

ROLE OF PRIVATE SECTOR IN DEFENCE INDUSTRIES OF INDIA

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Abstract

India has started to develop new indigenous technology to produce the equipments and only advance technology equipments have been imported as per requirements during 1950s. In 1956, a new industrial policy resolution notified that arms and ammunition industries will be limited to public sectors only. After 1990, due to globalization, India opened its door for international trade and business and a new age of liberalization and privatization has been started. Many International companies have started to invest in Indian defence industries after globalization. Entering into manufacturing the defence equipment was very tough before globalization as obtaining an Industrial License was not easy to private sector companies. Indian government thought that more investment can be attracted if government liberalize and simplify the FDI policies in defense sector, so government increased the FDI limit in automatic route from 26% to 49 %. Opening the doors of defence sector to private sector was historic event which changed the private sector as well as defence sector. Many numbers of agreements has been successfully attained by private sector. Type 'make' equipments became possible as it was rare during age public sector industries. Many big projects have been completed during last few years in time at low cost. Indigenous manufacturing is also promoted and Make in India concept is also achieved.

Key Words: Defence Sector, Private Industries, public Industries, Globalization

1.0 Introduction:

India became independence in 1947 and Indian government has decided to be self-reliance in all the sectors including the defence industry. They have decided to nurture and expand the present status in a self-reliant nation by establishing new public sector industries in the sectors. India has started to develop new indigenous technology to produce the equipments and only advance technology equipments have been imported as per requirements during 1950s. In 1956, a new industrial policy resolution notified that arms and ammunition industries will be limited to public sectors only. Ordnance factories established by British government converted into major arm industries and later constituted the defence research and development organization. There was a dynamic change arrived in defence industries in 1962, when India was facing a lot of challenges during the conflict and war with China. This conflict, forced India to increase the defence budget. India increased the defence expenditure from 1.5% of total GDP to 2.3%. In 1965, India and Pakistan war created another history in defence sector as United States banned on India and stopped the supply of arm and other ammunition, so India has started to supply the weapons from Soviet Union. In next few years, Soviet Union supplied many advanced war equipments and India became more powerful. After that India has got the manufacturing licenses and started manufacturing of advanced equipments. Mig21 is a great example of Indian Defence sector which was manufactured in Hindustan Aeronautics Limited, Bangalore. Later TO 1980s, India has started to invest the huge in DRDO and

explore the indigenous missiles such as Prithvi, Akash and Nag. Light combat aircraft has been also started to manufacture in India and in association with Soviet Union Brahmos missile came in existence as a joint project.

After 1990, due to globalization, India opened its door for international trade and business and a new age of liberalization and privatization has been started. National economy was improving day by day and private industries took the front position and public industry became slow in competition. Now private industries can manufacture the defence equipments and the emergence of "Make type" helped in development of modern and advanced defence equipments. Foreign Direct Investment is also allowed up to 26% but in some segments, India continued to import the advanced defence equipments from other nations.

1.1 Role of International Companies in Defence of India:

Many International companies have started to invest in Indian defence industries after globalization. There were many collaborative and joint ventures declared in the defence sector in last few years. These collaborations are working together and producing many modern defence equipments. Big brands of defence industries such as Airbus, Boeing, Safran etc. were already playing a significant role in Indian defence and they are increasing their investment day by day (1). These companies knew that India will be the biggest market for defence equipments in future. Recently Airbus has started to manufacture the helicopter with Mahindra defence system for Indian military forces (2). Boeing is also manufacturing Apache helicopter for Indian defence in association with Tata advanced system (3). After globalization, private sector is opened to global companies and they are investing at a large level. Indian government allowed fifteen joint ventures worth 10.5 billion USD with global companies in 2016 (4). Recently, India did a biggest deal with French company Dassault to buy the 36 Rafale fighter jet. There are several other projects on track and very soon they will be finalized. USA is a major defence partner of India and recently India signed an agreement for military logistics which will enable license free accessibility of dual use technology.

India has good relations with Russia and both are working to develop a 5th generation stealth combat aircraft in HAL along with Sukhoi (5). Nowadays, India is focusing on research and developmental activities in public sector organizations to beat the competitor by manufacturing the advanced and modern defence equipments.

1.2 Licensing Policies for Private Defence Companies:

Entering into manufacturing the defence equipment was very tough before globalization as obtaining an Industrial License was not easy for private sector companies. In 2014 and 2015, government of India restricted the requirement of license by a notified list of defence equipments and it was released to everyone. Validity of a license has been increased from 3 to 15 years and government can also extend up to 18 years while considering the long term defence contracts. This process became easier and automated (6). Indian government thought that more investment can be attracted if government liberalizes and simplifies the FDI policies in defence sector, so government increased the FDI limit in automatic route from 26% to 49% (7). FDI limit was also applicable to small arms and ammunition companies which were

covered under arms act 1949. FDI policies changes was the significant initiative of government and it bring a revolutionary change in the defence industries.

2.0 Review of Literature:

Although public sector is playing a significant role in defense sector but since 2001, private sector growth is very fast and significant in many ways. Private sector acquired large defence projects and did well as per requirements. The development of battlefield management was divided into two different segments and as contract with private sectors two major companies Tata and L&T played a significant role in attainment of the project(8). Avro replacement program was approved by government in 2015 which was submitted by private companies as the joint proposal of Tata and Airbus (9). Unmanned Ariel Vehicle Lakshya is originally the Indian technology which rights was with DRDO but government has decided to transfer this technology to L&T by signing licensing agreement of transfer of technology (10). India is expecting more than 220 light weight combat aircraft in next decade in Indian air forces which will be indigenously manufactured (11). In the strategic decision of defence sector, it is also private sectors will be identified and invited to be as partners with the ministry of defence for deliberation in certain segments (12). Private industries will have a long term role in defence sector in India so many strategic decisions will be notified in future.

3.0 Foreign Direct Investment:

Defence industry of any nation is very much expensive and modern technology oriented which need high capital investment (13). As per the demand of defence equipment in India, many countries such as USA, Britain, Russia, Middle East nations had motivated to invest in defence sector in India through FDI policies. Foreign direct investment in defence sector has been allowed in 2001 in India. Defence sector has been opened to private sector and 26% FDI is permitted for investment. In 2014, India has relaxed to FDI more than 26% on case to case basis and in result India became able to get modern and advances technology in defence sector. Later on, in 2016, FDI became more flexible and it was increased up to 49% on case to case basis.

Ordnance factories were main source of manufacturing the small arms and ammunitions and these OFs have insufficient capacity to fulfill the demand of the country. So it is suggested to that FDI will help to fulfill the vacant supply of such arms and ammunitions to Indian military. This will be help to maintain the chain of demand and supply. Impact of FDI policies on the Indian defence industry is very much significant and Indian army became able to get 'make' category equipments which became only possible by introduction of foreign technology.

4.0 Revolution in Private Sector:

Opening the doors of defence sector to private sector was historic event which change the private sector as well as defence sector. Since defence sector is very sensitive, and strategic, and its impact on national security and foreign policies may be affected but strategically government opened it for private sector. Private sector also did a great job and modern technology and equipments has been manufactured for India defence. After the poor performance of public sector, private sector gave the new heights to arms and

ammunition manufacturing with advanced technology. In a very short history of private sector in defence industry did the great job and proved that there is huge scope for technological development. Many numbers of agreements has been successfully attained by private sector. Type 'make' equipments became possible as it was rare during age public sector industries.

The major private companies in defence industries are as follows;

1. Tata Advanced Systems: This Tata Company has a joint venture with Boeing in manufacturing aero-structure and accelerating the concept of Make in India.
2. Mahindra Aerostructures : Producing Airbus helicopter in India.
3. Reliance Aerospace: International agreement to supply defence equipments.
4. Bharat Forge; Kalyani Strategic System Ltd: Joint venture with Saab Group
5. WIPRO Limited: involved in designing of defence equipments.
6. Larsen & Toubro (L&T): Manufacturing guns

4.1 Benefits of Private Sector:

Private sector will play a significant role in future defence sector. Use of technology, modernization of equipment, is only possible if defence industry invite more partnerships with private sector. Following are some other benefits;

1. 'Make' type defence equipment
2. Accessibility of advanced technology
3. Time bound action
4. Transfer of technology
5. Increase in FDI
6. Quality products
7. Promotion of make in India
8. Less dependency on other countries for specific equipments
9. Self reliant
10. Competitive approach of private companies

5.0 Conclusion

Now the era is competitive, everyone wants the quality of product and focus on that action which are more effective and profitable. Earlier, defence sector was totally dependent on public sector industries or import from other countries who supply the arms and ammunitions to defence of India but they were not able to fill the demand. Gap between supply and demand raised the problems before Indian military. Ultimately government decided to open the doors for private sector in defence industries. This was a right decision of government which is proved by private industries. Many big projects have been completed during last few years in time at low cost. Indigenous manufacturing is also promoted and Make in India concept is also achieved. In a very short period of time many private companies are doing better in compare to public companies. So privatization of defence sector is beneficial for defence sector.

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