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Foreign Direct Investment (FDI) in Defence: Implications On Self-Reliance and Indigenisation

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Key Points

1. India has taken a step in the right direction by giving high priority to indigenisation and self-reliance in defence. Several initiatives have been taken by the Government in the past few years to encourage Private Industry to invest in Defence Sector. However, FDI, an important source of investments in defence manufacturing, is an area where India has been woefully lacking.
2. The concept of FDI is closely linked with the concept of Globalisation and is primarily based on want/requirement of foreign capital by an enterprise that is resident in the economy of the host nation.
3. The Government carried out review of FDI Policy and communicated through Press Note dated June 24, 2016, that the percentage of Equity/FDI cap was raised to 100 percent. The phrase "state-of-the art" was dropped for FDI above 49 percent.
4. Enhanced FDI, beyond 49 percent, that enables majority stake holding by a foreign company, represents not merely acquisition of funds but also realistic possibilities of access to coveted modern technologies for weapons and equipment.
5. An efficient and broad industrial base with requisite manufacturing capacity allows for greater reliability of supplies in the event of war when products can be manufactured locally instead of being imported at exorbitant prices.
6. Enhancing equity/FDI cap up to 74 percent in cases where DRDO, Defence PSUs, OFB and Domestic Private Industry have failed to develop the desired modern technology in the past five years and raising the limit up to 100 percent where the desired technology could not be developed in ten years, is recommended to be considered as a standard yardstick. However, unrestricted FDI for all defence products is not recommended.
7. There is a genuine requirement to articulate National Defence Industrial Policy which should deal with all relevant issues pertaining to defence design, development and production.

India is taking rapid strides on the road to become an economic power-house. India regained the title of the world's fastest-growing major economy after figures confirmed that it grew more than 7 percent on an annualised basis in the three months to December, with the highest GDP growth among all major economies, recorded for the financial year 2017-18, overtaking China after a year of lagging behind.[1] However, to positively influence policies of friendly countries and adversaries alike, economic clout must be accompanied by military muscle as the world acknowledges and respects possession of hard power. The Defence Sector, therefore, continues to occupy an increasingly dominant space in India's "Long-Term Strategic Planning." With increasing economic clout, India is correspondingly enhancing its buying power, with several high-end defence deals already concluded while many are at various stages of procurement. The country has, for the period 2013-17, earned the dubious distinction as the world's largest importer of major arms, surpassing Saudi Arabia, and accounting for 12 percent of the global total.[2]

India has therefore, taken a step in the right direction by giving high priority to indigenisation and self-reliance in defence. Currently the intent is to acquire advanced technologies with a focus on "Make in India" and reduce dependence on imports. Several initiatives have been taken by the Government in the past few years (specifically, from June 2014 onwards) to encourage Private

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Industry to invest in Defence Sector. A total of 342 industrial licences were granted to 205 companies of the Private Sector for design, development and manufacture of weapons and equipment till June 2016.[3] Many major domestic companies like Reliance Defence, Larson & Toubro Heavy Engineering, Mahindra Defence Systems, Tata Advanced Systems, Bharat Forge, Zen Technologies, Kirloskar Brothers Limited and MKU Limited, amongst others, have made a foray in the Defence Sector. As on July 17, 2017, 66 private companies covering 109 licences reported commencement of production.[4] However, FDI, an important source of investment in defence manufacturing, is an area where India has been woefully lacking.

What is the concept of FDI? What are the likely implications of enhanced FDI in Defence Sector on India's stated aim to achieve self-reliance and indigenisation in defence? We will discuss the concept of FDI, track the evolution of FDI in Defence Sector in India, critically examine the assessed implications of FDI and finally recommend measures to ensure that the enhanced FDI benefits the Armed Forces to the desired extent.

The Concept of FDI

The concept of FDI is closely linked with the concept of Globalisation and is primarily based on want/requirement of foreign capital by an enterprise that is resident in the economy of the host nation. While the host nation requires FDI for accelerating rate of growth, the prospective investors are guided solely by their assessed economic considerations.[5] Foreign investors necessarily carry out risk-benefit analysis, and appraise the business environment in all shortlisted destinations to home on to the one that promises to be most lucrative. Most countries in the world covet FDI and take measures to showcase themselves as ideal FDI destinations. Direct investment in defence design, development and production reflects the objective of establishing a lasting interest and mutually beneficial relationship between the direct investor and the direct investment enterprise. Therefore, all potential investors seek a stable business environment with reasonable assurance of long-term and well-articulated economic policies. Genuinely transparent, consistent and speedy Government decision-making process is a prerequisite for a prospective FDI destination. Certain factors which are likely to impact foreign investors'decisions include availability of a highly lucrative market, adequate and cheap raw material, reasonably developed infrastructure, trained workforce, low production cost and ease of doing business. The interplay of these factors greatly influences potential foreign vendors' investment decisions.

Evolution of FDI in Defence Sector

The Defence Sector in India, being a strategic sector, was traditionally reserved for the Public Sector till 1991. Defence Public Sector Undertakings (Defence PSUs) and Ordnance Factory Board (OFB) monopolised defence products manufacturing while Research & Development (R&D) was the exclusive turf of DRDO. The concept of FDI in general was introduced in India in 1991 with the opening of the Indian economy. However, the Defence Sector was opened up 100 percent in May 2001, as notified through Press Note 4 of 2001,[6] for Indian Private Sector participation with FDI permissible up to 26%, both subject to licensing.

The consolidated FDI Policy issued by the Department of Industrial Policy and Promotion (DIPP)/MoC&I, effective from April 17, 2014 again reiterated a cap on FDI in defence through the Government route up to 26%, and above 26% with the approval of Cabinet Committee on Security (CCS), on case-to-case basis, wherever it is likely to result in access to modern and "state-of-the-art" technology in the country.[7] Most prospective foreign investors considered the Indian FDI Policy, specific to Defence Sector, as dissuasive both in intent and content.

Post detailed discussions with all stakeholders DIPP/MoC&I reviewed the FDI Policy in Defence Sector, in August 2014 and raised the limit up to 49% through Government (Foreign Investment Promotion Board or FIPB) route and above 49% through CCS, on case-to-case basis.[8] It was amplified in the policy that whenever it is likely to result in access to modern and "state-of-the-art" technology in the country, up to 100% foreign ownership will be allowed.

DIPP/MoC&I issued a consolidated FDI Policy, effective from May 12, 2015, in which the percentage of Equity/FDI cap through Government route was reiterated up to 49% and above 49% with approval of CCS. The portfolio investment was not permitted to exceed 24% of the total equity of the investee for JV Company.[9] Portfolio investments were permitted under automatic route.

Even with this enhanced limit of 49% and beyond, foreign investors were not adequately enthused. It was generally perceived that the policy did not allow them to retain hold on their technology and only an increase to 74% or above would be realistically encouraging. Foreign defence companies, during interactions in various seminars and other forums, expressed that limiting FDI up to 49% implied less control over Intellectual Property (IP)—which is a key differentiator in the Defence Sector and is often developed at great expense after many years of research. Hence, the Government decided to undertake review of the FDI Policy to further relax the rules pertaining to FDI in Defence Sector.

The Indian companies, in general, favoured raising the FDI cap to 74% for select projects. However, certain vendors opined that limiting the FDI to 49% would ensure a level playing field for the domestic manufacturers. Post numerous detailed and comprehensive discussions with all stakeholders, the Goverment formulated and issued a revised "Consolidated FDI Policy" effective from 07 Jun 2016. The policy permitted percentage of Equity/ FDI cap in defence, through automatic route up to 49% and above 49% under Government route on case to case basis, wherever it is likely to result in access to modern and "state-of-the-art" technology in the country.[10]Among other conditions, it stipulated that the investee company should be structured to be self-sufficient in areas of product design and development. The investee/Joint Venture (JV) company, along with its manufacturing facility, should also have maintenance and life cycle support facility of the product being manufactured in India.

The Government carried out further review of FDI Policy in various sectors including defence and amendments were communicated by DIPP through Press Note No. 5 (2016 Series) dated June 24, 2016 which clarified that the percentage of Equity/FDI cap was raised to 100 percent.[11] The phrase state-of-the-art was dropped for FDI above 49 percent. The CCS approval will not be required anymore. However, the process of approval itself will include the Ministry of Defence (MoD) and the Ministry of Home Affairs (MHA) which will consider issues related to defence of the nation, internal security and every other matter which relates to the national security and therefore, the CCS approval has been done away with. Further, abolition of the Foreign Investment Promotion Board (FIPB) was carried out by the Government vide Office Memorandum No. 01/01/FC12017-FIPB dated June 5, 2017 and the work of granting approval for foreign investment under the extant FDI Policy, was entrusted to the concerned Administrative Ministries/Departments.[12] The requirement of single largest Indian ownership of 51% of equity has been removed. A lock-in period of three years on equity transfer has been done away with in FDI for defence.[13] The decision of the Government to liberalise FDI Policy in Defence Sector will be marked as a milestone as it exhibits India's commitment to implement important reforms at a quicker pace. The FDI policy in Defence Sector is subject to industrial licensing under the Industries Development and Regulation (IDR) Act, 1951.[14]

FDI limit of 49% is composite and includes all points of foreign investments, discussed as under:

- Foreign Direct Investment (FDI)
- Foreign Institutional Investors (FIIs)
- Foreign Portfolio Investment (FPI)
- Non-Resident Investments (NRIs)
- Foreign Venture Capital Investors (FVCI)
- Qualified Foreign Investors (QFI).

FDI: Methods and Classification

Methods. FDI is feasible in various sectors in different methods as under:

- Joint ventures
- Financial collaborations
- Private equity or preferential allotment
- Capital markets.

Classifications.

- **Classification I**
  - Inward FDI: Investment made by other countries in the domestic country.
  - Outward FDI: Investment made by domestic country in other countries.
- **Classification II**
  - Horizontal FDI: Horizontal FDI arises when a firm duplicates its home country-based activities at the same value chain stage in a host country through FDI.
  - Vertical FDI: Vertical FDI arises when a firm moves upstream or downstream in different value chains through FDI.

Status of FDI in Defence

The FDI in defence paints a dismal picture, despite the fact that India has attracted substantial amount of foreign capital in communication, textiles, vehicle production and various other sectors. The FDI limit of 26% stipulated in 2001 was not enough to attract foreign investment in Defence Sector. From April 2000 to March 2014, the FDI in defence was a meagre Rs. 24.36 crores ($4.94 million),of the overall FDI inflow of Rs. 1,597,266.46 crores ($323.912 billion) as per exchange rate of 2014)to the country.[15] The cumulative FDI in defence from April 2000 to March 2018 is Rs. 25.57 crores ($ 5.13 million).[16]

India approved 36 FDI/JV proposals in Defence Sector for the manufacture of defence equipment, both with Indian Public and Private Companies till March 2016. This information was given by Minister of State for Defence, Mr. Subhash Bhamre in the parliament on November 24, 2016 (Friday).[17] Additional 14 FDI/JV proposals in Defence Sector with Indian companies have been approved from April 2016 till July 2018 bringing the total number to 50 approved proposals.[18] However, all the approvals have not translated into concrete results, as indicated by the FDI figures quoted above.

The Economic Times edition of May 2, 2018, reported that India fell out of the top 10 investment destinations for the first time since 2015. India has slipped by three notches to 11th position in the FDI Confidence Index 2018 of global consultancy firm A. T. Kearney.[19] If India is serious about attracting FDI in defence, it has to position itself as one of the top three most lucrative investment destinations by improving its FDI Confidence Index.

Advantages of FDI in Defence

Some of the advantages of enhanced FDI in Defence are outlined as under:

- **Transparency.** Reduced imports are likely to lead to greater transparency with a diminishing role for middlemen.
- **Quality Products.** Infrastructure facilities are likely to improve due to higher capital infusion. Manufacture of improved quality products due to inflow of technology, expertise and better production facilities. Increased level of competition, productivity and efficiency will result. The cost of production is also likely to reduce due to economies of scale, making Indian weapons and equipment globally competitive.
- **Reduction of Reserves.** Higher FDI translates into better infrastructure, enhanced capacities and greater self-reliance. This would in turn also result in reducing the stock levels of reserves of munitions, weapons, equipment, assemblies and components held at various echelons of the Armed Forces.
- **Boost to Economy.** The capital base of the country will be positively affected due to inflow of foreign capital. The FDI will spur the GDP growth and boost the economy. This will also lead to increase in tax revenue.
- **Positive Performance Pressure on Public Sector Enterprises.** The public sector enterprises, namely, Defence Research and Development Organisation (DRDO), Defence PSUs and OFB will face increased performance pressure. Some of the technologies on which the DRDO has been working for years, like Multi-Spectral Camouflage Nets (MSCN) and Carbine Machine, etc., but has not been successful, can be manufactured by the Joint Venture (JV) company formed post enhanced FDI and induction of modern technology by major foreign manufacturers. Similarly, JVs will provide availability of more options for production of weapons, equipment and munitions whenever the Defence PSUs and OFB delay supplies due to lack of productivity and/or production capacity, thus, putting Defence PSUs and OFB under duress. The pressure to perform, thus created on the public enterprises, will be good for the nation.
- **Employment Opportunities.** The FDI creates employment opportunities, both in organised and un-organised sector, for large number of unemployed people due to increased level of economic activity.
- **Increase in International Trade.** Increase in international trade, both by value and volume, due to enhanced production capacity and export-oriented outlook.

Disadvantages

FDI in Defence has certain perceived disadvantages which are discussed in the succeeding sub-paras.

- **Security Concerns.** Security issues especially with respect to proliferation of modern communication equipment, electronic counter/counter-counter measure equipment and small arms may arise. In addition, in India which has significant internal security issues to include Naxal violence and terrorism, permitting enhanced FDI for all items in the Defence Products List[20] has a fair potential to give negative results.
- **Competition for Domestic Private Industry.** It needs to be considered that the Indian Private Industry is not yet well established in the Defence Sector. Some of the major players like Bharat Forge, Larson & Toubro, Reliance, Mahindra Defence Systems, MKU Industries, Tata and Reliance Industries have entered the field of design, development and production in Defence Sector in a big way. However, many other companies that have been issued the industrial licences by the Government are yet to get into the groove. The JVs that are formed post investment by established foreign defence companies, will offer stiff competition to domestic private defence industry. Hence, opening of floodgates for more than 49 percent (and up to 100 percent) FDI in Defence Sector is likely to dwarf many domestic players, who may find the going difficult and get wiped out in the competition. There is a real concern that Indian firms will find themselves crowded out of the market as they will be unable to compete with International Corporations that have much deeper pockets and an established R&D base.
- **Overbearing Presence of Foreign Companies.** Unrestricted FDI in Defence Sector may lead to overbearing presence or a kind of monopoly in production of high technology weapons and equipment by select foreign companies in the absence of majority stake holding by Indian citizens and/or

lack of adequate control by the Indian Government. This would not be a desirable state.

- **Sharing of Benefits.** Foreign investors may tend to utilise the domestic resources without sharing adequate benefits with the host country. This issue, though, is not of immediate concern for the time being.
- **Emergence of Cartels and Lobbies.** There is a likelihood of the emergence of cartels and lobbies which collude to raise defence expenditure or garner greater share of the defence procurement pie.

Implications of FDI in Defence on Self-Reliance and Indigenisation

The impact of FDI on self-reliance and indigenisation in defence is likely to be significant as discussed under:

- **Build Industrial Capability and Ecosystem.** Utilise FDI as a route to attract much needed foreign capital to boost building of the indigenous defence industrial manufacturing capability. This would logically translate into creation of an Ecosystem of the defence industry (tier 2 and tier 3 vendors) for manufacture of assemblies, sub-assemblies and components of weapons and equipment. Such an approach can assist in import substitution by component indigenisation, repair/maintenance of equipment including legacy equipment and provide industrial base for innovation.
- **Induction of Modern Technology.** Enhanced FDI, beyond 49 percent, that enables majority stake holding by foreign company, represents not merely acquisition of funds but also realistic possibilities of access to coveted modern technologies for weapons and equipment. As major defence products involve a relatively high level of technology, transfer/induction of modern technology can be considered by a foreign partner only if it has long-term and controlling stake in the company. Mutually beneficial, long-term relationship between the foreign and local enterprise is a logical outcome of foreign Investments which would lead to inevitable upgrading of domestic technology and production infrastructure. The weapons and equipment so manufactured, on becoming globally competitive, in turn, would attract more FDI and better technology and the progressive cycle goes on. Induction of modern, state-of-the-art technology is of significant importance to the growth of Defence Sector as defence design and development are capital intensive, while rapid obsolescence of technology is the norm.
- **Reduction in Imports.** FDI in defence is likely to substantially improve the country's capacity to manufacture defence weapons and equipment locally and meet both qualitative and quantitative requirements of the Armed Forces. Over a period of time as production picks up, a significant reduction of imports is likely to result which would also save the country's foreign exchange.
- **Greater Reliability of Supplies in War.**
  - Many major defence companies have plants/production facilities spread over different locations in various countries. When a foreign defence company invests in any country, it inevitably has to make it an integral part of its overall production chain. In any given situation, including less harmonious ones, the feasibility of a company to shut down its manufacturing facility and disrupt the entire supply chain is very low as investors, without exception, aim to make profits and not risk loss of investment in the host country. Further, an efficient and broad industrial base with requisite manufacturing capacity, even in private hands, allows for greater reliability of supplies in the event of war when products can be manufactured locally instead of being imported at exorbitant prices. Critical deficiency of Artillery ammunition during the Kargil War was made up by import from South Africa, amongst others. Such a situation can best be avoided by facilitating indigenous manufacture by private industry, both domestic and foreign.
  - Production of high-tech systems by a foreign company/JV in India would be definitely better and safer than India importing fully built-up systems from abroad.
  - The degree of assurance and resulting comfort accruing from indigenous facilities will always be significantly more than dependence on imports.
  - **Better Spares Support.** Indigenous manufacturing facilities will facilitate development of tierised vendors and in the long run ensure better lifetime support including supply of spares. The cost of indigenously manufactured spares is also likely to be much lesser than import.
  - **Insulation from Embargoes.** Presently, India is procuring most of the critical weapons systems and equipment that are either manufactured or both manufactured and integrated abroad. When the same weapons systems and equipment are manufactured in the country, indigenous production will tend to insulate the country from unilateral imposition of embargoes by whimsical foreign suppliers.

Recommendations

In order to ensure that enhanced FDI in Defence Sector benefits the Indian Armed Forces to the desired extent, the following measures are recommended:

- **Enhance Interaction between Armed Forces and Industry.** FDI has immense potential to raise the technological threshold and boost India's quest for self-reliance and indigenisation in defence production. However, it would be naive to expect high technology to flow into the country simply because foreign firms can invest more and repatriate profits. India needs to encourage import of modern technology through enhanced FDI to bridge the current gap. The imported technology should be used as a springboard for research and development of more advanced, state-of-the-art technologies indigenously. The Armed Forces would, therefore, need to actively interact with the industry to enable focus on the technology desired in the future weapons systems and equipment. Establishment of Army Design Bureau is a step in the right direction, however, more intense and active institutionalised interaction by the Army, Navy and Air Force is recommended to be considered.
- **Share Future Requirements with Industry.** Technology Perspective and Capability Roadmap (TPCR) that includes modern technology weapons and equipment required in future, as per the Long-Term Perspective Plan (LTIPP), over a 15-year period, is already being shared with the industry.[21] However, if the anticipated requirements of critical technologies over a period of 30-40 years can be worked out and shared, it will enable the industry, both Public and Private, to plan and focus on R&D activities well in advance and gear up to meet the Armed Forces'qualitative requirements in time.
- **Enhance FDI Cap.** It is strongly recommended to permit enhanced FDI, above 49 percent through Government route, in deserving cases without being overly protective about the Defence Public Sector Enterprises. Enhancing equity/FDI cap up to 74 percent in cases where DRDO, Defence PSUs, Ordnance Factory Board (OFB) and Domestic Private Industry have failed to develop desired modern technology in the past five years and raising limit up to 100 percent if desired technology could not be developed in ten years, is recommended to be considered as a standard yardstick. Approval of enhanced FDI, beyond 49 percent, in defence manufacturing must revolve around long-term assessment of the country's threat perception. To enable the prospective foreign investors to get a clear idea, list of modern, critical technologies where FDI, beyond 49 percent, would be permitted, should be finalised and put into the public domain. Further liberalised FDI Policy in the Defence Sector is the need of the hour. However, unrestricted FDI for all defence products is not recommended.
- **Minimise Procedural Delays.** Government should ensure that there is transparency, evident decisiveness and no room for bureaucratic/procedural delays and corruption. However, too much emphasis on transparency leads to lack of decisiveness which in turn affects efficiency and causes delay. The DPP needs to address this issue, so as to fast-track the procurement process. When files take many months to process in the bureaucratic chain, even the most enthusiastic entrepreneurs tend to get dissuaded and disillusioned. All decisions relating to FDI in defence should be taken within four weeks by collegiate with representation from all stake holders. Decisions/recommendations by individual officers, on file, in the decision-making chain makes the system prone to individual biases and hence not desirable. Government should maintain a minimal essential supervisory control on private companies, including foreign investors, at all stages. Efficient facilitation and management of FDI in Defence Sector will definitely give positive results and enhance self-reliance in defence, as we eliminate/minimise the existing procedural delays.
- **Build Military-Industrial Complex.** Building a military-industrial complex based on India's long-term strategic outlook is essential. Though many private companies have entered the Defence Sector in the last 17 years, their modest foray in the Defence Sector is profit driven. Therefore, Private Industry is not sufficiently enthusiastic about investing in R&D to build high-end fighting platforms/systems as the returns may take 10-15 years or even more. Suitable incentives, in terms of provision of funds for research, tax relief based on the investment made in research projects, provision of land on concessional rates to defence vendors, are required to be extended to encourage investment by Private Industry in R&D. Introduction of "Indian Design, Development and Manufacture" (IDDM) as top priority in the Capital Procurement Procedure is a welcome step. However, more proactive measures are required to be adopted.
- **Extend Assistance to Domestic Private Sector.** India's Private Sector needs hand holding, in terms of technology, in the interim, to be able to graduate to manufacturing of complex modern weapons systems

and military equipment. This is feasible only by collaboration with foreign technology majors. For that, encouraging FDI in Defence Sector and facilitating establishment of JVs with equity participation is a prerequisite. Such an arrangement will be an excellent safeguard to ensure that indigenous progress in Defence Sector does not get "stymied." Encouraging foreign defence majors to invest in India and help catalyse the growth of the indigenous industry, both Public and Private, is strongly recommended.

- **Encourage Multi-Nation Consortiums.** India should exploit its favourable geopolitical location and aspire to be a regional hub for global outsourcing of weapons and equipment. One of the effective options is to encourage Public and Private enterprises to partner foreign defence manufacturers as a part of multi-nation consortiums. Brahmos Cruise Missile is an excellent example of high-grade output of consortium approach.
- **Build Safeguards for Joint Ventures (JVs).** The trade sanctions and technological embargo emanating from the investing nation and its allies could deal a paralysing blow to a JV. Sufficient safeguards need to be built into JVs involving foreign defence companies; else, the entire exercise of enhancing FDI cap in India's Defence Sector could prove counterproductive, with serious consequences for the combat-readiness of the Indian Armed Forces. Simultaneously, the Government needs to make structural adjustments to provide functional freedom to JVs to respond to market dynamics.
- **Exercise Caution while Granting Industrial Licences for Defence Items.** Incorporate adequate safeguards during grant of Industrial Licences to Private Vendor(s) to ensure that an unscrupulous entrepreneur does not play truant in crisis situations. The Government should reserve the right to take over the licensed facility under extraordinary circumstances of national/operational emergencies, in case of deliberate and willful action to disrupt fulfilment of orders already placed by the Armed Forces. Such instances, however, are expected to be rare.
- **Promote Export of Defence Products.** Exports should be encouraged to ensure economic viability of an enterprise as also to earn foreign exchange to offset the initial foreign exchange outflow and repatriation by foreign investors.
- **Explore Strategic Partnership Model.** The strategic Partnership Policy was unveiled as Chapter VII of Defence Procurement Procedure (DPP-2016) in May 2017.[22] However, tangible progress in forging strategic partnership has not been achieved in the last 15 months. This avenue needs to be explored for attracting foreign direct investment FDI and transfer of technology (ToT). The partnership would essentially provide for long-terms needs of the Armed Forces. This route encourages the Industry to invest in Research and Development.
- **National Defence Industrial Policy.** There is a genuine requirement to articulate National Defence Industrial Policy which should deal with all relevant issues pertaining to defence design, development and production. Alternatively, the Government could consider issuance of a road-map for National Industrial Policy, with special reference to defence industry.

Conclusion

Enhanced FDI in Defence Sector is essentially a non-traditional approach for India, but it will certainly stimulate and revitalise indigenous defence manufacturing. Experienced international defence companies are free to establish research, production or integration facilities in India without undue fear of losing valuable Intellectual Property (IP) due to a lack of managerial control. Liberalised FDI in defence will encourage induction of modern technology, promote competition, bring value for money and also boost business for domestic ancillary companies. Though the domestic defence industry is likely to face stiffer competition, most companies would be able to handle it over time. This promises to form the basis for a modern defence industrial complex.

Enhancing the FDI limit, beyond 49 percent, has several riders; yet, this may be the most opportune time to implement it, albeit on case-to-case basis. Further, a flexible and liberalised FDI policy indicates Government's resolve to revive investor confidence and is likely to facilitate import of advanced technologies, which cannot be mastered through indigenous efforts in an acceptable time frame. The Government's growth-oriented policies have created a conducive business sentiment and this, combined with the demand likely to be generated by modernisation of the world's third largest Armed Forces, may prove to be the ultimate catalyst for India's Defence Sector. India's stated goal of self-reliance and indigenisation in defence can be met in the near future when Private Industry, both Indian and Foreign, invests substantially in defence design, development and production. The Armed Forces have a lot to gain, in terms of self-reliance and indigenisation, from a further liberalised FDI Policy in Defence.

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Notes

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