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Impact of FDI on Growth and Development of Indian Automobile Sector Since 2005

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Abstract

Foreign Direct Investment as a strategic element of funding is required throughout India for achieving the financial reforms and continues the pace of development and progress of the economy. The pace of FDI inflows in India at the start have been low as a result of regulatory strategy framework and schemes but there is a strong upward push in investment flows since 2005 as the new policies have broadened. In this paper, we discover how FDI is noticeable as an important economic catalyst of Indian monetary progress by stimulating domestic investment, growing human capital formation and by means of facilitating the technology transfers. The essential purpose of this paper is to investigate the effect of FDI on fiscal growth in India with regard to the influence of Foreign Direct Investment in Indian stock market.

Keywords: *Foreign Direct Investment, financial, economy, India.*

Introduction

Large number of countries has witnessed acceleration in their economic growth. After analyzing the reasons for this itwas found that FDI plays a vital role in the economic development of both developing as well as developed nations.Various countries are integrated in the present global competitive environment through FDI. In addition to theeconomic development and generating an employment in a country FDI also helps in providing most modernizedtechnology available in the market. An opportunity or favorable conditions were made by the government of Indian in1991 when it opens the doors for the inflow of the foreign capital in India through foreign direct investment. This inputwas badly needed for India as India turns out to be one of the most attractive destinations of capital investment. Foreigndirect investment refers to the investment made by a company based in one country, in to a company based in anothercountry, companies make their investments in the fixed assets by establishing plant and machinery and have a significant degree of influence and control overthe company in to which the investment is made. Foreign Direct Investment (FDI) is fund flow between the countriesin the form of inflow or outflow by which one can able to gain some benefit from their investment whereas another canexploit the opportunity to enhance the productivity and find out better position through performance. The FDI may alsoaffect due to the government trade barriers and policies for the foreign investments and leads to less or more effectivetowards contribution in economy as well as GDP of the economy. The growth of FDI gives opportunities to Indianindustry for technological up gradation, gaining access to global managerial skills and practices, optimizing utilizationof human resources and competing internationally with higher efficiency.

Now there is positive relationship between economic growth and stock market development and a large number ofempirical studies on the role of FDI in host countries suggest that FDI is an important source of capital, complementsdomestic private investment, is usually associated with new job opportunities and enhancement of technology transfer,and boosts overall economic growth in host countries. We therefore observe triangular causal relationship:

1. FDIstimulates economic growth
2. Economic growth promotes stock market development; and
3. Implication that FDIpromotes stock market development.

Automobile Sector and Foreign Direct Investment in India

The automobile industry is one of India's major sectors, accounting for 22% of the country's manufacturing GDP. The Indian auto industry, comprising passenger cars, two-wheelers, three-wheelers and commercial vehicles, is the seventh-largest in the world with an annual production of 17.5 million vehicles, of which 2.3 million are exported. Two-wheelers dominate the Indian market; more than 75% of the vehicles sold are two wheelers.According to Ministry of Heavy Industry and Public Enterprises, the total turnover of the Indian automobile industry was estimated at USD 73 billion and exports were estimated to be USD 21 billion in the year 2014–15. The announced cumulative investments in this sector were USD 30 billion during this period. The main automobile hubs in India are based at Chennai, Gurgaon, Manesar, Pune, Ahmedabad, Halol, Aurangabad, Kolkata, Noida and Bangalore. Chennai is the biggest hub accounting for 60% of Indian auto exports. The auto components industry, although largely concentrated near automobile hubs, is fairly widespread in other parts of the country too.According to the Department of Industrial Policy and Promotion (DIPP), the auto sector accounts for 5% of total foreign direct investment (FDI) inflow into India. As per the DIPP's FDI figures for May 2015,

Inflow of FDI in Major Industry of India with Regard to Automobile Sector

Now we will discuss about the major sectors where the FDI comes in our country with sector specific. The following table depicts about the analysis part of FDI inflow in automobile sector with other important factors of industry:

S. No	Sector	Amount of FDI Inflows		%age of
		In Crore (INR)	In US $ million	Total Inflows
1	Services Sector	201,728.28	42,101.98	17.32
2	Construction Development: Townships, Housing, Built, Up Infrastructure and Construction Development Projects	112,916.36	24,028.19	9.88
3	Telecommunications	83,697.07	16,994.68	6.99
4	Computer Software & Hardware	67,693.78	14,125.19	5.81
5	Drug and Pharmaceuticals	63629.47	12,856.02	5.29
6	Automobile Industry	60,725.08	11,857.11	4.88
7	Chemicals (Other Than Fertilizers)	48,641.77	10,229.69	4.21
8	Power	46,358.87	9,512.02	3.91
9	Metallurgical Industries	40,737.61	8,480.90	3.49
10	Hotel and Tourism	40,198.41	7,774.03	3.20
11	Trading	41,315.28	7,660.73	3.15
12	Petroleum & Natural Gas	31,650.29	6,519.53	2.68

Review of Literature

The review of literature on impact of FDI is given below:

Chopra (1) has analyzed the impact of economic reforms on FDI in India. He carried out his research from 1980-2000.The result showed that GDP is a very important factor which motivated the FDI in the country. John

Andreas (2)studied the impact of FDI inflow on host country economic growth. The paper says that FDI should have a positiveimpact on economic growth as a result of technology spillovers and capital inflows. He took almost 90 countries andfind out that FDI inflow enhances the economic growth in developing economies but not in developed economies.

Jayachandran and Sielan (3) find out the relationship between trade, FDI and economic growth of India over the period1970-2007. The tests showed that there is a casual relationship between the examined variables. The direction of casualrelationship is from FDI to growth rate and there is no causality relationship from growth rated to FDI.

Objectives of the Study

- To study the trends and patterns of foreign capital flow in Automobile sector of India throughFDI
- To study the impact of foreign capital in the form of Foreign Direct Investment on growth of industry.

Research Methodology

This study is based on secondary data. The required data related to FDI and FII have been collected from varioussources i.e. Bulletins of Reserve Bank of India, publications from Ministry of Commerce, Govt. of India. The present studyconsiders 10 years data starting from 2005 to 2015. In order to analyze the collected data the statistical tools such asregression has been used.

Data Collection Methodology

Secondary data from different web sites & reports of RBI, CEDAR, USIBC report on FDI, reports of Asian development bank.

Sources of Data Collection

The study is based on published sources of data collected from various sources. The data was extracted from the following sources:

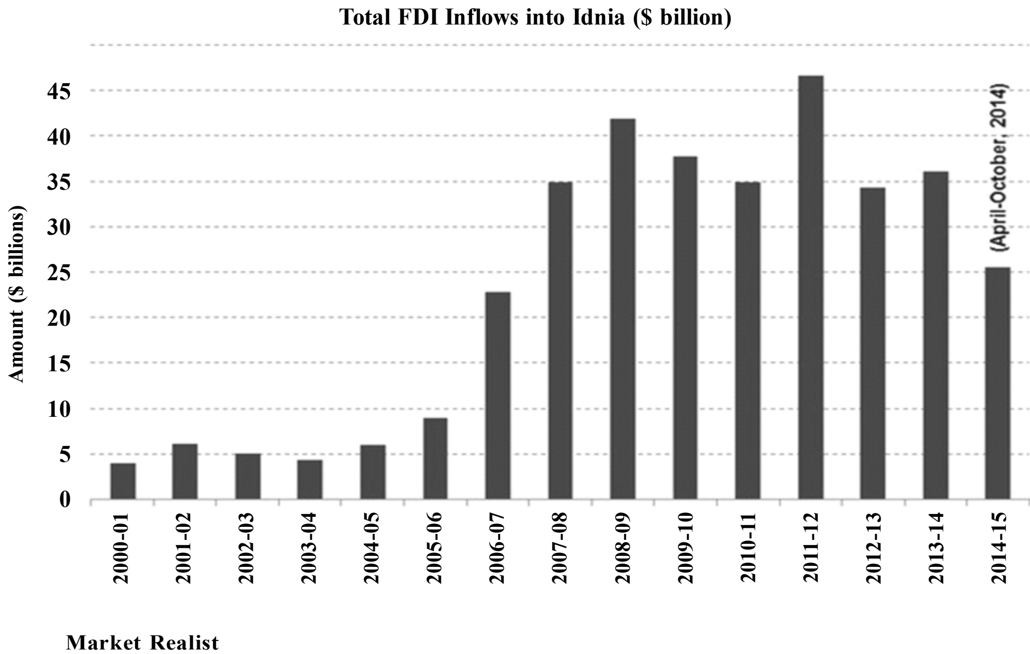
- Handbook of Statistics on the Indian economy, RBI.
- Economic Survey, Government of India.
- Department of Industrial Policy and Promotion (DIPP).
- Secretariat of Industrial Assistance (SIA).
- Central Statistical Organization (CSO).

This research work is a descriptive study in nature. The secondary data was collected from various journals, magazines, and websites particularly from the Department of Industrial Policy & Promotion, Ministry of Commerce and Industry, India stat etc. Simple percentages have been used to defect the growth rate of India. Graphs and tables have also been used where ever required to depict statistical data of FDI during the study period. The time period of the study has been taken from the April 2005 to March, 2015.

Growth of FDI in 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) This was accompanied by distinct changes in the attitude of mostdeveloping 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 MarutiUdyog 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 buyersmarket (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.

Total FDI in All Sector During last 15 Years



Source: Department of Industrial Policy and Promotion, Government of India.

Growth of FDI and Automobile Industry in India

The automotive industry in India is one of the largest automotive markets in the world. It was previously one of the fastest growing markets globally, but it is currently experiencing flat or negative growth rates.In 2009, India emerged as Asia's fourth largest exporter of passenger cars, behind Japan, South Korea, and Thailand, overtaking Thailand to become third in 2010. As of 2010, India was home to 40 million passenger vehicles. More than 3.7 million automotive vehicles were produced in India in 2010 (an increase of 33.9%), making India the second fastest growing automobile market in the world (after China). India's passenger car and commercial vehicle manufacturing industry recently overtook Brazil to become sixth largest in the world, with an annual production of more than 3.9 million units in 2011.From 2011 to 2014, the industry grew 18-22%, selling around three million units.According to the Society of Indian Automobile Manufacturers, annual vehicle sales are projected to increase to 4 million by 2015, not 5 million as previously projected.

The Indian auto industry is one of the largest in the world with an annual production of 32.48 million vehicles in FY 2014-15. The automobile industry accounts for 21.5 per cent of the country's manufacturing gross domestic product (GDP). An expanding middle class, a young population, and an increasing interest of the companies in exploring the rural markets have made the two wheelers segment (with 80 per cent market share) the leader of the Indian automobile market. The overall passenger vehicle segment has 14 per cent market share. India is also a substantial auto exporter, with solid export growth expectations for the near future. Various initiatives by the Government of India and the major automobile players in the Indian market is expected to make India a leader in the Two Wheeler and Four Wheeler market in the world by 2020.

Market Size of Automobile Industry in India

Sales of commercial vehicles in India grew 5.3 per cent to 52,481 units in January 2015 from a year ago, according to Society of Indian Automobile Manufacturers (SIAM).Sales of cars also grew for a third month in a row to 169,300 units in January 2015, up 3.14 per cent from the year-ago period. Car market leader Maruti Suzuki India witnessed 8.6 per cent higher sales at approximately 118,551 units in February 2015, out of which 107,892 were sold in domestic market and 10,659 units were exported. Hyundai Motor India Ltd (HMIL) reported a 2.4 per cent growth in total sales at 47,612 units in February, compared with 46,505 units in the same month last year. In the two-wheeler segment, Hero MotoCorp witnessed sales of 484,769 units in February 2015. TVS Motor Co posted 15 per cent higher sales at 204,565 units against 177,662 units. Bajaj Auto sold a total of 243,000 two and three-wheelers segment.

Investments in Automobile Sector

To match production with demand, many auto makers have started to invest heavily in various segments in the industry in the last few months. The industry has attracted foreign direct investment (FDI) worth US$ 12,232.06 million during the period April 2000 to February 2015, according to the data released by Department of Industrial Policy and Promotion (DIPP).

Some of the major investments and developments in the automobile sector in India are as follows:

- DSK Hyosung has announced to set up a plant in Maharashtra and is planning to add 10-15 dealerships in the next financial year (FY 15-16) mostly in the tier-II cities and introduce more models in the 250cc segment.
- Germany-based luxury car maker BayerischeMotorenWerke AG's (BMW) local unit has announced to procure components from seven India-based auto parts makers.
- Mahindra Two Wheelers Limited (MTWL) has acquired 51 per cent shares in France-based Peugeot Motocycles (PMTC).
- Suzuki Motor Corp is planning to sell the automobiles made in the Gujarat plant, in Africa.
- Tata Motors Ltd, India's largest automobile maker, will sell trucks in Malaysia, Vietnam and Australia to strengthen its presence in the Asia-Pacific region.

Need for FDI in Automobile Industry

Developing economies like India needs a large inflow of the capital in terms of FDI. This is required for the development of the basic infrastructure like roads, railways, warehouses, banking and insurance services etc. Many countries in the world may not be having appropriate infrastructure due to lack of the funds, now better infrastructure facilities can be easily created if a country allows the foreign giant to invest. We can say that foreign capital is a unique remedy for the scarcity of all resources. Moreover FDI may involve new technologies and expertise may not be available in the domestic economy through investment in automobile sector. Another important motivation of FDI is efficiency seeking. Low cost of production, deriving mostly from cheap labour is the driving force of many FDIs in developing countries. It may be kept in mind that FDI would not take place in the absence of required infrastructural facilities to develop the industry. In nutshell we can say that there is significant need of FDI for those countries which are having scarcity of resources, lack of infrastructure facilities, and lack of modernized technology. All these above mentioned resources can be easily raised if a country allows the foreign capital to be invested in their country.

Government Initiative taken to Develop Automobile Sector in India

The Government of India encourages foreign investment in the automobile sector and allows 100 per cent FDI under the automatic route. Excise duty on small cars, scooters, motorcycles and commercial vehicles was reduced in February last year to 8 per cent from 12 per cent to boost the 'Make in India' initiative of the Indian government.

Some of the major initiatives taken by the Government of India are:

- Under the Union budget of 2015-16, the Government has announced to provide credit of Rs 850,000 to farmers, which is expected to boost the tractors segment. The government is aligning to ensure that at least one family member is economically strong to support the family. This is expected to improve the sentiments of entry-level two-wheelers.

- The Government plans to promote eco-friendly cars in the country i.e. CNG based vehicle, hybrid vehicle, electric vehicle and also made mandatory of 5 per cent ethanol blending in petrol.
- The government has formulated a Scheme for Faster Adoption and Manufacturing of Electric and Hybrid Vehicles in India, under the National Electric Mobility Mission 2020 to encourage the progressive induction of reliable, affordable and efficient electric and hybrid vehicles in the country.
- The Automobile Mission Plan for the period 2006–2016, designed by the government is aimed at accelerating and sustaining growth in this sector. Also, the well-established Regulatory Framework under the Ministry of Shipping, Road Transport and Highways, plays a part in providing a boost to this sector.

Road Ahead for Development of Automobile Industry

India is probably the most competitive country in the world for the automotive industry. It does not cover 100 per cent of technology or components required to make a car but it is giving a good 97 per cent, highlighted Mr. VicentCobee, Corporate Vice-President, Nissan Motor's Datsun. The vision of AMP 2006-2016 sees India, "to 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 per cent of the GDP and providing additional employment to 25 million people by 2016. The Japanese auto maker Maruti Suzuki expects the Indian passenger car market to reach four million units by 2020, up from 2.5 million units in 2014-15.

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