

IMPACT OF FDI IN AUTOMOBILE INDUSTRY IN INDIA

V. Lavanya , Dr. D.Pradeep Kumar and Dr. T.Narayana Reddy

Full Time Research Scholar, Department of Management, MITS, Madanapalle – 517325

Department of Management, MITS, Madanapalle- 517325

Head, Department of Management, JNT University, Ananthapur-515002

Corresponding author : lavanya.vennapusa@gmail.com

ABSTRACT

The Foreign Direct Investment in Indian Automobile Industry has opened up new avenues for the development of this important sector of Indian industries. The liberalization of government policies regarding FDI in the automobile industry of Indian automobile Industry was Suzuki. In 1980s this company was admitted into a collective enterprise with Maruti Udyog, a state-run enterprise. The then Indian government accepted this company to get into the Indian automobile market in 1983. In 1991, the government of India liberalized its policies concerning the automobile industry of India Foreign Direct Investment in the automotive industry of India was accepted. In 1993, FDI was also allowed in the passenger car segment of Indian automobile industry. This paper analysis the progress so far made through FDI in Indian automobile industry.

1.INTRODUCTION

International flow of capital is not a new phenomenon. International capital flows have significant latent benefits for economies around the world. Countries with sound economic policies and well functioning institutions are in a better way to reap the benefit of this capital flows. In recent years, India has emerged as favourable location for FDI due to several reasons. The hasty growing economy, comparatively low wages and highly educated are the major contributing factors for this state of affairs. FDI is the process whereby the resident of one country (the home country) acquires ownership of assets for the purpose of controlling the production. Distribution and other activities of a firm in another country (the host country). India has become the centre of attraction for global car makers given the immense opportunity with mid-income masses aspiring to own a car as well as abundance of raw materials and low cost labour. This will attract the attention of many players and flattering FDI policy makes the entry of international players easy into india and they feel india is a hub for small car production. Initially, the automobile industry of India was ruled by national vehicle manufacturer like Premier Automobile and Hindustan Motors. The entrance of foreign automobile companies in the market was restricted by the imposition of high import tariffs and other policies and measures. India has a manufacturing advantage in the automobile sector. Big names like Ford Motor Company, General Motors, GGE Corporation, Nissa-Renault Motors, GE Corporation, Nissan-Renault, VW Group, Honda Motors, and Toyota Motors have set up their manufacturing units in India. Today India can boast of its quality resources which are given below:

- Abundant capital goods
- Brilliant engineering talent
- Low overall cost
- Political stability
- Legal and efficient accounting framework

India is looking forward to developing its auto components industry and pharmaceutical industry which is becoming an influencing factor in the Automobile market. Foreign Direct Investment has already penetrated to be the 4th largest FDI destination in Asia. The automobiles industry is the most dynamic manufacturing sector.

Language strength of English Legal and efficient accounting framework of the country as well. Auto industry in India has grown in skills and lower prices. It can now cater to global markets with quality products. Today, the Indian automobiles manufacturing industry has 11 passenger car manufactures, 12 commercial and utility vehicle, 10 two wheeler manufactures, 12 tractor manufactures and 3 three wheeler manufactures. The first FDI player in the Indian automobile industry was Suzuki. In 1980s this company entered into a joint venture with Maruti Udyog Limited, a state run enterprise. Then the Indian automobile market in 1983. In 1991, the government of India liberalized its policies regarding the automobile industry. FDI in automotive industry was permitted. In 1993, FDI was also allowed in the passenger car segment. FDI Inflows to Automobile Industry have been at an increasing rate as India has witnessed a major economic liberalization over the year in terms of various industries. The automobile sector in India is growing by 18 percent per year. The basic advantages provided by India in the automobile sector include, advanced technology, cost-effectiveness, and efficient manpower. Besides, India has a well-developed and competent Auto Ancillary Industry along with automobile testing and R&D centres. The automobile sector in India ranks third in manufacturing three wheelers and second in manufacturing of two wheelers.

Table.1 Sub sectors of FDI equity inflows in automobile industries

(January 2000 to December 2010)

	Amount of FDI inflows		Percentage with total FDI inflows
	Rupees in crore	US \$ in million	
Heavy Vehicles	6,830.35	1,479.20	1.16
Passenger vehicles	13,516.25	3,008.40	2.37
Auto ancillaries'/Parts	2,857.06	635.44	0.50
Other (transport)	2,768.93	617.47	0.49
Total of above	25,972.59	5,740.16	4.52

Source: SIAM Industry Statistics

Table.2 Automobile Production Trends (in numbers)

Category	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Passanger vehicles	1,209,876	1,309,300	1,545,223	1,777,5583	1,838,593	2,357,411	2,987,296
Commercial vehicles	353,703	391,083	519,982	549,006	416,870	567,556	752,735
Three wheelers	374,455	434,423	556,126	500,660	497,020	619,194	799,533
Two wheelers	6,529,826	7,608,669 7	8,46,666	8,026,681	8,419,792	10,512,903	13,376,451

Total	8,467,853	9,743,503	11,087,997	10,853,930	11,172,275	14,057,064	17,916,035
--------------	------------------	------------------	-------------------	-------------------	-------------------	-------------------	-------------------

Source: SIAM Industry Statistics

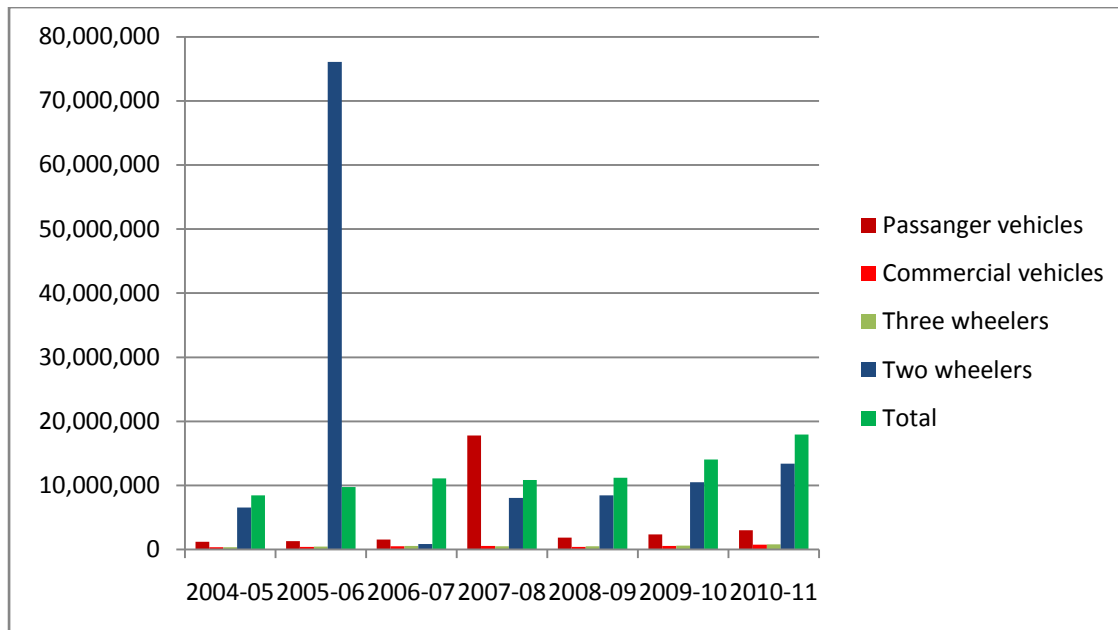


Table.3 Share of top five countries FDI inflows for automobile industries

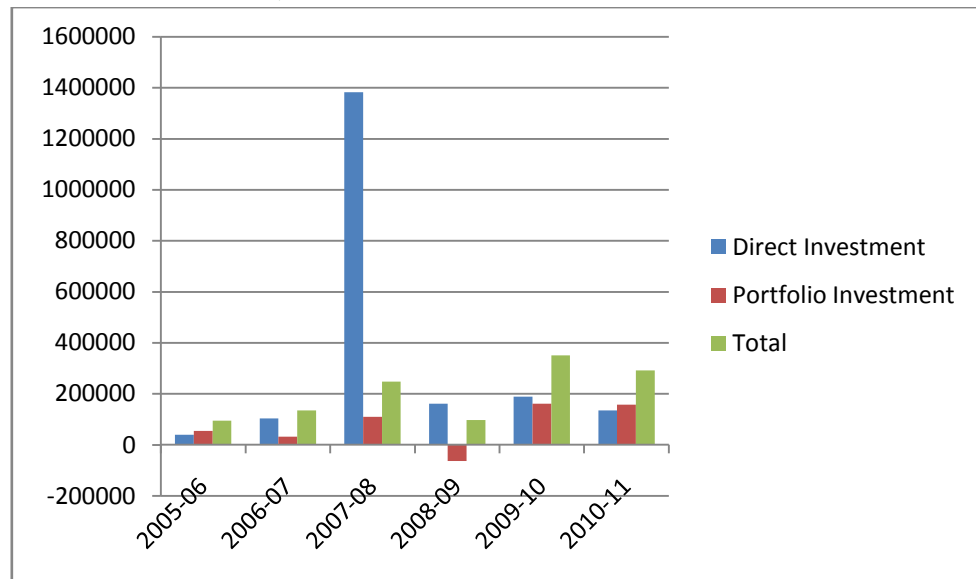
(from January 2000 to 2010)

Ranks	Country	Amount of FDI Inflows		Percentage of FDI Inflows
1	Japan	6,238.92	1,359.69	23.69
2	U.S.A	3,842.17	838.70	14.61
3	Netherland	3,23.15	722.25	12.58
4	Italy	2,715.71	634.04	11.65
5	Mauritius	2,231.16	495.32	8.63
Total of above		18,264.11	4,050.00	70.53

Source: Directorate of Economic & Statistics

Table.4 Foreign Investment Inflows (RS in crore)

Years	Direct Investment	Portfolio Investment	Total
2005-06	39674	55307	94981
2006-07	103367	31713	135080
2007-08	1382276	109741	248017
2008-09	161481	-63618	97863
2009-10	188815	161880	350695
2010-11	135120	157355	292475



II.FDI in automobile industries investment Scenario Cumulative FDI inflows in automobile industry

Cumulative FDI equity inflows received in our economy during January 2000- December 2010 were Rs.568,246.20 crores (US\$ 127.00 billion). Out of this, the amount of FDI inflows in the Automobile industry during January 2000 to December 2010 is Rs. 25,972.59 crores (US\$ 5.74 billion) which is 4.52% of total FDI inflows.

III.AUTOMOBILE PRODUCTION TRENDS

The automobile production trend from 2004-05 to 2010-11 is presented in Table 2. Table results shows that the total automobile production gradually increased from 8,467,853 in 2004-05 to 17,916,035 in 2010-11. It shows an increase of 9,448,182 in absolute terms and 111.57 % in relative terms during the period under study.

IV.TOP FIVE COUNTRIES SHARE OF FDI IN AUTOMOBILE INDUSTRIES

Japan, U.S.A, Netherlands, Italy and Mauritius are the top five countries in the world who makes FDI in automobile industries. These

Five countries altogether contribute 70.56% of the total FDI Inflows in our country. From among nearly 24% of FDI contribution is from Japan. U.S.A contribute 14.61%, 12.58 from Netherlands, 11.05 % from Italy and 8.63 % from Mauritius. Table 3 shows the share of Top five Countries FDI inflows in Automobile industries.

V. FOREIGN INVESTMENT INFLOWS IN AUTOMOBILE INDUSTRY

Table 4 shows the total direct investment and portfolio investment inflows that India attracted during 2005-06 to 2010-11. It is evident from Table 4 that the total investment (direct + portfolio investment) was Rs 94981 crore at 2005-06 which was gradually increased to 292475 crore in 2010-11. In the year 2008-09 Indian economy is growing and considered as third largest economy in terms of public private partnership. Indian economic policy reforms have given tremendous growth in industries, employment opportunities and living standards of the people. It is evident from the present that FDI inflows have shows significant growth in the post liberalization period and the inflows of FDI.

VI. OBJECTIVE OF THE STUDY

The objective of our study is to analyze the current Automobile sector in India, investigate the controversial issues and evaluate the likely challenges and threats of FDI in manufacturing sector with reference to Automobile industry. The specific objectives are:

- To study the FDI policy of Government of India for Manufacturing sector with reference to Automobile industry.
- To analyse the trends of FDI & FIIs in the recent past in developing country like India after economic reforms.
- To study the impact of FDI & FIIs on the efficiency of the manufacturing sector
- To measure the impact of the capital inflows on the performance of the automobile industry.
- To measure the impact of the capital inflows on the performance of the automobile industry
- The study is conducted with the objective of analysing the progress of Indian Automobile Industry through Foreign Direct Investment.

To identify the opportunities and scope for the automobile sector with increasing capital inflows.

VII. SCOPE OF THE RESEARCH WORK

India is the second largest country in the world with a population of over one billion people and India's economy is characterized by wage rates that are significantly lower than those in most developed countries. These two traits combine to make India a natural destination for foreign direct investment (FDI). However, India has attracted only a small share of global FDI, primarily due to Government restrictions on foreign involvement in the economy. But beginning in 1991 and accelerating rapidly since 2000, India has liberalized its investment regulations and actively encouraged new foreign investment, a sharp reversal from decades of discouraging economic integration with the global economy. The FDI in Automobile Industry has experienced huge growth in the past few years and increase the demand of vehicles and auto ancillaries/parts towards gaining of income in India. The automobile industry in India is growing by 18 percent per year. The 100% Foreign Direct Investment (FDI) is allowed in the automobile industry in India. The production level of the automobile sector has increased from 2 million in 1991 to 20 million in 2013 after the participation of global players in the sector.

VIII. DATA BASE AND METHODOLOGY

In pursuance of the above mentioned objective the following methodology was adopted. The present research work is based on secondary data. The secondary data required for the study is collected through the discussion with the officials, official publication of government of India, various publications of RBI, Planning Report and from official web RBI. The present study is based on the objectives like how much amount received from foreign investment to India and to analysis the trend of FDI & FIIs for economic development and how the status of economy has improved after economic reforms. To full fill all above said objectives data has been gathered from secondary sources like reports and publications of the Government and RBI relating to foreign Investment, economic journals, books, magazines and websites etc. Further interviews with the senior managers of the manufacturing sector and the automobile industry would be conducted to analyse the impact which forms the primary data.

IX. Indian auto industry has a positive future

Despite short-term setbacks, the automotive industry in India is looking up.

India's light vehicle market will grow to 5.4 million units by 2020, close to doubling in a little more than five years" India has seen a lot of automotive sector interest in recent years. It is a market with a huge potential for growth, but a China-like market surge is not expected.

Indeed, the economic crisis of 2013 and subsequent slowdown has hurt the automotive industry, which has also been dragged down by slower economic growth, inflation, high interest rates and expensive fuel. Almost 3 million cars were sold in India in 2013. So far this year the market is down 3 per cent compared with June 2013, according to LMC Automotive, a leading provider of automotive production, sales and powertrain forecasts and automotive industry market intelligence. However, stronger sales over the past few months have caused renewed optimism. India is also a substantial auto exporter, with solid export growth expectations for the near future. Looking at the facts, there are ample reasons to be optimistic about the automotive industry's future in India. In April, Narendra Modi's conservative Bharatiya Janata Party won India's national election. Analysts believe this will contribute to a renewed focus on the Indian auto industry. The country, called the world's largest democracy, is also forecasted to see significant GDP growth from 2014 to 2020, while the young and growing population can expect steadily increasing standards of living. Many of the country's citizens have become members of the rising middle class, which allows them to increasingly afford luxury goods, such as cars. There are several reasons to expect the export of cars out of India to increase. The country's geographical position, low wages and skilled workforce make it an ideal location for manufactures to set up production for both domestic sales and export. Some of the largest manufacturers currently doing this are Ford, Hyundai, Nissan and Suzuki. Global information company IHS Automotive forecasts exports to increase from 440,000 units in 2013 to 530,000 units in 2020. Continued weakness in the domestic market could contribute to seeing these forecasts increase as local manufacturers look for other markets to serve. The long-term prospects for India remain promising. Given the size of India's population and future economic growth, incomes will most likely rise. If history is any indicator, a rising urban middle-class will be drawn to car ownership. IHS Automotive forecasts that India's light vehicle market will grow to 5.4 million units by 2020, close to doubling in a little more than five years. Surely, that will be an exciting ride.

X. FDI IN AUTOMOBILE INDUSTRIES INVESTMENT SCENARIO

CUMULATIVE FDI INFLOWS IN AUTOMOBILE INDUSTRY

Cumulative FDI equity inflows received in our economy during January 2000- December 2010 were Rs.568,246.20 crores (US\$ 127.00 billion). Out of this, the amount of FDI inflows in the Automobile industry during January 2000 to December 2010 is Rs. 25,972.59 crores (US\$ 5.74 billion) which is 4.52% of total FDI inflows.

XI. AUTOMOBILE PRODUCTION TRENDS

The automobile production trend from 2004-05 to 2010-11 is presented in Table 2. Table results shows that the total automobile production gradually increased from 8,467,853 in 2004-05 to 17,916,035 in 2010-11. It shows an increase of 9,448,182 in absolute terms and 111.57 % in relative terms during the period under study.

XII. TOP FIVE COUNTRIES SHARE OF FDI IN AUTOMOBILE INDUSTRIES

Japan, U.S.A, Netherlands, Italy and Mauritius are the top five countries in the world who makes FDI in automobile industries. These

Five countries altogether contribute 70.56% of the total FDI Inflows in our country. From among nearly 24% of FDI contribution is from Japan. U.S.A contribute 14.61%, 12.58 from Netherlands, 11.05 % from Italy and 8.63 % from Mauritius. Table 3 shows the share of Top five Countries FDI inflows in Automobile industries.

XIII. FOREIGN INVESTMENT INFLOWS IN AUTOMOBILE INDUSTRY

Table 4 shows the total direct investment and portfolio investment inflows that India attracted during 2005-06 to 2010-11. It is evident from Table 4 that the total investment (direct + portfolio investment) was Rs 94981 crore at 2005-06 which was gradually increased to 292475 crore in 2010-11. In the year 2008-09 Indian economy is growing and considered as third largest economy in terms of public private partnership. Indian economic policy reforms have given tremendous growth in industries, employment opportunities and living standards of the people. It is evident from the present that FDI inflows have shows significant growth in the post liberalization period and the inflows of FDI.

XIV. CONCLUSION

Indian economy is growing and considered as third largest economy in terms of public private partnership. Indian economy policy reforms have given tremendous growth in industries, employment opportunities and living standards of the people. It is evident from the present that FDI inflows have shows significant growth liberalization period and the inflow of FDI into automobile industry enable to make momentous growth in the production in the various automobiles. The present study concludes that FDI inflows in automobile overcome our drawbacks and to make the Indian automobile as prestigious, profitable, successful and sustainable.

REFERENCES

- Automotive Mission Plan 2006 - 2016 by Ministry of Heavy Industries & Public Enterprises, Government of India.
- Foreign Direct Investment flows in Automobile Industry under Manufacturing sector, Department of Industrial Policy & Promotion, Government of India
- Foreign Direct Investment flows in India, Reserve Bank of India, Government of India
- Tarun Kanti Bose (2012) "Advantages and Disadvantages of FDI in China and India", Khulna University, Bangladesh
- **Banga R. (2006), "The export-diversifying impact of Japanese and US foreign direct investments in the Indian manufacturing sector"**
- **Kathuria V. (2002), "Liberalisation, FDI, and productivity spillovers—an analysis of Indian manufacturing firms"**
- Aiyar, S., 2003. The unintended consequences of FDI. The Times of India. 28th June 2010.
- Report of the Committee on Compilation of FDI in India. Reserve Bank of India.(2002).
- Athreye,S., and Kaput. K.2001. Private Foreign Investment in India: Pain or Panacea?. The World Economy. Vol.34.No.3.Hand Book of Statistics of Indian Economy- Various Issues. Reserve Bank of India.
- Reserve Bank of India Bulletin- Various Issues. Reserve Bank of India.
- Aravindan Mukerjee., 1996. The automotive Industry.Indian Institute of Management.

- Website: [www. rbi.org.in](http://www.rbi.org.in)
- <http://www.2wglobal.com/news-and-insights/articles/features/india-auto-industry-has-a-positive-future/#.WHR8jv197VS>

ABOUT THE AUTHORS:

- ¹*V. Lavanya, Research Scholar, Department of Management, JNTUA. She is an experience of 2years in research. She has attended 5workshops and seminars, she has 02 publications in National and international reputed conferences and journals.*
- ²*Pradeep Kumar. D, Professor& Head, Department of Management Studies, MITS, Madanapalle. He has an experience of 28 years in industry and academia and research put together. He is an alumni of S.K. University and life membership in ISTE. He has more than 45 publications in National and International reputed conferences and journals.*
- ³*Narayana Reddy. T, Assiatant Professor& Head, Department of management, JNTU engineering college, JNTUA. He has an experience of 20 years in industry and academia and research put together. He has more than 27 publications in National and International reputed conferences and journals.*