



A STUDY OF THE CONTRIBUTION OF MAKE IN INDIA IN INDIAN DEFENCE PRODUCTION SECTOR

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ABSTRACT

Prime Minister Modi's new campaign for "Make in India" is to increase share of manufacturing from the current level of 15 per cent of Gross Domestic Product (GDP) to 25 per cent and create additional employment opportunity of 1 crore per year. The government is putting thrust on export-led growth and should give primacy to "Make for India". Defence manufacturing came out of the stranglehold of Public Sector Undertakings- Ordnance Factories monopoly with major liberalisation in 2001 with 100 per cent private sector participation and the recently announced 49 per cent in Foreign Direct Investment. Policy footprints such as the Defence Procurement Policy 2013 have created a level playing field for the private sector. The Defence Production Policy 2011 aims at higher self reliance in critical technology and the Offsets Policy 2012 which seeks to leverage our big arms' acquisition to bring in state-of-art technology, and long term partnership with Original Equipment Manufacturers (OEMs). The Self Reliance Index of our defence acquisition, however, remains at a wobbly 30 per cent despite spasmodic policy posturing to improve indigenisation.

KEY WORDS: GDP, Export led growth, PSU, Private Sector Participation, Foreign Direct Investment etc

1. INTRODUCTION

Defence industry is a subset of a nation's concern to ramp up manufacturing capability. The capability of our defence industry in terms of value addition, self reliance in critical technology and policy initiatives so far and their impact needs to be examined and a possible synergy between "Make in India" policy and defence industry capability needs to be brought about. Defence Manufacturing and Challenges in Self Reliance. The Indian aerospace and defence market presents an attractive and significant opportunity for Indian and foreign companies across the supply chain. India has the third-largest armed forces in the world, and its defence budget is about 1.90% of its GDP. India is one of the largest importers of conventional defence equipment and spends about 40% of its total defence budget on capital acquisitions. About 70% of its defence requirements are met through imports. Between 2006 and 2010, India surpassed China as the world's largest importer of weapons systems, reflecting the nation's intent to modernise its armed forces and replace obsolete equipment. India's defence spending has grown tremendously to 38 billion USD in 2012 as against 30.52 billion USD in 2009 at a compounded annual growth rate (CAGR) of 7.58%. The defence expenditure of the government accounts for about 13% of its total expenditure. The government opened this sector to private and foreign investment in 2001. Further, it has sought to build a domestic industrial base and has set itself a challenging target of achieving 70% indigenisation. To broad base the acquisition, the Government has made

transparent global bidding guidelines in the Defence Procurement Procedure which is revised annually. The DPP also lays out the Defence Offset Policy. To fully exploit this opportunity and fulfil offset obligations, original equipment manufacturers and their suppliers should leverage India's competitive advantages in manufacturing and information technology by setting up units in India. A large number of Indian private companies and publicly funded research laboratories are looking for international partners. India has emerged as a global R&D hub with 150 of the Fortune 500 setting up R&D labs in India. A liberal special economic zone policy creates a competitive eco-system for exports by providing attractive fiscal incentives. Such a strategy would allow companies to fully participate in the Indian market, using India's competitive advantages to create a low-cost regional or global manufacturing hub, as has been done successfully in the auto sector. The defence services account for nearly Rs 2.29 lakh crore of the Central Government Budget which is nearly 2.5 per cent of the GDP and 13 per cent of the Central Government expenditure. The trend of allocation to revenue and capital acquisition schemes is given below.

2. OBJECTIVES:

Following are given some key objectives

- To study the trends in the allocation of Resources for Armed forces in india
- To study the contribution of Various Players in the production of defence Goods in india

C) To identify the Major suppliers of defence goods to india

3. CURRENT STATUS & POLICIES

India is among the top 5 countries spending on defence. India has the 2nd largest standing army in the world. As per the FY 2018-19, the allocation for defence in India's budget is around US\$ 45.61 bn. Around 33 % of this amount is allocated for capital expenditure. Foreign vendors provide for more than 50% of defence equipment procured. This offers a huge opportunity for import substitution. India's requirements on defence are catered largely by imports. Rs 1.98 lakh crore has been the total expenditure on procurement of defence equipment for armed forces during the last three years. India has undertaken a major military modernisation drive under which it is planning to spend more than USD 100 billion in the next five years for procuring weapon systems for the armed forces. It is in the process of signing several big-ticket deals including multi-billion contracts for procuring 126 multi-role combat aircraft, 197 helicopters for Army and Air Force and artillery guns worth over Rs 20,000 crore for the Army. In recent times, it procured six C-130J Super Hercules aircraft for the IAF, several tankers and warships for the Navy and also embarked on major upgrade programmes of existing inventory of tanks and aircraft in armed forces' fleets. Giving the break-up of these expenditure in the last three years, the Defence minister said Rs 56,507 crore was spent in 2009-10, Rs 7,138.38 crore in 2010-11 and Rs 74,408 crore in the last fiscal.

The opening of the Defence sector for private sector participation will help foreign Original Equipment Manufacturers to enter into strategic partnerships with Indian companies. This will enable them to leverage the domestic markets as well as aim at global markets. Besides helping in building domestic capabilities, it will also bolster exports in the long term. During 2016 and 2018, 21 defence offset contracts worth US\$ 5.56 bn approximately were signed. The offset policy stipulates the mandatory offset requirement of a minimum of 30% for procurement of defence equipment with foreign defence players. It is applicable on categories of procurements where the estimated cost of the acquisition proposal is US\$ 286.04 mn or more. It would also ensure that an eco-system of suppliers is built domestically. Favourable government policy which promotes self-reliance, indigenisation, and technology upgradation. The policies also aim at achieving economies of scale, including the development of capabilities, for exports in the defence sector. India's extensive modernisation plans with an increased focus on homeland security and growing attractiveness as a defence sourcing hub. Defence Production Policy, 2011 has encouraged indigenous manufacturing of defence equipment. Draft Defence Production Policy was introduced 2018. India is among the top 5 countries spending on defence. Defence Procurement Procedure, 2011 was amended in 2016 to provide for the following: DPP focuses on institutionalizing, streamlining and simplifying defence procurement procedure to give a boost to "Make in India" initiative. It aims to promote indigenous design, development and manufacturing of defence equipment, platforms, systems and sub-systems. It also aims to enhance the role of MSMEs in the Defence industry. A new category of capital procurement: Buy Indian - Indigenously Designed, Developed and Manufactured introduced to encourage indigenous design, development and manufacturing of defence equipment. Preference is given to

'Buy Indian-', 'Buy (Indian)' and 'Buy and Make (Indian)' over 'Buy (Global)' category for capital acquisition. A clear and unambiguous definition of indigenous content is provided. Provision for Maintenance Transfer of Technology to Indian partners. Provisions to allow foreign Original Equipment Manufacturer to select Indian Production Agency. The requirement of minimum indigenous content is rationalised. 'Services' as an avenue for discharging offsets is re-introduced. Defence products list for industrial licensing was articulated in June 2014. It excluded large numbers of parts/components, castings/ forgings from the purview of industrial licensing. A revised list was published by the government in January 2019. The Defence Security Manual for the licenced defence industries is available in the public domain. The manual clarifies the security architecture required to be put in place by the industry while undertaking the manufacturing of sensitive defence equipment. MAKE procedure aims to promote research & development in the industry with support from the government and the placement of orders, has been promulgated with provision for 90% funding by Government and preference to MSMEs in a certain category of projects. The simplified MAKE-II was launched in January 2018, for simplification of collaboration between government and private Indian industries for indigenous design, development and manufacture of defence equipment.

Historically, India has been availing of technology through licence agreements from Russia and a smattering of Western countries. The exceptions are some of the missile systems, small arms and their ammunition and tanks where technology has been indigenously developed by the Defence Research and Development Organisation. The Light Combat Aircraft - Tejas with Final Operational Clearance will hopefully be a major "Make in India" platform. It must be mentioned that indigenisation has effected a substantial reduction in cost of the systems due to India's labour arbitrage, good facilities and fairly well-trained labour force. The following table brings out the cost savings of a few major products through the Transfer of Technology route.

4. FOREIGN DIRECT INVESTMENT IN MAKE IN INDIA

1. 100% Foreign Direct Investment in the Defence industry: Up to 49% under the automatic route and Foreign Direct Investment above 49%: through Government route, where it is likely to result in access to modern technology.
2. The Defence industry is subject to industrial licenses under the Industries (Development and Regulation) Act, 1951 and manufacturing of small arms ammunition under Arms Act, 1959.
3. The requirement of a single largest Indian ownership of 51% of equity removed.
4. A lock-in period of 3 years on equity transfer has been done away with in Foreign Direct Investment for Defence.
5. Foreign Direct Investment in the Defence industry is subject to Security Manual Guidelines

4.1. Procurement Policy

1. The defence procurement is governed by the Defence Procurement Procedure (DPP 2016).
2. The latest revision of DPP was released in March 2016.

3. DPP focuses on institutionalising, streamlining and simplifying defence procurement procedure to give a boost to “Make in India” initiative.

4.2. Offset Policy. The key objectives of the defence offset policy are to leverage capital acquisitions to develop the domestic Defence industry. The policy stipulates the mandatory offset requirement of a minimum of 30% for procurement of defence equipment by foreign defence players. It is applicable on categories of procurements where estimated cost of the acquisition proposal is US\$ 286.04 mn or more

4.3. Industrial License Grant Policy

- The initial validity period of industrial licenses has increased from 3 years to 15 years. It also has a provision to grant an extension for a period of 3 years.²³
- Guidelines for the extension of validity of industrial licenses have been issued. Partial commencement of production is treated as the commencement of production of all the items included in the licence.

4.4. Major Foreign Players

- Airbus (France)
- BAE India Systems (UK)
- Boeing India (USA)
- Dassault Aviation SA (France)
- Israel Aerospace Industries (Israel)
- Lockheed Martin (USA)
- Pilatus (Switzerland)
- Rafael Advanced Defense Systems Ltd. (Israel)
- Raytheon (USA)

5. KEY ACHIEVEMENTS

- Indigenous defence products unveiled - Akash Surface to Air Missile System, Dhanush Artillery Gun system and Light Combat Aircraft
- The Defence Procurement Procedure (DPP) amended to introduce Buy Indian-IDDMM (Indigenously Designed, Developed and Manufactured)
- The policy on Strategic Partnerships to encourage the participation of the private sector, in the manufacture of defence platforms and equipment such as aircraft, submarines, helicopters and armoured vehicles.
- ‘No Objection Certificate (NOC) for export: A web-based single window interface created to issue ‘No Objection Certificate’. The process is transparent and time-bound, with the maximum processing time reduced to 25 days and 70% of the NOCs issued in 15 days.
- The 10th edition of ‘DefExpo’ was organised from April 11 to 14, 2018 in Chennai, Tamil Nadu.
- The Government of India has decided to set up two Defence Production corridors, one each in Uttar Pradesh (UP) and Tamil Nadu.
- A Defence Investor Cell is also functional in the Department of Defence Production.
- The maiden flight of indigenously developed Automatic Flight Control System (AFCS) integrated on LCH was conducted successfully by Hindustan Aeronautics Limited

6. CONCLUSION

India is witnessing a significant stickiness in its manufacturing sector which is bedeviled by the huge presence of small scale and informal sector that are bereft of requisite skill levels and economy of scale. Their access to capital is also seriously impeded. However, the manufacturing sector provides a wonderful opportunity for India to be part of the global supply chain and generate high levels of employment opportunity to absorb around ten million young Indians who will come in to the market in search of employment every year. They also need to be properly skilled and trained and networked with their global peers. The defence industry, be it public sector or private, has to be part of the national manufacturing policy mosaic. Unfortunately, the defence sector often chooses to distance itself in its interface with other civilian sectors. There is opportunity aplenty in areas such as aerospace and ship building where there is considerable civilian and military market. Lack of design capability to manufacture critical subsystems remains a major handicap. The DRDO remains mired in inordinate delay, huge cost overruns and deficient in critical technology areas like ‘seekers’ and ‘stealth’. Tokenism like Rs. 100 crore allocation towards Technology Acquisition Fund or lip service to Foreign Direct Investment policy by increasing to 49 per cent are not the way forward. Public Private Partnership, Joint Venture with foreign OEMs and design houses will require bolder policies such as Foreign Direct Investment ceiling higher than 50 per cent and the political will to mentor and hold together the different stakeholders who are often at cross purposes. The new Prime Minister has set his foot in the right place. The Ministry of Defence, however, has to match his steps, shed its ghetto mentality and strive for better synergy with other manufacturing sectors to make “Make in India” the mantra for the days ahead.

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