

## General Studies – 3; Topic: Security issues

### Private Sector in Defence Production

#### 1) Introduction

- It is estimated that India's defence sector requires \$130-150 billion for modernisation and restructuring in order to become self-reliant in the coming decade.
- The Government has allocated over \$40 billion for the sector in this fiscal year.
- The recent Strategic Partnership policy for defence production is aimed at spurring private sector participation in defence manufacturing in India.
- Private sector needs a level playing field. FDI liberalisation, slashing of red tape and tax incentives can make a difference.

#### 2) Benefits of private sector

- It would bring in competitiveness resulting in lesser costs, better quality equipment and adherence to laid down delivery schedules.
- Enhancement of indigenous production capacity
- Generation of additional jobs and employment opportunities within the country.
- Impetus would be given to the field of research in defence equipment sector indigenously.
- Set up joint ventures with overseas equipment manufacturers, negotiate technology transfers and find new export markets.

#### 3) What drags private sector

- Risk on returns due to the rigorous checks in the sector, stringent policy framework, and scarcity of resources and skilled manpower.
- Lack of economies of scale in production and long gestation periods.
- Private sector feel that they are alienated, thereby resulting in a lack of a level playing field vis-a-vis the public sector
- Infrastructure, investments, technology collaborations, facilitated by the government for the public sector.

#### 4) Concerns / Challenges

- The private sector has not shown any success from research and development, technological advancements and collaborations in the defence sector.
- Private sectors in India are not keeping pace with other countries.
- The defence sector is governed by varied policies including industrial licensing, import, export, security manuals, tax regulation and procurement policies.
- Superfluous controls and restrictions and unclear legal framework severely affect the efficiency and productivity.
- The multiplicity of approvals and bureaucratic delays in obtaining the approvals act as a deterrent to the inflow of foreign investment.

#### 5) Recommendations

- **FDI liberalisation**
  - a. This can boost an inflow of technology and subsequent export of defence products manufactured domestically.

- b. Having the right checks and balances in place to regulate the environment and end use of the outputs.
- c. Indian subsidiaries of foreign companies should also be given an equal platform vis-a-vis Indian public and private undertakings.
- d. India can benefit from the advanced technical knowhow and manufacturing capabilities of the foreign investors.
- **Simplification of policy**
  - a. All the policies should be harmonised and synchronised to a single window clearance mechanism so that operational time frame is reduced.
  - b. This would boost the ease of doing business campaign of the government for the defence sector.
- **Tax incentives**
  - a. The Government may consider giving the sector an infrastructure status wherein they could enjoy 100 per cent of profits for a stipulated number of years.
  - b. Cutting down the duties on import of capital equipment and manufacturing defence products in the country
  - c. This would help to manufacture better priced and quality products for domestic use and exports.
- **Inclusive development**
  - a. Advanced infrastructure, technological development and a functional fund to finance a prototype level for small and medium-sized enterprises (SMEs).
  - b. Help SMEs bear the risk on returns and provide regular orders
  - c. PSUs should outsource more to SMEs
- **Strategic partnership model**
  - a. The Government recently notified the strategic partnership policy to engage the Indian private sector in the manufacture of hi-tech defence equipment in India.
  - b. This policy is an integral step towards indigenisation and capability development.
  - c. Ensure that all necessary steps are taken to capitalise latent resources and technologies, develop the required skills
  - d. Foreign collaboration wherever needed to strengthen Indian defence players.

### 6) Conclusion

- India's future in defence manufacturing is very promising and in sync with the Make in India initiative.
- It is a matter of proactive management of the current and potential resources and a supportive push from financial and regulatory stand point.