

Make in India: Defence Manufacturing

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Abstract – India has the third largest military in the world and is the sixth biggest defence spender. India is also one of the largest importers of conventional defence equipment and spends around 30% of its total defence budget on capital acquisitions. 60% of defence related requirements are currently met through imports. The 'Make in India' initiative by the Government is focusing its efforts on increasing indigenous defence manufacturing and 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. In this study we found that defence manufacturing played a very important role in the field of defence sector and also helps to build India a strong nation. This paper is based on secondary data it was taken from various sources.

Keywords: - Make in India, Defence Manufacturing And Indian Military.

I. INTRODUCTION

The Defence industry of India is a strategically important sector in India with strength of over 1.3 million active personnel. India is probably the only large country in the world which is overwhelmingly dependent on external sources for its defence requirements. According to Stockholm International Peace Research Institute (SIPRI), India is the world's largest arms importer, accounting for 14 per cent of global arms import during 2009-13. Replying to a question in the Rajya Sabha, the Union Defence Minister stated that India spent a whopping Rs. 83,458.31 crore on arms imports in a matter of three years ending 2013-14. This dependency on arms import is a stark reminder of how far India is from the objective of substantive self-reliance in defence production that it has aspired to since the early days of independence. However all is not lost. The 'Make in India' (MII) initiative launched by the National Democratic Alliance (NDA) government of Prime Minister Narendra Modi offers a ray of hope. Under the initiative, 25 sectors including defence manufacturing have been identified to revive India's industrial growth and more importantly propel the nation as a global manufacturing hub.

II. OBJECTIVES & METHODOLOGY

(a) Objectives

- (i) To explain about the concept of Defence Manufacturing & Make in India.

- (ii) To analyze Government initiative in the field of Defence manufacturing.

(b) Research Methodology

The study is based on secondary data. The required data has been collected from various sources i.e. research papers, various Bulletins of Govt of India, Publications from Ministry Of Commerce, which are available on internet.

III. DEFENCE MANUFACTURING

(a) Make in India in Defence Sector

The 'Make in India' policy for the defence sector aims to reverse the current imbalance between the import of defence equipment and indigenous manufacture of defence equipments without adversely affecting the requirements, capability and preparedness of the user. Therefore, achieving self reliance and reducing dependence on foreign countries in defence is a necessity today rather than a choice, both for strategic and economic reasons. The requirement for domestic production of defence equipment is more than for any other sector because it will not only save precious foreign exchange but will address the national security concerns. 'Make in India' policy aims at facilitating investments and fostering innovations for the manufacturing sector in India. Government being the only consumer, 'Make in India' in defence sector will be governed by the defence procurement policy of India. As the Indian Companies may not have adequate capabilities in terms of technology, they are encouraged to partner with foreign

companies for joint ventures, technology transfer arrangements and tie-ups.

(b) Defence Manufacturing Expenditure

It is in strategic interest of a nation aspiring to be the regional power to develop indigenous and internationally competitive defence industry base. Presently, India is one of the largest importers of conventional defence equipment. According to government statistics, roughly 60% of India's defence requirements are met through imports. The data's at table 1 shows status of various nations.

Table 1

Defence Expenditure Status of Important Nations

Country Wise Military Spending 2014

Region	Spending (\$ billion)	Change(%)
USA	610.0	3.5
Russia	84.5	4.5
China	216.0	2.06
India	50.0	2.4
World Total	1776	-

Source: Facilitating 'Make in India' in Defence Sector Through Defence Procurement Procedure July 2013

Top 10 Arms Importers 2010-2014

Importer	Share of international arms imports (%)		Main Suppliers (share of Importer's total Imports) 2010-14		
	2010-14	2005-09	1st	2nd	3rd
India	15	7	Russia (70%)	USA (12%)	Israel (7%)
Saudi Arabia	5	1	UK (36%)	USA (35%)	France (6%)
China	5	9	Russia (61%)	France (16%)	Ukraine (13%)
UAE	4	5	USA (58%)	France (9%)	Russia (9%)
Pakistan	4	3	China (51%)	USA (30%)	Sweden (5%)

Source: Facilitating 'Make in India' in Defence Sector Through Defence Procurement Procedure July 2013

IV. REASONS FOR MAKE IN INDIA IN DEFENCE

- (a) India's current requirements on Defence are catered largely by imports. The opening of the Defence sector for private sector participation will help foreign original equipment manufacturers to enter into strategic partnerships with Indian companies and leverage the domestic markets as well as aim at global markets. Besides helping in building domestic capabilities, this will also bolster exports in the long term.
- (b) Contractual offset obligations worth approximately USD 4.53 billion in next 5-6 years
- (c) The offset policy (which stipulates the mandatory offset requirement of a minimum 30% for procurement of defense equipment in excess of USD 306.69 million) introduced in the capital purchase agreements with foreign defense players. It would also ensure that an eco-system of suppliers is built domestically.

- (d) Favorable government policy which promotes self-reliance, indigenization, technology up gradation and achieving economies of scale including development of capabilities for exports in the defense sector.
- (e) The country's extensive modernization plans with an increased focus on homeland security and India's growing attractiveness as a defense sourcing hub.

V. GOVERNMENT INITIATIVE IN THE FIELD OF DEFENCE MANUFACTURING

(a) Financial Support for Defence Manufacturing

Following are the highlights of the key provision of the 2016-17 union budget:-

- (i) Provision of USD 34.53 billion for defense services in the FY 2016-17 Union Budget.
- (ii) Capital outlay for Defense in 2016-17 is kept at USD 12.09 billion.
- (iii) Out of this, USD 10.75 billion has been allocated for Capital Acquisition of the Defence Services.
- (iv) USD 1.33 billion has been provided under "Other than Capital Acquisition" segment for capital expenditure to Army, Navy, Joint staff and Air Force.
- (v) Either of the following two deductions can be availed:
 - (vi) Investment allowance (additional depreciation) at the rate of 15% to manufacturing companies that invest more than USD 15.38 million in plants and machinery acquired and installed between 01.04.2013 to 31.03.2015 provided the aggregate amount of investment in the new plants and machinery during the said period exceeds USD 15.38 million.
 - (vii) In order to provide a further fillip to companies engaged in the manufacture of an article or thing, the said benefit of additional deduction of 15% of the cost of new plants and machinery, exceeding USD 3.84 million, acquired and installed during any previous year until 31.3.2017

(b) Policy Initiatives & Investments

(i) FDI Policy

100% FDI is allowed in defence sector, out of which up to 49% is under automatic route. FDI above 49% is permitted through Government route on case to

case basis where it is likely to result in access to modern technology.

(ii) Exports

During FY 2015-16, INR 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 & their spares, Sonars & Radars, Avionics, Radar Warning Receivers (RWR), Small Arms, Small Caliber Ammunition, Grenades and Telecommunication equipment.

(iii) Fiscal Incentives

- In budget 2017-18, defence budget has received a boost of 6.2% as compared to budget 2016-17. INR 86,488 crore has been allocated for Defence Capital out INR 2,74,114 crore allocated for defence expenditure (excluding pension) in the budget.
- 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 (April 2015).
- Exchange Rate Variation protection has been made applicable for Indian private sector at par with Public Sector Undertakings for all categories of capital acquisitions (August 2015).
- The custom duty exemption on import of defence equipment has been removed to encourage imports and incentivize domestic manufacturing. Defence Procurement Procedure The Defence Procurement Procedure (DPP) of 2013 was amended w.e.f from April 2, 2016 to provide for the following:
- Indian companies are allowed for tie-ups with a foreign Original Equipment Manufacturer (OEM) for Transfer of Technology (ToT) under 'Buy & Make (Indian)' category.
- Under 'Buy & Make' Category of Capital Acquisition, the foreign vendor is required to transfer the Technology to Indian Production agency for indigenous production of the items.
- Defense products list for industrial licensing announced in June 2014; large number of parts/components, castings/ forgings etc. have

been excluded from the purview of industrial licensing.

VI. SUPPORTING FACTORS

(a) Research & Development

Research and Development Centres of Excellence for Defence Research and Development Organisation (DRDO) have been setup for conducting research in the defence sector. The following three Centres of Excellence were established during 2016:

- (i) Centre of Propulsion Technology (CoPT), IITMumbai was established in June 2016
- (ii) Jagdish Chandra Bose Centre for Advanced Technology (JCBCAT), Jadavpur University, Kolkata was established in June 2016
- (iii) Joint Advanced Technology Centre (JATC), IITDelhi was established in Oct 2016 Ease of Doing Business

(b) Ease of Doing Business

- (i) Foreign vendors can finalize Indian Offset Partners (IOPs) and offset product details one year prior to the intended offset discharge or undertake the offset activity and submit claims thereafter. Foreign players no longer need to provide all details of their Indian partners at the time of bidding (December, 2015) – 100% offset claims filed during the past 2 years as compared to 64% during 2008-2013.
- (ii) Acceptance of Necessity (AoN) validity has been reduced to 6 months from previous one year fast tracking procurements.
- (iii) The list of military stores for the purpose of issuing NOC for export has been notified by the Government to remove ambiguity and to make the process transparent (March, 2015).
- (iv) The requirement of single largest Indian ownership of 51% of equity has been removed.
- (v) A lock-in period of three years on equity transfer has been done-away with in FDI for Defence.
- (vi) Standard Operating Procedures (SOPs) for issue of NOC for export of military stores has been simplified and specific timelines prescribed. Requirement of Government signed End User Certificate for export of

parts and components and other non-sensitive military stores has been removed (July 2015).

- (vii) Application for NOC for export of military stores can be made online (November 2015). The maximum processing time has been reduced to 25 days and 70% of the NOCs are issued in 15 days. 241 NOCs were issued in FY 2015-16 as compared to 39 in FY 2013-14.
- (viii) Industrial Licensing has been simplified and can be applied online:
- (ix) A large number of components, parts, subsystems, testing equipment, production equipment excluded from preview of industrial licensing on the Defense Products List.
- (x) Validity of Industrial Licence granted under the IDR Act has been increased to 15 years from 7 years with a provision to further extend it by 3 years on a case-to-case basis. - 119 industrial licences have been issued to private defence equipment manufacturers during April 2014 to March 2016. - Renewable of registration can be carried out on self certification basis. Department of Industrial Policy and Promotion The capacity verification of non-registered firms have been made valid for three years with renewable facility in line with registered firms.
- (xi) A 'Make in India' portal for Defence Production (www.makeinindiadefence.com) has been launched. It provides policy and procedural issues relevant for defence manufacturing industry.
- (xii) e-tendering for procurement has been implemented for various items.

VII. CONCLUSION

Achieving self-reliance and reducing dependence on foreign countries in defence is a necessity today rather than a choice, both for strategic and economic reasons. Our Prime Minister has taken a very important initiative in form of 'Make in India' to promote and encourage domestic manufacturing of various items. The requirement for domestic production of Defence equipment is more than for any other sector because it will not only save precious foreign exchange but will also address the national security concerns. Government being the only consumer, 'Make in India' in defence sector will be driven by our procurement policy. The Government policy of promoting domestic defence industry is adequately reflected in the Defence Procurement Policy, wherein preferential treatment is given to 'Buy (Indian)' and 'Buy and Make (Indian)' categories of acquisition over 'Buy (Global)'. India has the potential to emerge as a global platform for defence research, manufacturing, supply chain sourcing, software development, and

offsets, which will strengthen our defence capabilities and spur industrial development as well as exports in this sector.

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