

## **SELF RELIANCE IN DEFENCE MANUFACTURING – ROLE OF PRIVATE INDUSTRY**

Addressing the nation from the ramparts of Red Fort, New Delhi on the occasion of Independence Day on 15 Aug 2017, Prime Minister Modi spelt out his vision for a 'New India', "Naya Bharat Ek Saksham, Surakshit aur Shaktishali Desh Hoga". New India will be a capable, secure and a mighty nation. There is a universal acceptance that India is a responsible, respected, regional power and a global leader. India will be the second largest economy by 2030 in PPP terms. The next decade will also dictate the Geostrategic & Geopolitical equations for the rest of the century and hence it is an imperative that as a nation we assert our rightful place in the comity of nations and the emerging world order. The new Geo-strategic construct of Indo-Pacific and a fast growing might of China are indicative of not a Bipolar but a multi polar world with India as the 'Balancing Power'.

To further our national interests and aim to transform India to a 'modern, prosperous and secure nation', India needs to consolidate its strengths as also address certain weaknesses and structural infirmities. Defence is an integral component of our Comprehensive National Power and self reliance in defence is an imperative to ensure a secure India and retain our strategic autonomy . There are any number of defence and security strategists who say that there will be no wars. Yes, war is not an option but for ensuring continued and guaranteed peace, the two major contributors are 'Defence Preparedness' and 'Operational Readiness'. Peace is ensured from a position of strength and not by demonstrated weaknesses. While the services do ensure operational readiness, however it is the defence preparedness which is not in concert with the requisite capabilities and capacities of national security. Defence preparedness also implies self reliance. The only way that can happen is to create a vibrant and vital defence industrial base duly integrating the private sector.

India has the longest disputed borders in the world with 3488 km India-China Border wherein China claims over 1,10,000 sq km of our

territory. India also shares a not so peaceful 772 km long Line of Control and a 126 Km long Actual Ground Position Line with Pakistan. Pakistan also continues to wage a proxy war for over three decades now. The aim is not to amplify the many security challenges both external and internal, suffice it to say that India faces a full spectrum of conflict from small wars, unconventional wars, terrorism, hybrid wars to conventional and nuclear wars and even street wars now if these can be so termed. New age war will be multi domain waged in many battle spaces simultaneously, hence India and the Armed Forces have to be not only present relevant but also future ready.

The lack of a Defence Industrial base is a major concern and needs urgent intervention and attention. The Vice Chief of the Army Staff recently had also raised similar concerns saying that even Pakistan has a much better and a well developed Defence Industrial Base. One of the major weaknesses in our capabilities and capacities is not only a weak but a nearly non-existent Defence Industrial Base, centered around the government owned and operated 41 Ordnance factories and 9 Defence Public Sector Undertakings (DPSUs), with little participation from the private sector. The 1.4 million Indian Armed Forces are the fourth largest Armed Force in the world and the largest Arms importers with 13% of Global sales according to SIPRI data. India increased its arms imports by 43% between 2007-2011 and 2012-2016 periods with 62% of imports from Russia alone. 60 to 65% of military hardware is of Russian/Soviet Origin. The import figures since 1950 to 2017 show that India imported a staggering 119.89 bn USD worth of arms by far the largest in the world, double that of Saudi Arabia. In July of 2000 the author had visited Eurosatory in Paris as part of an Indian Delegation to scout for weapons and equipment mainly for the PARA Special Forces and Infantry. India had the 2<sup>nd</sup> largest delegation with the largest delegation being from China. Now nearly two decades down the line India continues to be the largest importer and China on the other hand accounts for nearly 6% of all arms exports – exporting military hardware to 48 countries, as the fifth largest exporter. Today China is a power to reckon with and this power is derived

from among other elements of national power a self reliance in defence wherein it has created the capabilities to support the PLA.

The RRM in a seminar at CDM Secunderabad in 2016 laid down that by 2021-2022 India will reduce the import of arms by 50%. If that is the aim India needs to be Self Reliant in Defence and for that the private industry has to play a leading role duly supported by the Government and the Armed Forces. A self reliant India in the defence sector is an imperative to position itself as a global leader. It is no secret that during the Kargil war emergent off the shelf purchases were sourced from vendors around the world and similarly post the surgical strikes in September 2016. Had there been a reasonably well developed defence industrial base, these emergent procurements at exorbitant costs would not have been required. India has the distinction today of being the largest buyer of arms from Russia, US and Israel.

Indian Private Industry has the potential to support the Armed forces, unfortunately the near total control of the government sector backed by stringent procedures has denied and discouraged the entry of private players. With two defence industrial corridors now being established there is a requirement to get the structures and the systems right, which address the concerns of the private industry and ensures an ease of doing business. The many changes in Policy should be backed and supported by industry friendly procedures and processes. The policy is fine but the processes somehow continue to be lethargic, thus adding to unacceptable cost and time overruns discouraging start ups and existing players. The National initiatives of Make in India, Skill Development, Start up India and Digital India need to be aligned and exploited to help develop a viable defence manufacturing base with long term assurances to the private sector. In an international conference on “ Military Ammunition: Make in India- Opportunities and Challenges” conducted by Centre for Joint Warfare Studies (CENJOWS) and FICCI in March 2018, The Raksha Mantri Smt Nirmala Sitharaman invited the private industry to manufacture ammunitions in India with the MoD issuing contracts for eight types of ammunition under make in India to the private industry with assurances of

contracts for a ten year period. This is a major shift as ammunition has always been the sole preserve of the Ordnance factories. There are many excellent initiatives being taken by the MoD to encourage the private industry participation in the defence sector. To say that not enough is being done will be incorrect and also to say that much has been done will be equally incorrect. A number of positive initiatives have been taken, however much more has to be done to recover lost time to incentivise and include the private sector to achieve self reliance. Some of the major initiatives by the MoD and the armed force include.

- Two dedicated defence production corridors are being established one each in UP and Tamil Nadu with dedicated defence testing infrastructure. The RM Nirmala Sitharaman recently inaugurated the Tamil Nadu Defence Industrial Corridor with projected investment worth over 3038 crore INR. The corridor will be based on nodal cities of Chennai, Hosur, Salem, Coimbatore and Tiruchirapalli. The Corridor will be a specialised facility of aero component manufacturing and assist the industry to integrate with the global supply chain of Defence manufacturers. The UP corridor will have six nodes at Lucknow, Kanpur, Agra, Aligarh, Chitrakoot with an investment of 3723 crores. The scheme envisages support to 06 to 08 Defence Testing Infrastructure (DTI), depending upon the requirement of the lab, to be set up with a total assistance grant of Rs 400 crore. The assistance for individual DTI set up under the scheme shall be 75 percent of the approved project cost. The implementation of the scheme will be through a Special Purpose Vehicle (SPV) which will carry out the business of setting up, operating and maintaining the DTI or through a Government agency. This initiative has led to an emerging competition among various states to attract the private industry.
- Innovations for Defence Excellence (iDEX) has been formulated in collaboration with Start Up India and Atal Innovation Mission, with the objective of bringing Start-ups to solve problems of defence production, innovate new technologies and reduce dependence on

imported technology. iDEX is aimed at creation of an ecosystem to foster innovation and technology development in Defence and Aerospace by engaging Industries including MSMEs, Start-ups, Individual Innovators, R&D institutes and Academia and provide them grants/funding and other support to carry out R&D.

- A Defence Investor Cell has been set up as one-step solution for all types of defence production related queries. Nodal Officers have been designated, to respond to the queries.
  
- A new and simplified Make II procedure for collaboration between Govt and industry for indigenous design, development and manufacture of defence equipment.
  
- 275 items have been listed as non-core and can be procured by the Armed Forces without any NOC from OFB. This is a major shift and much more should be done.
  
- An Intellectual Property Rights Facilitation Cell has been in DGQA to create a structured mechanism and boost IP culture to enhance the intellectual capital. The basic role and responsibilities of the IPF Cell is to provide general advisory about IPRs, such as patents, trademarks, designs and copyrights etc.
  
- MoD has notified a simplified procedure for issue of Authorisation for export of defence items. The simplifications include
  - In repeat orders of same product to the same entity, consultation process has been done away with and permission is issued immediately.
  - For the repeat order of same product to different entity, the consultation earlier done with all stakeholders is now limited only with MEA.

- In Intra-Company business , the earlier requirement of getting End User Certificate (EUC) from the Government of importing country has been done away with and 'Buying' Company is authorized to issue the EUC.
  - The legitimate export of the parts and components of small arms and body armour for civil use are now being permitted after prior consultation with MEA.
  - For export of items for exhibition purposes, the requirement of consultation with stakeholders has been done way with (except for select countries).
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- RM launched Defence India Startup Challenge in Bengaluru in August 2018 with the objective of making India self-reliant for meeting the requirements of national defence.
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- The financial powers of the vice chiefs of Tri-Services have been enhanced to 500 crores in order to expedite the decision making process involved in the revenue procurements of the Armed Forces.
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- DPP 2016 is constantly and continuously being reviewed to meet the emerging requirements, in 2018 alone 24 amendments have been made to the DPP.
  - Strategic Partnership Model however is yet to be exploited, mainly due to complexities in implementation. SP model aims to enhance indigenous production through the Private Sector.
  - The Defence Planning Committee has the mandate to help establish a strong indigenous defence manufacturer base. One of the four

verticals of the new DPC an Apex body for national security is dedicated to establishing a Defence Manufacture Eco System.

- A Defence Production Policy has been issued on 06 Aug 2018.
- There is an increased focus on defence exports with a plan to touch the 10,000 cr mark this year.
- Of the 188 contracts signed by the MoD 121 are with Indian vendors.

The key question is whether this is enough? Whether it meets the aspirations of the Industry? Whether it addresses the concerns of the industry? Whether it will attract the industry and do these measures give incentive to the industry and envision an interest for them to invest in the defence sector? Though the right impetus is being given, the private industry remains apprehensive and is reluctant to venture out in uncertain territories. The MoD and the armed forces should continuously interact with the private industry to address their concerns and instill confidence by ensuring an environment which is industry friendly and responsive.

A few issues which need attention are

- Self Reliance in Defence Manufacture is a national imperative and a National priority.
- Defence Industrial Strategy should be an integral part of the National Security Strategy.
- Demand for heavy armament and weapons globally is on the decline, India thus has an opportunity for collaborative manufacturing with foreign OEMs.
- SP model has a potential and needs to be exploited.
- Need a collaborative strategy for Public Private Partnership model to further Make in India. Align National initiatives of startup India, Digital India and Skill India with defence industry.
- Defence acquisition should be a capability development effort and not a procurement process.
- Enhance incentives for the industry and ensure transparency and a level playing field.

- Align policies with simplified and easy to comprehend and follow procedures and processes. These should not only compliment each other but facilitate the participation of Private Industry.

The orders placed on the OFB and DPSUs for the year 2017-2018 are to the tune of INR 59000 crores, however, it is doubtful whether the armed forces have been given a reasonable deal. The defence budget is already stressed as the armed forces try to optimise the resources by cutting costs. As the armed forces are captive they have no say in pricing often incurring higher costs for products which can be procured at lesser rates. Competition is essential for better quality products at appropriate costs. In addition the armed forces maintain a large inventory to cater for war wastage reserves (WWR). The costs to maintain this large inventory including infrastructure is prohibitive. The private industry should be encouraged and incentivised to become an integral part of the defence preparedness. The large WWR inventory can be reduced in case the industry has surge capacities in built in the defence sector, which will cater for emergent situations reducing the dependence on imports.

For building a vibrant, sustainable and profitable Defence Industrial Base the MoD should chart out an implementable and pragmatic road map which addresses the concerns of the private industry, ensuring an ease of doing business and hand holding by the MoD and Armed Forces. A Level playing fields is a must and the earlier the structures and systems are put into place the better.

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Lt Gen Vinod Bhatia (Retd)  
Former DGMO  
Director CENJOWS



