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**Foreign Direct Investment in Defence Sector in India****Mr. Ajay Garg\* and Dr. Parul Khanna\*\***

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**Abstract:** *Real inflow of Foreign Direct Investment started in India from early 1990's during the Prime Minister ship of Sh. PV Narsimha Rao. Next fillip came in the form of repeal of FERA which was replaced by (FEMA) Foreign Exchange Management Act), 2000. Still Government of India could not think of FDI in defence sector until 2014 due to various strategic reasons. With the onset of Sh. Narendra Bhai Damodardas Modi led government at the Centre, the policy towards attracting foreign investment got fresh re-look. Still these are early days for a major shift. The appetite for making investment in defence sector in India by way of setting up manufacturing units has been shown by the initial moves of big wigs belonging to USA, France, England, Russia, Israel and many more. Press Note 7 of 2014 gave first signal of opening up of defence sector which was until untalked of due to political repercussions. The top political leadership took a major shift with renewed thought process. Speaking at the inauguration of Aero India 2015 in Bengaluru, the Prime Minister Mr. Modi said, "We have a reputation as the largest importer of defence equipment in the world. That may be music to the ears of some of you here. But this is one area where we would not like to be No.1..." The journey of defence sector which started in 2014 is still at nascent stage. This paper analyses Impact of FDI in Defence Sector in India. Early trends are going to set trends for FDI in next two decades. The remaining four years of this decade will decide whether AUTO SECTOR story will be rewritten or FDI driven manufacturing in defence sector will remain stunted. An attempt has been made to analyse early trends of FDI in Defence Sector.*

**Keywords:** Defence Procurement Policy, Foreign Direct Investment Trends, Foreign Direct Investment (FDI) Policy for Defence Sector, Licensing conditions for Defence Sector, Listed Companies in Defence Sector and Shift in their pricing, Make In India, Private Sector entry into Defence Sector. Offset Policy.

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## 1) Introduction

Make in India is ambitious program of Government of India. Manufacturing of defence sector products has the potential to be game changer. India has seen robust growth of Auto Sector which was opened up with the setting up joint venture by Suzuki of Japan as an exception. The sector truly opened up slowly starting from CKD (Completely Knocked Down Kits) in early 90's; moving to SKD (Semi Knocked Down Kits) era; further followed by more indigenization; further leading to export of simple auto parts from India; further followed by sourcing of critical auto components from India and has now entered face where Motor Cycles, Cars and other Auto products are being manufactured in India and are being exported to developed nations. At the time of opening up of auto sector, obituary of Indian auto companies was written but nobody thought those 25 years down the line, India will become a global hub of auto manufacturing companies.

As far as defence sector is concerned, these are early days. In 2001, the Government allowed 100% Indian private sector participation in defence manufacturing sector subject to licensing under IDR Act. For FDI, the sector has started opening up only in 2014 with change of Central Government. India's defence budget estimates are mind boggling. For 2016-17, the budget is 3.4 trillion in INR terms, about 10% more than the previous year's estimates. And 60% of this budget is imported from all across the world. This means that defence products worth more than INR 2 trillion will be imported every year and this figure is bound to increase in the years to come for the simple reasons that India, as a nation, is surrounded by either unreliable countries or countries facing insurgency or countries facing difficult times. India's immediate seven neighbours are China, Pakistan, Sri Lanka, Bangladesh, Nepal, Myanmar and Bhutan. Except Bhutan, there is problem on each border. Problem of frequent skirmishes plagues border with Pakistan and China; problem of terrorist's infiltration plagues Bangladesh and Myanmar border whereas Nepal is politically disturbed nation. Sri Lanka has seen very long period of insurgency. Two of India's neighbour, namely China and Pakistan are having nuclear weapons and constantly fighting proxy wars with India. Because of this peculiar situation, the annual induction and consumption of warfare is unlikely to decrease in foreseeable future. The question is that whether with the opening up of FDI in Defence sector whether world's renowned companies will set up their production facilities in India or they will stay away? Whether initial investment will be followed by sourcing form Indian vendors or Indian facilities in defence sector will remain only assembly units? Will Indian Government be able to dictate its own terms or will get dictated by the terms of MNC's? It seems that FDI in defence sector will depend primarily upon four factors:

1. **FDI Policy Flexibility and Relaxations:** Until 26<sup>th</sup> August, 2014, defence sector was holy cow. Even private sector was big no-no. Though the sector was opened up for Indian private sector entities but Government hardly issued 64 licenses since 31.03.2014. The defence manufacturing was dominated by Public Sector Undertakings that also CPSU (Central Public Sector Undertakings). OFDs owned and operated by Ministry of Defence used to be only source of indigenous supplies to defence forces. Press Note 7 issued on 26<sup>th</sup> August, 2014 opened up opportunities for FDI in defence sector by way of increasing FDI under Government route from 26% to 49% without clearance form Cabinet Committee on Security (CCS).

2. **Make in India Effect:** On 25<sup>th</sup> September, 2014, the idea of 'Make in India' was launched with the target of making India as next manufacturing destination of the World. Twenty-five sectors have been identified. Defence being of utmost importance as this has potential to become game changer if given the wings. Since its launch, the government is continuously taking steps to make it easier to do business in the country. Overall FDI receipts have increased considerably in comparison to earlier periods. This trend shows increasing faith of MNCs in Indian economy. Though, only marginally but Global EoDB (Ease of Doing Business) ranking of India has improved in very first year of new government.
3. **Defence Sector Licensing:** The government has opted for three-pronged approach. One - the defence sector has been opened up for private sector entities. This is established from the fact that during last one year ending on 31<sup>st</sup> March, 2016, Government of India has issued 56 defence licenses to private players in comparison to 47 licenses granted in preceding three years. These private sector licence holders are expected to enter into Joint Venture tie ups with foreign players of repute in their respective fields because of gaps in technology and investments. Two, the gestation period between grant of license and start of production has been liberalised and has been increased to 15 years (further extendable to 3 more years) whereas earlier it was three years. Three, the government has also liberalised industrial licensing regime by way of taking out most of the components/parts/sub-systems out of the list of defence products requiring industrial licenses. Thus entry barriers for SMEs suppliers have been removed.
4. **Defence Procurement Policy:** The critical DPP policy document has seen major shift in 2016. Now this policy document gives preference to 'Buy (Indian)'; 'Buy and Make (Indian)' and 'Make (Indian)' over 'Buy and Make (Global)' or 'Buy (Global)'. These new categories will give an edge to companies manufacturing in India. Offset implementation has been made flexible by allowing change of Indian offset partners and offset components even in signed contracts.

To give further fillip to production in defence sector, the government has started focusing on big events to attract attention of global players in the form of annual events like AEROINDIA AND DEFEXPO. These platforms are likely to gain stature in coming two-three years by way of attracting participation of not only all big global players but also of all other stakeholders.

## 2) Objectives of the Study

The objective of the study is to (i) To assess the potential of FDI in defence sector; (ii) To analyse the trend of FDI in defence sector; (iii) To Identify the factors impacting FDI trends in defence sector; (iv) To Assess market pricing trends of listed entities in defence sector in India.

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### 3) Research Methodology

This research paper is entirely based on analysis of secondary data. The secondary data of only authentic source has been used. The periodicals; annual reports; tables, charts, etc. published / available in public domain has been relied upon while collecting secondary data. Special supplement of economic newspapers issued at the time of DEFEXPO has been used. Data released by Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry, Government of India has been used. Central Office of RBI also collects information about FDI. To review trends of share price behaviour of listed companies, historical data of Bombay Stock Exchange has been used.

### 4) Defence – the Sunrise Sector of the Next Decade

Annual budget for imports of defence related products is very heavy for India. During Aero India 2015, Prime Minister Mr. Modi said, "...If we could raise percentage of domestic procurement from 40% to 70% in next five years, we would double the output in our defence industry. Imagine the impact of in terms of jobs created directly and in the related manufacturing and services sector! Think of the spin-off benefits on other sectors in terms of advanced materials and technologies! That is why we are focusing on developing India's defence industry with a sense of mission. This is why it is at the heart of our Make in India programme." This is time for private sector push in defence sector. Private sector has shown its mettle in the field of petro products; healthcare; mining; power production, telephony and communication and many more. With opening up of each sector, private sector has raced ahead with better technologies, better management, better services to consumers at their doorstep. Until, the onset of last decade of 20<sup>th</sup> century, telephony sector was reserved for public sector. With opening of sector for private sector, everything has changed. Today private sector players dominate over public sector players. Defence sector until now was holy cow and private sector players were big no for the notional reasons of security and secrecy. With relaxation in FDI norms, the scenario is changing. Private sector companies have applied and have got license for manufacture of various products required by defence ministry of India.

Defence sector projects are capital intensive, technology driven and carry long gestation period. All these factors are being taken care of. FDI policy has been modified vide press note 12 dated 24<sup>th</sup> November, 2015 allowing 49% foreign investment under automatic route and further up to 100% through approval route on a case to case basis wherever it is likely to result in access to modern and state of art technology in the country. Press Note 5 of 2016 dated further liberalised FDI in defence by way of removing the condition of 'state of art technology'. This has been replaced with 'it is likely to result in access to modern technology or for other reasons to be recorded'. Each dose of relaxation is likely to attract more MNCs to invest in India. In June 2016, the Defence Minister Mr. Manohar Parrikar has gone on record to state that the government would not mind giving 100 per cent FDI in a venture that would make manufacturing fighter plane in India possible.

Conditions of industrial licenses have also been relaxed matching requirement of defence sector. Press Note 9 of 2014 series dated 20<sup>th</sup> October, 2014 provided three pronged relaxation: One, for ease of

doing business, two extensions of two years each were allowed along with original period of 3 years making it to total 7 years. Two, stipulation of annual capacity condition has been removed. Instead a format has been designed to collect information about production at half yearly interval. Three, licensees have been allowed to sell defence items to other government entities under the Ministry of MHA, state Governments, PSUs and other valid defence licensed companies without prior approval of DoDP (Department of Defence Production). Vide Press Note No. 5 of 2015b series dated 27<sup>th</sup> April, 2016, license period has been further revised to seven years and further extendable to three years for existing as well as future licenses. The step has been taken in view of long gestation period of defence contracts to mature. Vide Press Note 10 of 2016 series dated 22<sup>nd</sup> September, 2016, original validity has been increased to 15 years further extendable to 3 years for existing as well as fresh licenses. In addition, government has done away with licensing requirement in defence sector except 16 items.

Mr. Anil Dhirubhai Ambani, Chairman of Reliance Defence and Engineering Limited said, "...strategic defence sector has opened up for private sector participation which will help foreign original equipment manufacturers to enter into strategic partnerships with Indian companies and leverage the domestic markets and also aim at global business....".

## 5. Results and Discussion : Analysis of the Trend

### **Potential of FDI in Defence Sector**

Presently, In defence equipment needs (excluding ammunition), the contribution of imports, public sector and domestic private sector is 75%, 20% and 5% respectively. The sector was opened up for private sector in 2001 and first license was issued in 2004. With increase in FDI limit under automatic route up to 49% and under approval route up to 100%, the sector is now poised for strategic tie ups by global original equipment manufacturers. Global companies are increasingly looking for suitable partners and opportunities in defence and aeronautic sector. Even defence offset opportunities to the tune of INR 250 billion are available during next 7-8 years. The offset opportunities refer to condition of procurement from indigenous sources against foreign supplies to Indian defence forces. The latest defence procurement policy (DPP) has given preference to 'Buy (Indian)' and 'Buy and Make (Indian)' over 'Buy (Global)'. Large number of application for defence licenses in last two years testifies increasing interest in harnessing indigenous potential of supplies to Indian defence sector. Large number of parts/components, castings/ forgings, etc. have been excluded from the requirement of defence license. Moreover, policy for formulation of joint venture between defence PSUs and private sector has also been laid out to attract joint venture options with global defence companies. Some of the defence PSUs like Hindustan Aeronautics Limited; Bharat Earth Movers Limited; Bharat Electronics Limited, etc. have moved ahead and have entered into tech tie-ups and are at the verge of entering into long term JV agreements.

**FDI Announcements since 26<sup>th</sup> August, 2014**

Since 26<sup>th</sup> August, 2014, Make in India in defence sector is being talked regularly in financial world. Domestic private sector conglomerates have increasingly applied and procured licenses for defence products. Captains of these groups are airing their views regularly in media as well as they are putting their suggestions across the table to various authorities including Prime Minister Office. This is heartening to note that government machinery is not only listening to them but taking proactive steps for easing out the difficulties and creating conducive atmosphere to attract FDI in defence sector. The Prime Minister announced during his interaction with industrial bigwig during his one of the US visit – ‘No Red Tape, Only Red Carpet’.

During recent past, the liberalization process has continued.

- FDI limit under automatic route has been increased up to 49%;
- FDI limit under approval route has been increased to 100%;
- Other conditions which used to run to 21 have been reduced to mere 4 under para 5.2.6.2 of FDI policy;
- Indian manufacturers have been provided level playing field by way of including provisions for Exchange Rate Variations (ERVs) protection for Indian vendors; offset obligations in ‘Buy (Global)’ cases, imposition of excise/custom duties on defence equipment, etc.;
- Domestic private sector has been accorded parity with Domestic Public sector undertakings.
- Defence Procurement Policy has been modified providing preference to Make in India under three sub-categories:- ‘Buy (Indian)’; ‘Buy and Make (Indian)’; and ‘Make (Indian)’.
- Initial validity of licences has been increased to now 15 years (prior to 26<sup>th</sup> August, 2014, it was 3 years) further extendable to 3 years.
- Entry barriers have been removed by way of removing most of the components/parts/sub-systems from the list of defence items – this initiative will open window for entry of SME units in defence sector as suppliers to OEMs.
- In 2015-16, DIPP has issued.... industrial licences for the manufacture of various defence equipment under IDR Act.
- Defexpo India is biennial show of military and security systems. In 2016, it was held at Mumbai. This expo is complemented by Aero India, another biennial event which was held in 2015 at Bengaluru.
- Press Note 8 of 2012: Allowed 49% FDI in Power exchanges registered under the Central electricity Regulatory Commission (Power Market) Regulations, 2010

**Likely Factors Determining FDI Inflow in Defence Sector:** The state governments of Karnataka, Telangana, Andhra Pradesh and Maharashtra have taken keen interest in attracting FDI driven projects related to defence sector. With increased competition amongst states, the results would be better. Currently, defence sector is over regulated and monitored at every stage of project. To succeed this monitoring need to be unshackled. Procedural intervention need to stop. In last two years, steps have

been initiated to ease out this situation. Except 16 items all other defence items have been delicensed. Offset policy also need to be given fresh look. Offset policy has the potential to give fillip to MSME sector in defence related products. Recent changes made in offset policy are welcome step in right direction. This shows positive intent of the government machinery. Presently over delay in commercialisation of research is cause of concern in Defence related Public Sector Undertaking (DPSUs). The situation is same with defence Research and Development Organization (DRDO) and Ordnance Factories Board (OFB). Professionalization of these DPSUs and other units in Public Sector is the need of the hour. Introduction of professionalism will result into increase in productivity; timely commercialization of new research; modernization of existing plants; imbibing of new technologies and processes; attainment of commercial scale leading to realisation of exports potential. In 21<sup>st</sup> century, Aerospace industry and defence industry are complementary to each other. In near future, probability of according infrastructure status to these segments and major tax concessions for initial years cannot be denied. As and when infrastructure and tax concession will be announced, and then these will give further fillip to FDI in defence sector.

**Pricing Trends of Defence Sector Listed Entities in Indian Bourses:** From the point of view of stock market, these are still early days for defence sector companies. Still one can gauge pricing trends of the listed companies who have procured one or more licence (either in their own name or in the name of their subsidiary companies) since 26<sup>th</sup> August, 2014 related to defence sector.

Name of Company	Face Value	Price as on 1 <sup>st</sup> July, 2014	Price as on 1 <sup>st</sup> July, 2015	Price as on 1 <sup>st</sup> July, 2016
Ashok Leyland Limited	1.00	36.75	74.10	99.45
Bharat Electronics Limited	10.00	2193.10	3411.75	1270.85
Astra Microwave Products Limited	2.00	144.20	109.65	123.65
Bharat Forge Limited	2.00	652.65	1108.5	760.65
Larsen & Toubro Limited	2.00	1725.35	1809.8	1540.65
Mahindra & Mahindra Limited	5.00	1194.15	1290.25	1460.70
Reliance Defence & Engineering Limited	10.00	67.75	60.1	65.75
BEML Limited	10.00	779.45	1241.4	875.05
Rolta India Limited	10.00	112.5	101.7	66.2
Walchandnagar Industries Limited	2.00	109.45	160.3	150.2
Himachal Futuristic Communications Ltd	1.00	19.05	11.72	19.15
Titagarh Wagons Limited	2.00	312.5	102.9	90.9
Punj Lloyd Limited	2.00	52.9	24.75	21.3
Solar Industries India Limited	2.00	2038.05	3669.95	3219.4
Tech Mahindra Limited	5.00	2112.05	486.5	511.65

Deeper analysis shows that prices have moved upwardly after announcements of defence ambitions. The prices have shown upward trend with submission of each fresh application for defence license, with each fresh allotment of license, with prospects of joint ventures. Still these are early days and impact on Balance sheet will get truly reflected with the beginning of next decade. But one thing is certain that Indian investors (both retail and institutional) are keenly watching developments in defence related scrips listed on Indian bourses.

**Other Than Listed Entities with Defence Sector License:** In addition to listed companies, many other private sector companies have procured defence product licenses and propose to set up manufacturing

units. Some of the closely held companies belonging to big industrial houses are: Mahindra Defence Naval Systems Pvt. Ltd.; AMW Motors Limited; Jubilant Aeronautics Pvt. Ltd.; Reliance Aerospace Technologies Limited; Mahindra Telephonic Integrated Systems Limited; Ashok Leyland Defence Systems Limited; Taneja Aerospace and Aviation Limited; CIMMCO Limited; Premier Explosives Limited; Chowgule & Company Pvt. Ltd.; Samtel Thales Avionics Ltd.; Tata Advanced Materials Limited; Kalyani Strategic Systems Limited; The Hi-Tech Robotics Systems Limited; Fedders Lloyd Corporations Limited; KSEDC Limited; Reliance Helicopters Limited; Reliance Propulsion Systems Limited; Reliance Aerostructure Limited; Reliance Land Systems Limited; Reliance Defence Technologies Limited; Reliance SED Limited; Reliance Naval Systems Limited; Reliance Unmanned Systems Limited; JSW Projects Limited;

This list shows that big corporate houses are entering into defence sector with different strategies. Some of the abovementioned companies are step down subsidiaries of listed companies whereas others completely unlisted companies.

Some of the other entities who have procured one or more defence license are: Mak Control and Systems Private Limited; Indian Armour Systems Private Limited; HYT Engineering Private Limited; Sure Safety Solutions Pvt. Ltd.; Real Time Techsolutions Pvt. Ltd.; Rangsaons Defence Solutions Pvt. Ltd.; Southern Electronics (Bangalore) Pvt. Ltd.; Basant Aerospace Pvt. Ltd.; Defence Land Systems Pvt. Ltd.; Sasmos Het Technologies Pvt. Ltd.; Swallow Systems Pvt. Ltd.; Avaana Software & Services Pvt. Ltd.; Economic Explosives Limited; Tejas Strategic Technologies Pvt. Ltd.; Lords Vanijya Pvt. Ltd.; Dewsoft Fabrication Pvt. Ltd.; Spectrum InfoTech Pvt. Ltd.; Avio Helitronics Infosystems Pvt. Ltd.; Dynamatic Technologies Limited; Avasarala Technologies Limited; Elcome Marine Services Pvt. Ltd.; Micron Instruments Pvt. Ltd.; Deepti electronics and Electro Optics Pvt. Ltd.; MKU Pvt. Ltd.; Idea Forge Technology Infotech Pvt. Ltd.; Elcom Innovations Pvt. Ltd.; Tak Technologies Pvt. Ltd; BF Elbit Advanced Systems Pvt Ltd; Analogic Controls India Limited; Aidin Technologies Pvt Ltd; Amertec Systems Pvt Ltd; Modest Infrastructure Pvt Ltd; Serial Innovations India Pvt Ltd; Asteria Aerospace Pvt Ltd; Lotus Aviation Technology Pvt Ltd; Icomm Tele Limited; Vem Technologies Pvt Ltd; Tebma Shipyards Limited; Narendra Explosives Limited; Applied Electro Magnetic Pvt Ltd; Metaltech Motor Bodies Pvt Ltd; Ideal Industrial Explosives Limited; Commavia Systems Pvt Ltd; OIS Advanced Technologies Pvt Ltd; DCX Cable Assemblies Pvt Ltd; Shan Arms Industries Pvt Ltd; Continental Defence Solutions Pvt Ltd; Avantel Limited; Ananth Technologies Limited; Cominit Systems and Solutions Pvt Ltd; Naistoco India Pvt Ltd; Ideal Industrial Explosives Limited; Commavia Systems Pvt Ltd; OIS Advanced Technologies Pvt Ltd; DCX Cable Assemblies Pvt Ltd; WW Defsys Pvt Ltd; Marine Electricals (I) Pvt Ltd; Micronel Global Engineers Pvt Ltd; Dyna Flow Technologies India Pvt Ltd; Blue Stampings and Forgings Limited; Vinyas Innovative Technologies Pvt Ltd;

The above list of companies clearly shows that defence licenses are not restricted to top corporate houses but many medium and small size enterprises are also increasingly looking for business opportunities in defence sector. Many of them, at opportune time will enter into joint venture or technology transfer agreements with their foreign counterpart. This way tier 1 and tier 2 suppliers will also get market for their production. Perhaps looking increasing interest being taken by SME sector, Government of India has relaxed licensing requirement vide Press Note No. 3 (2014 series) dated 26<sup>th</sup>

June, 2014 and has restricted licensing requirements to 14 ITC(HS) Code / 4 broad categories, namely (87.10) - Tanks and Other Armoured fighting vehicles; (88.01 to 88.05) Defence Aircrafts, spacecrafts and parts thereof; (8906.01) Warships of all kinds; (93.01 to 93.07) - Arms and ammunitions and allied items of defence equipment; parts and accessories thereof; This will further encourage entries of SME sector at faster pace.

**Foreign Companies in Defence Sector of India since 2014:** Following defence sector multinational conglomerates have signed MOUs / JV Agreements / have shown keen interest:

- BAE India Systems (UK)
- Pilatus (Switzerland)
- Lockheed Martins (USA)
- Finmeccanica (Italy)
- Boeing (USA)
- Raytheon (USA)
- MBDA (France)
- Raffel (France)
- IAI (Israel)
- Rafael (Israel)
- Skirosky Aircraft (USA)
- Dassault Aviation (France)
- Seabird Aviation
- Siemens AG (Germany)
- Rolls Royce Corp. (UK)
- Antonov Co. (Ukraine)
- Augur Overseas Operation Pte Ltd (Singapore)
- Abu Dhabi Shipbuilding Co. (UAE)
- Zvezdochka Shipyard (Russia)
- Almaz-Antey JSC (Russia)
- Emirates defence Industries Co (UAE)
- Thales Group (Russia)
- Israel Weapon Industries (IWI) (Israel)
- Safran Helicopters

The list is ever increasing. Aero India 2015 and Defexpo 2016 attracted not only the attention of global players but many of them participated in these biennial event and have started identifying Indian partners.

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## 6. Conclusions : Findings

Will India become national hub of defence related equipments and products by 2031? Will India become exporter of military hardware by 2031? Will India be able to make warships and warplanes in India by 2031? At this juncture, this is noticeable that India has third largest army, fourth largest air force and seventh largest navy in the world with 12 Lakh strong armed forces. India is biggest importer of defence equipment in the world. 40% of India's defence budget is spent on capital acquisitions. Even offset opportunities are around INR 250 billion during next 7-8 years. India is on the cusp of major modernisation exercise of its armed forces.

This is heart warming to note that of late, the domestic private sector has likened and has taken keen interest in defence sector. Tata Group; Reliance Group; Reliance ADA Group; Mahindra Group; Baba Kalyani Group, Larsen & Toubro Group; Hero Group; Adani Group; Himachal Futuristic Group; Bharti Shipyard Group and many more. The big industrial houses are increasingly looking for opportunities in defence sector. It is heartening to note that many SME players have also procured defence licenses. Rather SME entities outnumber big corporate players in the list of defence licenses issued by GoI since August, 2014. Defence sector is being perceived by them as next growth engine. New entrants are showing their intentions and are proactively applying for licenses every month. Tata Motors Limited and Tata Advanced Systems Limited and other companies of Tata group have tied up with US based Sikorsky Aircraft Corp., Lockheed Martin Corp. And Boeing Co. Mukesh Ambani led Reliance Group has signed agreements with Dassault Aviation (France) for medium multirole combat aircraft (MMRCA); Siemens AG of Germany for homeland security systems; and also with Raytheon Co. And Boeing Co. of the US and. Bharat Forge Limited of Baba Kalyani Group has tied up with Israel defence tech firm Rafael Advanced Defence Systems Limited and Elbit Systems Limited and also with UK based Rolls Royce Corp. Mahindra Defence Systems has tied up with Bae Systems and Seabird Aviation.

AEROINDIA 2015 and DEFEXPO 2016 both attracted attention of world's bigwigs in the field of aeronautical and defence sector. The actual inflow of FDI in defence sector has already started but inflow is slow and has not yet gained significant momentum. But this sector is unique in terms of unshared super technology; highly capital intensive; politically insensitive; very long gestation period. Still manufacturing opportunities in joint venture setup with Indian bigwigs are being explored by global corporate bigwigs. During visit of Prime Minister of India to US in May-June, 2011, India was declared as 'Major Defence Partner'. Joint statement issued on the occasion read as under, "We were looking for something unique. This language you would not find in any arms transfer legislation or any of our existing policies. This is new guidance and new language that is intended to reflect unique things that we have done with India under our defence partnership."

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## 7. Suggestions and Recommendations

Government of India seems to be on right path. India has to move fast on next generation reforms and remove impediment in growth of manufacturing in defence sector. Critiques says that Government should not open up further as defence sector is sensitive whereas the supporters says that imported equipments not only exposes but exposes fully – hence Government shall move with full steam. For creating momentum of FDI inflows in defence sector, Gol is likely to focus on following issues in foreseeable future:

**Tax Incentives:** Government has already announced many direct and indirect tax incentives. Some of the recent incentives announced in the field of indirect taxes are - exemption from Basic Custom Duties (BCD) and Countervailing Duties (CVD) for goods imported for use in the manufacture of aircraft. In the field of Direct Tax incentives, the announcements includes: Additional Investment Allowance (additional depreciation) @15% to manufacturing companies with the investment worth > INR 1 billion in plants and machinery. R&D incentives are available in the form 200% deduction against the amount spent. The production in defence sector has very long gestation period. Hence initially, various tax incentives will be sought by the nascent industry in India.

**Aggressive Push:** The defence sector needs to be pushed aggressively. Proper inter-ministerial coordination; speedy disposal of files and critical decisions; well thought strategy to take care of national interest and security will be the key for growth of FDI in defence sector in India.

**Infrastructure Status:** India is capital shy economy whereas defence sector projects are capital intensive and technology incentive. Government may have to decide and bestow upon infrastructure status on defence sector related projects. This will help in getting priority under bureaucratic procedures which is major threat for all defence related projects. Infrastructure projects in India are directly monitored at regular intervals from PMO and specific cabinet committee.

**Large Size Land Parcels:** In association with State government, the Gol has to identify large size land parcels so that mother units in defence sector along with joint venture complex can be set up. This can come up with Defence Manufacturing Zone (DFZ) or any other name. Proactive satte may take lead in this concept.

**Ease of Doing Business:** Initiatives under (EoDB) Ease of Doing Business shall cover both aspect ease of setting up business (EoSUB) as well as ease running up businesses (EoRuB). Compliance mechanism – periodic as well as event based also need fresh look. Deposition of taxes and filing of return system also need to be simplified and computerized. Record maintenance and inspection also need to be streamlined with absence of bureaucratic arbitrariness. .

**Minimum Governance:** Modi Government is already following the dictum of ‘minimum governance’. All aspects need to be covered under this. But while doing so, national security shall not be put on stake. There is need to maintain fine balance between national interest and business interest.

Future of FDI in defence sector seems to be robust. Since, 2014, many global leaders have shown interest in setting up defence manufacturing facilities in India. Government has also issued licenses to many Indian companies. Som of the joint ventures have already been announced. Others are lined up. Many other global players are in process of identifying Indian partners. Some of the global players are looking for 100% owned set up in India. This seems that next decade will belong to growth of FDI in Defence Sector in India.

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