CHAPTER IV

EVOLUTION OF INDIAN AUTOMOBILE INDUSTRY
DURING 1980 AND 1990 ONWARDS

This chapter has been designed to trace the evolution of automobile industry during third (1980-1990) and fourth phase (since 1991).

Limited Liberalisation and Foreign Collaborations: 1980 TO 1990

The beginning of this phase was marked with the re-election of Mrs. Indira Gandhi as the eighth Prime Minister of India in January 1980. The poor performance of Indian industries exacerbated by the demand problems arising out of unexpected oil shocks of the 1970s had created resentment about the regulatory policies of the government. 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/protective rules administering the industrial sector. It also decided to allow adequate import of technology required for modernisation. The Industrial Policy Statement presented in July 1980 gave an expression to this shift in government policy. Additionally, the statement emphasised the optimum utilisation of installed
capacities, promotion of exports and regionally-balanced economic development. The Sixth FYP (1980-1985) introduced in early 1981 reflected these changes to the industrial policy. One striking feature of this plan as compared to its predecessors was the strong emphasis on exports.

The overall policy shift in the industrial sector brought about important changes within the automotive 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 modernisation were also treated more liberally. The encouragement for the development of CV segment continued in this phase as well. In 1981, the government gave Letter of Intent to four Indian firms for the manufacture of LCVs. All of the four firms were in technical-cum-financial collaboration with Japanese players and were licensed a production capacity of 12,500 vehicles per year\(^1\). The four firms: Swaraj Mazda, DCM-Toyota, Allwyn-Nissan and Eicher Mitsubishi commenced their production in 1985.

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 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 UVs and 2-/3-wheelers.

Thus, the segment came to be classified as a core industry of national economic importance, whose development was to be favoured by the upcoming government policies. Reviewing the development that the passenger car segment had made so far under the existent firms, the government deemed it necessary to increase the competitiveness of the segment by actively participating in it. Consequently, state-owned enterprise Maruti Udyog Ltd. (MUL) entered into collaboration with Suzuki (Japan) in 1982. The Japanese collaborator offered the best deal with three latest car models, 26 per cent equity stake and indigenisation content level agreement of 95 per cent by 1988-89. The first car rolled out of MUL’s factory in 1984 and with this changed the face of India’s automotive industry.
Meanwhile, the government also relaxed the import regulations to encourage the existing 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. PAL bought a license from Fiat (Italy) for the manufacture of its Fiat 124 model and reengineered it to receive a fuel-efficient Nissan engine produced under license from Nissan (Japan). Similarly, HML purchased the rights to manufacture phased-out Vauxhall Victor model of Vauxhall Motors (UK) and modified it to receive a fuel-efficient Isuzu engine licensed from Isuzu (Japan). Sipani Automobiles obtained a license to manufacture the British Reliant Kitten. On the other hand, Standard Motors which had shelved its passenger car production in late 1970s made a bid to re-enter the market with a new car model based on the Rover 3500 (UK) and its own engine.

Under the competition from MUL’s newly launched UV model, M&M which had enjoyed monopoly in the UV segment so far was also compelled to upgrade its model with a new Peugeot engine licensed from
Peugeot (France). The 2-wheeler segment also saw the entry of new players: Kinetic Honda and Hero Honda in collaboration with Honda Motors (Japan) and LML in collaboration with Vespa (Italy). The existing players entered into collaborations with Japanese automotive firms: Bajaj Auto with Kawasaki, TVS Motors with Suzuki and Escorts with Yamaha. In the face of competition from new Japanese motorcycles, Enfield India introduced new models based on the designs bought from Zundapp (Germany). With regard to the CV segment, Ashok Leyland collaborated with Hino (Japan) for new engines. TELCO on the other hand made greater investments in its internal R&D capability. Thus, the entry of new players accompanied by import relaxations in early 1980s brought about fundamental changes to the structure of Indian automotive industry.

Indian consumers who had hitherto been restricted to a few models with outdated technology, were made available a variety of choices of better-technology and fuel-efficient vehicles in 1980s. In order to make sure that the new automobiles are affordable and therefore having sufficient demand, the government continued its ‘automatic growth’ and ‘regularisation of excess capacity’ schemes of the late 1970s. With the addition of all the automotive segments to Appendix-I list by 1982, 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 CV and 2-/3-wheeler segment to automatically expand up to their installed capacities so as to achieve efficient scale. This was renewed in 1982 as re-endorsement of capacity up to 133 per cent of the best production of the previous five years, given that the capacity utilisation had reached 94 per cent (reduced to 84 per cent in 1986) and was available to Appendix-I MRTP/FERA companies as well. 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”\(^2\). 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 JVs 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.

The fresh economic ideology and political perspective of the new Prime Minister was reflected in the Seventh FYP (1985-1990), with its focus on exports and liberalisation in the industrial production. Subsequently, in January 1985 the government announced a policy of ‘broad-banding’ encompassing the entire industrial sector that allows manufacturers to use the installed machinery flexibly. Under broad-banding scheme, the production licenses were issued for a broader product group as opposed to the single-product licenses issued previously. The manufacturers were not required to take any additional clearances for diversifying within their product groups as long as the diversification did not necessitate any new investment in machinery. The scheme was conceived to liberalise production by providing the manufacturers with freedom to select the right product mix to be produced, and thereby make optimal use of their capital investments.
In 1985, the broad-banding grouped passenger cars, CVs and UVs 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 LCV segment with an indigenously developed model in 1986. It also entered into the UV 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, Mr. Rajiv Gandhi was compelled to undo some of the newly introduced modifications. Nevertheless, the limited liberalisation 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/FERA implementations and broad-banding facilitated in driving the change. The drive for indigenisation continued during this phase with all the vehicle and component JVs required under the phased manufacturing programme to achieve 95 per cent 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 production of cars in the year 1989-90 at 179,278 exceeded that of CVs at 125,051. The production of 2-wheelers,
3-wheelers and UVs in the same year was 1,731,686, 83,752 and 44,309 respectively.

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 components segment was given due attention since its development was considered critical for the modernisation drive. The
relaxations pertaining to relatively liberal entry, growth and imports of foreign supplies were also available to the auto-components segment. The broad-banding product categories for auto-components were quite large, enabling sufficient diversification by the existent players. In March 1985, the auto-component segment was delicensed under IDRA for non-MRTP and non-FERA companies with the condition that the firm was not located within urban or municipal limits. Further, for MRTP/FERA companies the delicensing was applicable for investment in backward areas. Encouragement to the small-scale sector was also continued during this phase with the government raising the investment limit INR 1 million to INR 2 million for small scale units and INR 1.5 million to INR 2.5 million for ancillary units.\(^3\)

The export performance of the automotive industry between the years 1951 and 1980 had been mediocre. Being a net user of foreign exchange, the automotive industry was given much attention during the sixth plan period for improving its export performance. Accordingly, various export

promotion measures were implemented by the government. As a consequence, the export of Indian automotive industry nearly doubled from INR 1561 million in 1984-85 to INR 3041 million in 1988-89\(^4\).

**Liberalisation and ensuing Globalisation: 1991 onwards**

The economic crisis of 1990-91 followed by a major shift in the country’s overall economic policy framework marked the beginning of this phase. Increased governmental expenditure combined with poor performance of the public undertakings had led to growing budget deficits throughout the 1980s. The financial woes of the country were exacerbated by the commencement of the Gulf War in August 1990. The steep hike in import bill of crude oil coupled with decreasing remittances from Indian expatriates in the Gulf led to a sharp decline in country’s foreign exchange reserves. By the end of 1990, the reserves dropped to levels that were not sufficient for even a fortnight and there was a serious possibility of default. In January 1991, the government accepted a loan from IMF’s Compensatory and Contingency Financing Facility. Subsequently in July 1991, the new

government headed by Prime Minister P. V. Narasimha Rao approached IMF for another loan. The availed loan was accompanied by conditionalities regarding control measures for budget deficit as well as the implementation of economic structural reforms.

In line with its agreement to the conditionalities 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 liberalise 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. Accordingly, a new Industrial Policy Statement was introduced by the government in July 1991. The thrust of the new industrial policy was towards creating a more competitive environment in the sector and removing the barriers to entry and growth of firms. Some important policy decisions made by the government in this regard were as follows:

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• Abolishment of the industrial licensing system for all except a few industries related to strategic and security concerns.

• Automatic approval of FDI up to 51 per cent equity in high-priority industries.

• Automatic clearance for imported capital goods with the condition that the foreign exchange required is available through foreign equity.

• Automatic permission for foreign technology agreements in high-priority industries subject to the prescribed royalty rates or a lump-sum payment not exceeding INR 10 million.

• Amendment of MRTP Act to remove the threshold limit of assets for MRTP companies and large dominant undertakings, which effectively eliminated the need for such companies to obtain MRTP clearances any further.

• Review of the existing portfolio of public investments with greater realism and progressive disinvestment in public enterprises where private sector had developed sufficient expertise and resources.

The sweeping changes in overall industrial policy had a significant impact on the development course of India’s automotive industry. Though a
few liberalisation 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 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 judgements. The liberalisation concerning foreign investment encouraged several global players to enter into the Indian market establishing joint ventures (JVs) with domestic players. While FDI upto 51 per cent was allowed on an automatic basis, the same for more than 51 per cent 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.

While the aforementioned structural reforms benefited the automotive industry over a longer term, the short-term stabilisation measures adopted by the government to counter the crisis adversely affected the industry’s growth. As an immediate measure to improve the country’s balance-of-
payments situation, the government discouraged the consumption of oil by imposing a surcharge of 25 per cent on petroleum products. It also imposed a heavy excise duty on selling price of all the automobiles. For instance, the excise duty on passenger cars was increased from 42 per cent to 53 per cent in August 1990, and further raised to 66 per cent in July 1991\(^6\). Additionally, in order to reduce the trade deficit the rupee was devalued and the auxiliary customs duty was increased. The escalation of the yen-rupee exchange rate combined with the increased costs of production of the newer import-dependent components undermined the performance of firms with recent Japanese collaborations. On the demand side, the overall hike in fuel prices and the credit squeeze to curb the inflation stifled the demand for automobiles in the country. The change in allowed rate of depreciation from 33 per cent to 20 per cent was an additional discouragement for the market\(^7\).

The automotive industry, which saw a negative annual growth rate of 10.1 per cent in the vehicles segment in the year 1991-92, recovered in the subsequent years of the post-reforms period. The excise duty on passenger

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\(^7\) Ibid.,
cars was reduced from 66 per cent to 55 per cent and that on LCVs from 15 per cent to 10 per cent in June 1992\textsuperscript{8}. The excise duties on other vehicle segments were also rationalised. The tariff structure for auto-related imports also underwent changes with the peak tariff rate reduced from 150 per cent in 1991 to 110 per cent in 1992, 85 per cent in 1993, 65 per cent in 1994 and 50 per cent in 1995\textsuperscript{9}. The tariff rate for capital goods also underwent similar reductions. Additionally, the rupee was moved to full convertibility in March 1993, and the imports and exports were to be made at market-determined exchange rate. Thus, the lowering of trade barriers, the possibility of making direct investments and the promising growth potential of the domestic market, brought India onto the radar of international automotive players.

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 (JVs) with the local firms – Mercedes-Benz

\textsuperscript{8} Ibid.,


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 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. The availability of license was subject to
execution of Memorandum of Understanding (MoU) signed with the DGFT. As described in GOI 2002\textsuperscript{10}, such a MoU required the companies to:

i. Have a plan for actual production and not just merely assemble SKD/CKD kits.

ii. Bring in at least US $ 50 million for having operations as a subsidiary.

iii. Reach an indigenisation content level of 50 per cent in the third and 70 per cent in the fifth year from the date of clearance of the first lot of imports.

iv. Neutralise foreign exchange outgo on imports by equivalent exports. Such an obligation commences from the third year of the start of operations.

Eleven companies had signed such MoUs with the DGFT by April 2001\textsuperscript{11}. Meanwhile, the passenger car segment saw the entry of Skoda in 1999. In the 2-/3-wheeler segment, the trend was for the earlier foreign


\textsuperscript{11}Ibid.,
collaborators of 1980s to either acquire majority stake in the JVs or establish independent subsidiaries into the country. Accordingly, Yamaha (1995), Piaggio (1998) and Honda (1999) made their independent foray into the Indian market. With the need for being more investor-friendly, subsequent improvements have been introduced into the automotive policy from time to time. For instance, in Jan. 2000 the requirement of foreign exchange neutrality was done away with for the new investors. Since April 2001, the SKD/CKD and even CBU imports were put on the OGL list, thereby eliminating the need for obtaining license under MoU with DGFT for the new investors. The quantitative restrictions on imports were therefore effectively removed. The export commitments for the already-existing foreign investors were abolished in August 2002.

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 modernisation 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.

Auto Policy 2002 allowed automatic approval of foreign equity investment up to 100 per cent for the manufacture of automobiles and auto-components. With regard to the tariff structure, the policy proposed to fix the import tariffs in a way that the actual production within the country was facilitated over mere assembly, without providing undue protection at the same time. This was mainly applicable to the WTO-unbound segments (passenger cars, UVs and 2-/3-wheelers). For WTO-bound segments (CVs and auto-components), the policy proposed to encourage the domestic players by providing adequate accommodation for attaining global standards. The thrust for automotive R&D continued in this policy, but with renewed vigour. Suitable fiscal and financial incentives were planned for
promoting industry R&D efforts. For instance, a weighted tax deduction of more than 125 per cent was decided for R&D activities of vehicle and component manufacturers. The policy also planned to increase the allocations to the automotive cess fund created for R&D of automotive industry and to expand the scope of activities covered under it. Auto Policy 2002 also stressed upon strengthening the environmental and safety standards.

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 from 1,606,010 2-wheelers, 166,389 cars, 143,171 CVs, 76,750 3-wheelers and 31,530 UVs in 1991-92 to 4,271,327 2-wheelers, 564,052 cars, 162,508 CVs, 212,748 3-wheelers and 105,667 UVs in 2001-02. Along with reductions in the overall tariff level to open up India for international trade, the government has also progressively rationalised 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 per cent in 1991-92 to 24 per cent in 2008-09.39 With regard to the import tariffs in the
year 2008-09, the custom duty on WTO-bound segments (CVs and auto-components) has been reduced to 10 per cent, whereas that for the WTO-unbound segments (passenger cars, MUVs and 2-/3-wheelers) has been 10 per cent for CKD units and 60 per cent for SKD/CBU form\textsuperscript{12}.

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. With its accession to United Nations Working Party-29 in 2005, India has been making efforts towards the harmonisation of auto standards world-wide and therefore integrating its auto industry into the global automotive industry.

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.

INDUSTRY CLUSTERS

The Indian automotive industry has been noticed to have grown in clusters, which are evident in and around Manesar in North, Pune in West, Chennai in South, Jamshedpur-Kolkata in East and Indore in Central India\textsuperscript{13}. ACMA describes such a pattern of investments in the country as ‘regionally balanced’\textsuperscript{14}. Figure 4.1 below indicates the distribution of manufacturing plants of major automobile players across different states and union territories in India.


TABLE 4.1
DISTRICT-WISE DISTRIBUTION OF MAJOR AUTO PLAYERS’ PLANTS IN LEADING AUTO STATES

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>State</th>
<th>District</th>
<th>No. of automobile mfg. plants (SIAM members)</th>
<th>No. of auto-component mfg. plants (ACMA members)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Maharashtra</td>
<td>Pune</td>
<td>10</td>
<td>94</td>
<td>104</td>
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<td></td>
<td></td>
<td>Aurangabad</td>
<td>2</td>
<td>31</td>
<td>33</td>
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<tr>
<td></td>
<td></td>
<td>Mumbai</td>
<td>1</td>
<td>17</td>
<td>18</td>
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<tr>
<td></td>
<td></td>
<td>Nashik</td>
<td>3</td>
<td>15</td>
<td>18</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>16</td>
<td>157</td>
<td>173</td>
</tr>
<tr>
<td>2.</td>
<td>Haryana</td>
<td>Gurgaon</td>
<td>7</td>
<td>116</td>
<td>123</td>
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<tr>
<td></td>
<td></td>
<td>Faridabad</td>
<td>1</td>
<td>40</td>
<td>41</td>
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<tr>
<td></td>
<td></td>
<td>Rewari</td>
<td>1</td>
<td>13</td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>9</td>
<td>169</td>
<td>178</td>
</tr>
<tr>
<td>3.</td>
<td>Tamil Nadu</td>
<td>Kanchipuram</td>
<td>5</td>
<td>39</td>
<td>44</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tiruvallur</td>
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<td>35</td>
<td>38</td>
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<td></td>
<td>Krishnagiri</td>
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<td>26</td>
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<td></td>
<td></td>
<td>Coimbatore</td>
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<td>17</td>
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<tr>
<td></td>
<td></td>
<td>Chennai</td>
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<tr>
<td>Total</td>
<td></td>
<td></td>
<td>15</td>
<td>122</td>
<td>137</td>
</tr>
</tbody>
</table>

Source: Self-construction based on authors’ own study of the location of manufacturing plants of major automobile and auto-component players in India.
The manufacturing plants of auto-component players in India are usually located near their OEM customers. Figure 4.1 therefore also indicates the major auto clusters in India. As could be observed in the figure, the automotive clusters in India span across different states, with a certain state having the lead in attracting auto investments. Location advantages such as infrastructure, access to pool of educated workforce and supportive state government policies are some of the factors that help explain such a difference between the states within a cluster. The above Table 4.1 provides a district-wise distribution of manufacturing plants of major automobile and auto-component players across the three leading auto states in India.
FIGURE 4.1
DISTRIBUTION OF AUTOMOBILE PLANTS ACROSS INDIAN STATES

Source: Self-construction based on the authors’ own study of the location of manufacturing plants of major automobile and auto-component players in India.
JOINT VENTURE

The Indian automobile industry was governed by regulations since the country became independent in 1947. Import collaborations and equity ventures were severely restricted by the government. Capacity expansion was restricted and required licenses issued by the government and technology transfer from foreign companies was subject to government approval.

The year 1980 was a red letter year in the annals of the Indian automobile industry since it was during this period that the first phase of liberalization was announced. As a result, the government has permitted tie-up arrangements with foreign firms in the form of technical and financial collaborations with the results that almost all the firms have imported technology through collaborations with emphasis on fuel-efficiency, pollution and safety standards. Besides, the government has permitted firms to diversify their production activities and also to produce different types of vehicles using the same plant. The government also announced important policy changes resulted in higher growth of the industry than in the earlier decades.
In 1981, the government decided to set up Maruti Udyog in collaboration with Suzuki Motor Company of Japan, the first multi-national company (MNC) to enter the country\(^\text{15}\). Maruti started mass production by introducing a “people’s” car in the economy segment. This leads to a boom in demand for automobiles in India. Market liberalization in 1991 and a changed policy allowed free entry to foreign companies. The world turned its eye on India. The first to enter the market was the South Korean major, Daewoo. It was Cielo in direct competition with Maruthi Esteem\(^\text{16}\). It was followed by Premier Automobiles which tied up with Peugeot of France for its 309 model car and also with Fiat for its ‘Uno’ model car\(^\text{17}\). Next General Motors tied up with Hindustan Motors and launched ‘Opel Astra’. Sipani Automobiles launched British Rover Montego model car in a tie up with UK based Rover Groups. Mercedes tied up with TELCO, to produce the E220 and 250D. Ford motor tied with Mahindra to assemble the Ford Escord in Nasik. Hyundai entered India through a 100 per cent owned subsidiary

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\(^{16}\)The Hindu *Survey of Indian Industry*, 1997, p.291

followed by Mitsubishi along with Hindustan Motors. Honda tied up with Hero Motors and Toyota with Kirloskars\textsuperscript{18}. MNCs have not chosen to entered their own and have entered into joint ventures with Indian partners. Today almost all the major global companies are present in India producing two-wheelers and passenger cars in almost all segments.

In the 2-wheeler front, Enfield, Escorts and Jawa were the three major companies, which dominated the Indian market for a long time. Till the end of the 1970s they were producing conventional vehicles without introducing any innovations. At the beginning of the 1980s many companies had tied up with Japanese companies for the production of light and fuel efficient bikes\textsuperscript{19}. In the motorcycle segment, the first to come in was Suzuki Motor Corporation with TVS in 1984. Honda followed within a year, in a joint venture with the Hero group. Then Kawasaki and Yamaha entered into licence agreements with Bajaj Auto and Escorts which later changed into a joint venture. Piaggio formed a joint venture with LML. In the scooter


category, manufacturing was started in the 1950s by APL in collaboration with Innocentre of Italy and in 1972 Bajaj Auto began its operation in collaboration with Piaggio of Italy. Later Kinetic joined hands with Honda of Japan. In the moped category, Majestic started with Steyr Daimler Push of Austria; Kinetic Engineering with Hyundai Motors of South Korea and Sundaram Clayton with Clayton Dewandre Holdings Ltd., UK. (Detailed JVs information is given in Appendix D)