

Offsets and Indian Defence Procurement

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Abstract

Between the 1940s and mid 1960s, India imported off-the-self military equipment mainly from the West Europe. After the Indo-China war in 1962, India made strong efforts to build the domestic defence industry through foreign imports and licensing and technology transfer arrangements, particularly with the UK and the Soviet Union. Since mid-1980s, India has been buying large number of weapon systems from different sources, while making effort to strengthen the capabilities of its arms industry and R&D base. Although India has not developed a formal offset policy framework, it has employed various offset options such as licensed production and technology transfers to build the domestic defence industry, counter trade or barter trade, long-term credit arrangements, and Rupee trade arrangements to reduce foreign exchange burden. India's experience with offset arrangements appears to be mixed. While they helped to build a significant domestic defence industrial base, India failed to achieve its goal of self-reliance. As a result, it is still largely dependent on imports, particularly for latest generation of weapon systems. Offsets that were expected to reduce India's foreign exchange burdens such as long-term credits and Rupee trade have helped India in the short-term, while they appear to be less effective in the long-term.