

## **6th India Manufacturing Show IMS 2023- MSME Aerospace and Defence Expo – Friday, November 3, 2023 - Bengaluru**

### **Panel Discussion: Outlook on the Indian Economy & Potential**

In the recent few years, there is a revamp to India's vision of becoming a developed country. For instance, India started focusing on creating its own defence ecosystems. With ambitious initiatives, such as *Atmanirbhara Bharat* or self-reliant India and the *Make in India* project, we are trying to fulfil the desire to become a hub of manufacturing. With production, manufacturing and promoting entrepreneurship to develop an industrial ecosystem in India. And defence is one of the most booming sectors in India's *Make in India* and *Atmanirbhara Bharat* projects. As an overall outlook on Indian Economy – “We are at a transitional stage, with bright potential ahead”

Talking about the potential, India's defence exports have grown by leaps and bounds, having increased from Rs. 686 Crore in the financial year 2013-14 to an estimated Rs. 16,000 Crore in the financial year 2022-23, representing a 21% increase since. We still have a task of 35,000 crores worth of exports to be achieved by 2025.

However, the journey from being a major defence importer to becoming a regional and onto global exporter is interesting. Currently, among the big-ticket items being exported by India, are major platforms like Dornier-228, 155 mm Advanced Towed Artillery Guns (ATAG), Brahmos Missiles, Akash Missile System, Radars, Simulators, Mine Protected Vehicles, Armoured Vehicles, Pinaka Rockets and

Launchers, Ammunitions, Thermal Imagers, Body Armours, beside systems, Line Replaceable Units and Parts and Components of Arionics and Small Arms.

Having said that, around 79% of these exports still take place from the Defence Public Sector Units (DPSUs). The private sector participation is just 21%. This need to significantly go up! There are various MSMEs and companies growing, they should be encouraged and made a part of the larger defence ecosystem.

Currently, the major importers of Indian defence products and equipment are Myanmar (46%), Sri Lanka (25%) and Mauritius (14%). The remaining 15% are imported by countries like Armenia, Seychelles, Estonia, Indonesia and Guinea. If the role of private players is increased then we may also look at expanding the pool of countries for exports, for instance to countries of Sub Saharan Africa, West Asia, Latin America and South East Asia.

Steps taken so far to increase defence exports?

Several policy initiatives have been undertaken to drive up defence exports over the last decade. The government's push for defence exports is driven by a consideration to reduce dependency on foreign players for imports. In line with the objectives of the *Make in India* initiative, the government of India has set up an Export Promotion Council (EPC) to focus on driving defence exports. A series of measures have been taken to promote defence exports, like simplification of export procedures, financial incentives, strategic partnership model, promoting exports through Defence Attache etc.

Despite all these efforts, India is the largest defence equipment importer, also mentioned in the recent report by SIPRI (Stockholm International Peace Research Institute). There are various reasons behind this as I see. One reason can be the

minimal engagement of the MSMEs in the defence sector – We still import 60-70% of spare parts required by the defence MSMEs from abroad. Two – bureaucratic hurdles and three – lack of R&D and funds towards finding solutions.

Working as public policy practitioner for over four decades, and serving on B20s council, MSMEs are the most significant actors in any country's economic growth. MSMEs are such boosters that can accelerate our pace to achieve a paramount amount of indigenisation in the defence sector. Considering our dependency on Russia, especially for the spares, MSME can be a better and atmanirbhara alternative for the Indian defence ecosystem.

Over the years, the engagement of MSMEs has increased in various sectors but the progress is slow. Different governments have launched various schemes and policies to support and promote MSMEs. To promote them in the defence sector - the DAP 2020 (Defence Acquisition Procedure), in its preamble, stated that the *make* system (mentioned in Chapter II) has improved in DAP 2020 to make it more objective and output driven, emphasising on the Indian industries, particularly MSME.

In the clause of the 'Strategic Partnership Model', it is mentioned that acquisition under SPM involves engagement by private Indian companies. These companies take on the function of a system integrator, particularly in the MSME sector.

The DAP 2020 also provide preference to MSME in cases with an AoN cost of  $\leq$  100 Crore, with the condition that there is a minimum of two or more MSMEs qualified to compete in this category.

Although, DAP 2020 has made a space for MSMEs but these spaces are very vague and generic. There is no mention of mandatory procurement from the MSMEs. Even the procurement process described in it is very complex and difficult to understand. Entering the government's procurement radar is one of the most challenging tasks in itself. Also, the categorisation of "BUY" mentioned in chapters I and II of the DAP 2020 are arduous for MSMEs. It might be difficult for small enterprises to understand the norms and mandated requirements of the DAP 2020 and to work accordingly.

To make MSME(s) a base pillar for defence indigenisation, there is a strong need for training, sustenance and promotion of these enterprises. The Ministry of Defence has outed the fifth positive indigenisation list. These indigenisation lists mentioned items that will not be imported by the Indian Armed Forces. These items will be completely indigenised. In these lists, there should be a proper categorisation of items under different types of companies and enterprises based on their size and production costs. The categorisation must be specific and the procurement must be done under the respective categorised companies and enterprises.

For instance, items like Sarvatra Kavach, Individual Underwater Breathing Apparatus, LED-based taxis, landing and Navigation Lights, etc. can be placed under the category of micro and small. These items would not be purchased from any medium or large enterprises. With this simple step, the engagement of micro and small companies within the Ministry will be enhanced.

Suggestions for further integrating MSMEs for a robust overall economy

There must be a strong implementation of the “Ease of Doing Business” for MSMEs. The categorisation clauses in DAP 2020 should provide some leverage to MSMEs. There should be an open gate for these enterprises in the acquisition process, through which they can directly penetrate the strong wall of restrictions. MSMEs should be provided with simplified knowledge of the procurement process and requirements. Along with it, the government should also start the capacity-building programme for MSMEs through which they bestow the technical knowledge of manufacturing the defence equipment along with assistance in choosing the equipment best for them to manufacture.

We, at CUTS as a global policy and advocacy group are currently implementing a US-India defence partnership related project. Here, along with other project deliverables, we are also looking at the possible convergences among Industry, Academia and think tanks between the US and India and taking policy recommendations forward to the policy circles in the US.

I would reiterate here that through our work in the past 40 years as a civil society organisation, we have felt the need to complement efforts underway at the inter-governmental level to buttress the MSMEs and Indian economy, in order to achieve and become a developed country by 2047.