Becoming a Defence Manufacturing Hub

What is the issue?

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- The four-day DefExpo India took place recently in Chennai.
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- India's ambitious objective of being a defence manufacturing hub demands a lot more efforts.
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What were the stated aims?

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- The DefExpo has ambitiously positioned India as an emerging defence manufacturing hub.
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- It places it as an exporter of defence systems and components.
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- Such an objective seems uncertain to be achieved in the near future.
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Why is the uncertainty?

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- It's because India is the world’s top importer of arms.
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- It accounted for 12% of total global arms imports during 2013-17.
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- It spends around 30% of total defence budget on capital acquisitions.
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- 60% of defence-related requirements are currently met through imports.
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- It does not even figure among the top 25 arms exporters.
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Why is indigenisation critical?

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- About 62% of India’s arms imports in 2013-17 originated in Russia, 15% in the US and 11% in Israel.
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- India is the largest customer for the Russian and Israeli defence industries and the third-largest for the French.
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- Significantly, India’s imports from the US jumped around 500% between 2008-12 and 2013-17.
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- India’s rising imports of arms is in sharp contrast to China.
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- China reported a 19% drop in overseas purchases between 2008-12 and 2013-17.
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- It accounts for 4.6% of the global arms export market.
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- With this, it has emerged the fifth-largest exporter of arms.
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- Given this high level of dependence, indigenisation of defence procurement is critical for strategic reasons.
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What are the measures taken in this regard?

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- **Private sector** - 'Make in India' focuses on increasing indigenous defence manufacturing and becoming self-reliant.
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- The resultant private participation in defence sector has helped foreign OEMs (Original Equipment Manufacturers).
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- They have entered into strategic partnerships with Indian companies.
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- It has leveraged opportunities in the domestic as well as global markets.

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- **Duty exemption** - The preferential treatment given to DPSUs in excise and customs duty has been discontinued.
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- This is to create a level playing field for all Indian industries (public and private).
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- **Indigenisation** - The Defence Procurement Procedure 2013 was amended with effect from April, 2016.
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- This was to encourage indigenous design, development and manufacture of defence equipment.
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- India’s focus on indigenous manufacturing is paying off.
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- Evidently, the ministry of defence over the last 2 years unveiled several products manufactured in India.
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- These include
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i. the HAL Tejas light combat aircraft
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ii. the composite Sonar dome
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iii. a portable telemedicine system for the Armed Forces
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iv. penetration-cum-blast and thermobaric ammunition specifically designed for Arjun tanks
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v. a heavyweight torpedo called Varunastra manufactured with 95% locally sourced parts
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vi. medium range surface to air missiles
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- **Defence deals** - The Defence Acquisition Council under the ministry of defence has cleared many defence deals.
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- Deals worth over Rs 820 billion under the “buy and make” and “buy Indian” categories were cleared.
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- **FDI** - 100% FDI is allowed in the defence sector.
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- Of this, up to 49% is under the automatic route.
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- FDI above 49% is permitted through the government route.
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- This is done on a case-by-case basis where it is likely to result in access to modern technology.
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- **Budget** - The government increased the defence budget by around 5.9% for 2018-19.
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- Accounting for around 12% of total government expenditure, it is around 7.8% more than the last year's budget.
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- **Industries** - It is planned to develop two defence industrial production corridors.
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- Formulating an industry-friendly military production policy is also under consideration.
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- An industry-friendly “defence production policy 2018” to promote domestic production by the public sector, private sector and MSMEs is also underway.
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- **Foreign trade policy** - It provides guidelines for engaging with Indian missions abroad.
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- It facilitates exports of indigenously developed defence systems.
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- In an unprecedented move, India recently called in all its 44 defence attaches from missions abroad.
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- It aimed at tapping the potential for defence exports and strengthening the interface between the government and industry.
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- The measures have contributed to increasing defence manufacturing and exports.
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What lies before India?

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- India has still a long way to go, to become a defence-manufacturing powerhouse.
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- The government should place large orders with defence public sector undertakings (DPSUs) with proven skills.
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- Private-sector defence players who have tie-ups with global players for technology transfers should also be roped in.
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Source: Business Standard

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