

## FDI IN DEFENCE-PRACTICAL PERSPECTIVE

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### Abstract

*The study examines the perception of army personnel and professors regarding the impact of a hike in FDI in defence on an Indian economy, on the nation's security and regarding achievement of self-reliance with the help of independent sample t-test. The results of the study revealed that the p-values were less than a priori alpha level of .001 which implied that it was acceptable to assume that the levels were considered to be non-normal. However, Independent sample t-test could also proceed with non-normal population as t-test is a robust against departure from normality of the data set. The study found that in case of defence, the study elucidated that professors perceived a more positive impact of a hike in FDI limit in Indian economy's defence sector than an army personnel. The study suggested that through FDI government must foster sustainable development by bolstering education system, health and R&D system and by ensuring personal security of the citizens.*

### Keywords:

*Defence Sector, Globalisation, Indian Economy, Self-Reliance*

## 1. INTRODUCTION

Defence equipment production was purely the function of government. The Industrial Policy Resolution, 1948, didn't permit the private sector into this industry. It was in May 2001 that defence business in Asian country was opened to the non-public sector when the government permitted 100% equity with a threshold limit of 26% FDI component subject to licensing. As a result, detailed guidelines were issued by the Department of Industrial Policy and Promotion (DIPP), after consulting the Ministry of Defense (MOD), for issuance of license to produce arms and ammunition in January 2002 [7]-[13]. However, the policy of 26% cap on FDI was unable to entice any huge quantity of FDI within the defence sector, with only solely just about Rs 70 lakh between 2001 and 2009 as 26 per cent cap was determined by a superfluity of foreign firms as inhibitive due to its' restricted scope for significant returns on investment as well as provided very little management over the technologies that they want to transfer to Indian joint ventures. The general flow of resources to the defence industry between April 2000 and May 2010 amounted to a miserable amount of US\$0.15million, a portion of the inflow into sectors that attracted enormous amount of FDI, enlisted as amenities, computer software and hardware, and telecommunications, among others [14]-[16].

Ample of industrial bodies like the ASSOCHAM in 2008 and CII in 2010 made frequent calls to augment FDI cap to 49% from the existing cap of 26% [17]. Moreover, in December 2008, the Parliamentary committee on Defence and the U.S. administration also compelled the government for the same [19]. During its economic survey for 2008-09, presented erstwhile to the re-elected UPA administration's initial Union Budget in July 2009, the regime had then recommended outspreading the boundary of

FDI to 49% from the amount of 26%. It was observed that to avail the benefits of high-technology defense equipment, foreign participation in defence production should be elevated to 100% [20].

Nevertheless, these hassles and recommendations, the MOD explicitly specified its' opinion that as defence could be a strategic sector, the foreign investment in joint undertakings in defence sector would be restricted to 26% [21]. Any upsurge in FDI further than 26% would be taken on an item-by-item basis [22]-[23].

India being one of the biggest traders of arms in the realm, incurred massive expenditure on defence [24] which was 2.4% to the GDP of India during the period 2009-2013. With the liberalization in the defence sector in 2001, FDI in defence was allowable only up to 26% under the government approval route. The former state of affairs related to the defence sector was unable to entice sufficient amount of foreign investment.

India had the third leading army [18], the fourth largest Air force and also the seventh largest Navy within the world, despite that one-half of its' defence equipment was considered to be basically outdated. Thus, need of the hour was upgradation of the instrumentality profile by including state-of-the-art instrumentality into the arsenal and gradually removing outdated and superseded equipment. India, today, despite entitled as the world's top ten defence markets by import, however conjointly thought-about to be the one that is spurring at a healthy rate. Simultaneously, it is excessively dependent on external suppliers, with only 30% reliance on its' domestic market. The defence market in Asian nation presents a USD 181 bn opportunity over 2012-20, with the Indian Ministry of Defence (MOD) approximating a yearly budget of USD 64 bn in 2020.

### 1.1 ROLE OF FDI IN DEFENCE IN AN INDIAN ECONOMY

A plethora of FDI inflows in defence sector provide enormous economic advantages to the host country. Apart from the substantive funds flow from a foreign source, greater amount of FDI generates employment opportunities for the host country population and helps mitigate the problem of Unemployment to a great extent. Furthermore, taxes and other returns don't repatriate rather flow back into the local economy. The present liberalization policy of the government articulates that foreign companies can have 100% equity in the country's defence manufacturing sector through the government approval route. Prior to this, non-resident companies could possess equity to the extent of 49% in defence manufacturing units.

The new policy of liberalization in defence enunciates that the overseas unique equipment producers would now be able to operate independently and needn't acquire partnerships with resident firms of India to capture domestic markets. Furthermore,

it would also shorten the time that used to spend on discussions, conglomerates and it would also foster healthy competition for Indian businesses.

In addition to, the availability of alternatives would get enhanced as the Indian defence forces would have numerous national and international opportunities in terms of procurement. It would facilitate the easy availability of state-of-the-art-technology further, facilitating higher levels of technological and marketing expertise [24], an introduction of new managerial techniques and new export promotion possibilities, thereby assist reducing imports. These further, foster the industrialized sector in the country and stimulate the flow of funds in building up capabilities of investigation and improvement in an economy. Thus, to boost India's local technological base and sustain economic benefits, India needs an enormous amount of FDI in its defence industry.

## 2. LITERATURE SURVEY

The current section concisely discusses some of the significant studies related to FDI in defence sector in Indian economy.

The author [1] emphasized that in respect of military capability and strength, a financial global force must also be a soldierly superpower. There should be a staunch worthy and dependable native defence industrial base. The study discussed that a nation that was self-sustaining and maverick in its' soldierly necessities and had ingress to technologically advanced capability was candidly being coined as a military superpower. The formation of a strongly built defence manufacturing base was considered to be of supreme significance to any emerging great power. To wholly comprehend, recognition of necessities and desires of the equipped militaries and facilitation that the necessities were encountered within the specified time in a cost effective style, should be the foremost objective of any defense manufacturing base and component of its' triumph.

The author [2] discussed the challenges and response to indigenization along with the continuously evolving defence procurement procedure (DPP). The study articulated that the provisions of the DPP administered Indian capital defence acquisitions. The DPP clearly defined an Indian defence item as one that had a minimum 30% indigenous content while the offset provisions for Indian companies under the 'Buy (Global)' route nullified such a definition. The Vijay Kelkar Committee constituted in 2004 examined the acquisition processes and procedures and recommended changes in the acquisition process.

The author [3] highlighted the scenario of FDI in Indian defence sector and also exhibited the trends of FDI equity inflows. Their research disclosed the fact that FDI inflows in defence sector swayed from Rs. 2.36 million in the year 2000-2005 to Rs. 6.40 million during the year 2016. The study also examined the myths associated with FDI inflows in defence sector. It was a quantitative and analytical research covering time period covered from 2000-01 to 2016-17. The study was based on secondary data. The study concluded that 100% FDI in defence was the need of the hour for the nation's defence forces, indigenous industries and international OEMs to certify accessibility of cutting edge technologies for the defence forces, lift local manufacturing in India and provide guaranteed yields for international OEMs. Furthermore, the change would likewise heighten whole R&D to

improve in addition organize elucidations catering specially to the nation's security requirements.

The author [4] analysed Indian defence environment and macro variables that affected PPP and FDI with respect to opportunities, intimidations, flaws and powers. The study also analysed the factors that influenced the requirements of Communal non-public contribution and FDI in Indian defence sector. The study was based on secondary as well as primary data. The primary data was collected from 25 Government officers serving in Defence Sector for the perception-based analysis. The study made use of random sampling technique to select officers from different services. The research was descriptive in nature. The study [5] concluded that in order to overcome the problem of research and production related inadequacies and also to mitigate gradation costs, there was a necessity of FDI and PPP in Indian defence segment. In addition to, the research found that the concept of Make in India needed to be promoted along with the removal of cap on FDI limit taking into consideration the safety anxieties of the nation with the facility of prevailing adequate budget.

Though a plethora of work has been done to analyse FDI in different sectors of an Indian economy, yet the past studies are devoid of examining the perception of people regarding hike in FDI in defence in the context of Indian economy.

### 2.1 OBJECTIVE OF THE STUDY

The current study aimed to examine the perception of people regarding hike in FDI in defence sector in Indian Economy.

## 3. RESEARCH METHODOLOGY

### 3.1 HYPOTHESIS OF THE STUDY

To accomplish the aforesaid objective, the following null hypothesis was formulated.

H<sub>01</sub>: The FDI inflows in defence sector were not desirable in national interest.

### 3.2 SCOPE OF THE STUDY

The current section examined the perception of army personnel and professors regarding the impact of a hike in FDI in defence on an Indian economy, on the nation's security and regarding achievement of self-reliance with the help of Independent sample t-test. In the field of defence, by following snowball sampling technique, total 150 respondents were interviewed, 75 respondents were those who were involved in the field of defence either in service or retired were considered for the purposes of the study. Further, 75 respondents were Professors who possessed knowledge regarding FDI in defence were interviewed.

#### 3.2.1 Independent t-Test:

Independent t-test can be elucidated as an inferential statistical test that determines statistically significant demarcation between two unrelated groups means. But before applying the test, the assumptions of the test were checked.

### 3.3 STATISTICAL DATA ANALYSIS

The Table.1 shows the group statistics regarding perception about hike in FDI in defence.

Table.1. Group statistics regarding perception about hike in FDI in defence

Title		Mean	Std. Deviation	Std. Error Mean
Perception about Indian Economy	Army Personnel	3.91	.55	.06
	Professor	4.19	.51	.05
Perception about Nation's Security	Army Personnel	2.72	.77	.08
	Professor	3.69	.58	.06
Perception about achievement of Self-Reliance	Army Personnel	3.89	.65	.07
	Professor	3.32	.92	.10

Source: Author's own calculations

### 3.4 INDEPENDENT SAMPLE T-TEST

Independent-sample t-test helped evaluate the difference between the means of two independent chosen groups of army personnel and professors. That is, it helped ascertain whether the mean scores of two chosen independent groups were significantly different from each other or not as in Table.2.

#### 3.4.1 Reliability and Normality Analysis:

Cronbach's alpha statistics with the help of SPSS software was employed to ascertain the scale reliability developed for the purposes of the study. The alpha value for the first 4 items of the scale was estimated at 0.746 which was moderately acceptable.

Further, for the next 4 items cronbach's alpha value came out to be .735 which was quite acceptable. For the next 4 items, cronbach's alpha reliability statistics were .633 and was deemed acceptable.

Furthermore, Shapiro-Wilk test of normality was employed to examine whether levels of the independent variable were statistically normal or not. The results of the study revealed that the p-values were less than a priori alpha level of .001 which implied that it was acceptable to assume that the levels were considered to be non-normal. However, Independent sample t-test could also proceed with non-normal population as t-test is a robust against departure from normality of the data set.

#### 3.4.2 Data Analysis:

##### • Inferential Statistics

This part of the research elaborates the group statistics of army personnel and professor perception regarding the hike in FDI limit in the defence along with the results of the independent sample t-test that explains mean differences of the perception of army personnel and professors, which was tested through a set of questions asked on the parameters like perception about the Indian economy, the nation's security and the achievement of self-reliance.

##### • Perception about Indian Economy

An independent sample t-test compared the mean scores of perceptions of army personnel and professors regarding the impact of a hike in FDI limit in defence sector in an Indian economy. It is evident from table 2 that in the case of perception of the respondents regarding the impact of a hike in FDI in defence on an Indian economy, Levene's test for equal variances yielded an insignificant p value of .747. This means that the difference between the variances of the two considered groups under study were statistically insignificant due to which the first-row statistics was used for further analysing the results of the perception of army personnel and professors regarding the impact of a hike in FDI in defence sector on an Indian economy.

Table.2. Mean differences in the perception regarding hike in FDI in defence

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	T	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Perception about Indian Economy	Equal variances assumed	.105	.747	-3.237	148	.001	-.28333	.08754	-4.5631	-.11035
	Equal variances not assumed			-3.237	147.435	.001	-.28333	.08754	-4.5632	-.11035
Perception about Nation's Security	Equal variances assumed	9.019	.003	-8.659	148	.000	-.96667	.11164	-1.18729	-.74605
	Equal variances not assumed			-8.659	137.652	.000	-.96667	.11164	-1.18742	-.74591
Perception about achievement of Self-Reliance	Equal variances assumed	11.087	.001	4.353	148	.000	.56889	.13067	.31066	.82712
	Equal variances not assumed			4.353	133.505	.000	.56889	.13067	.31043	.82735

Source: Author's own calculation

The results from Independent sample t-test exhibit that the p-value of .001 specifies that there existed a statistically noteworthy difference in mean scores of the perception of the two chosen groups under study,  $t(148) = -3.24$ ,  $p < .05$ , thereby, elucidated that professors ( $M = 4.2$ ,  $SD = .52$ ) scored significantly higher than army personnel ( $M = 3.91$ ,  $SD = .55$ ), with a mean difference of  $-.28333$  as stated in table 6.37 indicated that Professors perceived a more positive impact of a hike in FDI limit in defence on an Indian economy than an army personnel. Thus, the null hypothesis which stated that there was statistically insignificant difference in mean scores of the perception of army personnel and professors regarding the impact of hike in FDI in defence on an Indian economy got rejected.

#### • Perception about Nation's Security

The Table.2 exhibits that the significant value of p from Levene's test of equality of variances exhibits that army personnel and professors did not have a similar dispersion of scores, thus, violated the assumption of homogeneity of variance which stated that there was statistically no significant difference in the dispersion of scores of the two chosen groups under study due to which the second row was analysed for further analysing the results of the perception of Army personnel and Professors in relation to the impact of a hike in FDI in defence on nation's security.

The results from independent sample t-test reveal that there was statistically a noteworthy difference in the mean scores of the two chosen groups under study,  $t(148) = -8.66$ ,  $p < .05$ , illustrated that professors ( $M = 3.7$ ,  $SD = .582$ ) scored significantly higher than army personnel ( $M = 2.72$ ,  $SD = .77$ ), with a mean difference of  $-.96667$  as stated in the table, thereby, indicated that again professors perceived more positive impact of a hike in FDI limit in defence sector on nation's security. Thus, the null hypothesis which stated that there was statistically no significant difference in the mean scores of the perception of the two considered groups under study regarding the impact of a hike in FDI in defence on nation's security got rejected.

#### • Perception about Achievement of Self-Reliance

It is ostensible from table 2 that value of p from Levene's test of equality of variances was significant which exhibits that army personnel and professors had statistically significant difference in the way the data was dispersed, thus, not satisfying the assumption of homogeneity of variance which indicated that there was statistically insignificant difference in dispersion of scores of the perception of army personnel and professors regarding the impact of a hike in FDI in defence on the achievement of self-reliance. In this case, the second row was examined for further analysing the results of the perception of army personnel and professors with respect to the impact of a hike in FDI in defence on the achievement of self-reliance.

Further, results from Independent sample t-test reveal that there was statistically a significant difference in the mean score of the two chosen groups under study,  $t(148) = 4.35$ ,  $p < .05$ , army personnel ( $M = 3.89$ ,  $SD = .655$ ) scored significantly higher than professors ( $M = 3.32$ ,  $SD = .922$ ), with a mean difference of  $.56889$  as stated in the above table, thereby, indicated that army personnel perceived in a more significant and positive way than professors the impact of a hike in FDI limit in defence sector on the achievement of self-reliance. Thus, the null hypothesis which stated that there was statistically insignificant difference in mean

scores of the perception of army personnel and professors regarding the impact of a hike in FDI in defence on the achievement of self-reliance got rejected.

To conclude, in case of checking the perception regarding the hike in FDI limit in defence, Professors had more positive attitude than army personnel regarding the impact of a hike in FDI in defence on an Indian economy and on nation's security. However, it was only in the case of the perception of achievement of self-reliance that army personnel scored significantly higher than professors.

## 4. CONCLUSION, IMPLICATIONS AND FUTURE PERSPECTIVES

In case of defence, the study elucidated that Professors perceived a more positive impact of a hike in FDI limit in Indian economy's defence sector than an army personnel. Even in case of the Nation's security, Professors perceived more positive impact of a hike in FDI limit in the defence sector than Army Personnel. However, it was only in the case of achievement of self-reliance that army personnel scored significantly higher than professors. They also opined that by enhancing FDI limit in defence, the government has taken a correct step in the right direction. Besides enhancing employment opportunities, India would get to know technical know-how. This would not hamper India's own research and development work as it is an ongoing process of India's research & development establishments besides eliminating dependence on other countries and quicken self-reliance. As far as security was concerned, India has to adopt the basic approach and strengthen the security of vital installations.

FDI played an indispensable role in the generation of employment opportunities, development of prevailing manufacturing industries and start-ups. Indeed, it was also required for the development of infrastructure, retailing and in numerous long term monetary ventures. Alfaro (2003) opined that attitude and policies of the government towards FDI as well as its' features varied considerably over a period of time. [6] established that FDI as a strategic constituent of investment was required by India for its unrelenting fiscal progress and development. The study further recommended that the policy makers ought to heed on attracting diverse types of FDI Inflows. Policies should be planned in such a manner that external investment could be employed as a means of augmenting native construction, reserves and exports; as a way of technological learning and equipment transmission and also in providing access to the external market.

It is also proposed that through FDI government must foster sustainable development by bolstering education system, health and R&D system and by guaranteeing personal security of the citizens. In addition to, the study further recommended that the policy makers must ensure optimal utilization of funds and timely execution of projects. To attract more FDI inflows to India, the government must maintain investors' confidence by strictly exercising control over inefficient bureaucracy, red-tapism, rampant corruption. Lastly, the government must ensure qualitative FDI inflows rather than its magnitude.

Policy makers need to certify pellucidity and uniformity in policy making along with inclusive future development approach. To maximize the benefits of foreign presence in the domestic economy, the government of the country needs to liberalize their

FDI regimes and pursue other policies to entice more and more FDI. The current study could be expanded by encompassing more number of respondents in the study so that the results could be generalised.

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