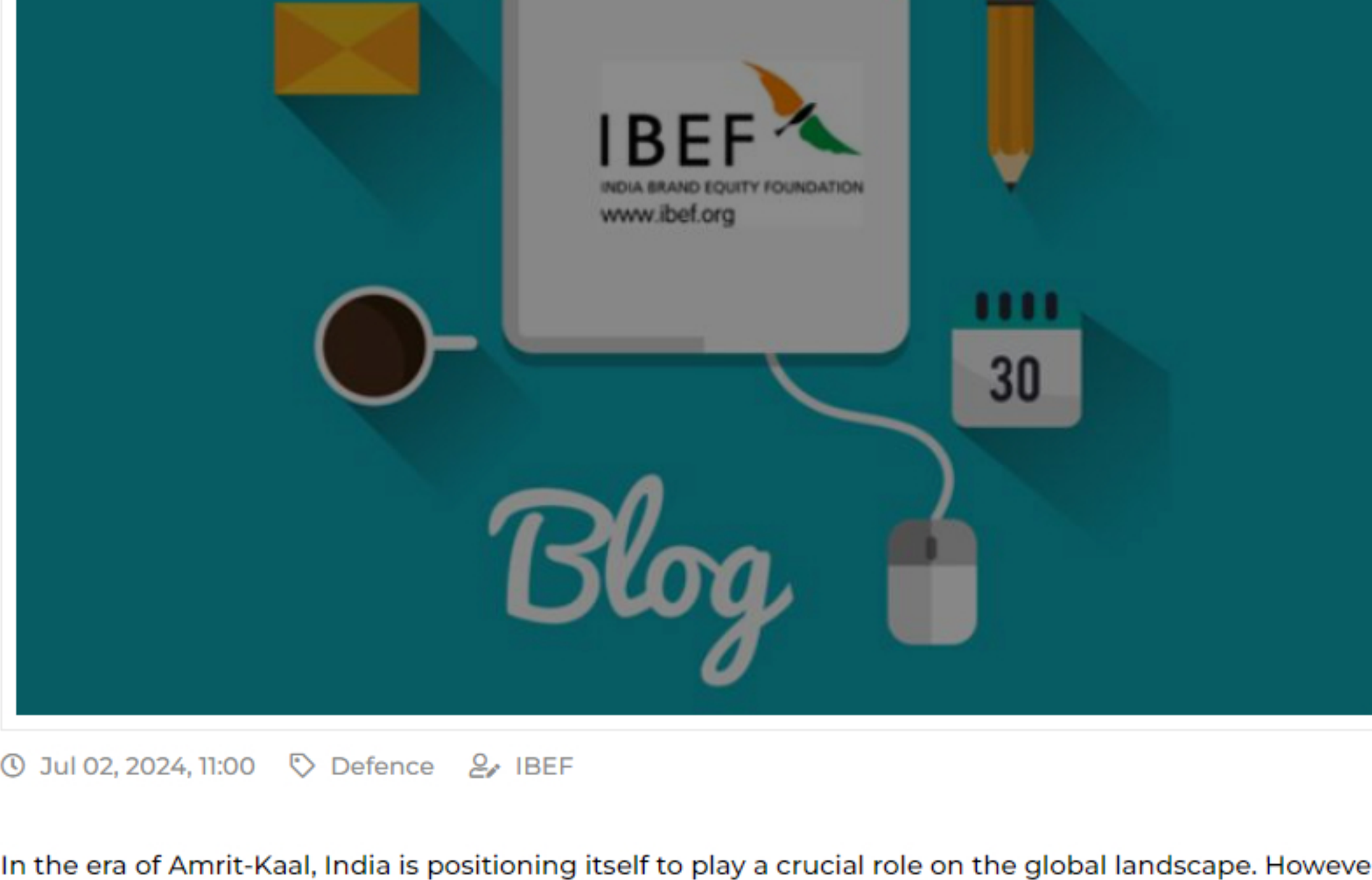


BUILDING A SELF-RELIANT DEFENCE INDUSTRY: ENHANCING INDIGENOUS DEFENCE MANUFACTURING CAPABILITY IN INDIA

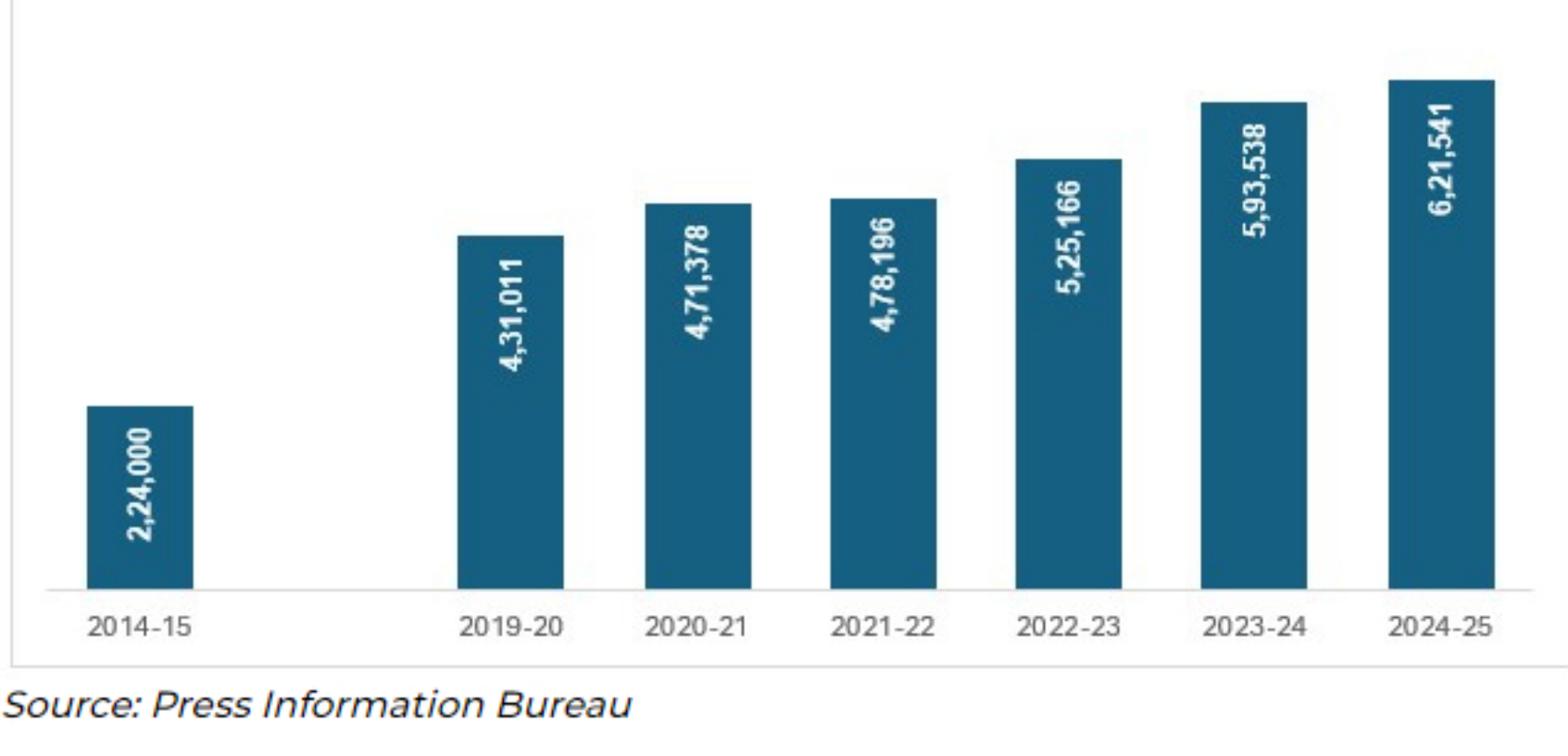


Jul 02, 2024, 11:00 Defence IBEF

In the era of Amrit-Kaal, India is positioning itself to play a crucial role on the global landscape. However, this journey, though impressive, is not without its challenges. Throughout its past, India has been in the field of a number of battles and hazards to the territorial security.

The requirement of self-dependence goes beyond peace to be instrumental in achieving development and security that is social stability. A study from world bank reveals that the nations with inadequate defence capabilities often observe increased conflict, unemployment, poverty, and casualties from war.

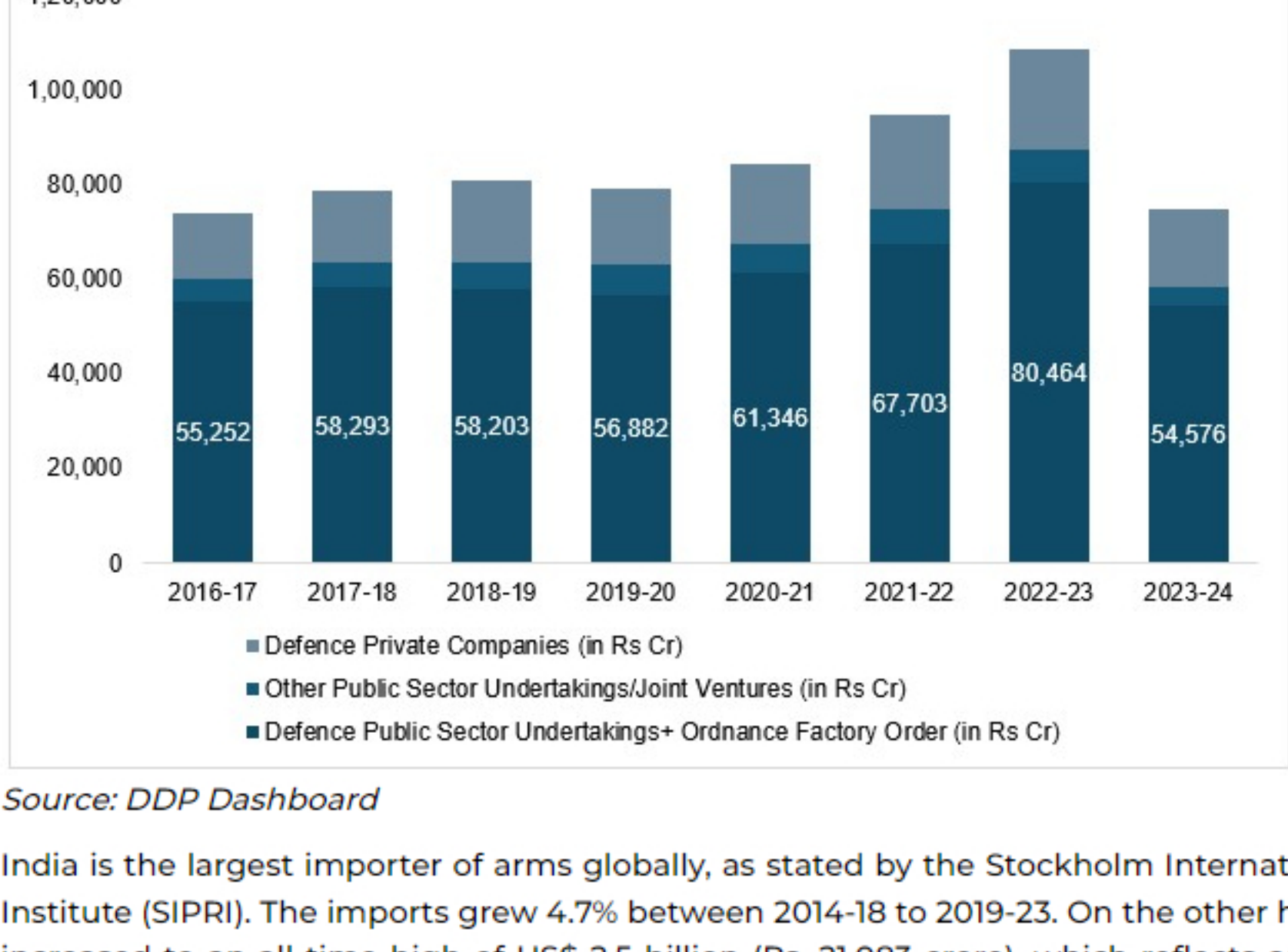
The self-sufficiency includes having the ability to design, fabricate, and assemble defence equipment and systems at home with negligible reliance on foreign supplies. Historically, India has heavily relied on defence imports, resulting in increased cost, delays, and technological obsolescence. In the past twenty years, India's military has modernized their system and included advanced weaponry and sophisticated weapon systems. Ranked as the fourth-largest defence spender worldwide, India has allocated a significant amount of US\$ 74.5 billion (Rs. 6,21,540.85 crore) for defence in the 2024-25 fiscal year. This is about a 13.04% share in the overall union budget with Finance Minister Nirmala Sitharaman announcing it in parliament on February 1, 2024. Military spending has more than doubled over the past decade, highlighting its readiness and commitment towards boosting the nation's defence potential and moving toward [Atmanirbhar Bharat](#).



Source: Press Information Bureau

India's Defence Industry Expands: Exports Reach Unprecedented Levels, Increased Domestic Production, and Reform:

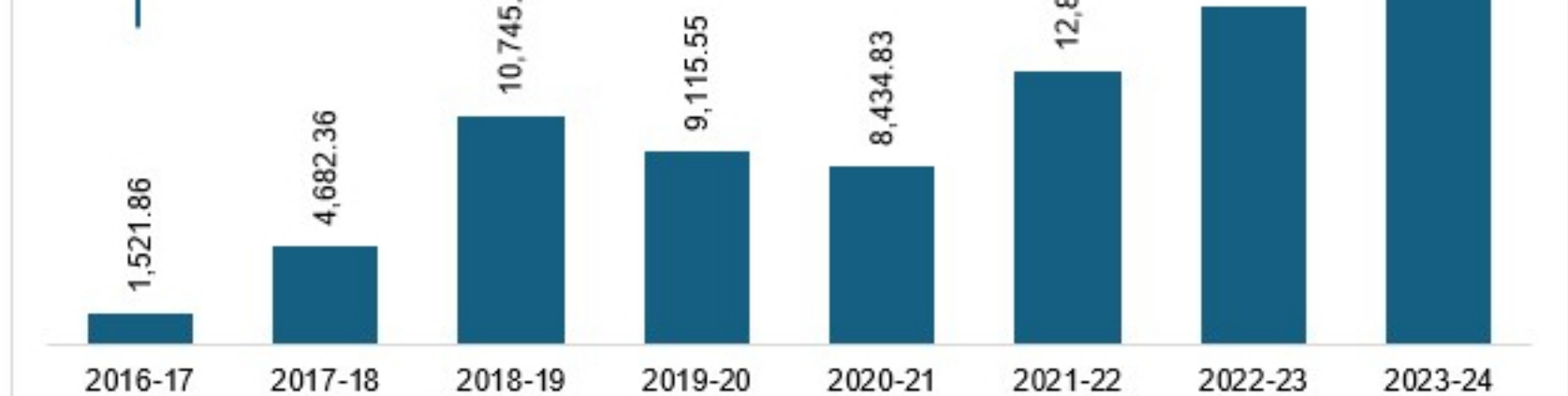
In FY23, Indian defence production reached above Rs. 1,00,000 crore (US\$ 12 billion). The production grew more than 12% YoY. The figures for FY24 are Rs. 74,739 crore (US\$ 9 billion) as of March 5, 2024.



Source: DDP Dashboard

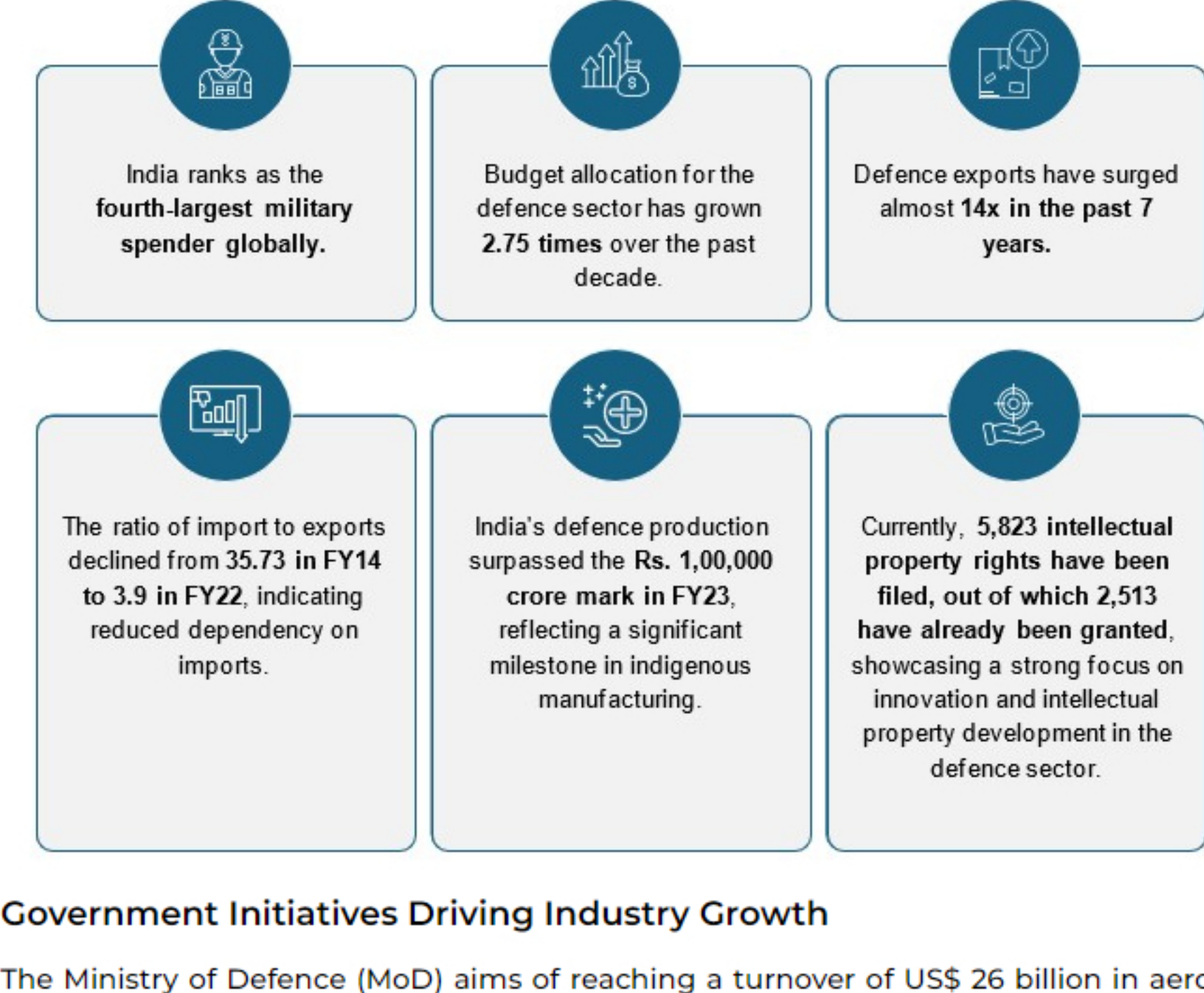
India is the largest importer of arms globally, as stated by the Stockholm International Peace Research Institute (SIPRI). The imports grew 4.7% between 2014-18 to 2019-23. On the other hand, defence exports increased to an all-time high of US\$ 2.5 billion (Rs. 21,083 crore), which reflects an exceptional growth rate of 32.5% relative to the last financial year's amount standing at \$1.9 billion (Rs. 15,920 crore). Recent data shows that defence exports have expanded by almost 14 times since 2016-17, with a compounded annual growth rate (CAGR) of 45.6%.

The defence industry, including the private sector and Defence Public Sector Undertakings (DPSUs) contributed significantly to achieve an all-time high in defence exports. Approximately 60% of these exports came from private sector, and the remaining 40% from DPSUs.



Source: DDP Dashboard

The government is actively collaborating with defence industries to address their challenges and increase defence production within the country. Over the past 7-8 years, it has been observed that there has been an increase by about 200% in the issue of defence licenses to industries. These measures have acted as a catalyst for growth in the defence industrial manufacturing sector and also generated employment on a large scale.



Government Initiatives Driving Industry Growth

The Ministry of Defence (MoD) aims of reaching a turnover of US\$ 26 billion in aerospace and defence manufacturing by 2025, with US\$ 5 billion earmarked for exports. As of April 2023, 606 industrial licenses were issued to 369 companies operating within the defence sector.

Defence Production & Export Promotion Policy 2020: The draft policy would become a guiding document for MoD in giving a focused, structured, and substantial boost to defence production capabilities of the country leading towards self-reliance and export. The future vision will cover innovations in aerospace and naval shipbuilding including design, production with participation from the public as well as the private sector.

The policy aims to achieve a turnover of US\$ 21 billion (Rs. 1,75,000 crore) in the defence sector, including exports worth US\$ 4.2 billion (Rs. 35,000 crore) in aerospace and defence goods and services by 2025.

Defence Acquisition Procedure 2020: It aims to bolster India's domestic industry through the Make in India initiative. It establishes a strict order of preference for procurements and encourages foreign direct investment (FDI) to set up manufacturing hubs. The policy mandates a minimum of 50% indigenous content in procurement contracts and introduces a new category, buy (Global-Manufacture in India), to attract foreign OEMs to establish facilities in India.

Initiatives to promote R&D and MSMEs in Defence: Government funding provisions are introduced for Make-I, Technology Development Fund (TDF) and Innovations for Defence Excellence (iDEX) projects. The TDF Scheme, executed by DRDO, supports indigenous development by MSMEs and start-ups. Funding under the TDF scheme has been increased from US\$ 1.2 million (Rs. 10 crore) to US\$ 6 million (Rs. 50 crore) per project, and under the iDEX Prime scheme, it has been raised from Rs. 1.5 crore to Rs. 10 crores. This will significantly boost the vision of 'Aatmanirbharta in defence'. An allocation of US\$ 18,000 (Rs. 60 crore) has been made for the TDF scheme for FY25. Additionally, the announcement of a US\$ 12 billion (Rs. 1,00,000 crore) corpus for deep tech for long-term loans to tech-savvy youth/companies and tax advantages for start-ups will further encourage innovation in the defence sector.

Positive Indigenisation Lists: The Positive Indigenisation List makes it compulsory for the Indian Armed Forces, which include the Army, Navy, and Air Force, to procure listed items from either domestic private sector players or DPSUs. These are exclusively for the defence industry. The MoD approved five such lists, encompassing 4,666 items, with 98 items valued at over US\$ 16.8 billion (Rs. 1,40,000 crore). This step not only decreases the import expense from the current account but also augments MSMEs in the defence area.

Make Projects: The 'Make' category in the Defence Procurement Procedure plays a significant role in achieving the goals of the 'Make in India' initiative. Its primary objective is to strengthen domestic capabilities through encouraging the design and development of critical defence equipment, products, systems, or upgrades by both public and private sector organizations within a specified timeline. According to the DPP-2016, there are two sub-categories under the 'Make' procedure:

- ✓ **'Make-I' (Government Funded):** Projects falling under the 'Make-I' sub-category involve government funding of 90%, disbursed in phases based on the scheme's progress, as per mutually agreed terms between the MoD and the vendor.
- ✓ **'Make-II' (Industry Funded):** Projects under the 'Make-II' category entail the prototype development of equipment, systems, platforms, or their upgrades, primarily aimed at import substitution or innovative solutions. No government funding is provided for prototype development purposes in 'Make-II' projects.
- ✓ **'Make-III':** It pertains to the production of defence prototypes, systems, and subsystems. Schemes under 'Make-III' are procured under the Buy 'Indian' category, with a minimum requirement of 60% indigenous content.

Defence Corridors: Two corridors have been set up, one in Uttar Pradesh and the other in Tamil Nadu. These corridors are dedicated regions or areas strategically planned to promote indigenous production of defence and aerospace-related items. Collectively, these corridors have received a total investment of US\$ 4.5 billion (Rs. 37,219 crore).

Path Forward

India's defence ecosystem has transformed considerably across key areas in recent years. Notably, institutional and policy changes have driven defence indigenisation, domestic capital procurement and defence exports. During a time of uncertainty, Atmanirbhar Bharat and Make in India initiatives stand as essential tactics to control risks due to disruptions or manipulations of crucial supply chains, which are faced by Ukraine during its war with Russia.

Year	2013-14	2021-22
Import Value (Capital + Revenue)	41,198.61	50,061.67
Export Value	1,153	12,815
Ratio (Import to Export)	35.73	3.90

Source: Press Information Bureau

As the ratio of import-export has consistently declined for the defence sector from 2013-14 till 2021-22, this indicates that the persistent efforts are being taken by the government and the private sector to make India self-reliant. The central government has made sure that the most significant share of its defence capital procurement budget goes to the domestic defence industry. Beginning with 2020-21, an allocation for domestic procurement has increased greatly from around 40 percent of the total capital procurement budget, which had been approximately US\$ 6.2 billion (Rs. 52,000 crore), to reach up to three-quarters of the amount, which is US\$ 11.9 billion (Rs. 99,223 crore) for the year 2023-24. In support and to foster local design and production, indigenous capabilities have been set apart for procurements from internal resources. With respect to the MoD's Capital Acquisition Budget for the year 2023-24, procurement funds have been allocated at a ratio of 67.75:32.25 for domestic and foreign sources, respectively; this separation is an indication that an emphasis has been laid on strengthening the domestic manufacturing capabilities in support of Atmanirbhar Bharat. India is expected to experience a significant increase in yearly defence production over the next four years, with estimates reaching a substantial US\$ 35.9 billion (Rs. 3 lakh crore). This growth further shows that the government is dedicated to making the nation's defence stronger by relying on itself. At the same time, they expect to export military equipment worth US\$ 6 billion (Rs. 50,000 crore).