

Recent Increase in FDI in Defence Manufacturing announced by the Finance Minister

Limit Increase under Approval Route

On Saturday, 16 May 2020, the Indian Finance Minister announced that an increase in Foreign Direct Investment limit in in defence manufacturing from the existing 49% to 74% under the automatic approval route.

Separate budget for Indian-made

The government has also announced a separate budget for Indian-made defence equipment and the corporatisation of the Ordnance Factory Board which makes weapons for the country's military.

Ban on Import of Weapons

The government has also indicated that it will notify a list of weapons and platforms (including spare parts of such weapons and platforms) for ban on their imports.

Government Intent

With the above changes the government intends to increase technical investment and collaboration within India, and boost local manufacturing in India. The amendments are aimed to reduce the defence import bills and boost the 'Make in India' programme and attract private sector in defence production.

Immediate Implications

The increase in FDI limit will be effective only once the government issues a Press Note in this regard or amends the Foreign Exchange Management (Non-Debt Instrument) Rules, 2019.

Once the amendment takes place, foreign technology partners and OEMs will be allowed to increase their existing equity stake in defence manufacturing joint ventures in India to 74% under the automatic route. However, Foreign Direct Investments beyond 74% will continue to be under the government approval route subject to the conditionalities stipulated by the government.

That being said, the Finance Minister has not indicated the impact of the list of banned weapons and platforms on existing contracts for supply and import of weapons and platforms that may form part of such negative list.

One will have to wait for the amendment, which is bound to pique the interest of prospective foreign investors, and existing contractors alike.

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