ABSTRACT

Automotive industry is the key driver of any growing economy. It plays a pivotal role in country's rapid economic and industrial development. It caters to the requirement of equipment for basic industries like steel, non-ferrous metals, etc. It facilitates the improvement in various infrastructure facilities like power, rail and road transport. Due to its deep forward and backward linkages with almost every segment of the economy, the industry has a strong and positive multiplier effect and thus propels progress of a nation. This study describes about the detailed way of automobile industry and their influencing factors in FDI challenges and future plans.

Keywords: FDI, Automobile Industry

1.0 INTRODUCTION

FDI in India

Foreign Direct Investment (FDI) 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 India has increased the scope of this industry.

Initially, the automobile industry of India was ruled by national vehicle manufacturers 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. The first FDI player in the Indian automobile industry was Suzuki. In 1980s this company entered into a joint venture with Maruti Udyog, a state run enterprise. The then Indian government permitted this company to enter the Indian automobile market in 1983.
The major foreign players

Ford from USA, DaimlerChrysler AG from Germany, General Motors from USA, Suzuki from Japan, BMW from Germany, Honda from Japan, Renault from France, Hyundai from South Korea, Toyota from Japan

The automobile industry in India is growing by 18 percent per year. The automobile sector in India was opened up to foreign investments in the year 1991. 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 9.7 million in 2006 after the participation of global players in the sector.

1.1 Liberalization and its policies:

In 1991, the government of India liberalized its policies regarding the automobile industry of India. Foreign Direct Investment in the automotive industry of India was permitted. In 1993, FDI was also allowed in the passenger car segment of the Indian automobile industry. The liberalization of governance policies with regard to FDI in Indian automobile industry has resulted in the rapid growth of this industrial sector post 1993.

a) Facts:

At present, India is the world's largest tractor and three-wheel vehicle producer. Second largest two-wheel vehicle producer. The Fourth largest commercial vehicle producer. Eleventh largest passenger car producer.

b) Important Aspects:

FDI up to 100 percent has been permitted under automatic route to this sector, which has led to a turnover of USD 12 billion in the Indian auto industry and USD 3 billion in the auto parts industry. The manufacturing of automobiles and components are permitted 100 percent FDI under automatic route. The automobile industry in India does not belong to the licensed agreement. Import of components is allowed without any restrictions and also encouraged.

At present, there are 15 manufacturers of passenger cars and multi-utility vehicles, 9 manufacturers of commercial vehicles, 16 of two/three wheelers and 14 of tractor, besides 5 manufacturers of engines. The norms for foreign investment and import of technology have also been liberalized over the years for manufacture of vehicles.

c) Production:

According to the Society of Indian Automobile Manufacturers, the Indian automobile industry has reached double-digit growth for the past three years in a row. In 2006, the industry produced 10.9 million vehicles, an increase of 16.22% over 2005. In 2005, production grew 14.5% over the previous year. The production of the automotive industry is expected to achieve a growth rate of over 20 per cent in 2006-07 and about 15 per cent in 2007-08.

d) Exports and Imports:

The cumulative annual growth rate of automotive exports during the period 2000-01 to 2005-06 was 32.92 per cent. Exports during 2006-2006 and 2007-2008 are expected to grow over 20 per cent. Europe is the biggest importer of cars from India, while African nations largely account for the import of buses and trucks. China is most recently making
inroads into this market. The South-East Asian region is the prime destination for Indian two wheelers.

e) Sales and investment:

Passenger Vehicles: Growth in sales of passenger vehicles was 18.45% in 2006. This was almost three times the growth witnessed in 2005. Sale of passenger cars expanded by 20.0%. Export of passenger vehicles increased by 12.9% , Utility Vehicles: 12.4% Two-wheelers, commercial vehicles and three-wheelers: Export growth at a rate of 24%, 26% and 72% respectively.

f) Auto Components:

This industry grew by over 28 percent between 1995 and 1998, and has been sustaining double digit growth, clocking 16 percent in 2004-05, and 15 percent in 2005-06. The Indian auto component industry is quite comprehensive with around 500 firms in the organized sector producing practically all automotive components; there are more than 10,000 firms total. India’s component industry now has the capability to manufacture the entire range of auto-components, for example, engine parts, drive, transmission parts, suspension and braking parts, electrics, body and chassis parts, equipment, etc

2.0 THE INDUSTRY’S CHALLENGE

a) Even though the automotive industry is robust, car manufacturers are complaining that the government's frequent change in policies is not encouraging the industry.

b) Changing the policies and guidelines frequently severely hurts the companies’ plans. It also affects investment decisions in the country

c) The future challenges for the Indian auto industry in achieving the targets defined in the Automotive Mission Plan would primarily consist of developing a supply base in terms of technical and human capabilities, achieving economies of scale and lowering manufacturing costs, as well as overcoming infrastructural bottlenecks. It also involves stimulating domestic demand and exploiting export and international business opportunities.

3.0 Future Plans:

The Government has prepared a ten-year Automotive Mission Plan (AMP) to draw a future plan of action and remove obstacles in the way of competition, such as that required infrastructure be put in place well in time to alleviate its constraining impact on the growth.

The plan envisages a tax holiday for the industry on investments exceeding $225,000, 100% tax deductions of export profits, and deductions of 50% on foreign-exchange earnings. It also calls for a one-stop clearance for foreign-direct-investment proposals in the sector and deductions of 30% of net income for 10 years for new industrial undertakings.

3.1 Opportunities:

There is also a boom in auto ancillary companies. India is an attractive outsourcing destination for global auto companies because of its strong engineering skills and low costs. Sourcing parts from India is 10-20% cheaper for US auto makers and
about 50% cheaper for their European counterparts. Establishing Engineering Centers, Two Wheeler Segment, Exports, Establishing Research and Development Centers, Heavy truck Segment, Passenger Car Segment

4.0 FINDINGS

In India, automotive is one of the largest industries showing impressive growth over the years and has been significantly making increasing contribution to overall industrial development in the country. Presently, India is the world's second largest manufacturer of two wheelers, fifth largest manufacturer of commercial vehicles as well as largest manufacturer of tractors. It is the fourth largest passenger car market in Asia as well as a home to the largest motor cycle manufacturer. The sector has shown great advances in terms of development, spread, absorption of newer technologies and flexibility in the wake of changing business scenario.

1. The automobile sector recorded growth of 13.56% in 2006-07.
2. During the year 2007-08 (April-December), the industry decelerated at 3.49%.
3. The automobile exports crossed the US$ 1 billion mark in 2003-04 and increased to US$ 2.76 billion in 2006-07. The industry exported 15% of its passenger car production in 2006-07, 10% of commercial vehicles production, 26% three wheelers and 7% two wheelers.
4. During the year 2006-07, the auto component industry continued its high growth path and emerged as one of the fastest growing sector in Indian engineering industry by clocking 21% growth in output during the year.
5. Investment in the industry also grew by over Rs. 4500 crore during the year as the industry continued to invest in capacity enhancements and new Greenfield sites to cope with the increasing demand. The auto component industry’s export growth was 15% in 2006-07.

5.0 CONCLUSION

In order to further accelerate and sustain advancements in the auto sector, the department has undertaken several policy measures and incentives. The most important being the announcement of the 'Auto Policy' of 2002, which aims to establish a globally competitive automotive industry in India and double its contribution to the economy by 2010. The policy seeks to set out the direction of growth for the sector and promote R&D therein so as to ensure continuous technology upgradation as well as building up of better designing capacities. It emphasizes on low emission fuel auto technologies and availability of appropriate auto fuels in order to take auto manufacturing to a self-sustaining level.

Besides, the announcement of 'Automotive Mission Plan' for the period of 2006-2016 is a major step taken to make India a global automotive hub. The Mission Plan aims to make India emerge as the destination of choice in the world for design and manufacture of automobiles and auto components, with output reaching a level of US$ 145 billion (accounting for more than 10% of the GDP) and providing additional employment to 25 million people by 2016. The Mission seeks to oversee the development of the automotive industry, that is, the present scenario of the sector, its broad role in the
growth of national economy, its linkages with other key facets of the economy as well as its future growth prospects. This is involved in improving the automobiles in the Indian domestic market, providing world class facilities of automotive testing and certification as well as ensuring a healthy competition among the manufacturers at a level playing field.

6.0 REFERENCES

2. CCEA Okays proposal to ease FDU norms, Business line FEB 12, 2009.
3. Change in FDI norms will help forge closer alliance, say retailers, business line, Feb 15, 2009.
4. FDI in retail to come with riders, the fixtures of India, July 25, 2007.
6. Retail FDI may now come in three phases, the Economic Times, Dec 31, 2007.
8. Wholesale FDI in retail, biasness line, June 4, 2009.