

Make-in-India defence

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The four-day DefExpo India, held from April 11 to 14 in Chennai has ambitiously positioned India as an emerging defence manufacturing hub in the world, and as an exporter of defence systems and components. It has showcased the strength of the country's public sector. Such objectives appeared a bit ambitious considering that India is the world's top importer of arms and does not figure among the top 25 exporters of arms. Yet, indigenisation of defence procurement is critical not only for strategic reasons but also for the success of the Modi's mission, 'Make in India'. India accounted for 12 per cent of the total global arms imports during 2013-17. The government 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 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 Russian and Israeli defence industries and the third largest customer for the French. It is also important to note that India's imports from the US jumped by 557 per cent between 2008-12 and 2013-2017.

In contrast to the country's rising imports of arms and equipment, China had reported a 19 per cent drop in overseas purchases between 2008-12 and 2013-17, but has emerged as the fifth largest exporter of arms, accounting for 4.6 per cent of the global arms export market, according to the estimates of the Stockholm International Peace Research Institute. India can also become a defence-manufacturing powerhouse if the government demonstrates its willingness to rely on India-made defence manufactures and places large orders with the public-sector enterprises with proven skills as well as with the private sector players who have forged relationships with global players for technology transfers.

The 'Make in India' initiative by the Government is focusing its efforts on increasing indigenous defence manufacturing and is becoming self-reliant. The opening up of the defence sector for

private sector participation is helping foreign Original Equipment Manufacturers (OEMs) enter into strategic partnerships with Indian companies and leverage opportunities in the domestic market as well as global markets. India's focus on indigenous manufacturing in defence space is paying off as the Ministry of Defence has over the last two years unveiled several products manufactured in India like the HAL Tejas Light Combat Aircraft (LCA), the composite Sonar dome, a Portable Telemedicine System (PDF) for the Armed Forces, Penetration-cum-Blast (PCB) and Thermobaric (TB) 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 (MSRAM).

The Defence Acquisition Council (DAC) under the Ministry of Defence cleared defence deals worth more than Rs 82,000 crore under 'Buy and Department of Industrial Policy and Promotion Make (Indian)' and 'Buy Indian' category. The deals include the procurement of T-90 Tanks, Mini-Unmanned Aerial Vehicles (UAV) and light combat helicopters. Hundred per cent FDI is allowed in the defence sector, out 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-to-case basis where it is likely to result in access to modern technology.

During fiscal 2015-16, Rs 2,059.18 crore worth of defence platforms, equipment and spares manufactured in India were exported to more than 28 countries. Some of the major defence equipment exported by Defence Public Sector Undertakings (DPSUs) and Ordnance Factory Board (OFB) are patrol vessels, helicopters and their spares, sonars and radars, avionics, Radar Warning Receivers (RWR), small arms, small calibre ammunition, grenades and telecommu-

nication equipment.

The government increased the defence budget by 5.91 per cent for FY 2018-19 to Rs 2,95,511.41 crore with an additional amount of Rs 1,08,853.30 crore for defence pensions. The defence budget, which will account for 12.10 per cent of the total government expenditure, is 7.81 per cent more than the Rs 2,74,114.12 crore announced in the last budget for FY 2017-18. The figure was later revised to Rs 2,79,003.85 crore including capital outlay of just Rs 99,563.86 crore for modernisation.

The government will develop two defence industrial production corridors and bring out an industry-friendly military production policy to promote defence manufacturing in India. Arun Jaitley has said that the government will also bring out an industry-friendly "defence production policy 2018" to promote domestic production by the public sector, private sector and MSMEs. Further, private investment in defence production had been opened up, including liberalisation of foreign direct investment.

The preferential treatment given to Defence Public Sector Undertakings (DPSUs) in excise duty/custom 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 custom duty levies since April 2015. The customs duty exemption on the import of defence equipment has been removed to encourage imports and incentivise domestic manufacturing. The Defence Procurement Procedure (DPP) of 2013 was amended with effect from 2 April 2016 to provide for the following:

* New most preferred acquisition category Buy Indian (IDDM (Indigenously Designed, Developed and Manufactured) introduced to encourage indigenous design, development and manufacturing of defence equipment. This category refers to procure-

ment from Indian vendors of products that are indigenously designed, developed and manufactured, and have at least 40 per cent indigenous content. If the product is not designed and developed indigenously, it will have to have 60 per cent indigenous content.

* The MAKE procedure, which is directed at promoting research and development in the industry with support from the government, has been revamped.

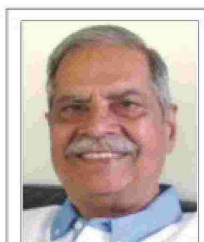
* Make I - The Government will refund 90 per cent of the development cost to encourage local development; 20 per cent will be given as advance. If the vendor develops a prototype but does not get an order within two years, then the Government will also reimburse the remaining 10 per cent.

* Make II - Prototype development will be through funding by industry, but if a tender is not issued within two years of successful development of the prototype, the Government will refund 100 per cent of the development cost to a duly selected vendor.

* Make III - Preference to MSMEs Defence Offset Policy The offset policy in capital purchase contracts with foreign defence OEMs stipulates a mandatory offset requirement of a minimum of 30 per cent for defence contracts.

Under the ambit of the foreign trade policy, it provides guidelines for engaging with Indian missions/embassies abroad for export promotion, offers options for export financing through line of credit, promotes better use of offset policy and the export of indigenously developed defence systems as well as streamlining of the export regulation process.

In an unprecedented move, India has called in all its 44 defence attaches from missions abroad for a series of specialised briefings that are aimed at increasing efforts to tap potential for defence exports and strengthen the interface between the government and industry. The initiative, spearheaded by defence minister Nirmala Sitharaman, intends to bring the defence attaches to speed up on several areas that include exploring new defence markets and promoting "Make in India".



PK VASUDEVA
The writer is retired Professor of International Trade. He may be reached at vasu022@gmail.com