

# Make in India will boost defence sector

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**T**he four-day DefExpo India (April 11-14) held in Chennai has ambitiously positioned India as an emerging defence manufacturing hub and an exporter of defence systems and components. Such an objective appears audacious, given that India is the world's top importer of arms and does not figure among the top 25 arms exporters. Yet, indigenisation of defence procurement is critical for both strategic reasons and for the success of Make in India. India accounted for 12 per cent of total global arms imports during 2013-17. It spends around 30 per cent of its total defence budget on capital acquisitions and 60 per cent of defence-related requirements are currently met through imports.

About 62 per cent of India's arms imports in 2013-17 originated in Russia, 15 per cent in the US and 11 per cent in Israel. India is the largest customer for the Russian and Israeli defence industries and the third-largest for the French. Significantly, India's imports from the US jumped 557 per cent between 2008-12 and 2013-17.

In contrast to India's rising imports of arms, China reported a 19 per cent drop in overseas purchases between 2008-12 and 2013-17, and has emerged the fifth-largest exporter of arms, accounting for 4.6 per cent of the global arms export market, according to the Stockholm International Peace Research Institute.

India too can become a defence-manufacturing powerhouse if the government demonstrates its willingness to rely on India-made defence equipment and places large orders with defence public sector undertakings (DPSUs) with proven skills as well as with private-sector players who have forged relationships with global players for technology transfers.

The government's Make in India initiative focuses on increasing indigenous defence manufacturing and becoming self-reliant. The opening up of the defence sector to private participation is helping foreign OEMs to enter into strategic partnerships with Indian companies and leverage opportunities in the domestic as well as global markets. India's focus on indigenous manufacturing is paying off, as the ministry of defence over the last two years unveiled several products manufactured in India — the HAL Tejas light combat aircraft, the composite Sonar dome, a portable telemedicine system for the Armed Forces, penetration-cum-blast and thermobaric ammunition specifically designed for Arjun tanks, a heavyweight torpedo called Varunastra manufactured with 95 per cent locally sourced parts, and medium range surface to air missiles.

The Defence Acquisition Council under the ministry of defence has cleared

defence deals worth over ₹820 billion under the "buy and make" and "buy Indian" categories, including procurement of T-90 tanks, mini unmanned aerial vehicles and light combat helicopters.

The FDI policy allows 100 per cent FDI in the defence sector, of which up to 49 per cent is under the automatic route. FDI above 49 per cent is permitted through the government route on a case-by-case basis where it is likely to result in access to modern technology.

In 2015-16, ₹20.59 billion worth of defence platforms, equipment and spares manufactured in India were exported to more than 28 countries. Major defence equipment exported by DPSUs and the Ordnance Factory Board includes patrol vessels, helicopters and their spare parts, sonars and radars, avionics, radar warning receivers, small arms, small calibre ammunition, grenades and telecommunication equipment.

The government increased the defence budget by 5.91 per cent for 2018-19 to ₹2.95 trillion, with an additional ₹1.09 trillion for pensions. The defence budget, which will account for 12.10 per cent of total government expenditure, is 7.81 per cent more than the ₹2.74 trillion announced in the last budget for 2017-18 — a figure later revised to ₹2.79 trillion with a capital outlay of just ₹95.7 billion for modernisation.

**The government plans two defence industrial production corridors as well as an industry-friendly military production policy to promote defence manufacturing**

The government plans to develop two defence industrial production corridors and formulate an industry-friendly military production policy to promote defence manufacturing in India. An industry-friendly "defence production policy 2018" to promote domestic production by the public sector, private sector and MSMEs is also on the cards.

The preferential treatment given to DPSUs in excise and customs duty has been discontinued to create a level playing field. As per the revised policy, all Indian industries (public and private) are subjected to the same kind of excise and customs duty levies (April 2015).

The customs duty exemption on import of defence equipment has been removed to encourage imports and incentivise domestic manufacturing. The Defence Procurement Procedure 2013 was amended with effect from April 2, 2016 to encourage indigenous design, development and manufacture of defence equipment.

The Foreign Trade Policy provides guidelines for engaging with Indian missions abroad for promoting exports of indigenously developed defence systems. In an unprecedented move, India recently even called in all its 44 defence attaches from missions abroad for a series of specialised briefings aimed at increasing efforts to tap the potential for defence exports and strengthen the interface between the government and industry.

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