as potential candidates for export, including "beyond-visual-range air-to-air missiles known as Astra, surface-to-air missiles known as Prahar, light combat aircraft known as LCA, a supersonic cruise missile known as BrahMos, sonars, Arjun Mk-2 battle tanks, airborne early warning systems, battlefield radars, and a variety of unmanned systems. If the Indian Minister of Defense set aside 10% of the country's missile systems for sale, New Delhi could sell defence equipment with an annual value of almost \$2 billion US Dollars. In addition, opening a representative office of Bharat Electronics Limited (BEL), a major defence electronics

business entity with its headquarters in the capital of Vietnam, was met with great enthusiasm. Additionally, it is worth the effort to investigate the potential channels for the exchange of intelligence by assisting Vietnamese forces in "establishing and developing their Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR) systems." This assistance can be provided even if it means upsetting China, and the 'Make in India' initiative provides an excellent promenade along which this objective can be accomplished.

#### 4. The Obstacles to Overcome and the Road Ahead

Despite the logic and benefits of convergence that guides Indo-Vietnamese ties in general and the area of defence in particular, there are significant obstacles along the path. To begin, India and Vietnam have been engaged in drawn-out discussions about "the former's sale of the supersonic BrahMos missile" to the latter after India wavered on its request in 2011; these negotiations have been going on since 2011. Given the current state of affairs, it would bode well for the future of the 'Make in India' initiative and instill confidence in Hanoi's commitment to New Delhi if the disputes over the purchase method and legalities could be ironed out as quickly as possible. This is an absolute need because Vietnam has a growing requirement for naval armaments, aerial defence and intelligence systems, and observation and surveillance equipment. Furthermore, Vietnam is concentrating on modernizing its maritime capabilities, as outlined in its comprehensive Maritime Strategy for 2011-2020.

Additionally, the newest agenda of Indo-Vietnam defence cooperation, in the wake of "the Indian Minister of External Affairs, Sushma Swaraj's" recent bilateral visit,[14] places a priority on boosting maritime engagement in both the conventional and non-traditional domains, such as on anti-piracy, security of sea routes, and sharing of white shipping information. For this purpose, the first-ever Bilateral Maritime Security Dialogue will take place around the latter half of 2018. In addition, there is a need to fine-tune the "Make in India" procurement policy, which emphasizes local manufacturing. If this is not done, it will be difficult to achieve the desired result because there is not a sufficient manufacturing ecosystem, and some manufacturers are hesitant to part with sensitive cutting-edge technology. The same may be stated about the roadblocks in the procurement policy, particularly those that exist within the framework of the Strategic Partnership model." Finally, the "Make in India" initiatives in defence manufacturing might run into problems due to price concerns and delays in production. A potential solution to this problem could be promoting more joint ventures in the private sector, including local and international partners.

Despite these obstacles, it would be prudent for India and Vietnam to demonstrate stronger political will and diplomatic understanding to highlight, maintain, and expand upon the wide sea of prospects disclosed and formalized by the 'Make in India' initiative. India, with its time-tested history of cooperation under the ambit of the 'Look East' & 'Act East' policies, and even before the official promulgation of the 'Look East' Policy, has developed into a trustworthy compatriot at the same time as Vietnam is steadily developing its domestic

security industrial base and partnership via offshore collaborations and technology transfers. The 'Make in India' initiative provides the ideal fostering promenade for a promisingly bright future that is inviting to a large audience.

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