



New FDI Policy in Defence Sector

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Why in News

Recently, the Union Cabinet approved a new **Foreign Direct Investment (FDI)** policy in the defence sector which allows the FDI through automatic approval to be increased from 49% to 74%.

- Earlier, the defence industry can bring FDI up to 49% under the **automatic route**, and above it **under government route**.
- However, the new policy has a '**National Security**' clause as a condition which has been proposed by the **Ministry of Commerce and Industry**.

Key Points

- **National Security Clause:** FDI in the defence sector **shall be subject to scrutiny on the ground of National Security** and the **Government reserves the right to review** any foreign investment in the defence sector that may affect national security.

- **Strengthening Indigenous Manufacturing:** Through more **liberalised FDI policy** the government is seeking **to attract foreign players** to set up manufacturing units in India.
 - It has been focusing on the **defence sector to act as an engine for boosting manufacturing in the country**, and is **aiming** to achieve a turnover of Rs 1.75 lakh crore, including exports worth Rs 35,000 crore, by 2025.

As of 2019, the defence industry, along with the aerospace and shipbuilding industry, was estimated to be worth Rs. 80,000 crore, of which the share of Public Sector Units (PSUs) was nearly 80%.
 - The government has brought a **draft Defence Production and Export Promotion Policy 2020 (DPEPP 2020)**, which **aims** to provide an overarching guiding document to provide a focused, structured and significant thrust to defence production capabilities of the country for self-reliance and exports.
 - The government has also brought a **negative imports list** for defence equipment and a dedicated budget for capital acquisition from the domestic industry.
 - The negative imports list **contains a list of weapons that will not be imported** and can only be purchased from within the country.
 - It was done with an aim to **reduce the defence import bill**.
 - The government has **inaugurated two defence industrial corridors**, in **Tamil Nadu and in Uttar Pradesh**, to boost the flagship '**Make in India**' programme that in turn would attract investments as well as encourage employment generation.

Foreign Direct Investment

- FDI is an **investment made by a firm or individual** in one country into business interests located in another country.
- Generally, FDI takes place when an investor establishes foreign business operations or acquires foreign business assets, including establishing ownership or controlling interest in a foreign company.
- It is different from **Foreign Portfolio Investment** where the foreign entity merely buys equity shares of a company. FPI does not provide the investor with control over the business.

- Routes through which India gets FDI:
 - **Automatic Route:** In this, the foreign entity does not require the prior approval of the government or the RBI.
 - **Government route:** In this, the foreign entity has to take the approval of the government.
 - The **Foreign Investment Facilitation Portal** (FIFP) facilitates the single window clearance of applications which are through approval route.
 - This portal is administered by the Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce and Industry.

Way Forward

- The new FDI policy has the potential to reduce dependency on imports in the defence sector and boost manufacturing in India.
- It will also provide employment and business opportunities to the Indian businesses and boost self-dependency.

Source: IE