

India's defence industrial policy is undergoing a profound transformation. In 2025, designated as the 'Year of Reforms', the Ministry of Defence announced updates to the Defence Acquisition Procedure (DAP) through a three-pillared strategy. This includes: (a) less ownership constraints to allow foreign-led firms to act as primary contractors, (b) priority to delivery speed and export capacity over traditional domestic preferences, and (c) new sovereign oversight through mandatory tech transfer disclosures, and indigenous content verification. We examine the policy in the light of India's experience, and that of other latecomers.

Little FDI despite liberal norms: India opened the defence manufacturing to foreign ownership in 2001, and progressively liberalised the regime. In 2020, foreign ownership up to 74 per cent was permitted under the automatic route, with provision for 100 per cent where access to modern technology was anticipated. The underlying expectation was that the higher ownership caps would attract global defence majors, enable technology transfer, and strengthen the indigenous manufacturing capability.

According to the official figures, between 2001 and September 2025, cumulative FDI inflows into defence manufacturing amounted to \$26.5 million, of which \$16.4 million came after the 2020 liberalisation. This is striking given that the foreign investors generally show a strong preference for unambiguous control. Thus, the liberal ownership norms, by themselves, do not work, at least in defence manufacturing sector.

Defence is different: This is because investment decisions are strategic rather than market-driven, and are embedded in the national security frameworks of investors' home nations. Tech transfer is circumscribed by export controls, licensing regimes, and geopolitical considerations. This divergence has sharpened in recent years as advanced economies expanded national security screening to cover dual-use technologies, electronics, data, artificial intelligence, and advanced manufacturing. They began to monitor outward investments. One of the recent cases is that of the UK which under its National Security and Investment Act, 2021, screens outward investment in 17 areas which include defence, and dual-use technologies. In this global context, expectations that advanced defence technologies will flow freely into India through the FDI route are increasingly unrealistic, irrespective of ownership thresholds.

Reliance on control measures: India has focused largely on formal parameters such as equity caps, board composition, and the

Make-in-India via foreign tech

Low FDI inflows due to strategic constraints, control over tech



nationality of directors. Effective control resides not in equity shares but in control over technology, software, upgrades, compliance systems, and export permissions. These are governed through shareholder agreements, licensing contracts, and internal compliance regimes that lie largely outside routine regulatory scrutiny.

The governance structures of defence and aerospace joint ventures (past and present) illustrate this reality. Even where the Indian partners hold majority equity, key strategic decisions often require unanimity, effectively conferring veto power on the foreign collaborator. Compliance systems and export-import controls are frequently required to be acceptable to the foreign partner, thus entrenching technological and operational dependence. The result is foreign control over critical technologies, and future developments, irrespective of the extent of Indian ownership. This is a standard governance design in most of the sensitive sectors.

The proposed safeguards in the 2025 framework face a dual-track failure. If enforced strictly, they will deter foreign participation by scaring away risk-averse OEMs. If applied leniently, they will remain "paper tigers", delivering assembly lines without the underlying design authority. In a crisis, a foreign OEM's first loyalty is invariably to its home government's export controls.

Tight-fisted tech control:

India's experience in civilian manufacturing offers a parallel. In the auto sector, which has received substantial FDI, leading Indian subsidiaries invest little in in-house R&D while making sizable royalty and technical fee payments to the parent firms. Advanced design capabilities, and core technologies remain concentrated abroad, with Indian operations functioning largely as long-term technology users. Many leading firms in other industries follow a similar pattern. In sectors such as machinery, and electrical equipment, technology agreements routinely impose restrictions on exports, modifications, and third-country sales. Similar but more stringent conditions apply in defence collaborations, further constraining learning, reverse engineering, and the development of independent export capability.

Global experience: South Korea combined procurement, R&D, offsets, and exports under strong state coordination, with tech transfer explicitly staged and enforceable, and lifecycle autonomy treated as non-negotiable. Türkiye treated joint ventures as transitional arrangements, enforced offsets aggressively to localise electronics and systems integration, and nurtured national champions through assured demand and patient capital. In both the cases, foreign participation was instrumental but time-bound, and not permanent. In the cases of Brazil, Israel, and Singapore, the state-owned sector played important roles.

Risks in FDI-dependence: The argument is not against foreign participation per se but that FDI can play a supporting or transitional role. Genuine capability building requires a decisive shift in policy focus: from ownership to effective control, value addition to design

and lifecycle autonomy, and capital accommodation to tech mastery. The question is about who controls technology, upgrades, and exports. Unless the policy is anchored around this, further liberalisation in policy and procedures risks deepening strategic dependence

rather than advancing Atma-Nirbharta.

A foreign OEM does not share its core IP because it owns 74 per cent or even 100 per cent. It is shared if its home government allows it, and because the host nation makes it a non-negotiable condition. Indigenous content norms must insist on design ownership, source-code access, and upgrade rights, not merely value addition. Strengthening domestic players should be the topmost priority.

The views expressed by the prime minister's group (2008), which was set up under the National Manufacturing Competitiveness Council, are still relevant. It stated that "many of the technologies in the fields of Defence, Aero Space, IT, Atomic Energy and other high technology areas are not available either through the liberalised FDI route or for buying them outright. Clearly for a major country like India, in the long term, it is necessary to have the state-of-the-art technologies, and also a programme to develop the next generation technologies internally through vigorous R&D effort. Many developing countries including China have worked towards this end by putting in place appropriate FDI and Industrial policies."

India needs to follow a strategy, which may include:

- Preference to joint ventures with sunset clauses on foreign technological control rather than to foreign-owned subsidiaries
- No policy or procedure to undermine the development of indigenous capabilities; far from providing a level-playing ground, domestic manufacturers should always be preferred
- State to retain special rights or golden shares in critical platforms
- FTAs to be used strategically to negotiate technology access even without equity participation
- Priority to patient, long-term capital rather than short-horizon financial investors
- Shun progressive liberalisation of FDI policy and procedures, on one pretext or the other.

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