CHAPTER-V

INFLUENCE OF GOVERNMENT POLICIES ON THE DEVELOPMENT OF AUTOMOBILE INDUSTRY

The automotive industry in India has come a long way from its nascent state at the time of India’s independence in 1947 to its present day dynamic form. As compared to the production of mere 4,000 vehicles in 1950, the production of the industry crossed the historic landmark of 10 million vehicles in 2006. Today, the industry produces a wide range of automobiles and auto-components catering to both the domestic as well as foreign markets. The development of the industry has been shaped by the demand on the one hand and the government interventions on the other; the influence of the latter being considerable.

The automotive industry in India was heavily regulated until the 1970s. The automotive firms were obliged to obtain licenses from the Indian government for various firm activities. The 1980s witnessed some relaxation in the regulations and the entry of Japanese firms. In the early 1990s, India undertook historic economic reforms under which the automotive industry was liberalized. Various government interventions in the form of policies, existing at various points of time, have influenced the development of India’s automotive industry which may be studied in detail with the help of following headings-

First Phase- Protection of Domestic Market (1947 to 1965)

◆ Second Phase- Increased Regulatory Control (1966 to 1979)
Third Phase- Limited Liberalization and Foreign Collaborations (1980 to 1990)

Fourth Phase- Progressively Liberalized Environment (1991 onward)

First Phase- Protection of Domestic Market (1947 to 1965)

After getting independence in 1947, Government of India decided to adopt the mixed economy model for regulating the disturbed economic growth of country in various segments of agriculture as well as industry. There was a vision in the eyes of leaders of that period to build up an effective industrial setup in the country in a controlled manner providing protection to the domestic entrepreneurs.

In line with the intentions of the State to intervene in economic development, Industrial Policy Resolution (IPR) was passed in the Indian Parliament in 1948. The resolution divided the nation’s industries into different categories depending upon their strategic importance and specified the role of State in the development of each category of industries. Accordingly, the automotive industry was classified under the category of ‘basic industries of importance’. Further, the initiatives within the automotive industry were left to the private enterprises, with State playing only the role of a controller. However, the State reserved its right to intervene and progressively participate in the industry when deemed necessary.

In accordance with the objectives laid by IPR of 1948, the Ministry of Industry prepared its first policy for the automotive industry in 1949. As determined in the policy, the tariff on import of fully-built vehicles was heightened the same year, virtually banning their import into the
country. The foreign assemblers assembling CKD vehicles were allowed to continue to operate nevertheless. Meanwhile, PAL and HML had already commenced their operations in 1947 and 1948 respectively.

In the preliminary planned phase of Indian economy, the commission planned the total number of vehicles (per vehicle type) that were to be produced in the given plan period depending upon country’s needs and the resources at disposal. For instance, the First FYP covering the period 1951-1956 and introduced in April 1951, targeted to raise the production of vehicles in the country from 4,077 in 1951 to 30,000 in 1956. Accordingly, the Ministry of Industry administered the capacity licenses to the automobile firms.

In March 1952, the government formed a Tariff Commission for automobile sector. The Tariff Commission submitted its report in 1953 recommending that only units with a plan for progressive manufacture of components and complete vehicles may be allowed to operate. It also recommended against any price controls and advised the government to maintain a watch on the prices. Subsequently, the recommendations of the commission were adopted by the government. Foreign assemblers like General Motors and Ford who considered the domestic demand too low to warrant a local manufacturing programme were obliged to close down their operations within three years. Thus, the exit of foreign assemblers by 1956 and the ban on import of fully-built vehicles since 1949 effectively protected the Indian automotive industry from foreign competition.

After adoption of the Constitution and the integrated socioeconomic goals, the industrial policy was revised and adopted in May, 1956 which signaled higher level of State participation for
accelerating industrial development. The resolution grouped the industries into Schedule-A, Schedule-B and the remaining. Schedule-A industries were either exclusive monopolies of the central government or were industries in which any new undertaking was solely reserved for the State. Schedule-B included industries in which the State would establish new undertakings for accelerating the future development, and in which the private enterprises had equal opportunity for the same. The remaining industry list, which included the automotive industry, was left to the initiatives and enterprise of the private sector. However, the State reserved its right to participate in the future. Thus, the automotive industry under IPR of 1956 had been provided with necessary autonomy for functioning.

In order to encourage the domestic production and to keep the automobile prices low, the government in early 1950s had maintained lower import duties on the components still being imported. However, a steep rise in the prices made the government to approach the Tariff Commission for the second time in August 1955. The commission was asked to enquire into and recommend a price policy for the automobiles. In its report submitted in October 1956, the commission maintained its initial recommendation against the price controls, as they might undermine the development of the industry. It also suggested reviewing the whole question of protection granted to the automotive industry after a period of ten years.

The situation however changed very soon with the balance-of-payments crisis that sprang up in 1956-57. As a result, severe backlogs were generated for the production orders in automobile sector. The decrease in supply of automobiles resulted in steep price increases owing
to supply-demand economics. At this juncture, the government decided to impose ‘informal price control’ on automobiles, which was accepted by the manufacturers. The informal price control mechanism required the customer to place the order with the dealer and submit a partial payment to the Indian Postal Service. The manufacturer then had to deliver the automobiles in the sequence of the orders registered with the Indian Postal Service. The government also fixed the dealer commission to a maximum of 10% and asked the manufacturers to intimate any decision of raising ex-works prices in advance.

In summary, the Indian automotive industry in the years 1947 to 1965 was the one wherein the foreign competition was highly restricted by means of protective rates of tariff and foreign investment licensing requirements. Foreign collaborations were permitted only after diligent considerations and were subject to effective control by Indian entities. The domestic competition was also regulated by means of industrial licensing, foreign exchange allocations and other governmental decrees. The nation’s overarching goal of self-reliance was reflected in the indigenization requirements imposed on the domestic automotive firms. Intentions of protecting and nurturing the nascent automotive industry were accompanied by side-effects of high prices and low quality levels. Even though the consumer interests were safeguarded to some extent by informal price controls, the overall performance of the industry in terms of quality, consumer choices and the ready availability of vehicles was unsatisfactory.
The prime actions taken by Government of India which directly affected the automobile industry of the country during the first phase may be studied with the help of following table no. 5.1-

### Table 5.1

**CHRONOLOGICAL PROGRESS OF AUTOMOBILE INDUSTRY IN FIRST PHASE**

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948</td>
<td>Industrial Policy Resolution, 1948</td>
</tr>
<tr>
<td>1953</td>
<td>First report of Tariff Commission</td>
</tr>
<tr>
<td>1956</td>
<td>Revision of Industrial Policy Resolution, 1948</td>
</tr>
<tr>
<td></td>
<td>• Exit of Foreign assemblers</td>
</tr>
<tr>
<td></td>
<td>• Second report of Tariff Commission</td>
</tr>
<tr>
<td>1958</td>
<td>Production restricted to single model</td>
</tr>
<tr>
<td>1960</td>
<td>Emphasis on ancillaries development</td>
</tr>
<tr>
<td>1961</td>
<td>Report of L. K. Jha Committee</td>
</tr>
<tr>
<td>1965</td>
<td>60 to 80 components reserved for small-scale</td>
</tr>
</tbody>
</table>

Source: Compiled from the various Bulletins and Reports published by Ministry of Commerce & Industry and Department of Industrial Policy and Promotion, Government of India, New Delhi.

**Second Phase- Increased Regulatory Control**

**(1966 to 1979)**

India’s war with China in 1962 and with Pakistan in 1965, along with poor agricultural production due to successive severe droughts had led to financial crisis in the country by mid-1960s. In 1967, India’s first lady Prime Minister Smt. Indira Gandhi was re-elected as India’s fifth Prime Minister, who took great interest in changing the automobile policy
of the country. The first change was initiated in May 1966 with government directing the Tariff Commission to look into the whole question of continuance of grant of protection to the automotive industry. The government also asked the Tariff Commission to enquire into the cost structure and fair selling price of different type of automobiles. Based on its report submitted in the same year, the Tariff Commission recommended the government:

- To help industry to attain minimum efficient scale by limiting the number of models to an absolute minimum
- To impose price controls on passenger cars.

Subsequently the government imposed statutory price controls on passenger cars in September 1969. Meanwhile, India’s first competition law known as the ‘Monopolies & Restrictive Trade Practices Act’ (MRTP) was passed in 1969. The MRTP Act classified companies with more than Rs 200 million in fixed assets and/or having a dominant market share of one-fourth or more as ‘MRTP companies’. Thus, many automotive firms owing to their high levels of investment came under the purview of MRTP Act. The government enacted Foreign Exchange Regulation Act (FERA) in September 1973. The provisions of the Act created additional constraints on the import of technology, raw materials and components for the industrial sector in general and the automotive industry in particular. Thus, the enactment of MRTP and FERA in the early-half of this phase strengthened the regulations surrounding the Indian automotive industry.

During IVth Five Year Plan (1969-74), with regard to its policy for automobiles, the government was very clear in its preference for means of
affordable personal and public transport as against to luxurious passenger cars. No additional capacity was planned for the passenger cars. Due to oil crises of 1973, the government decided to provide encouragement for the growth and technological development of non-luxury segment, leaving out the luxury segment. Accordingly, commercial vehicles were added to the ‘Appendix-I’ list in 1973, which meant that the applications for capacity licenses, foreign collaborations, etc. from the commercial vehicles manufacturers (including MRTP/FERA companies) were to be treated more favourably. Furthermore, significant capacities were being licensed for the 2-wheeler segment. As a result, the growth of most of the automobile segments slowed down over the next few years. The accompanying rise in fuel prices resulted in a noticeable decline in the demand for already troubled passenger car segment. Some relief came for the segment in 1975 with the court’s judgment against the statutory price controls on passenger cars. Subsequently, the informal price controls on 2-/3-wheelers were also removed.

As is evident from the Fifth FYP, the government concentrated on the policy of encouraging the growth of 2-wheeler segment from mid-1970s. This was done to provide mobility to the country’s growing middle-class without incurring higher petroleum consumption on cars. As a result, the period between 1976 and 1980 saw new entries as well as diversification by the existing firms in the 2-wheeler segment.

From 1975 onwards, minor relaxations were being made to the licensing regulations. For instance, relaxation that was made for non-MRTP and non-FERA automotive firms producing CVs, tractors, ancillaries and scooters was the one that allowed expansion without limit.
Further, in 1978 the government also dismantled some of its stricter controls on foreign equity collaborations.

The government policy towards the auto-component industry remained more or less the same. With minor amendments to the list, the auto-components reserved for the exclusive manufacture by small-scale sector continued to persist. The protective rates of tariff on components were preserved.

Thus, this phase of the development of Indian automotive industry witnessed tightening of regulations with the introduction of MRTP and FERA. On the other hand, government policies to encourage the development of non-luxury segment helped it to sustain growth through otherwise difficult times. The CVs and the UVs segment saw moderate average annual growth rates over this phase. The average annual growth rates for the same period for 2-wheeler and 3-wheeler segment were relatively high.

The prime actions taken by Government of India which directly affected the automobile industry of the country during the second phase may be studied with the help of following table no. 5.2-

Table 5.2

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966</td>
<td>Third report of Tariff Commission</td>
</tr>
<tr>
<td>1968</td>
<td>Stricter controls on foreign equity collaborations</td>
</tr>
</tbody>
</table>
1969 | MRTP Act promulgated  
○ Statutory price control on passenger cars  
1973 | FERA Act promulgated  
○ Industry segmented into luxury and non-luxury cars  
○ CVs added to 'Appendix-I' list  
○ Significant capacity building policy for 2-wheelers  
1975 | Expansion relaxed for non-MRTP/non-FERA automobile firms  
○ 'Automatic growth rule' for CVs and ancillaries  
♦ Price controls withdrawn for cars and 2-/3-wheelers  
1978 | Relaxations for foreign equity collaborations

Source: Compiled from the various Bulletins and Reports published by Ministry of Commerce & Industry and Department of Industrial Policy and Promotion, Government of India, New Delhi.

**Third Phase-Limited Liberalization and Foreign Collaborations (1980 to 1990)**

In the first two phases, the growth of Indian industries remained highly unsatisfactory which compelled the government of India to reconsider the regulatory policies of the government for the industrial sector. As a result, the government thought it necessary to review its existing policies and undertake measures for making the industries more competitive. It, therefore, decided to ease licensing controls and other restrictive and protective rules administering the industrial sector. It also decided to allow adequate import of technology required for modernization. The Industrial Policy Statement presented in July, 1980 gave an expression to this shift in government policy. Additionally, the statement emphasized the optimum utilization of installed capacities, promotion of exports and regionally-balanced economic development. The Sixth Five Year Plan (1980-1985), introduced in early 1981, reflected these changes to the industrial policy.
The overall policy shift in the industrial sector brought about important changes within the automobile industry. Various relaxations were made to the regulations pertaining to capacity licensing and foreign collaborations. Imports of capital goods, technology and raw-materials/components required for the modernization were also treated more liberally. The encouragement for the development of commercial vehicle segment continued in this phase as well. In 1981, the government gave Letter of Intent to four Indian firms for the manufacture of Light commercial vehicles. All of the four firms were in technical-cum-financial collaboration with Japanese companies.

The passenger car segment also witnessed a major change during this phase. The policy shift of 1980 intended to favour consumers by providing them with free choice regarding all types of consumer automobile products including luxuries. Accordingly, despite of being classified in 1970s as a luxury segment, the passenger car segment was added to the Appendix-I list in 1982 along with utility vehicles and 2-3-wheelers.

Meanwhile, the government also relaxed the import regulations to encourage the existing automobile firms to upgrade their technology. Fiscal incentives were provided to the passenger car manufacturers in 1984 to enable them to import technology and improve the fuel efficiency of their vehicles. The domestic firms took advantage of these opportunities and upgraded their technology base, either by direct imports of technology or by foreign equity collaborations.

In order to make sure that the new automobiles are affordable and therefore having sufficient demand, the government continued its
‘automatic growth’ and ‘regularization of excess capacity’ schemes of the late 1970s. With the addition of all the automotive segments to Appendix-I list by 1982 and also the usage of automatic growth rule became easier for MRTP/FERA companies. Further, the government in 1980 allowed non-MRTP and non-FERA companies in commercial vehicles and 2-/3-wheeler segment to automatically expand up to their installed capacities so as to achieve efficient scale. For an initial period, the government also lowered the custom duty on import of components for fuel-efficient vehicles.

However, in 1984 all automotive segments were brought under ‘Schedule IV’, i.e. “industries requiring special regulation, on the grounds of raw material shortage, likelihood of high pollution, or infrastructure constraints”. This meant that the aforementioned relaxations were to an extent nullified with the requirement of an additional clearance under Schedule IV for substantial expansion. New entry of firms and joint ventures with foreign collaborators that was witnessed in the period 1982-84 was virtually banned for the rest of the phase, except in the auto-components segment. Few more relaxations for the automotive industry made their way through the appointment of Mr. Rajiv Gandhi as the ninth Prime Minister of India in October 1984.

In 1985, the broad-banding grouped passenger cars, commercial vehicles and utility vehicles into one product group named ‘on-road four-wheelers’. This entailed that any firm operational in the aforementioned segments, within its overall capacity, had the opportunity to diversify into any other segment within the group or vary the product mix over the segments based on the demand conditions. TELCO seized this
opportunity by diversifying into the light commercial vehicles segment with an indigenously developed model in 1986. It also entered into the utility vehicles segment with its pick-up truck in 1988.

Similarly, broad-banding grouped all the 2-wheelers up to 350cc engine capacity into one group, which was later expanded in 1986 to include 3-wheelers. A similar broad-banding group was announced for automobile ancillaries as well. In addition to broad-banding policy, Mr. Rajiv Gandhi’s regime also brought some other relaxations. From May 1985, all the automobile and component manufacturers were exempted from sections 21 and 22 of the MRTP act, which meant that the large industrial houses were no longer required to take MRTP approvals. In 1986, ‘minimum economic scale’ scheme was announced under which the government promised to actively encourage firms to achieve economic scale of operations.

By the end of this phase, the limited de-regulation drive for industrial production came to a halt due to the growing opposition from within the ruling party. In fact, the government was compelled to undo some of the newly introduced modifications. Nevertheless, the limited liberalization that took place during this phase had a considerable impact on the development of India’s automotive industry. The modernisation programme of early 1980s intensified competition in the industry and upgraded its technological base. The relaxations in the form of new entries, foreign collaborations, automatic growth, re-endorsement of capacity, liberal MRTP/ERA implementations and broad-banding facilitated in driving the change. The drive for indigenisation continued during this phase with all the vehicle and component joint ventures
required under the phased manufacturing programme to achieve 95% indigenisation within five years of start of production. Indian consumers were given a free choice to select among a higher variety of better-technology and fuel-efficient vehicles, including luxuries. Passenger cars, a non-priority sector in 1970s, came to be identified as a core industry of national importance.

The auto-components segment also underwent considerable changes during the second-half of this phase. The influx of foreign collaborations in the vehicles segment, and thereby ingress of diverse product designs necessitated technological upgrade from the side of auto-component manufacturers as well. As a result, many domestic manufacturers entered into collaborations with foreign players. Moreover, the foreign collaborators in the vehicles segment were followed by their local suppliers who also entered the Indian market forging collaborations with the domestic players. Thus, this was the time wherein the Japanese best practices made their way into the Indian automotive industry. Consequently, the insistence for higher quality components and timely deliveries, coupled with the heterogeneous demand created unrest within the segment. Additionally, the Motor Vehicles Act passed in 1988 mandated the components used in the Indian vehicles to be certified under the standards laid by Bureau of Indian Standards.

The prime actions taken by Government of India which directly affected the automobile industry of the country during the third phase may be studied with the help of following table no. 5.3-
Table 5.3

CHRONOLOGICAL PROGRESS OF AUTOMOBILE INDUSTRY IN THIRD PHASE

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
</table>
○ Promotion policy of exports adopted  
○ Investment limit for small-scale units raised  
○ Modernisation programme for automotive industry launched  
● Relaxation of licensing controls for automobile industry |
| 1981 | JV between Government of India and Suzuki Corp. |
| 1982 | Passenger cars, UVs, 2-/ 3-w. added to Appendix-I  
○ Re-endorsement of capacity of automobile units up to 133% |
| 1983 | ● MUL produced its first car |
| 1984 | All segments of automobile industry brought under 'Schedule IV'  
○ Fiscal incentives on parts for fuel-efficient cars |
| 1985 | ● Broad-banding policy for automotive segments  
Components delicensed |
| 1986 | Minimum economic scale' scheme announced |
| 1988 | Motor Vehicles Act promulgated |

Source: Compiled from the various Bulletins and Reports published by Ministry of Commerce & Industry and Department of Industrial Policy and Promotion, Government of India, New Delhi.
Fourth Phase- Progressively Liberalized Environment (1991 onward)

In 1990-91, India has to encounter with severe economic crises which enforced the country to change its economic policies to a large extent. In January 1991, the government accepted a loan from International Monetary Funds Compensatory and Contingency Financing Facility. Subsequently in July 1991, the new government approached IMF for another loan. The availed loan was accompanied by conditions regarding control measures for budget deficit as well as the implementation of economic structural reforms. In line with its agreement to the conditions laid by the international financial institutions, the government adopted a new economic policy in July, 1991. The new policy proposed wide ranging economic reforms in an attempt to liberalize and open up the economy. Structural reforms encompassing deregulation of industrial sector, trade and investment policy reforms, financial sector reforms, tax reforms and foreign exchange reforms were envisaged for this purpose.

The extensive changes in overall industrial policy had a significant impact on the development of India’s automotive industry also. Though a few liberalization measures had already been introduced in 1980s, the policy reforms initiated in 1991 were much more comprehensive. All the vehicles segment (except passenger cars) and the auto-component segment were delicensed in July, 1991. The passenger car segment was also delicensed in May, 1993. Along with abolition of the need for MRTP
clearances, this meant that the automotive firms were free to enter, expand, diversify, merge or acquire based on their commercial judgments.

The liberalization concerning foreign investment encouraged several global players to enter into the Indian market establishing joint ventures with domestic players. While FDI up to 51% was allowed on an automatic basis, the same for more than 51% required governmental clearances which were approved on a case-to-case basis depending upon the projected exports, sophistication of technology brought in, etc. The phased manufacturing programme requiring time-bound indigenisation was dropped in 1991 for the new units and in 1994 for the existing units.

The passenger car segment with the highest untapped growth potential saw the most hectic activities from the foreign automotive firms. By mid-1990s, several foreign players had entered into the Indian passenger car market by mainly setting up joint ventures with the local firms. For example Mercedes-Benz with TELCO (1994), General Motors with HML (1994), Peugeot with PAL (1994), Daewoo with acquisition of DCM-Toyota (1995), Honda Motors with Siel Ltd. (1995), Ford with M&M (1996), Hyundai with a 100%-owned subsidiary (1996), Fiat with Tata Motors (1997) and Toyota with Kirloskar Group (1997). In the commercial vehicles segment, Tatra in collaboration with Vectra Motors (1997) and Volvo with its 100%-owned subsidiary (1997) made their expedition into the Indian market. Most of these new ventures proposed to initially only assemble complete knock-down (CKD)/semi knock-down kits (SKD). As a result, for balance-of-payments reasons the government in 1995 asked these companies to individually commit an equivalent amount of exports.
In 1997, the Ministry of Industry in its policy for automotive industry placed import of capital goods and auto-components under Open General License (OGL), but regulated the import of automotive vehicles in Completely Buildup (CBU) form or in SKD/CKD condition. The vehicle manufacturing units were allowed to import vehicles only in SKD/CKD condition and were required to obtain a license for the same.

With a vision of establishing a globally competitive automotive industry in India and doubling its contribution to the economy by 2010, the Ministry of Industry presented for the first time a separate auto policy document in March, 2002 known as ‘Auto Policy-2002’. The document supersedes the auto policy adopted in 1997 by addressing emerging problems, being more investor friendly and ensuring compatibility with World Trade Organisation (WTO) commitments. Auto Policy, 2002 sets itself for making the Indian automotive industry globally competitive. It aims at promoting modernization and indigenous design and development within the country as well as establishing domestic safety and environmental standards at par with the international ones. Furthermore, it targets at making India as an international hub for manufacturing of small cars as well as a key centre in the world for 2-wheelers and tractors. Accordingly, the policy proposed various initiatives relating to investment, tariffs, duties and imports in order to achieve these objectives. The detailed study of Auto Policy, 2002 is made by the researcher in the next section of present chapter.

The policies laid by Auto Policy, 2002 have continued to apply till date with minor modifications. Within a decade of introducing structural reforms into the country, the production of India’s automotive industry
had increased to a significant level. Besides, reductions in the overall tariff level to open up India for international trade, the government has also progressively rationalized its domestic taxation structure to provide a fair competition ground for its domestic manufacturers against the international competition. For instance, the excise duty on passenger cars has been brought down from its peak rate of 66% in 1991-92 to 24% in 2008-09.

Thus, during this phase, the increasingly investor friendly as well as liberal trade measures adopted by the government led to a momentous increase in the number of foreign players active in the country. The dismantling of licensing controls also encouraged the domestic players to undertake entrepreneurial endeavours. This furthered competition within all the segments of the automotive industry. The market for automotive vehicles in India, which had earlier been virtually a seller’s market, was transformed into a buyer’s market. The Indian consumer benefited the most from the intensified competition, which brought his requirements of a cost-effective, technologically-competent, fuel-efficient and reliable means of transport into perspective. Strong macroeconomic base of demand growth drivers along with convenient credit facilities have ensured rising demand for vehicles in the country.

Hence, the bold attempt of the government in making a major shift in its economic policy framework in early 1990s, along with its continued support to the automotive industry has put the industry on a fast track of development. Also, environmental and safety standards as an integral and important part of modern automotive industry received due attention during this phase. First state emission norms came into force for petrol
vehicles in 1991 and for diesel ones in 1992. Euro I, Euro II and Euro III norms have subsequently been introduced in India in 1996, 2000 and 2005 respectively. Efforts are being made to align Indian safety standards with the global ones. On the technology front, the liberalisation concerning foreign technology agreements and foreign collaborations infused world-class technology into the industry. The government has encouraged efforts for latest foreign technology assimilation and indigenised design and development. Fiscal incentives as well as institutional support have been provided for encouraging industry R&D efforts. The domestic R&D efforts came to fruition with the launch of India’s first indigenously developed car ‘Indica’ by Tata Motors in 1999. Over years, many domestic as well as foreign firms have set up R&D facilities in the country.

With regard to the auto-component segment, the phase witnessed the entry of several foreign auto-component firms mainly following their global OEM customers into the Indian market. By the end of year 2000, all major global Tier-1 suppliers had their presence in India. There is an increasing trend in the number of Indian auto-component firms getting integrated into the global supply chains of automobile and auto-component majors worldwide. On the other side, the automobiles produced in India are increasingly making their way to the foreign markets through either direct or indirect exports. Also, the domestic automobile manufacturers are teaming up with foreign auto-component firms for bringing out new vehicle models. Hence, such increased interaction and interdependence between the Indian automotive firms and
their foreign counterparts is leading to globalization of India’s automotive industry.

The prime actions taken by Government of India which directly affected the automobile industry of the country during the fourth phase may be studied with the help of following table no. 5.4-

**Table 5.4**

**CHRONOLOGICAL PROGRESS OF AUTOMOBILE INDUSTRY IN FOURTH PHASE**

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
</table>
| 1991 | New Economic Policy introduced  
- New Industrial Policy Statement of 1990 released  
- Delicensing of all auto segments except cars  
- Automatic approval for FDI upto 51% equity  
- Need for MRTP clearances eliminated |
| 1993 | Delicensing of passenger car segment |
| 1995 | Foreign exchange neutrality required for SKD/CKD imports |
| 1997 | MoU (with indigenization requirements) to be signed  
- License required for import of CBU & SKD/CKD kits  
- CBU & SKD/CKD imports also put under OGL |
| 1999 | India's first indigenously designed & developed car |
| 2000 | Foreign exchange neutrality dropped for new prod. units |
| 2002 | Auto Policy, 2002 introduced |
| 2003 | Set up of Core Group on Automotive Research |
| 2004 | Automatic approval for 100% foreign equity |
Foreign exchange neutrality dropped for existing automobile units
- Higher fiscal incentives for R&D efforts

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>Automotive Mission Plan (2006-2016)</td>
</tr>
<tr>
<td>2011</td>
<td>Review of Auto policy, 2002</td>
</tr>
</tbody>
</table>

Source: Compiled from the various Bulletins and Reports published by Ministry of Commerce & Industry and Department of Industrial Policy and Promotion, Government of India, New Delhi.

At last it may be said that most of the policy decisions made by Government of India seems to have been brought by chance events, the Indian government has at least to be credited for making the right decisions and implementing them correctly. With every major shift in policies made by the Indian government, the automotive industry has come out stronger and better.

**AUTO POLICY- 2002**

Auto Policy-2002 comprises several policy decisions that aim at making the Indian automotive industry globally competitive and for raising its contribution to the economy. Discontinuation of foreign exchange neutrality requirement and approval of 100% FDI via automatic route are the policy decisions aimed at creating a more conducive environment for the foreign investors.

**OBJECTIVES OF POLICY**

This policy aims to promote integrated, phased, enduring and self-sustained growth of the Indian automotive industry. The objectives are to-

- Exalt the sector as a lever of industrial growth and employment and to achieve a high degree of value addition in the country;
Promote a globally competitive automotive industry and emerge as a global source for auto components;

- Establish an international hub for manufacturing small, affordable passenger cars and a key center for manufacturing Tractors and Two-wheelers in the world;

Ensure a balanced transition to open trade at a minimal risk to the Indian economy and local industry;

- Conduce incessant modernization of the industry and facilitate indigenous design, research and development;

  Steer India's software industry into automotive technology;

- Assist development of vehicles propelled by alternate energy sources;

  Development of domestic safety and environmental standards at par with international standards.

**PRIME FEATURES OF AUTO POLICY- 2002**

The prime features of Auto Policy-2002 may be discussed with the help of following headings-

- **FOREIGN DIRECT INVESTMENT**

  Automatic approval for foreign equity investment up to 100% of manufacture of automobiles and component was permitted.

- **IMPORT TARIFF**

  The provisions for import tariff were also redesigned in auto policy-2002 as mentioned below-
of The occurrence of import tariff was fixed in a manner so as to facilitate development of manufacturing capabilities as opposed to mere assembly without giving undue protection, ensure balanced transition to open trade, promote increased competition in the market and enlarge purchase options to the Indian customer.

- The Government decided to review the automotive tariff structure periodically to encourage demand, promote the growth of the industry and prevent India from becoming a dumping ground for international rejects.

- In respect of items with bound rates viz. Buses, Trucks, Tractors, CBUs and Auto components, Government made adequate accommodation to indigenous industry to attain global standards.

- In consonance with Auto Policy objectives, in respect of unbound items i.e., Motor Cars, MUVs, Motorcycles, Mopeds, Scooters and Auto Rickshaws, the import tariff was so designed as to give maximum fillip to manufacturing in the country without extending undue protection to domestic industry.

- The conditions for import of new Completely Built Units (CBUs), was restricted as per Public Notice issued by the Director General Foreign Trade (DGFT) having regard to environment and safety regulations.

- Used vehicles imported into the country also had to meet CMVR, environmental requirements as per Public Notice issued by DGFT laying down specific standards and other criteria for such imports.
- Appropriate measures including anti dumping duties were put in place to check dumping and unfair trade practices.

**IMPROVING ROAD INFRASTRUCTURE**

Poor road infrastructure and traffic congestion can be a bottleneck in the growth of vehicle industry. A balanced and coordinated approach will be undertaken for proper maintenance, upgradation and development of roads by encouraging private sector participation besides public investment and incorporating latest technologies and management practices to take care of increase in vehicular traffic.

Besides, for the convenience of traveling, the Government shall also promote multi-model transportation and the implementation of mass rapid transport systems.

- **INCENTIVE FOR RESEARCH AND DEVELOPMENT**

The Government shall promote Research & Development in automotive industry by strengthening the efforts of industry in this direction by providing suitable fiscal and financial incentives. The current policy allows Weighted Tax Deduction under I.T. Act, 1961 for sponsored research and in-house R&D expenditure. This will be improved further for research and development activities of vehicle and component manufacturers from the current level of 125%.

In addition, Vehicle manufacturers will also be considered for a rebate on the applicable excise duty for every 1% of the gross turnover of the company expended during the year on Research and Development carried either in-house under a distinct dedicated entity, faculty or
division within the company assessed as competent and qualified for the purpose or in any other R&D institution in the country. This would include R & D leading to adoption of low emission technologies and energy saving devices.

Government will encourage setting up of independent auto design firms by providing them tax breaks, concessional duty on plant/equipment imports and granting automatic approval.

Allocations to automotive cess fund created for R&D of automotive industry shall be increased and the scope of activities covered under it enlarged.

**BUILDING BYE LAWS FOR RESIDENTIAL, COMMERCIAL AND OTHER USES**

With the growth of vehicles, smooth traffic movement has come under severe strain. The problem has been aggravated because of inadequate provision of parking facilities generally. Starting with metropolitan and important towns, the Government will make pursue to State Governments and Local bodies amendments to make bye laws for upward revision of the parking norms for new residential buildings, construction of common parking for existing residential areas besides parking upgradation in all commercial areas. Multi-storied parking shall also be encouraged.

**ENVIRONMENTAL ASPECTS**

The automotive and oil industry have to heave together to constantly fulfill environment imperatives. The Government will continue to promote the use of low emission fuel auto technology. In the short run,
the Government will encourage the use of short chain hydrocarbons along with other auto fuels of the quality necessary to meet the vehicular emissions norms. In order to facilitate faster upgradation of environmental quality, the Govt. will consider having a terminal life policy for commercial vehicles along with incentives for replacement for such vehicles.

**SAFETY**

Government will duly amend the Central Motor Vehicles Rules, Bureau of Indian Standards (BIS) and other relevant provisions and introduce safety regulations that conform to global standards.

Testing and certification facilities need to be revised and strengthened in accordance with safety standards of global order. Government, in partnership with industry, will tend to this requirement.

○ **HARMONISATION OF STANDARDS:**

Government recognizes the need for harmonisation of standards in a global economy and will work towards it.

The government of India launched Auto Policy-2002 for the overall growth of automobile sector of the country and to ensure the effective implementation of policy following measures were also adopted to realize the policy objectives-

○ Initiatives relating to investment, tariffs, duties and imposts are treated as the instruments to achieve the Policy objectives. These path government’s economic reform and are in harmony with the commitments made to WTO.
- Increased resource allocation to the highways sector to ensure collateral upgradation and development of road infrastructure in step with the increase in the population of vehicles.

- An appropriate regulatory framework for smooth movement of traffic, safety and environmental aspects.

With regard to the role played by the Indian government after independence, it is the one of a facilitator encouraging the automobile firms to achieve higher capabilities and performance. By undertaking liberalization in 1991, the government did away with most of its direct influences (controls and regulations) on the automotive industry. Higher foreign competition was introduced in the industry. However, the induction was not sudden and allowed the indigenous firms to adjust. The benefits from the foreign investment were reaped with the imposition of export obligations and localisation commitments. Efforts are being made to move beyond the factor-driven advantages by encouraging R&D efforts within the industry. The demand standards of the industry are being raised by adopting higher environmental and safety standards.