

ATMA NIRBHAR THROUGH ARMS IMPORT BAN

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Following Prime Minister Narendra Modi's May 12 clarion call for an *Atma Nirbhar Bharat* (Self-Reliant India), and subsequent defence-specific reforms announced by Finance Minister Nirmala Sitharaman on May 16, the Ministry of Defence (MoD) released on August 9 a negative list of 101 defence items which are banned for import.¹ The list of embargoed items, which comes days after the MoD released two more domestic-friendly documents – the draft Defence Acquisition Procedure 2020 (DAP-2020) and the draft Defence Production and Export Promotion Policy 2020 (DPEPP-2020), was promulgated along with bifurcation of the capital procurement budget between the domestic and foreign sources.

What is the significance of the negative list and how will it promote India's self-reliance in defence? Also, what it means for the foreign companies which have so far played a major role in India's arms acquisition?

The negative list of 101 items is a comprehensive one. It includes not just simple projects like water jet fast attack craft and offshore patrol vessel, but a host of complex weapons and platforms such as assault rifles, artillery guns, missile corvettes, attack helicopters, fighter and trainer aircraft and small transport planes. Among all the listed weapons and platforms, 69 items are banned for import from December 2020, 11 from December 2021, four from December 2022, eight each from 2023 and 2024, and one (long range land attack cruise missile) from December 2025.² The staggering timelines seem to be driven by the current developmental status of various projects being undertaken by the Defence Research and Development Organisation (DRDO), Defence Public Sector Undertakings (DPSUs), Ordnance Factory Board (OFB) and the private sector at large.

With the negative list in place, the MoD estimates that orders worth Rs four lakh crore (US\$ 53 billion) will be placed on the domestic industry in the next five to seven years. Of the total value, Rs 1,40,000 crore worth of contracts are expected to be placed by the navy, while the army and air force are likely to sign deals worth Rs 1,30,000 crore each. The expected orders are over and above Rs 3.5 lakh crore (US\$ 47 billion) worth of orders already placed by the three armed forces between April 2015 and August 2020.³

The importance of the list is three-fold. One, the list recognises the ability of the Indian industry, which is otherwise known for inefficiency and poor innovation, to design and produce a vast range of complex weapon systems. Second, the listed items provide order visibility to the Indian industry in so far as the forthcoming requirements of the Indian armed forces are concerned. The industry can use the information in the negative list for advance planning and eventual manufacturing in India if they choose to do so.

Third and perhaps the most important, the list has been prepared by the newly created Department of Military Affairs (DMA), headed by the Chief of Defence Staff (CDS), and not by the Department of Defence Production (DDP), which is in charge of the Indian defence industry and responsible for indigenisation.

The DMA-prepared negative list seems to flow from one of the charters of the department, i.e. promoting the use of indigenous equipment by the defence forces. Although the list is prepared through a consultative process involving all relevant stakeholders – defence forces, DRDO,

DPSUs, OFB and the private sector – its utility lies in greater acceptability and ownership by the armed forces, who are the ultimate users of the equipment and who have a major say in the source and category of arms procurement.

It is important to note that unlike the DDP, the DMA (as opposed to the Department of Defence, headed by the Defence Secretary) is now the administrative department for the armed forces. Besides, unlike the DDP, the DMA can hardly be accused of favouring the local industry, particularly the DPSUs and the OFB, which are often blamed for many woes of India's defence production. The DMA's responsibility towards indigenisation, its supposed neutrality, and jurisdiction over the armed forces are likely to ensure better synergy between the armed forces on one hand and the R&D and production agencies on the other. Previously, the lack of synergy among the stakeholders led to institutional biases, often to the detriment of the indigenous projects.

With the negative list in place, the Indian industry is clearly the biggest winner as all the identified projects are to be executed within India. This does not, however, mean that the foreign companies will not have any role in the identified projects.

It is worth mentioning that all the projects listed in the negative list are expected to be executed through one of the five domestic-industry friendly procurement categories stipulated in the MoD's capital procurement manual (see Table 1). A particular category will be used depending on domestic capability in the design and/or indigenous content in product manufacturing. As can be seen in the Table, in all the procurement categories there is a scope for import, which is maximum 40 per cent in Buy (Indian) category and 50 per cent in other categories, except in Strategic Partnership (SP) model in which the indigenisation roadmap is a critical factor in deciding which Indian vendor would execute a contract. In other words, the foreign companies will have a role to play in the listed items, though their role would be indirect by way of being a supplier of parts, components and technology to their Indian partners.

Source: Compiled from [“Amended Draft DAP-2020”](#), Ministry of Defence, Government of India, July 27, 2020.

However, the foreign companies could have a direct and major role if the government decides to float tenders to subsidiaries of foreign defence companies operating in India. With the Modi Government enhancing the defence foreign direct investment (FDI) cap from 49 per cent to 76 per cent under the automatic route, the foreign vendors through their subsidiaries would like to be treated just like any other Indian company and demand a fair chance to participate in the tendering process for certain embargoed items. If this is permitted, it would put the Indian companies in tough competition with foreign subsidiaries and may drive a better price for the armed forces.

The negative list is one more step taken by the Modi Government to create a strong domestic arms industry and make India self-reliant in arms production. All eyes would now be on the MoD, particularly the DMA, as to how the projects are implemented.

Views expressed are of the author and do not necessarily reflect the views of the Manohar Parrikar IDSA or of the Government of India.

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