

## Maximising India's Defence Potential



**Mr. Jayant Patil**

Vice President, Society for Indian Defence Manufacturers (SIDM) and Whole Time Director (Defence Business), Larsen & Toubro Limited

Few industry sectors can rev up the economic growth engine quite like manufacturing. The present government, having recognised this reality, is pushing hard through its Make in India campaign to promote indigenous production and place the country on the world map as a leading manufacturing destination. This initiative is necessary to help realise India's ambitious plans to take growth in the manufacturing sector from the current 17 per cent of GDP to 25 per cent over the next decade and serve to create new job opportunities that will harness the energies of the youth. The Make in India programme promises to create opportunities to achieve this goal, albeit in the short run, by building strong partnerships, ensuring transfer of technology and then building on them indigenously for the long run.

However, no country can aspire to achieve regional supremacy by remaining dependent on imports for majority of its defence & security needs. Thus, the concurrent push to 'Design in India' and 'Digital India' which is imperative to indigenously design, engineer, develop and manufacture one's own defence necessities needs to be at the core of our policy making and implementation. The Ministry of Defence (MoD) has implemented this in the form of Buy Indian – IDDM (Indigenously Design, Developed & Manufactured) category as the top most category in the procurement decision tree.

India's Defence Sector is a monopsony (existence of a single buyer). The country's defence procurement has, historically, depended primarily on Government to Government (G-to-G) relationships for Transfer of tech-

nology (ToT), and thus it was only consequential for Ministry of Defence (MoD) to create and trust only Government owned companies as production agencies. In case of complex systems, the Defence Public Sector Undertakings (DPSUs) remained as the prime contractors, supported by private players as tiered partners who were also the development partners to Defence Research and Development Organisation (DRDO). This model with implicit handling and margin at the hands of prime contractors, yielded lower financial efficacy. The Government continued to make huge investments in the public sector to create capacities and build a large pool of skill sets. However, the Kargil war highlighted gaps in our preparedness and underlined our continued dependence on imports to question the past relationships of trust. Review committees thereafter recommended involvement of private sector to leverage their nimble footedness. The visible steps taken by the current Government towards indigenising the defence sector were through a series of policy initiatives such as strategic partnership with the private sector, IDDM Category, performance based acquisition enshrined in the DPP 2016, granting Foreign Exchange Rate Variation (FERV) for all Indian categories on par with that for global categories, among others. Over the past two and a half years, the import component has shown a declining trend from its earlier print of 70 per cent. With the targeted indigenous acquisition, India's imports are expected to drop further. The strong support and push from the Government towards defence export and an active facilitation through the Ministry

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of External Affairs (MEA) have laid the foundation for registering an exponential growth in exports. Having said that, as a nation, we need to work hard and smart and collaborate as 'One India' rather than make piecemeal offerings to improve export volumes. To my mind, the early implementation of 'The Dhirendra Singh Committee' report, which has recommended a strategic partnership model in letter and spirit, will prove to be a game changer in realising Make in India in India's defence sector.

Building indigenous capability is strategic and confers India the ability to gain an edge over its adversaries in the form of surprises through force multipliers. It also positions India well for the export of complex Defence Systems / Platforms. This national imperative puts an increased focus on R&D to stay at the bow wave of latest technology at all times. Today, none of the Indian defence companies feature in the Top 2500 Global List of R&D spenders. The private sector accounts for roughly 35 per cent of India's total R&D spending for relatively small business volumes. To ensure defence indigenisation, Indian companies need to be encouraged to innovate and keep pace with technology. The Government can provide sustained encouragement under the strategic partnership policy as well as by offering accelerated weighted tax incentives for targeted R&D in defence to promote spending on development of products and services through in-house R&D, whether sold domestically or exported. Such an approach is sure to smoothen the path to build on from 'Make in India' to 'Made in India' and boost defence manufacturing.

SMEs/MSMEs and start-ups are often the bedrock of innovation. As a nation we need to promote the generation of Intellectual Property through Make (I and II) Programs by 'trusting' companies that have invested in defence and gained maturity. The tiered value / supply chains under such indigenous programs generate a multiplier impact on the economy and thus need to be cleared at an accelerated pace.

It is my belief that the Indian defence industry has the necessary capabilities in many major target segments for indigenization. The hand-holding by MoD through a trust-based model can help to establish the much needed robust and vibrant defence industrial base in the country. While many defence sector reforms have been implemented, what remains to be done is implementing concurrent action in four areas, viz. Faster Acquisition Cycles, leveraging Public Procurement Policy to promote market differentiated higher indigenous content in the offering, pushing the Make in India agenda through a series of measures – the most significant one being the "Strategic Partnership" and Getting 'Make' programs on the way kick-started.

The Government also needs to increase the defence budget allocation in line with the fiscal policy changes. An increased allocation upward from the existing 1.65 per cent of GDP would not only enable building the deficient needs across armed forces, but would also contribute to increased GDP (higher than the spend) through the multiplier effect, if the incremental money is spent and is targeted towards indigenization of the sector.