



ROLE OF “ MAKE IN INDIA” IN INDIAN DEFENCE

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ABSTRACT

Make in India campaign by the government of India can change the image of the country as a hub for manufacturing simultaneously also as a destination to do business. Dissatisfied by India's status as the world's biggest arms importer, the Indian government wants to build an advanced defence industry with an aim to turn the country into a manufacturing powerhouse. It is a way of improve the Indian self-reliance in defence production. But, for the Make in India to succeed in the defence manufacturing sector, the government needs to treat some legacy issues. This paper attempts to present the current status of the Indian Defence, depicts the global scenario relating to defence and identifies the opportunities and the challenges waiting for the Make in India campaign in defence sector.

KEYWORDS: defence, FDI, Private sector,

INTRODUCTION

The former President of USA and also a five-star general of US army General Dwight D. Eisenhower s during World War II said the might of the army is in the size of the fight it gives and there might be many factors influencing the might of the army. Soldiers, military equipments, guns and tanks, intelligence and surveillance capabilities and other military requirements can be seen as the source of the confidence the army can have to safeguard its borders. Huge Investment in the emerging markets by global aerospace and defence companies has witnessed an increase, driven mainly by a search for low-cost manufacturing options, research and development capabilities and knowledge of engineering and related

critical talent. In future battles, the technology supremacy is going to play a crucial decisive role. A roadmap should be laid down to develop and change superior technologies into affordable and critical military capability concentrating on affordability, timeliness, dual use, technology base and modular design. This would enable the country's Research and Development establishments to focus on specific capability requirements and work out appropriate technologies needed to fulfil these requirements. A concentrated effort must be made to design and produce indigenously not only to satisfy the domestic demand but also to export. Public or private sector having interest in the defence sector would be able to work out a strategic plan developing the needed technology, including the required funding and R & D goals in very specific areas. This would include plans for the development of capability in areas that are considered and draws a roadmap towards achieving it by optimally utilizing all available national resources including the civilian industry, private as well as government enterprises and the academia. The significance of self-reliance in the defence sector desires no prominence as it is not only of strategic and national importance but also an essential part of the national power. Since independence in last six decades, the country has made major progress in achieving this objective. However, still a long way to go. Ministry of defence realises that progress needs to be accelerated by harnessing our national capability in all its forms. The Competitive technology with defence application needs substantial investment in terms of time, money and human resource to develop. Inducement of new weapon systems is cost and time intensive. Therefore it is imperative that the long term requirement of capability be identified and understood for appropriate technology to be developed indigenously.

INDIAN DEFENCE SECTOR – THE PRESENT SCENARIO

- India has the 3rd largest armed forces in the world in terms of active personnel
- India imports 60% of arms from various countries. It is the world's largest arms importer and accounts for 14 percent of the world's arms imports
- India is one of the largest importers of conventional defence equipment and spends about 40% of its total defence budget on capital acquisitions.
- India ranks 5th globally in military spending.
- India will spend \$100-150 billion (about Rs 5.4-8.1 lakh crore) on defence modernisation programmes by 2022

- The government, as the sole purchaser of defence equipments, spends heavily with defence expenditure accounting for close to 15 percent of central government expenditure
- Foreign direct investment (FDI) in defence is increased to 49%.
- Hardly any investment in R & D by government. Only 6 % of the defence expenditure is diverted towards research .

Fifty nations account for 92 % of the world’s total spending on national account defence. The defence policies and programmes of these top 50 nations explains most of the world’s defence activity and shape the global security environment in the broadest and most enduring ways. The topmost 50 nations produce more than 90 percent of global economic output and include populations of more than five billion people across six continents. 60 percent of global defence spending is generated only by six nations [4].

DEFENCE EXPENDITURE OF VARIOUS COUNTRIES

| Nation | Defence Expenditure of 2015-16 in \$ billion | % of GDP |
|--------------|--|----------|
| India | 55.9 | 2.5 |
| Brazil | 22.8 | 1.3 |
| South Korea | 36.8 | 2.7 |
| China | 213.7 | 1.9 |
| Saudi Arabia | 63.7 | 10 |

Above table shows the Defense Expenditure by some of the countries for the year 2015-16. It shows that India’s budgeted expenditure for the defence was \$ 55.9 billion .Neighbouring country China has increased its defence Expenditure to 213.7billions. The budget of China is almost equal to the combined budge of India, Brazil, South Korea and Saudi Arabia [4].

MAKE IN INDIA AND INDIAN DEFENCE SECTOR

The Indian Government will focus on self-reliance with the increasing presence of Indian companies and providing cost advantages relating to basic design and engineering services, components, and assemblies manufacturing. Indian companies will also succeed with the help of foreign companies which creates a benefit for both. Once indigenous manufacturing takes

root, research and development for the indigenous military industry and civil aircraft is going to be the other focus area of the Indian Government, the report added [6]. The program will facilitate the development and production of high-end technology systems within the country. This will comprise a wide range of technologies and systems, like Missile Technology, Remote Weapon Systems and Advanced Armor Solutions [7]. Getting foreign companies to establish businesses in India is not to avoid the import cost but to increase the domestic market capabilities to support the Indian defence sector by enhancing investment, growing manufacturing, support enterprise, state-of-art technology and increase economic growth .The SME have been the subcontractors to many of the Public sectors as well as private sector players undertaking the projects of the defence. As the Indian private players start their venture in defence, many SMEs would emerge not just in manufacturing but also in other supporting services. These services can be training institutes to upgrade the technical skills required for the working class. The skill sets of these SMEs who are undertaking the private organizations work will improve drastically as they have to match the quality standards of the defence. This will bring a systemic change in the way production plants work. They would be more organized and technically sound. As government of India has allowed 49 percent FDI in defence sector, many foreign players would like to set up their businesses with help of Indian companies. Along with the technical support, these foreign companies will update the technical capabilities of the Indian manufacturing sector. The SME market has always constituted a significant component of the Indian economy, accounting for 40% of employment and making an almost equivalent contribution to India's GDP. The challenge has been asking them to spend on technology. Private sector, though is in its initial stage in the defence manufacturing is eager to manufacture for the defence. Tata and Boeing have already signed for a joint venture. Rafael of Israel has started a joint venture with Kalyani group. They will are more than eager to serve the defence as India is considered as the most favoured country to invest in defence sector. Indian government has been pumping substantial amount of money in defence procurement and establishment. India will spend \$100-150 billion (about Rs 5.4-8.1 lakh crore) on defence modernisation programmes by 2022 and this makes India the most attractive place to set up a business related to defence. Although the Indian defence industry was opened to the private sector in the year2001, it has yet to contribute in a meaningful manner. The biggest hurdle in the private sector's participation so far has been mistrust. When it comes to big contracts, procedural hurdles come in the way, making it virtually impossible for the private sector to get into complex

defence manufacturing. Moreover, single source procurement of the private sector is still considered a taboo, whereas import without competition is greatly admired [8].

CHALLENGES IN FRONT OF THE DEFENCE SECTOR IN INDIA

The indifference towards in-house manufacturing of defence equipment is perhaps best exemplified in the way various defence plans are prepared and pursued. All these plans are prepared with a focus on 'acquiring' the best possible equipment available in the world. The Defence Research and Development Organization (DRDO) and domestic industry are entirely disregarded in the planning process. To make matters worse, there is no channel for the armed forces to make advance information to the local industry so as to facilitate the public or private sectors to enter with detailed financial, technological and industrial plans to meet the requirements in a timeframe that is acceptable to the armed forces [8]. Government wants to put up an advanced defence industry but almost an year into its "Make in India" campaign, which aims to turn the nation into a manufacturing hub for the world, not one large domestic weapons project has been awarded. Government has laid down impossible requirements by emphasising on technology which only foreign manufacturers had. Companies with prior experiencing in supplying the defence goods is entertained by defence is also a hurdle in motivating the domestic players to participate in any tender[2]. The domestic manufacturing industry will be hard pressed to provide to the demand from the global primes for components, which they will need to procure from India to discharge the potential offset obligations. This capacity constraint can be a potential restriction to the foreign companies, especially when seen in light of efficient supply chain and program management which are at the core of such manufacturing projects [9]. The major weakness in India's defence manufacturing is the lack of a high-powered institution that can lay out a long term roadmap for the defence industry, set a target for the industry, monitor the progress, and more importantly bring all the stakeholders on one platform and commit to the common cause of self-reliance. Defence industry needs a highly skilled labour force. Low education and lack of training is also an aspect that is common to other high-end R&D organisations like the ISRO and atomic energy department, and even to manufacturing establishments such as Hindustan Aeronautics Ltd [8]. Defence acquisition is a highly specialized progression and needs adequately qualified human resource. India lacks a dedicated cadre of workforce for assets acquisitions along with any explicit training programs for employees involved in the acquisition process. The conception of a separate and dedicated institutional structure to take on the entire range of procurement functions is required to make possible a higher degree of

professionalism and cost effectiveness in the defence procurement process [9]. An increase in FDI of 49 percent from 26 percent in defence sector has turned into a challenge too for the large organizations which are involved in defence manufacturing as they would not have the control over the management of the manufacturing. On the other hand China and South Korea have been very liberal in their approach to allow FDI and utilize their country for manufacturing defence equipments. India has a complex taxation system with a large number of taxes applicable at different stages of the manufacturing process. The tax regime is perceived as aggressive and bureaucratic in its application. For example, while the indirect tax laws provide various exemptions and concessions from payment of custom duty (on imports) and excise duty (on domestic manufacturing) of capital goods, machinery, equipment, spares, tools, etc. for use by the Armed Forces and defence sector, such benefits are specific in nature and have been restricted to certain types of equipment, machinery, etc. or to various programs or development projects undertaken by the Ministry of Defence [11]. A strong research and development is another challenge to the Indian firms who are interested in being the part of Make in India. The private sector gets to know once the government issues request for proposal (RFP). Once the RFPs are issued, the domestic players don't have sufficient time to respond as per the designs or any other proposals regarding the product. The orders will go to the foreign suppliers who possess the technology [11]. Government should make either the RFP known in advance so that the domestic players can invest their time and money in developing the requirements to should establish research centres which involve in research and development in regular basis and suggest the defence to include any innovative product in the force. There should be a forum where private sector can experiment with innovative products and can suggest the same to defence to make those products as part of the defence equipments.

CONCLUSION

India requires developing a macro vision for promoting 'Make in India' in defence sector to achieve the level of developed countries in defence manufacturing. It should not only have Make 'In' India approach but also make 'For' India. It should primarily satisfy the domestic market and then search for the exports. An export-led growth strategy is not going to pay for India as it did for Asian economies, including China, due to the moderate global economic recovery, especially in the industrial countries. The government should focus on creating an environment where all sorts of enterprise can prosper, and then leaving entrepreneurs to choose their own way of working. Make in India will typically mean more openness, as we

create an environment that makes our firms able to compete with the rest of the world, and encourages foreign producers to come and take advantage of our environment to generate jobs in India.

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