

The Science, Indigenous Technology & Advanced Research Accelerator

**To**

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**PMO, South Block, New Delhi, 110011**

Tuesday, 01 October 2024

**SUBJECT: ISSUE OF DOMESTIC PROCUREMENT**

**HON’BLE PRIME MINISTER’S SUCCESSFUL FLAGSHIP ATMANIRBHARTA CAMPAIGN**

Dear Sir,

Greetings on the eve of Gandhi Jayanti. At the outset we wish to commend Government for all the measures it has taken under Hon’ble Prime Minister’s guidance to promote Atmanirbharta, including the stand-out Preference for Make in India (PMI) program which promotes industrial development through increased domestic procurement. By Govt’s own figures - [public procurement is estimated to be 20-22% of GDP, amounting to US$ 500 billion annually](https://pib.gov.in/PressReleasePage.aspx?PRID=1586546#:~:text=Public%20procurement%20as%20a%20percentage,of%20works%2C%20goods%20and%20services.). The stimulus domestic procurement can impart to the economy can propel it past the US$ 5 trillion mark in no time, which is why GoI under Hon’ble Prime Minister’s direction announced PMI as its flagship program.

We are therefore very concerned to see media reports that Government is going to relax domestic procurement rules. We see no domestic imperative **as procurement from genuine Indian companies has demonstrated its potential to accelerate economic development**. The pressure therefore may be emanating from companies availing of Production-Linked Incentives/ parties in FTA negotiations.

**Domestic procurement has already demonstrated that it is India’s most successful Industrial Policy tool.** The following may kindly be noted:

1. **Indian domestic procurement success:** A stellar example of the success of Govt’s procurement policy is the withdrawal of the initial BSNL tender which favoured Chinese companies leading to an Indian consortium winning the tender. This led to greater investment in indigenous R&D and capability development which is why SITARA had campaigned for years to remove Chinese equipment from Govt networks at least, our goal being full indigenisation. Recently Hon’ble Union Minister Shri Jyotiraditya Scindia inaugurated an indigenous Wireless Centre of Excellence and the indigenous Massive MIMO Radio as part of the indigenous 4G/5G stack. *Even western companies apart from Nokia and Ericsson have been unable to accomplish this technological feat, confirming that India has emerged as a global player in a critical infrastructural area - communications.* **This is a matter of national pride, and would not have been achievable unless Govt had implemented domestic procurement.**
2. **Contrast with US and China which both emphasise procurement and massive R&D investment to grow their high-tech industries, not assembly**: several reputed American/ British Economists and experts - Linda Weiss, Vernon Ruttan, Chris Miller (Chip Wars), Fred Block, Mariana Mazzucato etc. - have concluded that even the US State has historically used effective R&D investment *and* *domestic procurement* *policies as the 2 ends of the production process to encourage high-tech industry*. China of course has used these policy tools consistently.
3. **China has rejected external pressure**: [China has therefore resisted EU pressure to open up domestic procurement to foreigners](https://www.scmp.com/news/china/diplomacy/article/3260170/eu-targets-china-medical-technology-market-new-procurement-investigation-tool?utm_medium=email&utm_source=cm&utm_campaign=enlz-china&utm_content=20240424&tpcc=enlz-china&UUID=1ea86255-c09e-4e53-be1a-22c7161b0c87&next_article_id=3260166&article_id_list=3260190,3260211,3260186,3260125,3260183,3260170,3260166,3260157&tc=15). So the EU/UK, which is facing mounting economic, social and political problems, is escalating pressure on India to open up its procurement market.
4. **Relaxing procurement rules to encourage assembly operations is not sustainable in long run:** despite incentives given to companies for local manufacture, there has been no appreciable rise in local value addition (LVA), as [import](https://tradestat.commerce.gov.in/eidb/icnt.asp)/[export](https://tradestat.commerce.gov.in/eidb/ecnt.aspDepartment%20of%20Commerce) figures indicate, and [the share of the manufacturing sector in India’s GDP is the same as in 2013 – 17.3%](https://theprint.in/economy/10-yrs-of-make-in-india-the-manufacturing-sector-is-back-to-where-it-was-in-2013-14/2283732/). Moreover India’s dependence on China for industrial product imports is increasing with China’s share rising to 30% and India’s dependence on [imports from China of Electronics, Telecom and Electrical Products](https://gtri.co.in/gtriFlagshipReportsd.asp?ID=39) is even higher at 38.4%. There are also media reports that US Customs is subjecting Indian exports to greater scrutiny because of their high Chinese import content. For example, displays, memory, chips and camera modules, which constitute over 90% of a smartphone's cost, are all imported, leading to very low LVA. The US is accelerating its decoupling from China so our **incentive schemes must focus on both effective R&D investment and procurement to increase LVA.**

**Conclusion**

**India must not give in to pressure to open up its procurement market just as China has not. Doing so will seriously jeopardise India’s growth prospects, *including by creating jobs and investments in other countries at a time of high unemployment and declining investment in ours*. India too must focus on R&D and procurement *and not assembly* and for this we need to implement policies targeted at increasing Local Value Addition (LVA) immediately:**

1. **Not dilute domestic procurement policy.**
2. **Increase domestic procurement from indigenous companies especially in high-tech critical infrastructure and defence sectors.**
3. **Increased tax incentives for companies buying Indian / indigenous products,**
4. **Tax incentives for R&D investing domestic companies, and**
5. **An expanded Design-Led Incentive (DLI) scheme with more meaningful incentives for local innovation and value addition - to overcome the disabilities of doing business in India.**

**We request Hon’ble Prime Minister and concerned Ministries be informed of the risks of dismantling the excellent domestic procurement policy – an integral component of PM’s flagship Atmanirbharta campaign. Any concession to accommodate foreign companies will weaken indigenous industrial development and ultimately our country, national security and national welfare - with no reciprocal gains, as** [**our experience with current FTAs seems to indicate**](https://www.business-standard.com/economy/news/may-retaliate-if-asean-non-trade-barriers-persist-says-piyush-goyal-124093001065_1.html)**.**

With deep regards,

Smita Purushottam (Amb. Rtd)

Chairperson **SITARA**