Indian defence industry

What is the issue?

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- India’s defence sector needs around $150 billion for modernisation and restructuring in order to become self-reliant.
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- The Government has allocated over $40 billion for the development of the sector in this fiscal year.
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- Despite having the skill sets and capabilities, importing most of our defence equipment and continuing with a sub-developed manufacturing base is a cause of concern.
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What are the problems in this regard?

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- The capital intensive defence industry is caught up in stringent and ambiguous financial and regulatory **policies**.
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- Availability of basic **resources** at highly competitive prices is a barrier to the development of the sector.
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- **Private manufacturers** lack the incentive to make investments into the sector considering risk on returns.
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- On the one hand, despite all the facilities, growth of **PSUs** is stagnating, while private sectors are not keeping pace with other countries.
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- Government is taking steps to bridge the gap with the Indian industries but considering the potential of the sector, the Government should assume more responsibility.
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What is to be done?

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- Currently foreign investment up to 49% is permitted under the automatic route and those beyond 49% and up to 100% is permitted through Government approval route in defence.
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- A more liberalised **FDI** regime along with right checks and balances can promote investments into the defence sector.
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- FDI should be complemented with an equal platform for Indian subsidiaries of foreign companies vis-a-vis Indian public and private undertakings.
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- Collaborating foreign investors with top scientific and technical institutes in India can bring in advanced **technical knowhow** and manufacturing capabilities.
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- Different **policies** in regard with defence sector could be harmonised and synchronised to work towards a single window clearance mechanism.
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- This could rule out multiplicity of approvals and bureaucratic delays, thereby promoting foreign investment and ease of doing business.
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- Cutting down **duties on import** of capital equipment and **manufacturing** defence products would help in strengthening the manufacturing base.
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- Giving the defence sector an infrastructure status would allow manufacturers to enjoy 100 per cent of profits for a stipulated number of years and work as an incentive.
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- PSUs should outsource more to **SMEs** (Small and Medium Enterprises) thereby increasing investments and absorbing the distinct characteristics of innovative capabilities in the industry.
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- Government has recently notified the **strategic partnership policy** for all major defence procurements by the Government.
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- The policy focuses on selecting an Indian strategic partner in key segments like helicopters, submarines, etc. This can work towards indigenisation and capability development in defence production.
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- India needs a **proactive management** of the current and potential resources to capitalise on the promising defence manufacturing industry.

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Source: BusinessLine

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