

# Make in India Programme: Industry Perspective

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The Government of India has launched its flagship “Make in India” programme, a major national initiative that aims to make India a global manufacturing hub. Launched in September 2014, the programme has identified 25 key sectors, including defence, and intends to give a boost to domestic manufacturing and attract foreign investment. The main agenda of the programme is to reduce procedural delays in manufacturing projects, develop sufficient infrastructure and make India investment and business friendly.<sup>1</sup> The government is widely being perceived as business and investor friendly and is focussing on ease of doing business, securing investment and protection of Intellectual Property Rights (IPR) under the “Make in India” campaign. Crafting a holistic defence industrial base has been high on the agenda of the government for a long time. “Make in India” seems to be a promising initiative for promoting domestic manufacturing and increasing self-reliance in defence, thereby contributing to a stronger trade balance and substantial employment creation in addition to securing peace and stability in the region.

Even with an established industrial base of 52 Defence Research and Development Organisation (DRDO) labs, 41 Ordnance Factories (OFs) and 9 Defence Public Sector Undertakings (DPSUs), India is still the largest importer of defence arms and equipment (SIPRI 2014) in the world. According to the 2014 annual report on “Doing Business” by the World Bank and International Finance Corporation<sup>2</sup>, India ranks 134th among 189 nations on ease of doing business. IPR and its enforcement is another serious issue in India which deters foreign investment. Adding to these are procedural issues, bureaucratic delays, complex

polices and inter-department confusion. Therefore, the requirement of an umbrella policy like “Make in India” to cover all issues relating to investing and doing business in India was essential.

## **Government Initiatives**

The government has initiated several steps and liberalised policies in the defence sector since May 2014, which reinforces the intent and efforts of the new government to deliver on its promise of a stronger and developed India. Foreign Direct Investment (FDI) in defence was increased from 26 per cent to 49 per cent through the automatic route and higher, subject to approval from the Cabinet Committee on Security (CCS) on a case to case basis. In June 2014, the Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry, issued a notification that simplified the industrial licensing procedure. In the revised list, most of the components/parts/raw materials, castings, forgings, production machinery, testing equipment, etc. have been taken out of the purview of industrial licensing along with the clause of a three-year lock-in period for foreign investment in the defence sector. This notification will simplify the complex industrial licensing procedure and ease the defence manufacturing norms which act as major deterrents to industry participation. The government has cleared 19 defence proposals and granted speedy industrial licences for critical dual use products since it came into power, giving a fillip to the long pending procurement and production projects. The projects cleared by the Defence Acquisition Council (DAC) will be manufactured in the country, either by the public or private sector entities through collaborations and tie-ups with foreign manufacturing companies.<sup>3</sup>With an objective to encourage private sector participation, the government has restricted the programme for Avro replacement to the private industry only and the programme for the Light Utility Helicopters (LUH) for the Army and Air Force will also be made in India with foreign collaboration. The government has allocated INR 100 crore to set up a Technology Development Board to encourage research and development of new defence systems that enhance the cutting-edge technology capability in the country.<sup>4</sup>

Joint Secretary, Ministry of Defence, Mr. Sanjay Garg has stated that in the next 7-8 years, the capital budget for modernisation of the armed forces would be to the tune of US\$ 130 billion. Defence Minister Mr. Manohar Parrikar stated at a seminar in Gujarat that India cannot afford to spend exorbitant amounts on defence acquisitions and, hence, there is a greater need to promote and encourage in-house manufacturing. The Ministry of Defence (MoD) is in the process of

formulating the latest defence procurement guidelines and a suitable model for manufacturing and procurement will be put in place in the next 2-3 months that would aim at promoting local production and reducing imports. The strategic decision-makers and policy influencers should

accept the fact that cutting edge technology's timeframe, from inception to maturity, is a long drawn process, requiring diligent application of resources and unwavering belief in the final outcome. The developed countries, including the USA and the former USSR, that were the leading arms manufacturers of the world, spent enormous amounts of resources and still had to face unsuccessful and aborted attempts in numerous defence ventures. The current economic dividend affords India the chance to invest in the science and innovation sector which is at the foundation of a strong defence base.

The manufacturing subsidiaries supplying to DPSUs such as Hindustan Aeronautics Limited (HAL) and Bharat Electronics Limited (BEL) in Mumbai, Bangalore, Hyderabad, Pune and Chennai region have significant capability to contribute to the "Make in India" initiative. However, they lack the technical and infrastructure capacity and the funding to carry out primary Research and Development (R&D) on a large scale. Foreign investment, Transfer of Technology (ToT), support from the government in terms of funding or relaxation in taxation, would provide the much needed thrust to develop the Small and Medium Enterprises (SMEs). The modernisation programmes like the Tactical Communication System (TCS), Battlefield Management System (BMS) and Future Infantry Combat Vehicle (FICV) are attractive opportunities for developing the indigenous manufacturing industry.

**Government policy is aimed at increasing 'Make in India' footprint.**

## **Foreign Collaboration**

"Make in India" can attract defence cooperation from the USA as the concept appears to be in conjunction with the Defence Trade and Technology Initiative's (DTTI's) Co-Development Co-Production (CDCP) approach. Defence manufacturing in India would require FDI and technology transfer in the form of public-private partnerships, consortiums, joint ventures or R&D funding and collaborations. The synergies in the two programmes can lead to potential technology and innovation related engagement between the two countries. Stretching out and exploring how the USA and India could engage in CDCP under the wider "Make in India" banner could lead to strategic partnerships for implementation of the ongoing and future defence modernisation projects.

India's relations with Japan were further fortified when Japan's Prime Minister Shinzo Abe talked about the synergies between "Abenomics" and "Modinomics" during his visit to India in 2014. In January 2015, the Japanese Foreign Minister stated that Japan would contribute to push forward the "Make in India" initiative and that the two nations would strive to strengthen their maritime cooperation for a peaceful and stable Indo-Pacific region. Leveraging Japan's investment and business potential to drive defence R&D and manufacturing would give significant thrust to the initiative.

## **Challenges**

The "Make in India" initiative is being promoted and received in the right spirit; however, several challenges continue to haunt the well thought out policy. There are only a limited number of private companies in India with the capital and resources required to produce and develop complex defence solutions and sustain business. Also, there is a high risk to the business involved due to no assured orders from the government and difficulties in exporting to other countries because of the strategic nature of the business. The long gestation period of defence contracts (for example, projects like the L-70, TCS, FICV), cancelled contracts and No Cost No Commitment (NCNC) trial policy of the MoD add to the projects' costs. Many a times, the project delays are of the order of decades and the technology becomes redundant or obsolete by the time the first batch is completed for testing.

## **Integrating the User**

A key component of defence indigenisation are the Indian armed forces as the end users. The Government of India and the local defence industrial sector need to work in close synergy with the defence forces to realise the ultimate goal of self-reliance. The defence forces also have a responsibility which is primarily manifested through requirement specification providers, product and service evaluators, business opportunity providers and the final consumers of the defence industrial complex. A detailed analysis of the role and responsibilities of the government, defence industry and foreign partners has been presented in numerous research products and media reports. A thorough examination of the role of the defence forces in the success of "Make in India" is urgently due and requires focussed attention by decision-makers in the Services. In the developed countries that possess strong defence industrial complexes, the Services are equal partners in the success story. The defence Services are the prime source

of business, providers of technological requirements and, finally, the end users, making optimum use of the products and services. In India, the defence forces in many cases do not provide detailed technical specifications of the products and services required, do not monitor progress based on a partnership mode, change requirements on an ad hoc basis and, lastly, no commitment of equipment acceptance is given or there is under-utilisation of the equipment. The need of the hour is for the three Services, in conjunction with the other security forces, including the Coast Guard, police, para-military forces, etc. to come together and develop a course of action which is practical, time-bound, synergistic and supportive of the Government of India's indigenisation initiative, culminating in modernisation of India's defence architecture. Military modernisation and technological prowess should be in line with India's perceived and real threats across the spectrum of conflict. The defence forces are in the best position to provide accurate threat mapping and categorisation based on which military modernisation should be pursued. In order for the armed Services to discharge their role effectively, they need to be partners, technically sound and with a well-defined position in the framework of accountability.

**Armed forces need to be integrated during development and production phase.**

## **Way Forward**

There are issues that need to be addressed for smooth implementation of the "Make in India" programme. Coordinated efforts to incorporate reforms related to land acquisition, labour laws, taxation regime and inter-state cooperation will greatly ease the business environment and encourage foreign as well as local investors. There is a need to put together individual modernisation projects of the three Services under the single banner of "Make in India" and formulate a synergistic defence manufacturing strategy. With a growing defence market and the government's focus on the sector, India can utilise the buyer's clout and attract favourable business. An investor friendly environment, mobilising India's talent and human resources, promoting business, entrepreneurship, research and innovation will pave the way for India's growth as a regional economic and military power. The recent visit of the US President to India and the operationalisation of the DTTI through the four "pathfinder" projects is a beginning in the right direction, but the crucial aspect would be to maintain the momentum in the future and co-develop more complex defence systems. All the major powers of the world are interested in working with India in all sectors

including defence, and this is an opportunity which India cannot afford to miss. As is commonly said among intellectuals, “No one can stop an idea whose time has come” and India surely faces this prospect in the coming years with a hope that the destiny of a great country is deeply embedded in its inner strength and self-reliance.

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1. Sandip Das, “Make in India – A Boost to the Manufacturing Sector,” <http://employmentnews.gov.in/webmake.pdf>
2. <http://www.doingbusiness.org/rankings>
3. <http://pib.nic.in/newsite/PrintRelease.aspx?relid=114175>
4. Ibid.