



Role of Foreign Direct Investment – FDI: in the growth of Automobile Industry in India

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Abstract

FDI has an important contribution in the growth of a developing country. It is essentially through an investment in equity or starting a subsidiary company, technology transfer with managerial skills and applying improved management methods leading to cost reduction and may lead to increase in productivity. In mid 80's world over few countries allowed inward FDI for economic development and in 1991 India needed foreign investments to accelerate economic growth. This can also trigger in other areas in the developing economy like India. Automobile Industry is one of the key roles played in GDP factor of Indian economy. This paper will give details on the FDI and in-relation to the development of production and export of Automobiles in India for the last decade – 2001 - 02 to 2011 - 12. Automotive Mission Plan 2006-16 and vision 2020.

Keywords: FDI, AUTO POLICY 2002, ACMA, automobiles – production, sales and exports.

Introduction

The automobile industry in India is one of the largest industries and a key sector of the economy. It is in fact the 'industry of industries' as it has considerable forward and backward linkages. Foreign Direct Investment (FDI) in automobile sector has made a significant contribution to the growth in this sector specific and also developments and growth in the other related industries, like, metal, paint, electrical / electronic gadgets, tube and tyre, auto components and original equipment manufacturers (OEM's) for the manufacturers and aftermarket; is a significant development in this sector.

Since independence (1947) to the FY 2012-13 (till October '12) – automobile industry in India has grown reasonably well, more developments took place only after 1993. In 1950 the production was meagre 4000 vehicles and this production figure in financial year ending 2012 has grown to over 20 million vehicles with industry gross annual turnover of 10,620 million USD in the financial year 2001-02 to 58,583 million USD in the financial year 2011-12 against the projected target¹ of 75,300 million USD.

In India, the Automobile industry was regulated like all other industries and investors needed to obtain license and also there was quantitative restrictions till late 1970's with only four principal manufacturers existed that time. There were few relaxations in the industrial regulations in early 80's. Major economic reforms in early 90's have greatly influenced the developments to the industry in general and specifically to the automobile industry – but despite opening up the economy with liberalizations and relaxing regulations; India is far lagging behind China in the quantum of FDI inflows.

The FDI in India was started with changes in industrial policy (named as New Industrial Policy – NIP)² which was announced on 24th July 1991. This policy abolished industrial licensing system for all industries with exception made for strategic and environmental concerns.

In general, FDI inflows can be corroborated by any or combination of the following reasons: i. To take advantage of technology and managerial, financial or marketing strengths to enter or to expand into specific foreign markets, ii. To take advantage of attractive government policies and relaxed regulations in establishing institution (green filed or in equity stake in the existing unit or as a 100% subsidiary) iii. To make use of natural resources by employing specialized and technologically sophisticated methods iv. To exploit low-wage and high skilled labour force

Automobile Industry

Post-liberalization, the Government of India's new automobile policy announced in June 1993 contained measures, such as delicensing (passenger car), automatic approval for foreign holding of 51% in Indian companies, abolition of phased manufacturing programme (PMP), reduction of excise duty to 40% and reducing import duties of CKD to 50% and of CBU to 110%, and commitment to indigenization schedules.

The last two decades of the 20th Century witnessed a dramatic world-wide increase in Foreign Direct Investment (FDI)³. This was accompanied by distinct changes in the attitude of most developing countries towards inward FDI. The Indian automobile Industry evolution (influencing Foreign Direct

Investment – FDI inflows) can be explained by the following three major phases; in which there are various policy changes influencing in the growth of this industry.

The first phase is during early 80's to 1995 – establishment of Maruti Udyog and having MOU and Investment with Suzuki (Japan), entry of Japanese two wheelers (namely, Honda, Yamaha and Suzuki), de-licensing in 1993, decreasing customs and excise duties and Maruti brand established as market leader.

The second phase is from 1995 to 2002 and one of the prime reasons for growth of this automobile industry in India – Market opening for international players, increased competitions, translating from sellers to buyers market (a beginning), market segmentation, focusing on environmental concerns (pollution controls), developments in technology and improvements in service networks.

The third phase (2002 onwards) is another step in historic developments... unique by itself because of implementation of AUTO Policy 2002 which has revolutionized the growth of Indian Automobile Industry.

The AUTO POLICY⁴ vision is to establish a globally competitive Automotive Industry in India and to double its contribution to the Indian economy by 2010.

The Policy aims to promote integrated, phased, enduring and self-sustained growth of the Indian Automotive Industry and the objectives are to: i. Exalt the sector as a lever of industrial growth and employment and to achieve a high degree of value addition. ii. Promote a globally competitive automotive industry and emerge as a global source for auto components iii. Establish an international hub for manufacturing small, affordable passenger cars and a key centre for manufacturing Tractors and

Two-wheelers in the world; iv. Ensure a balanced transition to open trade at a minimal risk to the Indian economy and local industry; v. Conduce incessant modernization of the industry and facilitate indigenous design, research and development; vi. Steer India's software industry into automotive technology; vii. Assist development of vehicles propelled by alternate energy sources; viii. Development of domestic safety and environmental standards at par with international standards.

The quantitative restrictions (QRs) were removed from 01-04-2001 and this policy placed import of capital goods and automotive components under open general licence (OGC), but restricted import of cars and automotive vehicles in Completely Built Unit (CBU) form or in Completely Knocked Down (CKD) or in Semi Knocked Down (SKD) condition. Car manufacturing units were issued licences to import components in CKD or SKD form only on executing a Memorandum of Understanding (MOU) with the Director General Foreign Trade (DGFT).

The following table gives the contribution to Automobile Sector ranking 8 in terms of value of investments, that is, 34, 875 (rupees in crore) in total and percentage being 4.0% of the total FDI inflows from April 2000 to October 2012. The automobile industry is one of India's major sectors; accounting for 22% of the country's manufacturing GDP in the year FY 2010-11.

Observation: There is steady contribution of FDI in Automobile sector growth. In the FY 2007-08 the growth is by 45% and maximum being in FY 2009-10 by 58% in automobile sector but the total FDI inflow is on the negative side by 17%. The cumulative inflow in FDI from April 2000 to October 2012 is 8, 55,433 crore and within this automobile sector is 4.0%, in value terms is 34,875 crore.

Table-1
Financial year-wise Foreign Direct Investment Inflows

Financial Years 2007 - 12 {April - March}	FDI Inflows (Total)		% growth over previous year (in terms of US \$)	FDI Inflows in Automobile Sector		% growth over previous year (in terms of US \$)
	In ` crores	In US\$ million		In ` crores	In US\$ million	
2007-08	98,642	24,575	(+) 97 %	2,687	675	(+) 45%
2008-09	142829	31396	(+) 28 %	3,401	782	(+) 16%
2009-10#	123120	25834	(-) 18 %	5,893	1,236	(+) 58%
2010-11#	97230	21383	(-) 17%	5,864	1,299	(-) 5%
2011-12#	165146	35121	(+) 64%	4,347	923	(-) 29%
2012 – 13# (April - October 2012)	80,427	14,788	NA* as data is only for 8 months in FY 2012-13	4,089	743	NA* as data is only for 8 months in FY 2012-13

Source⁵: As per DIPP's FDI database – Fact Sheet on Foreign Direct Investment - page 4. Note: FDI inflows received through FIPB/SIA + RBI's Automatic Route + Acquisition of existing shares only # Figures for the years 2009-10, 2010-11, 2011-12 and 2012-13 are provisional subject to reconciliation with RBI. NA* - Not Applicable.

Table-1 (a)
Foreign Direct Investment Inflows

Financial Years	FDI Inflows (Total)		FDI Inflows in Automobile Sector	
	In crores	In US\$ million	In crores	In US\$ million
Cumulative from April 2000 to October 2012	8,55,433	1,85,769	34,875	7,501

Source⁵: As per DIPP's FDI database – Fact sheet on Foreign Direct Investment

Table-2
Share of top investing countries FDI equity inflow, indicated figure is amount in rupees crores (US \$ in millions)

Country	2010-11	2011-12	2012-13 (Till October '12)	CUMULATIVE TOTAL (from April 2000 to October 2012)	% to total inflows (in terms of US \$)
Mauritius	31,855 (6,987)	46, 710 (9,942)	36, 779 (6,757)	3, 26, 250 (70, 926)	38%
Singapore	7,730 (1,705)	24, 712 (5257)	6,828 (1,248)	84, 416 (18, 401)	10%
U.K	12,235 (2,711)	36, 428 (7874)	3,251 (611)	77, 912 (17080)	9%
Japan	7,063 (1,562)	14,089 (2,972)	8, 398 (1,526)	66, 249 (13, 839)	7%
USA	5,353 (1,170)	5,347 (1115)	1,760 (323)	49,649 (10,887)	6%
Netherlands	5,501 (1,213)	6,698 (1,409)	5,717 (1,058)	38,041 (8, 167)	4%
Cyprus	4,171 (913)	7,722(1587)	1,620 (299)	31,290 (6, 699)	4%
Germany	908 (200)	7,452 (1622)	2,445 (448)	23,273 (5,068)	3%
France	3,349 (734)	3,110 (663)	2,256 (456)	15,833 (3,383)	2%
UAE	1,569 (341)	1,728 (353)	620 (112)	10,941 (2,355)	1%
Total FDI Inflows*	97,320 (21383)	1,65,146 (35121)	80,427 (14,788)	8, 55, 453 (1,85,766)	

* Includes inflows under NRI schemes of RBI, Source⁵: As per DIPP's FDI database – Fact Sheet on Foreign Direct Investment, Note: FDI inflows received through FIPB/SIA + RBI's Automatic Route + Acquisition of existing shares only.

Analysis: The total FDI inflows is maximum in the FY 2011-12 comparing with all other financial years and notably the maximum inflow (38%) is from Mauritius for all the financial years because of **DTAA** (Double Taxation Avoidance Agreement)², that is, if the entity is a resident in India, it will be Taxed under Indian Tax laws, if it is a resident of Mauritius, it will be taxed under the tax laws of that country. India needs to examine the taxation agreements with other countries to attract more FDIs from all other countries. The next highest FDI inflow is from Singapore being 84,416 crores which is 10% of Total FDI inflows from April 2000 to October 2012. Japan is figuring in the fourth rank.

The automobiles sector essentially is divided into four segments – i. two-wheelers (mopeds, scooters, motorcycles, electric two-wheelers), ii. passenger vehicles (passenger cars, utility vehicles, multi-purpose vehicles) iii. commercial vehicles (light and medium-heavy vehicles) iv. three wheelers (passenger carriers and good carriers).

As per the Confederation of Indian Industry⁶ this sector currently employs 787, 7702 people, 58 percent of them are in the passenger car segment and the world standings for the Indian automobile sector is i. Largest three-wheeler market ii.

Second largest two-wheeler market iii. Tenth largest passenger car market iv. Fourth largest tractor market v. Fifth largest commercial vehicle market and vi. Sixth largest bus and truck segment.

Automobile Production

The cumulative production data for April-March 2011 shows production growth of 27.28 percent over same period last year. The industry produced 17,892,409 vehicles of which share of two wheelers, passenger vehicles, three wheelers and commercial vehicles were 75 percent, 17 percent, 4.5 percent and 4.25 percent respectively.

The data indicated above taking base as 2001-02 figure as 100, there is a marked improvement in the production relating with Passenger Vehicles – within that comprising of Passenger cars, Utility Vehicles and Multi- purpose Vehicles. This is an indication of development in this sector after Auto Policy 2002. The Passenger Car segment has grown by leaps and bounds mainly because of purchasing power, variety of cars (segmenting as per the income and social status) and lastly the auto-finance facility.

Table-3
Production Trends - Base Year 2001-02 (100) Indexing

Category	Number of Vehicles	2001-02	2007-08	2008-09	2009-10	2010-11	2011-12
Passenger Vehicles		669719 (100)	1777583 (265)	1838593 (275)	2357411 (352)	2982772 (445)	3123528 (466)
Commercial Vehicles		162508 (100)	549006 (338)	416870 (257)	567556 (349)	760735 (468)	911574 (561)
Three Wheelers		212748 (100)	500660 (235)	497020 (234)	619194 (291)	799553 (376)	877711 (413)
Two Wheelers		4271327 (100)	8026681 (188)	8419792 (197)	10512903 (246)	13349349 (313)	15453619 (362)
Grand Total		5316302 (100)	10853930 (204)	11172275 (210)	14057064 (264)	1,78,92,409 (337)	20,366,432 (383)

Source⁷: Data from Society of Indian Automobile Manufacturers (SIAM) and self constructed

Production Growth

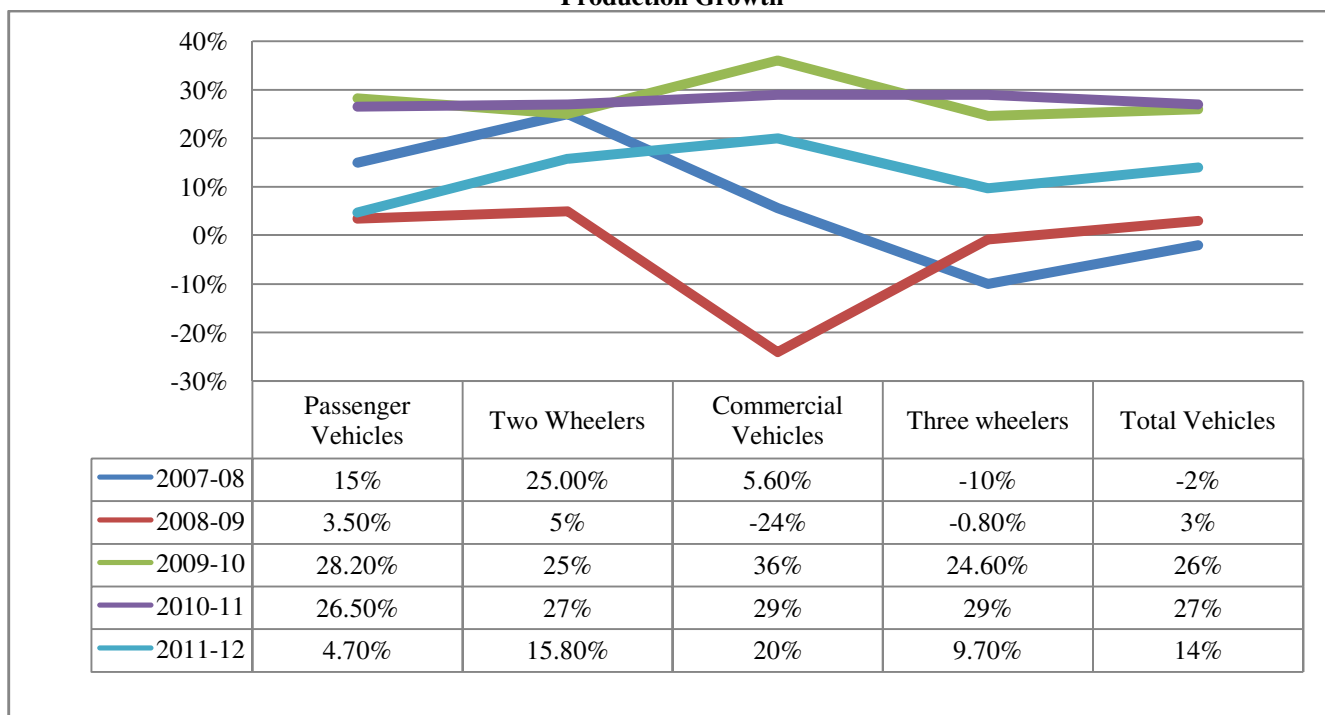


Figure-1
Production trends FY on FY as per table 3.0

Observation: There is a fall in Production and Sales in the year 2008-09 due to recession in USA and Europe. As compared to 2006-07, in the FY 2007-08 there is fall in production in two-wheelers by 5.2% which lead to over all grand total less by 5%.

The cumulative production data for April-March 2012 shows production growth of 13.83 percent over same period last year. In 2011-12, the industry produced 20,366,432 vehicles of which 76 percent share is of two wheelers, 15.6 percent is passenger vehicles, three wheelers 4.3 percent and commercial vehicles were 4.5 percent

As per the figure above calculated from the production figures of table 3.0, there is a maximum decrease in Commercial Vehicle production by 24% in the year 2008-09. As indicated in the table 1.0 the FDI investments in Automobile sector in FY 2008-09 and 2009-10 has increased substantially and that led to increase in production in the FY 2009-10 and 2010-11 in all the categories – Passenger Vehicle, Two Wheelers, Commercial Vehicle, Three Wheelers.

The total vehicles growth in FY 2007-08 is on negative by 2% and marginal increase in FY 2008-09 by 3% because of economy recession in Europe.

Table-4
Domestic Sales Trend – Base Year 2001-02 (100) Indexing

Category	Number of Vehicles	2001-02	2007-08	2008-09	2009-10	2010-11	2011-12
Passenger Vehicles		675116 (100)	1549882 (229.6)	1552703 (230)	1951333 (289)	2501542 (371)	2618072 (388)
Commercial Vehicles		146671 (100)	490494 (334.5)	384194 (262)	532721 (363)	684905 (467)	809532 (552)
Three Wheelers		200276 (100)	364781 (182)	349727 (175)	440392 (220)	526024 (263)	513251 (256)
Two Wheelers		4203725 (100)	7249278 (172)	7437619 (177)	9370951 (230)	11768910 (280)	13435769 (320)
Grand Total		5225788 (100)	9654435 (185)	9724243 (186)	12,295,397 (235)	15,481,381 (296)	17,376,624 (333)

Source⁷: Data from Society of Indian Automobile Manufacturers (SIAM) and self constructed

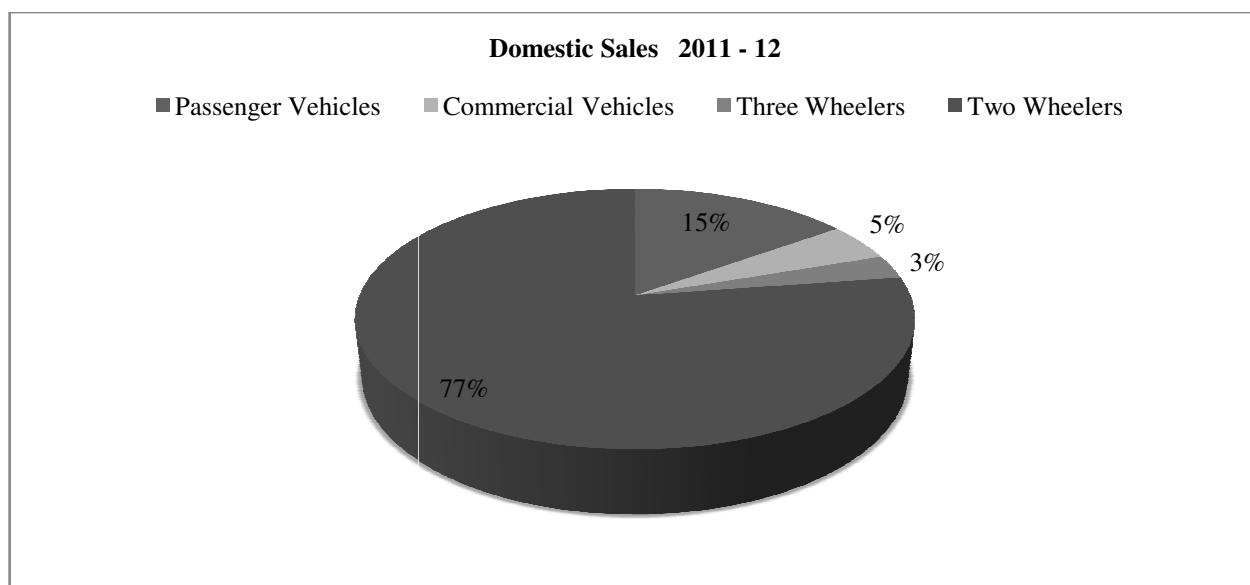


Figure-2
Pie Chart – Automobile Domestic Sales for the FY 2011-12

Automobile Domestic Sales

Analysis: The growth rate recorded for Domestic Sales for 2010-11 was 25.9 percent amounting to 15,481,381 vehicles.

The growth rate for overall domestic sales for 2011-12 was 12.24 percent amounting to 17,376,624 vehicles. Passenger Vehicles segment grew at 4.66 percent during April-March 2012 over same period last year – comprising of Passenger Cars grew by 2.19 percent, Utility Vehicles grew by 16.47 percent and Vans by 10.01 percent during this period.

The overall Commercial Vehicles segment registered growth of 18.20 percent during April-March 2012 as compared to the same period last year. In this segment Medium and Heavy

Commercial Vehicles (MandHCVs) registered a growth of 7.94 percent; Light Commercial Vehicles grew at 27.36 percent. Three Wheelers sales recorded a decline of (-) 2.43 percent in April-March 2012 over same period last year. While the Goods Carriers grew by 6.31 percent during April-March 2012, Passenger Carriers registered decline by (-) 4.50 percent.

Total Two Wheelers sales registered a growth of 14.16 percent during April-March 2012 -- Mopeds, Motorcycles and Scooters grew by 11.39 percent, 12.01 percent and 24.55 percent respectively.

There is a steady increase in the sales of Passenger Vehicles as shown in the figure-3. The maximum increase is in the FY 2010-11 as compared with FY 2008-09, which is by 62% app.

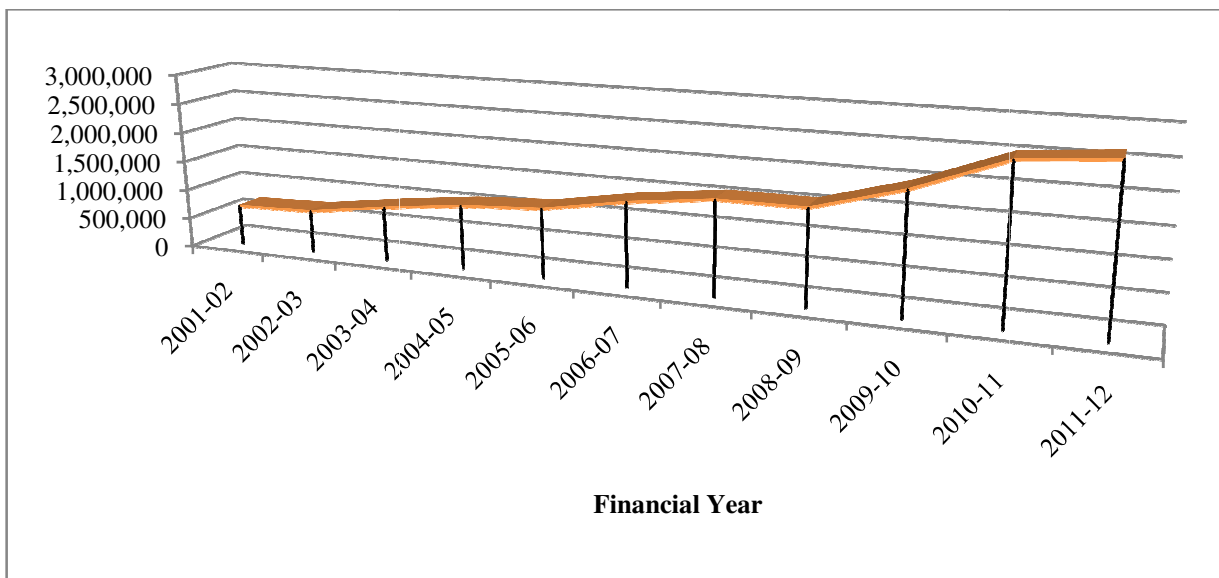


Figure-3
Passenger Vehicles sales trend from 2001-02 to 2011-12

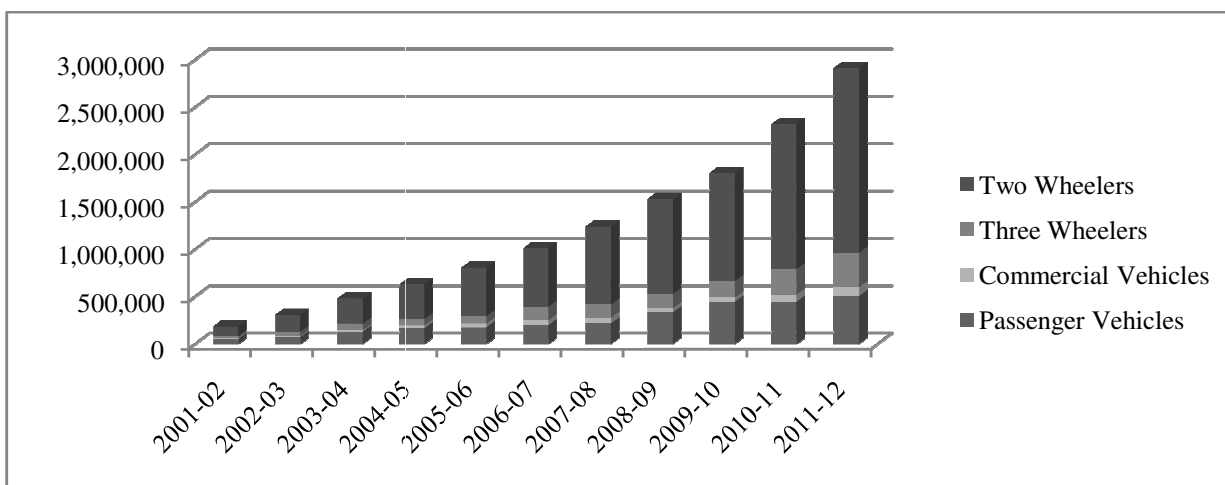


Figure-4
Growth in Automobile Exports

Table-5
Exports Trend – Base Year 2001-02 (100) Indexing

Category	Number of Vehicles	2001-02	2007-08	2008-09	2009-10	2010-11	2011-12
Passenger Vehicles		53165 (100)	218401 (411)	335729 (632)	446145 (840)	444326 (836)	507318 (954)
Commercial Vehicles		11870 (100)	58994 (497)	42625 (360)	45009 (379)	74043 (624)	92663 (781)
Three Wheelers		15462 (100)	141225 (913)	148066 (958)	173214 (1120)	269968 (1746)	362876 (2347)
Two Wheelers		104183 (100)	819713 (787)	1004174 (964)	1140058 (1094)	1531619 (1470)	1947198 (1869)
Grand Total		184680 (100)	1238333 (670)	1530594 (829)	1804426 (977)	2319956 (1256)	2910055 (1576)

Source⁷: Data from Society of Indian Automobile Manufacturers (SIAM) and self constructed

Automobile Exports

Analysis: During April-March 2011, overall automobile exports registered a growth rate of 28.6 percent. Passenger Vehicles registered marginal growth at 1.64 percent in this period. Commercial Vehicles, Three Wheelers and Two Wheelers segments recorded growth of 69.51 percent, 55.86 percent and 35.04 percent respectively during April-March 2011.

During April-March 2012, the industry exported 2,910,055 automobiles registering a growth of 25.44 percent. Passenger Vehicles registered growth at 14.18 percent in this period. Commercial Vehicles, Three Wheelers and Two Wheelers segments recorded growth of 25.15 percent, 34.41 percent and 27.13 percent respectively during April-March 2012. For the first time in history car exports crossed half a million in a financial year. The dominating part of exports is in Three Wheelers followed by Two Wheelers and Passenger Cars – this is in actual number terms.

There is an overall growth in exports from 2001/02 to 2011/12 but the percentage growth over FY on FY is not the same. Comparing FY 2011-12 with FY 2007-08, there is a significant growth in volume terms in all the categories – Passenger Vehicles by 132%, Commercial Vehicles by 57%, Three Wheelers by 157%, Two Wheelers by 138% (maximum increase) and Grand Total by 135%.

Developments and Investments – Vision⁸

Mercedes-Benz India plans to increase its investment to Rs 850 crore (US\$ 158.88 million) by 2014. Volkswagen Group aims to increase output by 10-15 per cent on a €100 million (US\$ 126.35 million) investment at its production facilities in Aurangabad and Chakan in Maharashtra. Nissan plans to introduce ten new passenger vehicles by the end of March 2016. VE Commercial Vehicles (VECV), the joint venture (JV) between Volvo and Eicher, is readying a whole new range of trucks with new platforms, engines and cabins. Toyota Kirloskar plans to increase capacity at its two plants in Bidadi, Karnataka, from 310,000 units to 400,000 units a year. Capacity at the first plant would rise from 90,000 units to 100,000 units, at a cost of Rs 70 crore (US\$ 13.08 million) and the second plant's capacity is being increased from 120,000 units to 210,000 units, with an investment of Rs 830 crore (US\$ 155.14 million) due to increase in demand for its models especially the Etios and Fortuner. DC Design's Avanti planning its first sports car to be designed and manufactured in India. The car's prototype has been showcased at the 11th Auto Expo and has been priced at Rs 2.5 million (US\$ 46,728). Bajaj Auto Ltd has entered into an agreement with Kawasaki Heavy Industries, under which Bajaj motorcycles will be assembled and sold in Indonesia through Kawasaki's distribution network as co-branded products

Automotive Mission Plan 2006-16 (AMP 2016)⁹

The Government of India is drawing up an Automotive Mission Plan 2016 (AMP 2016) that aims to make India a global automotive hub as mid-term goal. To maintain the high rate of growth of the automotive industry and to retain the attractiveness of Indian market and further enhancing the competitiveness of Indian companies, the Government has prepared the mentioned ten-year Automotive Mission Plan. The idea is to draw a futuristic plan of action with full participation of the stakeholders and to implement it in mission mode to meet the challenges coming in the way of growth of industry. Through this Automotive Mission Plan, Government also wants to provide a level playing field to the players in the sector and to lay a predictable future direction of growth to enable the manufacturers in making a more informed investment decision.

This Automotive Mission Plan (AMP) 2016 aims at 10% contribution of automotive sector in gross domestic product (GDP) by taking the turnover to US\$ 145 billion in 2016 with special emphasis on export of small cars, multi-utility vehicles (MUVs), two and three wheelers and auto components.

The rapid improvement in infrastructure, huge domestic market, increasing purchasing power, established financial market and stable corporate governance framework have made the country a favourable destination for investment by global majors in the auto industry, as per Automotive Mission Plan (AMP) (2016).

Automobile Industry - Vision 2020¹⁰

The automobile industry is expected to witness strong growth through 2020. As per the working group of Automotive Group for the 12th Five year plan the growth expectations are as follows: (i) Projection of Passenger Vehicles as 5 million units in 2015 and by about 9 million units by 2020. This is essentially by growth in Indian market and expectations of India as global hub for export of small cars. (ii) The Commercial Vehicles to touch volumes of over 1.4 million by 2015 and over 2.2 million units by 2020. (iii) Two and Three Wheelers expected to double to 22 million units by 2015 and reach 30 million units by 2020.

Conclusion

This research article is an attempt to identify the industrial policies relevant to the development of India's automobile industry; studying the impact on the industry's development. The observation is; with every major shift in the policies [significant being Auto Policy 2002] made by the Indian government, the automobile industry has resulted in being stronger and better with the parallel development of Auto Component Industry (OEM's) for export and for Indian automobile manufacturers comprising of 651 in the organised sector as per Auto Components Manufacturers Association (ACMA)¹¹ membership.

Finally to conclude Foreign Direct Investment (FDI) in Automobile Industry (to complement) along with purchasing power capacity and auto-finance facility has been the important factors for its steady growth in India - Production and Sales with a variety catering to all segments and export earnings.

Vision 2020 – requires more capital investments, increase in installed capacity, technology improvements, trained manpower, increase in international market share for export and increasing the organised sector (from the present unorganised) in ACMA (OEM's) with its capacity to cater to the requirements of the automobile manufacturers in all segments.

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