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Foreign Direct Investment in Automobile Industry

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A B S T R A C T

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 India has increased the scope of this industry. 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. 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 Indian automobile industry. This paper analysis the progress so far made through FDI in Indian automobile industry.

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 flow. 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 workforces 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 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. India has a manufacturing advantage in the automobile sector. Big names like Ford Motor Company, General 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
- Language strength of English
- 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 the market. As such India is considered to be the 4th largest FDI destination in Asia. The automobiles industry is the most dynamic manufacturing sector 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 manufacturers, 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 government permitted this company to enter 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 years 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 centers. The automobile sector in india ranks third in manufacturing three wheelers and second in manufacturing of two wheelers.

Objectives of the study

The study is conducted with the objective of analysing the progress of Indian Automobile Industry through Foreign Direct Investment.

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.

Table.1 Sub sectors of FDI equity inflows in automobile industries
(January 2000 to December 2010)

Sub Sectors	Amount of FDI inflows		Percentage with total FDI inflows
	Rupees in Crores	US \$ in million	
Heavy Vechiles	6,830.35	1,479.20	1.16
Passenger vehicles	13,516.25	3,008.04	2.37
Auto ancillaries/parts	2,857.06	635.44	0.50
Others (transport)	2,768.93	617.47	0.49
Total of above	25,972.59	5,740.16	4.52

Source: Directorate of Economics & Statistics.

Table.2 Automobile Production Trends (in numbers)

Category	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Passenger vehicles	1,209,876	1,309,300	1,545,223	1,777,583	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	7,608,697	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 December 2010)

Ranks	Country	Amount of FDI Inflows		Percentage of FDI Inflows in Automobile Industries
		Rupees in Crores	US \$ in million	
1	Japan	6,238.92	1,359.69	23.69
2	U.S.A	3,842.17	838.70	14.61
3	Netherlands	3,236.15	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 Economics & 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	138276	109741	248017
2008-09	161481	-63618	97863
2009-10	188815	161880	350695
2010-11	135120	157355	292475

Source: Directorate of Economics & Statistics

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 the total FDI inflows.

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 per cent in relative terms during the period under study.

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

Foreign investment inflows in automobile industry

Table 4 shows the total direct investment and portfolio investment inflow 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 portfolio investment shows a negative sign due to crisis it affected the automobile industry.

Conclusion

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 shown significant growth in the post 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.

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