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Defense Expenditure Trends in India 2021

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Abstracts

Since 2014, the Indian government has undertaken several initiatives to promote indigenization and self-reliance in defense by harnessing the capabilities of public and private sector industries. As of April 2020, India was among the top three global military spender. The US, China, India, Russia, and Saudi Arabia accounted for more than 60% of the global military expenditure in 2019. The military expenditure in India includes the pension bill for 3.3 Mn retired veterans and defense civilians. The military expenditure increased by a massive 259% over 30 years (from 1990 to 2019) and by 37% between 1990 and 2019. The defense budget has been growing marginally year-over-year. It has almost doubled in the last five years. However, it is insufficient to upgrade the weapons. This is because the significant share of the allocated amount for the Ministry of Defense (MoD) goes into paying salaries and pensions of armed forces and civilians.

Impact of Covid-19

The defense industry in India witnessed a significant downturn on account of global trade restrictions following the outbreak of COVID-19. Defence public sector undertakings had to stop working on most of the projects after the imposition of the lockdown. The sector shifted its focus to manufacturing essential commodities only, such as personal protective equipment (PPE) kits, masks, and ventilator parts, to help the government fight the pandemic. Around 90% of the small private manufacturers that supply essential components to the industry had to halt the production of components till May 30th, 2020.

The government had to tighten defense expenditure on account of the global crisis. In the first quarter of FY 2020, it withheld 15% – 20% of funds reserved for the defense ministry. In May 2020, it stated to abolish 9,300 posts in the military engineering service (MES).

Market segment insights

The defense budget has increased at a steady rate in the last five years, from FY 2016 to FY 2020. Though the overall defense budget has been growing, the defense expenditure has declined as a proportion of the GDP. The Indian Army accounts for the highest share of the defense budget, followed by the Air Force, Navy, DRDO (Defense Research and Development Organisation), and ordinance factories.

Key challenges of the market

Indian government has not been able to attract significant private sector investments in the defense manufacturing industry. This has resulted from delays in decision-making on the government's part, placing unsystematic orders, canceling tenders, and placing unreasonable qualitative requirements by the Indian Armed Forces. Several Indian private defense companies had invested in improving their production capabilities to receive government support and orders. However, they have been left disappointed. For example, in May 2020, the private sector defense equipment manufacturing start-up, Tonbo Imaging, wrote an open letter to the prime minister underlining the cancelation of orders and delays in payments.

Government initiatives

In May 2001, the defense sector, which was only reserved for the public sector, was allowed 100% participation by the Indian private sector bound by licensing. A total of 460 defense licenses were issued by the government, covering 275 companies, till 31st December 2019. In the Defense Procurement Policy 2020 (DPP), the limit of foreign direct investment (FDI) through the automatic approval route has been increased to 74%. BAE Systems, Pilatus, Lockheed Martin, Boeing, Rafael, and Dassault Aviation are some of the major investors in the industry.

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CHAPTER 10: APPENDIX

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