Coronavirus package | Government throws open defence production

Part of: GS-III- Economy (PT-MAINS-PERSONALITY TEST)

Fourth tranche of stimulus focuses on reforms across industry, aviation and space.

Steps to indigenise defence production by banning the import of some weapons and platforms while hiking foreign direct investment into the sector were among the highlights of the fourth tranche of the Aatmanirbhar Bharat Abhiyan package, which seemed to focus more on industry reforms than any sort of economic stimulus.

Union Finance Minister also announced measures to introduce commercial mining in the coal sector, liberalise the mineral sector, ease airspace restrictions and encourage private involvement in space and atomic energy projects.

Boost for growth

- “Many sectors need policy simplification.
- Once we decongest sectors, we can also provide the necessary boost for growth and employment, noting that structural reforms were the focus of announcements.
- “These sectors with these reforms are going to be the new horizon for growth and, therefore, we see great potential in more investments which can be drawn with the reforms.
- More production can be clearly marked, and certainly it will lead to a lot more employment possibilities,” The measures to boost private participation had to go beyond mere intent.
- In a bid to enhance self-reliance in defence production, the Centre would notify a list of weapons and platforms that could not be imported, and widen it every year as domestic capacities grew.
- A separate budget provision for domestic capital procurement would help reduce the defence import bill, she said, adding that indigenisation of imported spare parts would also be given priority.
- The FDI limit in defence manufacturing under automatic route will be raised from 49% to 74%.
- In another major policy change, the Minister announced that Ordnance Factory Boards would be corporatised and eventually listed on the stock market to improve autonomy, efficiency and accountability, emphasising, however, that they would not be privatised.

Criticism

- “This was less of a stimulus and more of industrial reforms, which could have been announced at any time.
- They have used this crisis time to utilise the ordinance route or other ways to fast-track industrial reforms, which would have faced resistance otherwise,” said Ernst and Young’s chief policy adviser D.K. Srivastava, who is also a member of the Advisory Council to the 15th Finance Commission.
- “The sectors covered are of strategic importance but these policies will be rolled out over a 3-6 month period, and any implication for supporting or reviving the economy as it
comes out of lockdown is missing,” he said.

- Mr. Srivastava noted that the only direct budgetary cost in this tranche was the ₹8,100 crore to be provided as a hiked 30% viability gap funding to boost private investment in social sector infrastructure.

Imp Points

- The government monopoly on coal would be removed with the introduction of commercial mining, allowing any private player to bid for a coal block and sell it in the open market.
- Earlier, only captive consumers with end-use ownership could bid for coal blocks. Almost 50 blocks will be offered immediately, with no eligibility conditions for bidding, apart from upfront payment with a ceiling.
- A revenue sharing mechanism instead of the earlier fixed price per tonne will introduce competition, transparency and private sector participation in the market, she said, adding that the private sector would also be allowed to participate in exploration.
- Coal gasification will be incentivised through rebate in revenue share. Infrastructure development worth ₹50,000 crore was promised.
- The Centre also plans to introduce a seamless, composite exploration-cum-mining-cum-production regime for the mineral sector, with 500 mining blocks to be offered through an open and transparent auction process, including a joint auction of bauxite and coal blocks to enhance the competitiveness of the aluminium industry.
- The distinction between captive and non-captive mines will be removed to allow transfer of mining leases and sale of surplus unused mineral blocks.
- Power distribution companies in union territories will be privatised.
- With regard to civil aviation, six more airports are up for auction on private public partnership mode, while additional private investment will be invited at 12 airports in a move expected to net ₹13,000 crore for the Airports Authority of India.
- Steps will be taken to ease restrictions on Indian airspace, of which only 60% is currently available. This will save flying time and aviation fuel, leading to a ₹1,000 crore per year benefit for the sector.
- The tax regime is being rationalised to help make India a global hub for aircraft maintenance, report and overhaul.
- Gov promised to create a level playing field for private players in the space sector, allowing them to use ISRO facilities and participate in future projects on space travel and planetary exploration.
- Public-private partnerships will also be introduced in the atomic energy sector, to set up a research reactor for production of medical isotopes and irradiation facilities for food preservation.