

FDI in Defence

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Source: *PIB & Economic Times*

India plans to spend \$130 bn on military modernization in the next 5 years, as achieving self-reliance in defence production is a key target for the Government of India. The Government has opened up the Defence industry for private sector participation to provide impetus to indigenous manufacturing.

Key highlights

- **In the year 2001**, the Defence Industry sector, which was hitherto reserved for the public sector, was opened up to **100% for Indian private sector participation**, with **Foreign Direct Investment (FDI) up to 26%** both subject to licensing.
- Further, Department for Promotion of Industry and Internal Trade, Ministry of Commerce & Industry vide Press Note(2016 Series) has **allowed FDI under automatic route upto 49% and above 49% through government route**
- A Defence export strategy has been formulated with a view of facilitating Defence Public Sector Enterprises (DPSUs) and private defence players in exploring business opportunities abroad. The total value of production for OFB & DPSUS together accounts for \$8.0 bn.

(2016 reforms)



Conditions governing FDI Policy in the defence manufacturing sector as notified in the Press Note 5 of 2016 Series dated 24/06/2016 are as under:

- Infusion of fresh foreign investment within the

permitted automatic route level, in a company not seeking industrial licence, resulting in change in the ownership pattern or transfer of stake by existing investor to new foreign investor, will require Government approval.

- License applications will be considered and licenses given by the Department of Industrial Policy & Promotion, Ministry of Commerce & Industry, in consultation with Ministry of Defence and Ministry of External Affairs.
- Foreign investment in the sector is subject to security clearance and guidelines of the Ministry of Defence.
- Investee company should be structured to be self-sufficient in areas of product design and development. The investee/joint venture company along with manufacturing facility, should also have maintenance and life cycle support facility of the product being manufactured in India.



Fact sheet of Indian Defence

- **Second largest armed forces in the world**
- 2.3% – GDP spent on defence
- 15%- share in global arms import
- Rs 3,37,553 crore has been allocated for Defence (excluding Defence Pension) under the budget-2020

Importance of allowing FDI in Defence

By allowing higher FDI in the Defence sector, the global companies having high-end technologies can be encouraged to set up their manufacturing base in India in collaboration with Indian companies, thereby resulting in the creation of employment opportunities, saving of foreign exchange and increasing indigenisation.