

Analytical Study of Foreign Direct Investment in Indian Automobile Sector

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Abstract:- This research paper focused on the role of FDI in Indian automobile sector & dramatic changes in automobile sector after 1991's open economy policy of Govt. This paper also attempt to splash light on some important aspects such as the journey of Indian Automobile sector from scratch to spectacular progress with combination of foreign technology & Indian talents, growth in direct & indirect employment, economic development of some important aspect in country like GDP as well technology transfer, improvement in R&D through the automobile clusters in country, focusing on potential of Indian automobile sector which is attracting Foreign investment. As well the policy support (Automobile mission plans 2006-16, 2016-2026, NATRiPS, Make in India Mission) by the Central & State Government for establishment of production facilities attracted automakers worldwide. As FDI is key driver not only in terms of inflow of FOREX but changes in the attitude of Government, Customers, & Automakers itself.

Keywords: Foreign Direct Investment, FOREX, Automobile policy, NATRiPS.

I. Introduction

“If There's A Wheel, There's A Way” By fresh quotes

The above quote perfectly describe the need of wheel to conquer the new ways in human life. It take us to ancient times when first wheel was invented. While completing the basic needs human being faced multiple hardships, to overcome from those daily life difficult situations he started searching, inventing multiple things & the biggest milestone in the journey was crossed by invention of wheel, it gives the speedy motion for the development of human life. And today we are getting the fruits of the continuous development due to utility of the wheel.

As the study concerned with FDI in Indian automobile sector, which was under Governments restrictive regulations till 1991 causing the stagnation of whole industry, the protectionism, close door approach towards foreign automakers leads to creation of monopoly of only five automakers in country. But India couldn't resist the pressure of Globalization & allowed FDI in automobile sector through JV & rejuvenate the Indian automobile sector. There was very slow growth pattern seen in Indian automobile sector from 1947 till 1983. The automobile production was limited up to 4077 vehicle per annum in year 1950-51 (GOI 1951) & Now

in 2017 there are 2,53,14,460 vehicles manufactured p.a. this tremendous growth induce researcher to initiate study & find the link between FDI & growth in automobile production & sale in country.

The Entry of Japanese automaker Suzuki in year 1984 in India was a great step taken by the Government of India which was intended to create import substitution. JV of Maruti Suzuki fulfilled the expectations of country by developing the entire automobile sector through its strategic investments in many complementary business functions like those of suppliers and dealers. The JV set the good example of success in auto sector for global car makers, OEM's & induce them to invest in Indian automobile market. This sector called as industry of industries because it has both backward & forward linkage such as tyres tubes, metal, batteries, electrical wirings in car, paints, seats, glass, small auto components & spare parts, as well automobile accessories like music systems, car decoration industry. Some forward linkages like fuel stations, oil industry, automobile service stations, insurance, automobile salesmanship, loan disbursement etc. hence this industry has generated multiple direct & indirect entrepreneur's as well generated millions of employments. Tremendous growth induce researcher to initiate study & find the link between FDI & growth in automobile production & sale in country.

II. Objectives of Study

- I) To review the historical presence, scope & present status of Indian automobile sector.
- II) To identify the pattern of FDI inflow.
- III) To study the Government policies & Automotive mission plans causing positive FDI inflow.
- IV) To enlist the factors attracting FDI in Indian automobile sector.

III. Research Methodology

The country level analysis is conducted on the basis of an extensive secondary data available in the nature of numerous working papers, research articles, FDI statistics provided by DIPP, ACMA, SIAM, IBEF, OECD reports, which focus on problems & prospect for automobile & auto components sector, in various time series, give idea of gaps in the existing literature. Government of India's automobile mission plans 2006 -2016 & recently rolled out plan 2016-26 is studied to identify the changes in policies & aspects of Government towards automobile sector. The special reports of DIPP & Department of Heavy Industries on Make in India, IBEF report in January 2018 used to support the statistical data presented in research paper.

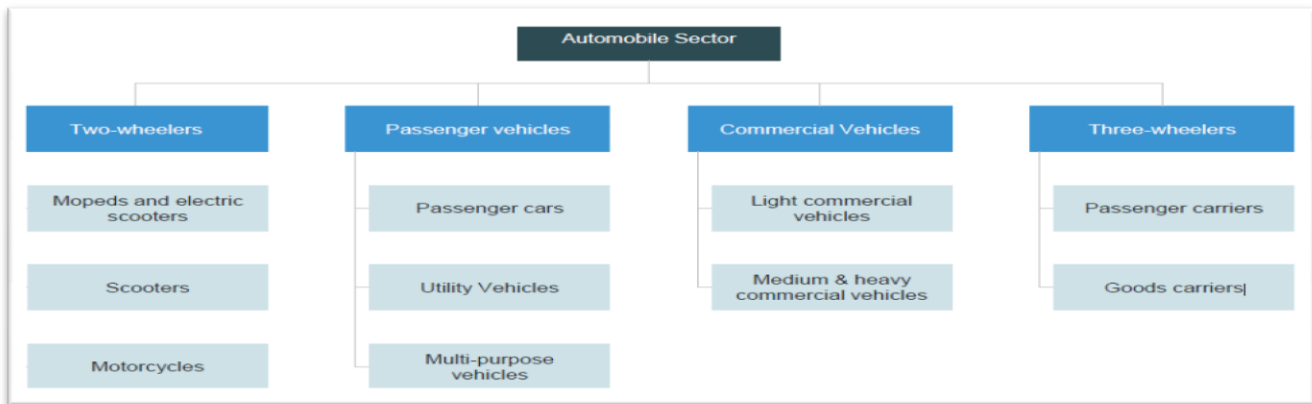
IV. Overview of Indian Automobile sector.

The automobile sector of India is one of the largest in the world and accounts for over 7.1% of India's gross domestic product (GDP). It also contributes to nearly 22% of the country's manufacturing GDP. The sector was first opened to foreign direct investment (FDI) in the year 1991 during the liberalization of the Indian economy and has come a long way since.

Scope of Automobile Sector

The scope of automobile sector comprise the multiple segments of vehicles manufactured by both domestic & foreign automakers as well as some imported vehicles the diagram shown below exhibit the scope of Indian automobile sector. Indian automobile sector classified in four major parts as below.

Figure 1.



Source – IBEF 2018, Aranca Research, Annual Report.

Historical Background of Indian Automobile Sector.

The historical background of automobile industry in India is relate way back to 1898 when first car ran on India's roads in Bombay. General Motor Corporation of USA, Started assembly of Trucks and Cares in 1928 in Bombay. Followed by Canadian Ford Motors started assembly of cars in 1930-31 in three regions Bombay and Madras, Calcutta. Consecutively Hindustan Motors Ltd (HML) was established in 1942 by Birla Group in Kolkata & Premier Automobiles Ltd (PAL) incorporated by Walchand Hirachand Group in Bombay in 1944. TATA groups Telco Founded in 1945 as a manufacturer of locomotives, the company manufactured its first commercial vehicle in 1954 in a collaboration with Daimler-Benz. Thereafter, in 1947 Bajaj started assembly of Auto in its scheme of replacing cyclerickshaw by auto under a license from Piaggio. But all of them able to launch their first vehicles after independence i.e. 1947.

After Independence, the Government of India assumes passenger cars a luxury. In 1953, the Government passed a regulation that only assemblers who have a phased plan to manufacture cars locally, should continue their operations in India & those assemblers don't have such plans should windup their business within three years. The above regulation induce big automobile assemblers like General Motors (GM) and Ford Motor close down their operation in India. And the Automobile sector remains in the hands of few of Indian Automakers crating monopoly in market. Resulted in the license raj, nationalization leads to slow growth in the period of 1950 to 1960s. This step negatively impacted the Indian automobile sector.

After a decade in 1970, the auto industry shown some growth which was mainly driven by tractors, commercial vehicles and scooter. In early eighties there were only five manufacturers who had complete control over the sector. They were, Hindustan Motors, Premier Automobiles and Standard Motors, TELCO, Bajaj Auto. This

picture changes in 1983 with the introduction of JV of Maruti Udyog Ltd & Suzuki Ltd of Japan intended to create import substitution for cars. Suzuki Ltd. focused not only manufacturing of cars but development of auto component industry in country which leads to attract attention of world's major automaker toward India. And the adoption of LPG system in country in 1991 & delicensing automobile sector in 1993 totally change the scenario of Indian automobile sector.

Present status of Indian Automobile sector.

The Indian automobile sector produced a total of 2,53,14,460/- vehicles in year 2016-17 as against 2,40,16,068 in year 2015-16, registering a growth of 5.41% over the same period last year. In addition to that growth our India is also currently the 6th largest market in the world for automobiles and is expected to become the world's third-biggest car market by the year 2020. As per the Automotive Components Manufacturers Association of India (ACMA), the world standings for the Indian automobile sector are as follows:

- Largest Tractor manufacturer
- 2nd largest Two wheeler manufacturer
- 2nd largest Bus manufacturer
- 5th largest Heavy truck manufacturer
- 6th largest Car manufacturer
- 7th largest Commercial vehicle manufacturer

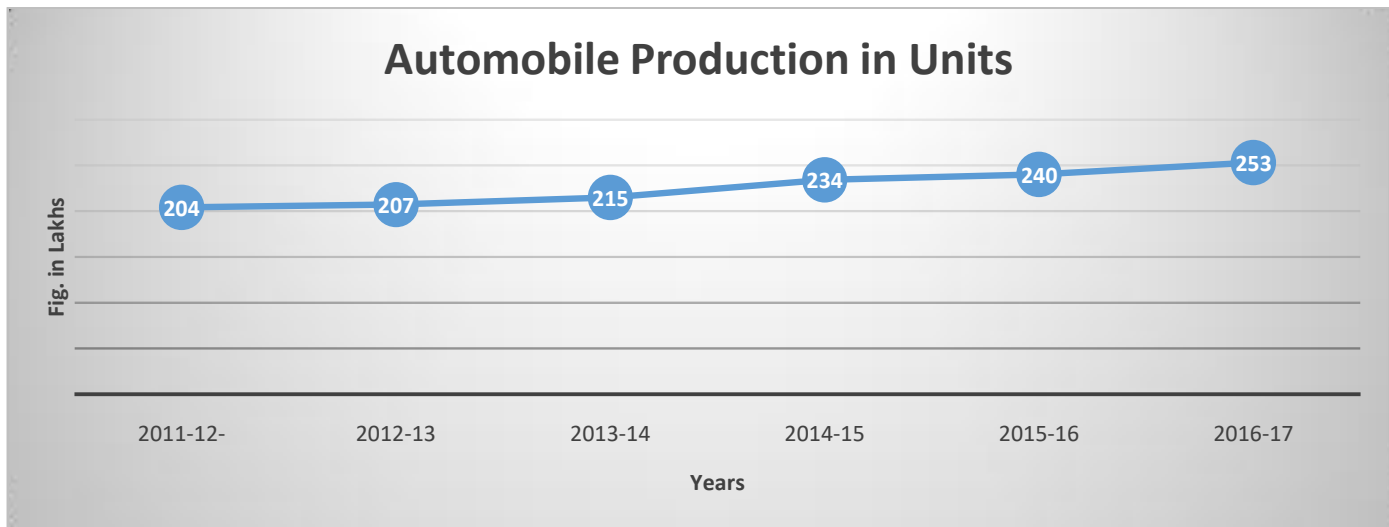
Today, 100% FDI is allowed in the sector through the automatic approval route which means that foreign investors do not require the prior authorization of the Government of India. The impact of this decision can be seen in the data released by Department of Industrial Policy and Promotion (DIPP) published factsheet in February 2018 which states that the industry has attracted FDI worth USD 18.413 billion during the period April 2000 to December 2017.

Thus, it can be reasonably concluded that India has emerged as one of the key global players both as a consumer and a producer in the automobile industry. It has witnessed tremendous growth, especially in the last few years and has become a base for global manufacturers. Volkswagen, Nissan, Renault, General Motors, Ford, Honda, Suzuki, Hyundai, Daimler, BMW, Skoda, Audi are all present in India and are manufacturing and assembling locally. Mercedes-Benz recently decided to make the entry level GLA-class Sport Utility Vehicle (SUV) in India. Japanese two-wheeler manufacturer *Honda Motorcycle and Scooter India (HMSI)* opened its 4th and *world's largest scooter plant in Gujarat* while *Chrysler* has planned to invest *USD 513.5 million in Maharashtra*, to manufacture *Jeep Grand Cherokee model*.

Table 1. Automobile production trends in the last six year's

Sr. No.	Category	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
1	Passenger Vehicles	31,46,069	32,31,058	30,87,973	34,65,045	37,91,540	37,91,540
2	Commercial Vehicles	9,29,136	8,32,649	6,99,035	6,98,298	7,86,692	8,10,286
3	Three Wheelers	8,79,289	8,39,748	8,30,108	9,49,019	9,34,104	7,83,149
4	Two Wheelers	1,54,27,532	1,57,44,156	1,68,83,049	1,84,89,311	1,88,30,227	1,99,29,485
	Grand Total	2,03,82,026	2,06,47,611	2,15,00,165	2,33,58,047	2,40,16,068	2,53,14,460

Source - www.siamindia.com/statistics.

Figure 2.

Source – Generated by Researcher through above table.

The above graphical presentation gives us idea about steady increasing trend of production in Indian Automobile sector. Which signifies that though there are multiple setbacks faced by Indian economy till then growth in Production is continue.

V.FDI in Indian Automobile Sector.

The Automotive Industry in Indian comprises both automobile and the auto component sectors which recorded considerable growth following the delicensing and opening up of the automobile sector to FDI in 1993. The opening of this industry from restrictive environment has, helped in restructuring, absorbing new technologies, & aligning Indian auto sector to the global developments and realize its huge potential with significant increase in industry's contribution to overall industrial growth in the country. The last two decades of the 20th Century witnessed a dramatic world-wide increase in Foreign Direct Investment (FDI). This was accompanied by distinct changes in the attitude of most developing countries towards inward FDI. The Indian automobile Industry evolution was not possible without foreign auto player's presence in India. The current FDI scenario is exhibited as below. The Indian Automotive industry has attracted INR Rs. 1,03,421 Cr. worth of foreign direct investment (FDI) in the period between April 2000 and June 2017. Which accounts

5% of total FDI inflow in Country. This FDI in such a grate proportion attracted due to potential of Indian Automobile sector & liberal Government policies.

Foreign Direct Investment (FDI) is a type of investment in to an enterprise in a country by another enterprise located in another country by buying a company in the target country or by expanding operations of an existing business in that country. In the era of globalization FDI takes vital part in the development of both developing and developed countries. India is the most favourable& growing economy among leading nations in world to attract FDI. Various international institutions have projected India as the most favourable destination for Foreign Direct Investment in the whole World. Our country has identified that FDI is a tool for economic growth through its strengthening of domestic capital, productivity & employment. India has a large population and land size, a diverse culture, and extreme disparities in income, which are marked among its regions. Country has a large reservoir of managerial and technologically advanced talents. Between 30 to 35 percent of the population resides in metro and urban cities and the rest is spread in several semi-urban and rural centres. Above all are the key factors responsible to attract the worldwide MNC's to invest in India in manufacturing sector. The inflow of FDI in India has experienced considerable growth but as compared to other developing nations, India has lagged behind; attracts only about 2% of FDI inflows.

Analysis of Route of FDI Inflow in Indian Automobile sector. -Automatic route:

Government of India heavily promotes foreign investment in the automobile industry by allowing 100 %FDI, under automatic route. The industry is delicensed & allows free import of automotive components. Also, the Indian government does not lay down any minimum investment criteria for this industry. This route does not require any prior approval either by the government or the RBI. Under the existing policy, FDI is permitted up to 100%.

Types of FDI investment in Country.

Following are three types of FDI investment way through which foreign companies invest in host country. As far automobile sector is concern in the pre liberalisation period companies were prefer to enter in Joint ventures to enter in India but after delicensing& liberal policy environment in country majority of automobile companies invested through Green field investment channel.

- i) **Brown field investment** - FDI that involves the purchase of an existing plant or firm, rather than construction of a new plant.
- ii) **Green field investment**– FDI when a company establishes a subsidiary in a new country and starts its own production.
- iii) **Joint venture** - Is an equity and management partnership between the foreign firm and a local entity in the host market.

Table 2. SUB SECTORS OF FDI EQUITY INFLOWS IN AUTOMOBILE INDUSTRY*(From January, 2000 to December, 2016)*

Sub Sectors	Rs crore	US\$ million	%age with total FDI inflows
Automobile Industry	22,746.19	4154.58	1.28
Passenger Cars	39,112.05	7,131.43	2.19
Auto Ancillaries/Parts	19,002.67	3,316.01	1.02
Others (Transport)	10,984.35	2,073.03	0.64
Total	91,845.26	16,675.05	5.13

Table 3. SHARE OF TOP FIVE COUNTRIES ATTRACTING FDI EQUITY INFLOWS FORAUTOMOBILE INDUSTRY*(From January, 2000 to December, 2016)*

Ranks	Country	Rs. crore	US\$ million	Percentage with total FDI inflows for Automobile Industry
1	Japan	26,634.46	4,729.42	28.36
2	U.S.A	11,264.45	2,046.67	12.27
3	Germany	10,684.44	1,866.58	11.19
4	Netherlands	7,539.33	1,459.07	8.75
5	Mauritius	6,614.33	1,233.36	7.40
	Total	62,737.01	11,335.1	67.97

Source -Table No. 6.2.(v) DIPP DATABASE

From the above table published by DIPP presenting data base of FDI inflow in Indian Automobile sector shows the sources of FDI in country. While comparing with the total FDI inflow (Cumulative inflow) since last ten years Mauritius is retain its first stage as top FDI investor in India but in above table first three positions are held by Japan, USA, & Germany so it can be concluded that the technology savvy countries are having interest in Indian Auto market.

The major reasons behind increasing FDI inflow are hardship faced by the foreign automaker has reduced May folds & procedural reduction initiated by Govt. attracting, not only Japanese but the car makers in whole world because India is the second biggest consumer market in the world for automobile industry. The new manpower is more skilled than before. The FDI inflow of Japan is not increase as expected in automobile policy 2002, as reasons are related with the deviation in policy on paper & actual implementation. Though there are number of imperfection in business environment but the achievements of Japanese automakers are milestone & idol for the world which helps to create positive FDI in Indian Automobile industry.

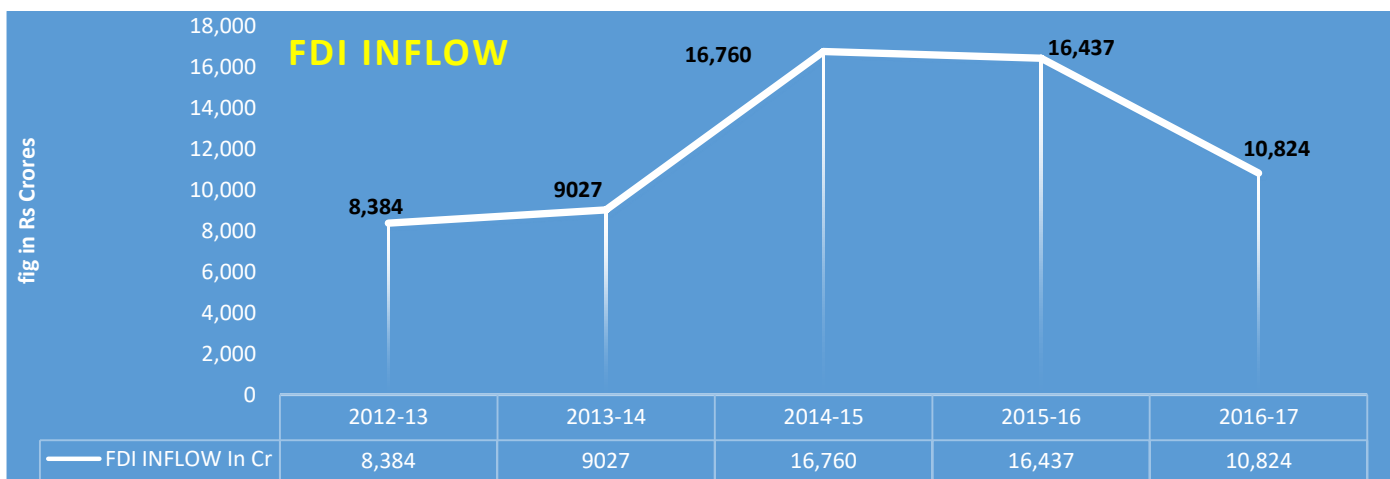
Table 3.PATTERN OF FDI Y INFLOWS IN 6th FIVE YEAR PLAN

Amount in Rs. crores (US\$ in million) in F.Y. (April- March)

S.No	Sector	2012-13	2013-14	2014-15	2015-16	2016-17
1	AUTOMOBILE INDUSTRY	8,384 (1,537)	9,027 (1,517)	16,760 (2,726)	16,437 (2,527)	10,824 (1,609)

(Source :- FACT SHEET ON FOREIGN DIRECT INVESTMENT (FDI),DIPP.nic.in.)

Figure 2. Graphical presentation of Pattern of FDI inflow in Automobile sector in year 2012 -2017.



Source – Generated by Researcher through data.

The line chart shows that the FDI in automobile sector was increasing positively from the year 2012-13 till year 2014-15. FDI in automobile increase by **46 %** in Year 2014-15 which was a dramatic growth but from year 2015 -16 it start declining, in year 2016-17 it reaches 10,824 Cr. Reduce by (**34%**). Reasons behind are global slowdown in automotive sector.

Current Government Policies creating base for Automobile Industry & attracting FDI inflow in Country.

- i) **Auto Policy 2002** – According this policy Government given Automatic approval for foreign equity investment up to 100 per cent without restricting minimum investment criteria.
- ii) **National Automotive Testing and R& D Infrastructure Project (NATRiP)**, - Govt. of India. Through NATRiPs initiative trying to encourage R&D by offering rebates on R&D expenditure. Govt. itself taken initiative to setup of R&D centers at a total cost of USD 388.5 million to enable the industry to be on par with global standards. Country wide nine R&D centers of excellence setup with focus on low-cost manufacturing and product development solutions.

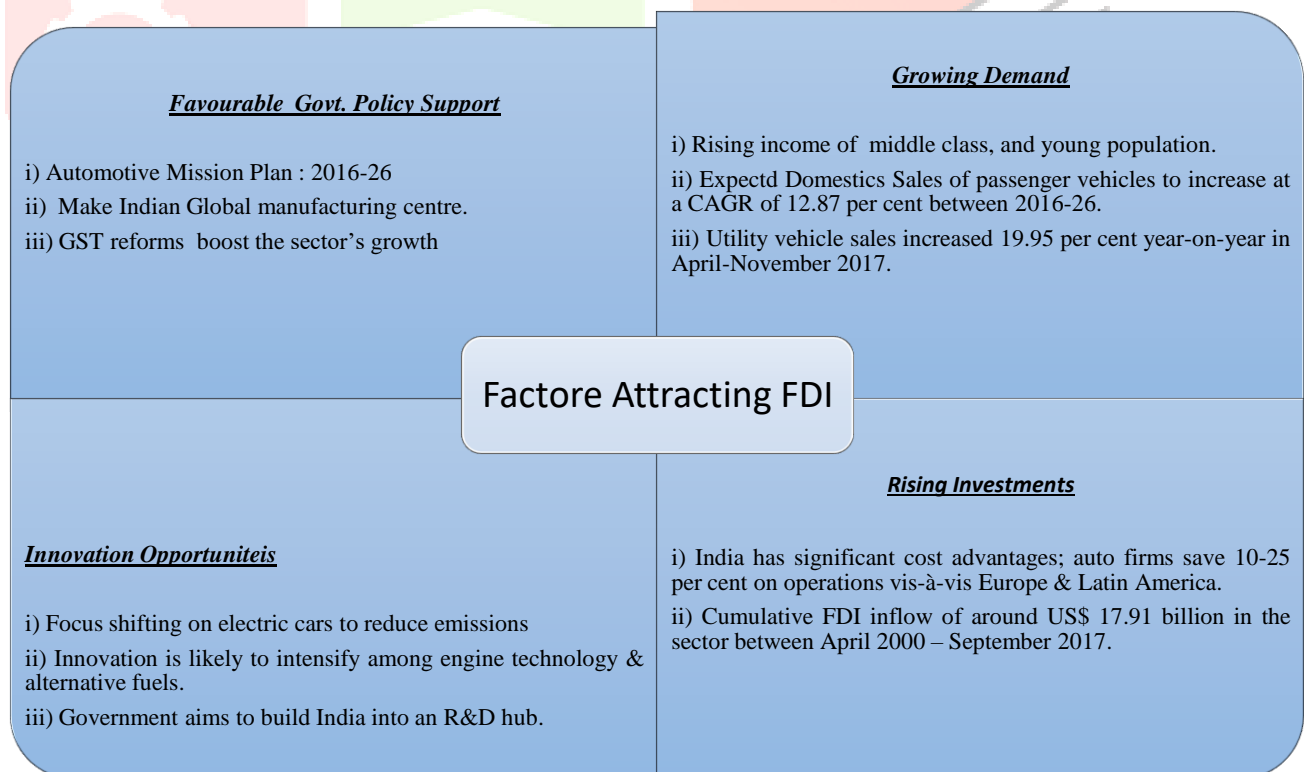
Some NATRiP Centres throughout the country.

- a) Vehicle R&D Establishment (VRDE) - Ahemad Nagar
- b) National Automotive Test Track (NATRAX) - Indore
- c) Automotive Research Association of India – Pune

- d) Chennai Center – Tamil Nadu
- e) Rae Bareli Center
- f) International Center for Automotive Technology (iCAT)- Manesar
- iii) **Automotive Mission Plans:-** Government's Ministry of Heavy Industries & Public Enterprises rolled out Automotive Mission Plan 2006- 2016 & 2016-26 in this two plans. In first plan Government attempted to position India as Global Automobile & Auto components manufacturing hub & in second plan shows clear vision of Government to present country as R&D research hub for global automakers.
- iv) Governments Dept. of Heavy industries & Public Enterprise Worked towards reduction of excise duty on small cars.
- v) **FAME 2020** - To reduce pollution & fuel consumption Government is planning to implement Faster Adoption & Manufacturing of Electric Hybrid Vehicles (FAME) till 2020 which would cover all vehicle segments, all forms of hybrid & pure electric.

Under the scheme, the Government of India is planning to provide grants of up to Rs 105 crore (US\$ 16.33 million) to each of the selected city with population of more than a million, for buying electric buses, cars and three-wheelers in FY18. Additional funds will be provided for charging infrastructure. The Government of India has shortlisted 11 cities in December 2017 to have electric vehicle based public transportation systems under this scheme

This factors can be categories in four classes as below



(Source - Automotive mission plan 2016-26, Make In India, SIA New letter.)

Global players In Indian Market place & their Investments.

Major foreign investments in the sector during April 2014 to March 2016.

S.No.	Foreign MNC	Country	FDI (USD Millions)
1	Ford Motors	U.S.A	979.50
2	SAIC General Motors Investment Limited	China	973.93
3	Suzuki Motor Corporation	Japan	477.61
4	Daimler AG	Germany	389.04
5	Nissan Motor Co. Ltd	Japan	169.20
6	Isuzu Motors Asia Limited	Japan	116.67
7	FCC Co. Ltd.	Japan	95.19
8	Continental Automotive GMBH	Germany	72.53
9	Renault group	Netherland	72.51
10	Caparo India Limited	United Kingdom	56.77
11	Blue Elephant Finance Limited	Mauritius	53.90
12	Showa Corporation	Japan	52.85
13	Lear Automotive Services	Netherlands	49.64
14	MAN Truck & Bus	Germany	42.70
15	Singapore Airlines Limited	Singapore	46.01
16	Distribution & Logistics Infrastructure	Mauritius	35.50
17	Yorozu Corporation	Japan	33.09
18	NHK Spring Co. Limited	Japan	31.31
19	Bussan Automotive Singapore Pvt. Limited	Singapore	29.72
20	Toyoda Iron Works Co Limited	Japan	27.77
21	ValeoBayen	France	22.30
22	Fiat Group Automobiles S.P.A	Italy	48.49

Source - DIPP, Make in India, Automotive Sector Achievement Report 4th Jan 2017

Role of FDI in Auto Sector & Development of Indian Economy.

As per the various researches published by Govt. Dept. & individual researchers it has been identified that Automobile industry is mother of the other manufacturing industries, which crates numerous direct & indirect employment throughout the country. Some important facts & figures published by DIPP'S automotive sector report 2016, are stated below.

- i) Indian Automobile industry contribute 7.1 % of Countries GDP & 49 % of nations manufacturing GDP in year 2015-16.
- ii) Automobile & Auto component Industry directly & indirectly employed 29 million people in country.
- iii) Automobile export is 4.3% of India's total export & auto components export generated forex revenue of INR70,900 Cr.

iv) As there are foreign & Indian automakers are contributing in growth of automobile sector but as stated in above table it can be concluded that due to modern technologies brought by foreign automaker after 1991 leads to prosperity & growth of automobile sector & overall economy through GDP & Employment growth.

Findings

- i) FDI in country is based on favorable government policies.
- ii) FDI in automobile sector generate highest Direct & indirect employment than any other sector in country.
- iii) Automakers worldwide accepted India as crucial global player because of ample availability of skilled labors & OEM's worldwide opened their operations in country.
- iv) Pune automobile cluster attracts highest automakers in India which employs approximately 40 % of total automobile industries workforce.
- v) Japan, USA, Germany are the top three automaker in world as well top three FDI investors in India, in contradictory Mauritius is always leads in total FDI inflow. It shows that FDI in automobile is technology centric.
- vi) The study of FDI pattern shows that automotive sectoral FDI in country was on pick in year 2014-15 at amounting Rs.16,760/- Cr. Then it reduced to Rs. 10,824/- Cr. in year 2016-17 by 34 % due to global economic slowdown in automobile sector.
- vii) Automobile export is 4.3% of India's total export & auto components export generated forex revenue of INR70,900 Cr. In year 2016 Which shows that this sector has to be consider as third major Forex generator in country.
- viii) In terms of economic parameters FDI in Automobile sector accounts approximately 49% of Manufacturing GDP which is highest contribution by a single sector.

Conclusion

This research paper aims to identify the scope of automobile sector, impact of automobile policies on inflow of FDI & growth of automobile sector, pattern of FDI inflow. The observation of the study shows that due to acceptance of liberal attitude toward MNC's in automobile sector, FDI inflow increase may folds which rejuvenate the sector & presented the potential of Indian automobile market to whole globe. India attract highest FDI inflow through Germany, Japan, USA & Netherland which is consider as greenfield investment & most useful investment from point of employment generation & GDP growth.

The automotive mission plan 2006-16 was reached near to objective & FDI inflow trend exhibit that year 2014-15 has highest FDI inflow i.e.16,760/- Cr. in automobile sector. This sector also contributed in export revenue maximization by Rs.70, 900/- Cr. It can be concluded that Govt. of India's Make in India plan gets positive supports through the entry of global automakers & automobile sector become most important sunrise sector in Indian industry.

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