



PRINT CLOSE

Condé Nast
Portfolio.com

U.S. Hears India's Call for Arms

by Jeremy Kahn Feb 26 2008

Companies compete for defense contracts as a market opens up.



[VIEW SLIDESHOW](#)

Photograph by: Mustafa Quraishi/AP Photo

In one corner of the cavernous U.S. pavilion at a arms show in New Delhi this month, [Boeing](#) promoted the capabilities of its F-18 attack aircraft.

Across the hall, [Lockheed Martin](#) instructed Indian military brass on the lethal beauty of the F-16 fighter. And around the corner, black M-16 and M-4 assault rifles adorned the walls of [Colt's](#) booth.

For many U.S. companies, the Indian market has become increasingly important. That is also true for American military contractors as India shifts away from a largely Russian arsenal.

"Ten billion to \$15 billion over the next decade is the amount of business that we think we can pitch for here in India," says Brian Nelson, spokesman for of Boeing as he stands in front of an F-18 simulator. And that's just the contracts Boeing might conceivably win.

Portfolio.com © 2008 Condé Nast Inc. All rights reserved. Use of this site constitutes acceptance of our [User Agreement](#) and

Expected to spend \$30 billion on new weapons system over the next five years, India is one of the fastest-growing military customers in the world. (It still pales against the \$500 billion the United States spends a year on defense, not counting the wars in Iraq and Afghanistan.)

U.S. companies control about 40 percent of the world's arms sales. India, however, is uncharted territory for them.

During the Cold War, while technically "non-aligned," India leaned toward the Soviet orbit and purchased most of its defense technology from Moscow. Following India's 1965 war with Pakistan, the U.S. suspended arms sales to both nations. In India's case, they never resumed until decades later.

U.S. defense contractors were poised to re-enter the market in the 1990s, but after India tested nuclear weapons in 1998, Washington imposed another freeze on defense technology transfers. The Bush administration lifted this ban in 2002 in the hopes that arms sales would help cement India as a new strategic partner of the U.S. and a potential counterweight to China. But deals have been slow in coming.

In the last month, however, India announced it would buy six Hercules C-130J transport planes from Lockheed Martin for \$1 billion—and American firms think the floodgates may finally be opening.

"We all applaud the recent C-130J contract with Lockheed Martin," Retired U.S. Admiral Ken Doran, the president of Raytheon Asia, told reporters at the New Delhi show. "We all feel that is a giant first step."

U.S. companies are now in the running for several major deals. These include a \$10.2 billion contract to supply India's next generation of fighter aircraft; a \$2 billion deal for eight long-range maritime patrol planes, and \$1 billion order for 317 new utility helicopters.

The deals could reshape the balance of power in Asia, giving India a military advantage over its long-standing enemy Pakistan, which has benefited from billions in U.S. military aid in the past, first as a check against Soviet expansion and more recently because it's an ally, if not a wholly reliable one, against al Qaeda. Now not only is the U.S. taking a more even-handed approach to the Pakistan-India rivalry, it is also trying to position India as a bulwark against Chinese influence in Asia.

Still, obstacles exist to greater U.S. penetration of the Indian defense market. The Indian government requires foreign companies to "offset" at least 30 percent—and in some cases 50 percent—of a defense deal's value by sourcing components through local companies. As a result, U.S. contractors have been rushing to find Indian partners. Boeing and Sikorsky just announced manufacturing tie-ups with [Tata](#) of India. (Raytheon also has an agreement with Tata.) And [Northrup Grumman](#) also has potential partnerships in the works.

Even after securing offsets and fending off competitors, U.S. companies looking to sell to India still have to navigate the country's lengthy and complex procurement process. U.S. companies and diplomats have been pressuring the Indian government to revamp its method for calculating offsets, seeking to get credit for the

value of technology they transfer to India. They would also like to be able to "bank" purchases made under one contract and apply it to the off-set requirement of another.

The Indian Ministry of Defense has said it will announce further changes in its procurement policy in April, and there's a good chance the U.S. will get its way.

And American companies still face stiff competition from other global players, not least India's traditional top arms supplier, Russia. In the past, Russian products, from AK-47s to advanced MIG fighters, were seen as providing better value than higher-tech, but more expensive U.S. weapons. American executives, however, say they sense Indian military officers are growing increasingly frustrated with the lack of reliability and support for Russian equipment.

Leonid Gladchenko, a spokesman for Rosoboronexport, the Russian government's defense export company, acknowledges that Russian companies have lagged in offering support and service for the equipment they sell.

"We understand this is a weak point on our side," Gladchenko says. But he maintains that Russian defense products are still cheaper, even after the U.S. dollar's decline. And buying Russian has other advantages.

"We are ready to transfer technology but other countries are not," he says.

[Privacy Policy.](#)



The unhappy manager on the phone needs a colorful solution. What's the best response?

TURN SOUND ON

xerox

The advertisement features a green background on the left with white text. On the right, there is a photograph of a man in a light blue shirt and tie, looking towards a woman who is partially visible. The Xerox logo is in the bottom right corner of the image.