(A) REVIEW OF LITERATURE

Review of literature is a body of text that aims to review the theoretical and methodological contributions of related authorities and offices to a particular research topic. Its’ ultimate goal is to make the researcher up to date with current literature on a topic and forms the basis for another goal, such as future research that may be needed in the area. It must be remembered that reviews of literature are based on secondary sources, and as such, do not report any new or original experimental work. In general, review of literature surveys scholarly books, articles, dissertations, conference proceedings etc. relevant to a particular area of research. The purpose is to offer an overview of significant literature published on the topic.

In the present research work, researcher made an effort to review the books, articles, dissertations and reports of different government and non-government agencies etc. which are directly linked up with the foreign direct investment in India in general and in automobile sector in particular along with problems and prospects of automobile sector of the country with the help of following headings-

Having started with the world automobile history, Niranjan Tomar\(^2\) briefs the chronological growth of Indian automobile industry in

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\(^2\) Niranjan Tomar.: *Automobile Industry-Challenges and Choices*; Kanishka Publishers and Distributors, New Delhi; 2006; P. 32.
the following way, “With the invention of the wheel in 4000 BC, man’s journey on the road of mechanized transport had begun. Since then he continually sought to devise an automated, labor saving machine to replace the horse. Innumerable attempts reached conclusion in the early 1760s with the building of the first steam driven tractor by a French Captain, Nicolas Jacob Cugnot. It was however left to Karl Benz and Gottlieb Daimler to produce the first vehicles powered by the internal combustion engine in 1885. It was then that the petrol engine was introduced, which made the car a practical and safe proposition. The cars in this period were more like the cars on our roads today, with cars came the era of speed.

From the singsong rhythm of the bullock cart to the jet-age, India has also traveled a long way. It was in 1898 that the first motorcar rode down India’s roads. From then till the First World War, about 4,000 cars were directly imported to India from foreign manufacturers. The growing demand for these cars established the inherent requirements of the Indian market that these merchants were quick to pounce upon.

The Hindustan Motors Ltd. (HML) was set up in 1942 and in 1944; Premier Automobile Ltd. (PAL) was established to manufacture automobiles in India. However, it was PAL who produced the first car in India in 1946, as HML concentrated on auto components and could produce their first car only in 1949.

The protectionist policies continued to remain in place. The 60s witnessed the establishment of the two-three-wheeler industry in India and in the 70s, things remained much the same.
Since the 80s, the Indian car Industry has seen a major resurgence with the opening up of Indian shores to foreign manufacturers and collaborators.

The 90s have become the melting point for the car industry in India. The consumer is king. He is being constantly wooed by both the Indian and foreign manufacturers. Though sales had taken a dip in the first few months of 1999, it is back to boom time.

New models like Maruti’s Classic, Alto, Station Wagon, Ford’s Ikon, the new look Mitsubishi Lancer are all being launched with an eye on the emerging market. In these last years of the millennium, suffice it is to say that Indian cars will only grow from strength to strength.”

Having described the brief history of automobile industry of India Hans-Michael Huber³, MD, Daimler Chrysler, India says, “Until the early 1990s, the automotive sector in India was highly protected. This was in the form of steep import tariffs and measures that restricted the participation of foreign companies. Hindustan Motors Ltd. (HML) and Premier Automobile Ltd. (PAL) that were set up in 1940’s dominated the vehicle market and industry. In the 1950s, the arrival of Tata Motors, Bajaj Auto, and Mahindra & Mahindra led to steadily increasing vehicle production in India, while the 1960s witnessed the establishment of the two- and three-wheeler industry in India. However, the automotive industry witnessed tremendous growth after the entry of Maruti Udyog in the 1980s. In 1983, the government permitted Suzuki, the only FDI player, to enter the market in a joint venture with Maruti - a state operated enterprise at the time. Ten years later, as part of a broader move to

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³ Hans Michael Huber; The Indian Automotive Scenario; A report published by Federation of Automobile Dealers Associations; www.fadaweb.com; 26 November, 2011.
liberalise its economy, India de-licensed passenger car manufacturing and opened it up further to foreign participation. That brought a wave of FDI to India's vehicle industry. Import barriers have been progressively relaxed. Today, almost all of the major global players are present in India. The automotive industry is today a key sector of the Indian economy and a major foreign exchange earner for the country.”

Nutan Kriplani4 presented a report on automobile sector named ‘Automotive Market in India’ on the net. This report provides detailed overview of the automotive market in India with relevant facts and figures regarding the structure and size, growth rates, key players, main challenges, restraints, international trade as well as an indication of future outlook of the industry. According to this report the automotive industry in India is one of the largest industries and a key sector of the economy. The Indian automotive industry began its journey from 1991 with the government's de-licensing of the sector and subsequent opening up for 100 per cent FDI through automatic route. Since then many large global companies have set up their facilities in India taking the production of vehicle from 2 million in 1991 to 9.7 million in 2005-2006 and in 2008-09 it touched to 11.18 million units.

The entry of global auto-majors into India has significantly altered the automobile manufacturing scenario in the country. The changes in design and adaptation of international technologies have enabled the Indian automotive industry to compete globally, and thus are also exposed to global challenges. Alongside the challenges, there is also a plethora of opportunities to Indian automotive industry, which needs to be capitalized

4 www.researchandmarket.com
and can make India emerge as a successful global player. At present, India is the world's:

- Largest tractor and three-wheel vehicle producer
- Second largest two-wheel vehicle producer
- Fourth largest commercial vehicle producer
- Eleventh largest passenger car producer.

Kerin, Roger A. & Peterson, R.A.\(^5\) utter about the prospective of automobile sector of the country after entry of foreign players in this sector, “Until the mid-1990s, automobile industry in India consisted of just a handful of local companies with small capacities and obsolete technologies. Nevertheless, after the sector was thrown open to foreign direct investment in 1996, some of the global majors moved in and, by 2002, Hyundai, Honda, Toyota, General Motors, Ford and Mitsubishi set up their manufacturing bases. Over the past four to five years, the country has seen the launch of several domestic and foreign models of passenger cars, multi-utility vehicles (MUVs), commercial vehicles and two-wheelers and a robust growth in the production of all kinds of vehicles. Moreover, owing to its low-cost, high-quality manufacturing, India has also emerged as a significant outsourcing hub for auto components and auto engineering design, rivaling Thailand. German auto-maker Volkswagen AG, too, is looking to enter India. India is expected to be the small car hub for Japanese major Toyota. The car, a hot hatch like the Swift or Getz is likely to be exported to markets like Brazil and other Asian countries. This global car is crucial for Toyota, which is looking to

improve its sales in the BRIC (Brazil, Russia, India, China) markets. A heartening feature of the changing automobile scene in India over the past five years is the newfound success and confidence of domestic manufacturers. They are no longer afraid of competition from the international auto majors. As the automobile industry has matured over the past decade, the auto components industry has also grown at a rapid pace and is fast achieving global competitiveness both in terms of cost and quality.”

Having described the meaning of FDI, **K. Rajalaksmi and T. Ramchandaran**\(^6\) elaborate, “FDI is the process whereby residents of one country (the home country) acquire ownership of assets for the purpose of controlling the production, distribution and other activities of a firm in another country (the host country). Foreign direct investment (FDI) is a measure of foreign ownership of productive assets, such as factories, mines and land. Increasing foreign investment can be used as one measure of growing economic globalization. According to International Monetary Fund (IMF) definition, FDI has three components, viz., equity capital, reinvested earnings and other direct capital. A large number of countries, including several developing countries report FDI inflows in accordance with the IMF definition, which include reinvested earnings and other direct capital flows, besides equity capital. India has become the center of attraction for global car makers given the immense opportunity with mid-income masses aspiring to own a car as well as abundance of raw

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\(^6\) Dr. A. B. Lal; **Impact of FDI on Automobile Sector of India**; An article published in the souvenir of National Seminar held on S D College, Muzaffanagar; 26-27 Nov., 2005; p.p. 17-19
materials and low-cost labour. Favourable Foreign Direct Investment (FDI) policy makes the entry of international players easy into India. Various manufacturers are envisaging India as the hub for small car production which CARE Research believes will drive the car exports from our country.”

Dr. A. B. Lal⁷, Dean, Faculty of Commerce & Business Administration, CCS University, Meerut and an eminent scholar of international finance explains the importance of FDI for India in present liberalized environment and also alarms about the vaporized nature of FDI in the following words, “With the liberalization of Indian economy, a large Indian market has been thrown open to foreign direct investment. FDI is seen as a means to supplement domestic investment for achieving a higher level of economic growth in development. FDI benefits domestic industry as well as the consumers by providing opportunities for technological up gradation, access to global managerial skills and practices, optimal utilization of human and natural resources, making Indian industry international competitive, opening of export market, providing backward and forward linkages and access to international quality goods and services. Most importantly, FDI is central for India’s integration into global production chain, which involves production by multinational corporations spread across locations all over the world.

Now, in India, it is the time for developing strategic plan for rising finance to action our priorities. FDI is key tool for it. While developing a strategic plan for FDI one has to understand the bitter truth that foreign investors are not interested in our developmental plans but they are more

⁷ Kerin, Roger A. & Peterson, R.A.; Future of Automobile Sector in India; Allyn & Bacon, Inc, Boston 2005; P.86.
or less interested in their profits and that to with short gestation period. We must address the basic question that why foreign investors are interested for investing in India. The answer is obvious—for profits. So, we must synchronize their profits with our investment needs.”

FDI is a part of international capital inflow for home country. K. Janardhanam, Nirmala M. & Pratima Pandey⁸ express the importance of FDI for India in the following words, “International capital flows have significant potential benefits for economies around the world. Countries with sound macroeconomic policies and well functioning institutions are in the best position to reap the benefits of international capital flows and minimize the risks. Much of these capital flows is due to trade in equity and debt markets. FDI refers to the foreign investments which are made on the basis of issue/transfer of equity/preference shares of Indian companies to foreign direct investors. In recent years, India has emerged as a desirable location for FDI by investors from the United States and many other countries. Its rapidly growing economy, low wages and educated work force have attracted FDI in the services and manufacturing sectors to serve both the Indian market and third country markets. Foreign investors’ enthusiasm for India, however, has been tempered by widespread poverty,

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⁸ K. Janardhanam, Nirmala M. & Pratima Pandey; *FDI Practices in Automobile Sector*; International Journal of Marketing and Technology, USA; Volume 1, Issue 1, July, 2011; p. 32
rigidity in the labour market, rising salaries and high employee
turnover in some industries, an antiquated infrastructure, weakens
in the overall educational system and excessive bureaucracy and
corruption.”

Nirupam Bajpai and Jeffrey D. Sachs discussed the importance
of FDI for developing countries in a very simple way, “In the early stages
of industrialization in any country foreign capital plays an important role.
Their role can be better understood under the following heads:

- **Increase in Resources**: Foreign capital not only provides an addition
to the domestic savings and resources, but also an addition to the
productive assets of the country. It helps to increase the investment
level and thereby income and employment in the recipient country.

- **Risk Taking**: Foreign capital undertakes the initial risk of developing
new lines of production. It has with its experience, initiative, resources
to explore new lines. If a concern fails, losses are borne by the foreign
investor.

- **Technical Know-how**: Foreign investor brings with him the technical
and managerial know how. This helps the recipient country to organise
its resources in most efficient ways i.e. the least costs of production
methods are adopted. They provide training facilities to the local
personnel they employ.

- **High Standards**: Foreign capital brings with it the tradition of
keeping high standards in respect of quality of goods, higher real
wages to labour and business practices. Such things not only serve the

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interest of investors, but they act as an important factor in raising the quality of product of other native concerns.

**Marketing Facilities:** Foreign capital provides marketing outlets. It helps exports and imports among the units located in different countries.

- **Reduces Trade Deficit:** Foreign capital by helping the host country to increase exports reduces trade deficit. The exports are increased by raising the quality and quantity of products and by lower prices.

- **Increases Competition:** Foreign capital may help to increase competition and break domestic monopoly. Foreign capital is a good barometer of world's perception of a country's potential.

It is rightly said that a satisfied foreign investor is the best commercial ambassador a country can have. To sum up, foreign capital helps three important areas that are necessary for the economic development of a country. These three areas are savings, trade and foreign exchange and technology. Foreign capital performs three gaps filling function i.e, i) savings gap ii) trade gap iii) and technological gap in the recipient country's economy. It encourages development of technology, managerial expertise, integration with other economies of the world.”

**Kulwinder Singh**¹⁰ in his study “Foreign Direct Investment in India: A Critical analysis of FDI from 1991-2005” explores the uneven beginnings of FDI, in India and examines the developments (economic and political) relating to the trends in two sectors: industry and infrastructure. The study concludes that the impact of the reforms in India

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on the policy environment for FDI presents a mixed picture. The industrial reforms have gone far, though they need to be supplemented by more infrastructure reforms, which are a critical missing link.

Chandan Chakraborty and Peter Nunnenkamp\textsuperscript{11} in their study “Economic Reforms, FDI and its Economic Effects in India” assess the growth implications of FDI in India by subjecting industry – specific FDI and output data to Granger causality tests within a panel co-integration framework. It turns out that the growth effects of FDI vary widely across sectors. FDI stocks and output are mutually reinforcing in the manufacturing sector. In sharp contrast, any causal relationship is absent in the primary sector. Most strikingly, the study finds only transitory effects of FDI on output in the service sector, which attracted the bulk of FDI in the post – reform era. These differences in the FDI – Growth relationship suggest that FDI is unlikely to work wonders in India if only remaining regulations were relaxed and still more industries opened up o FDI.

Basu, Nayak and Vani Archana\textsuperscript{12} in their paper “Foreign Direct Investment in India: Emerging Horizon”, intends to study the qualitative shift in the FDI inflows in India in – depth in the last fourteen odd years as the bold new policy on economic front makes the country progress in both quantity and the way country attracted FDI. It reveals that the country is not only cost – effective but also hot destination for R&D activities. The study also finds out that R&D as a significant determining


factor for FDI inflows for most of the industries in India. The software industry is showing intensive R&D activity, which has to be channelized in the form of export promotion for penetration in the new markets. The study also reveals strong negative influence of corporate tax on FDI inflows.

Having presented a detailed report on the impacts of FDI in automobile sector of India, Srinivas Gumparthi\textsuperscript{13}, Assistant Professor, SSN School, Kalavakkam says, “The foreign direct investment in Indian automobile industry has opened up new avenues for the development of this important sector of Indian industries. The liberalization of government policies regarding FDI in the automobile industry of India has increased the scope of this industry. Initially, the automobile industry of India was ruled by national vehicle manufacturers like Premier Automobile and Hindustan Motors Ltd. The entrance of foreign automobile companies in the market was restricted by the imposition of high import tariffs and other policies and measures. The first FDI player in the Indian automobile industry was Suzuki. In 1980s this company entered into a joint venture with Maruti Udyog, a state run enterprise. The then Indian government permitted this company to enter the Indian automobile market in 1983. In 1991, the government of India liberalized its policies regarding the automobile industry of India Foreign Direct Investment in the automotive industry of India was permitted. In 1993, FDI was also allowed in the passenger car segment of Indian automobile industry. The liberalization of government policies with regard to FDI in

\textsuperscript{13} Srinivas Gumparthi; FDI in Indian Automobile Industry; EconomyWatch, Delhi; 30 April 2010; p. 9
Indian automobile industry has resulted in the rapid growth of this industrial sector post 1993. The major global players in the automobile industry have invested in the Indian vehicle manufacture as well as auto component part manufacture. The major foreign players who have a significant role in the development of Indian automobile industry include the following:

- Ford from USA
- DaimlerChrysler AG from Germany
- General Motors from USA
- Suzuki from Japan
- BMW from Germany
- Honda from Japan
- Renault from France
- Hyundai from South Korea
- Toyota from Japan

Foreign Direct Investment in the automobile industry of India has helped in the growth of this sector in terms of production, domestic sales and export. FDI is also permitted in the manufacture of auto components in India.”

Meenu Tiwari raises few questions concerning with effectiveness of FDI in the growth of developing countries in a very constructive manner, “Economic integration and the growing movement of capital across international borders have dramatically altered the sources of local

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14 Meenu Tiwari; Engaging the New Global Interlocutors: Foreign Direct Investment and the Transformation of Tamil Nadu's Automotive Supply Base; Paper prepared for the Government of Tamil Nadu as part of the Center for International Development, Harvard University's Research and Advisory Project for the Tamil Nadu Government; March 31, 2001; p.p. 2
industrial growth. As multinational firms look toward regions across the world for relocation opportunities to lower costs and enter new markets, policy makers are vying for these investments as tools to generate jobs, boost exports, and upgrade local skills and technical capabilities. The automobile industry is one example of a sector that has seen massive flows of foreign direct investment in emerging markets such as China, India, Eastern Europe and Latin America in the past decade. The changing nature of the global automotive industry, with growing consolidation among major assemblers and their increasing reliance on a tight tier of internationally mobile primary suppliers has however, complicated the realisation of these hoped for developmental benefits in host countries. In India, for example, intensifying competition between assemblers’ global supply sources and domestic component producers, according to some accounts, is squeezing established domestic auto-industry players out of the top segments of the market. A key question that emerges then, from the perspective of host countries is: when and under what conditions does foreign direct investment in key manufacturing sectors, like the auto industry, lead to improved regional competitiveness, employment and growth, and why do some regions and countries do better than others in this process. What public policy lessons does this generate for governments struggling to manage the impact of liberalization and internationalization on their regional industries?”

**Blankenship and Doyle**\(^ {15} \) points out the reasons of present growth of automobile sector of India with the help of following words, “The automotive industry comprises of the automobile and the auto component

\(^ {15} \) Blankenship, A.B. & Doyle; J.B; **Indian Automobile Industry**; D.B Taraporevala sons & CO. Pvt. Ltd., Bombay; 2008; P.46.
sectors. It includes passenger cars; light, medium and heavy commercial vehicles; multi-utility vehicles such as jeeps, scooters, motor-cycles, three wheelers, tractors, etc; and auto components like engine parts, drive and transmission parts, suspension and braking parts, electrical, body and chassis parts etc.

The growth of Indian middle class, with increasing purchasing power, along with strong macro-economic fundamentals has attracted the major auto manufacturers to Indian market. The market linked exchange rate, well established financial market, stable policy governance work and availability of trained manpower have also shifted new capacities and flow of capital to the auto industry of India. All these have not only enhanced competition in auto companies and resulted in multiple choices for Indian consumers at competitive costs, but have also ensured a remarkable improvement in the industry's productivity, which is one of the highest in Indian manufacturing sector.”

Jyoti Tripathi Shukla\textsuperscript{16} discusses the leading milestones of Indian auto industry which are attracting FDI in this sector with the help of points, “The automobile sector has contributed largely in making India a prime destination for many international players in the automobile industry who wish to set up their businesses in India. Subsequent to the liberalization, the automobile sector has been aptly described as the sunrise sector of the Indian economy as this sector has witnessed tremendous growth. The leading milestones of Indian auto industry which are attracting FDI in this sector are as under-

\textsuperscript{16} Jyoti Tripathi Shukla; \textit{FDI Inflows to Automobile Industry in India} Article published in the book named \textit{Challenges of Globalization - Strategies for Competitiveness} Published by Macmillan Publishers India Ltd.; , New Delhi; 2011; p.p. 19
At present 100% Foreign Direct Investment (FDI) is permissible under automatic route in this sector including passenger car segment. The import of technology/technological upgradation on the royalty payment of 5% without any duration limit and lump sum payment of USD 2 million is also allowed under automatic route in this sector.

- Automobile majors such as Maruti Udyog, Toyota, Hyundai have now finalised their plans to invest in some of the critical auto components.

  Passenger Vehicles segment in 2010 (April-August), grew at 33.88 percent over same period last year. Passenger cars grew by 34.32 percent, utility vehicles grew by 22.56 percent and multipurpose vehicles grew by 50.68 percent in April-August 2010 over same period last year.

- The overall domestic sale of commercial vehicles segment registered growth of 44.75 percent in 2010 (April-August) as compared to the same period last year. Medium & Heavy Commercial Vehicles (M&HCVs) registered growth at 65.91 percent and Light Commercial Vehicles (LCVs) grew at 29.68 During 2010 (April-August), three wheelers sales recorded a growth rate of 20.15 percent. While passenger carriers grew by 23.84 percent and goods carriers grew at 5.46 percent in this period.

- Two wheelers registered a growth rate of 27.22 percent in 2010 (April-August). Scooters, mopeds and motorcycles grew by 44.45 percent, 24.18 percent and 24.41 percent respectively.”
R. S. Gaur\textsuperscript{17} realises the need for a comprehensive automotive policy for the steady growth of automobile sector of India. In the support of his views, he says, “Indian auto sector needs to grow collaterally and in harmony with world industry. India has the potential to be a global automotive power. However, concerted efforts will be required to take auto manufacturing to a self-sustaining level where they shall have volumes, generate requisite technology and meet evolving emission requirements. The present auto policy, 2002 has drawn many overseas companies into India but needs to be more investor friendly, address emerging problems and be WTO compatible. The Indian car market is full of possibilities; but present demand profile inhibits volume production, saves by a few only. World over, the majors have consolidated to elevate technology, enlarge product range, access new markets, cut costs and craft versatility. They have resorted to common platforms, modular assemblies and systems integration by component suppliers and E-Commerce. The automotive industry is in the midst of a major structural transformation in today's globalised scenario. "System Supply" of integrated components and sub-systems is becoming the order of the day, with individual small components being supplied to the system integrators instead of the vehicle manufacturers. In this process, most of the SSI units manufacturing smaller individual components are on their way to become tier 2 and tier 3 suppliers, while the larger companies including most MNCs are being transformed into tier 1 companies, which purchase from tier 2 & 3, and sell to the auto manufacturers. Due to all these the necessary amendments in the present auto policy are much needed.”

\textsuperscript{17} Gaur R.S.; \textit{Changing Phase of Automobile Industry}; Universal Book Stall, New Delhi; 2008; P.1.
The export competitiveness of Indian automotive industry is presented by S. Prahalathan, General Manager and Rahul Mazumdar, Manager, Exim Bank in its project report prepared for the Occasional Paper Series of Exim Bank. They marked that the automotive industry happens to be the cornerstone of some of the most influential economies in the world, like USA and Japan. Indian automotive industry has also been increasingly playing similar role contributing to the economic and industrial development in the country. In the last few years, Indian automotive market has emerged as one of the most vibrant markets in the world, with increasing number of technology transfers, foreign investments and R&D. Though there is slowdown in demand for automobiles due to recessionary conditions, in the long term there are opportunities for Indian automotive industry with an increasing trend in outsourcing of engineering design, assembly and manufacturing. As the world economy recovers from the recessionary trends of 2008, the Indian automotive industry would progress at the backdrop of a relatively healthy economy and buoyed by factors like quality manpower and lower operational costs. Global majors may increasingly look towards countries like India in order to safeguard their margins and thereby making India an export hub.

India is not a major exporter of automobiles in the world; however, India’s automobile exports have grown during the liberalized economy period. India is ranked at seventh position in the world with regard to

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18 S. Prahalathan and Rahul Mazumdar; Indian Automotive Industry at the Crossroads; Occasional Paper Series no. 129; Published by Quest Publications, New Dehi for Export-Import Bank of India; December 2008; P.114-115.
export of chassis fitted with engines (HS code 8706); tenth position with regard to export of work trucks (HS code 8709), eleventh position with regard to export of motor cycles and mopeds (HS code 8711), fifteenth position with regard to export of public transport passenger vehicles (HS code 8702), and seventeenth position with regard to export of tractors (HS code 8701). Vehicle exports of India are directed towards developing countries of Asia, Africa and Latin America. For example, about 90% of India’s export of public transport type vehicles (HS code 8702), special purpose vehicles (HS code 8705), motor cycles (HS code 8711), and goods transport vehicles (HS code 8704); nearly three-fourth of India’s export of chassis (HS code 8706), and bodies and parts of vehicles (HS code 8707); and over 50% of India’s export of passenger cars are directed towards these countries. Developed country markets, such as USA and Europe, are principal markets for tractors and passenger cars, accounting for a share of over 50% and 40% respectively.

Omkar Gupta\(^{19}\) suggests the policy measures which should be adopted by Government of India to boost up the automobile industry of the country in the following manner, “The automobile industry of India has great potential to trigger sustained employment, mobility, inter-sectoral industrial growth and thus create conditions for general economic and social well-being. However, there is need to promote and sustain international cooperation between Governments and industry. There is need for coordinated research and development, standardization of

\(^{19}\) Omkar Gupta; *Industrial Growth and the Role of Government*; Report of Sub-Working Group – Constituted by Ministry of Heavy Industries & Public Enterprises, Govt. India., UPFC, Kanpur; September, 2001; p.p. 14
designs and broader technologies, effective cost cutting to enhance affordability and loosening of trade barriers across the globe. There are separate measures, which require addressing at the national and international levels. Some suggested steps at both levels are listed below.

Further lessening the incidence of taxes and loosening of non-tariff barriers has to be attempted with a faster pace faster. A regime of single tax across the country is an ideal situation and possibilities of this should be explored.

- A vehicle retirement programme which will assist not only in fleet modernization and reduction of emission but will also provide quantum fillip to the demand should be put in place.

There is a need to brief the international communities on technological and quality related capabilities of Indian automobile industry. Substantive efforts are required for educating opinion leaders and build a strong ‘Made in India’ brand in overseas markets.

- Existing incentives for promoting exports are considered inadequate. An institutional mechanism such as the Automobile Export Promotion Council, which can address industry-specific issues and facilitate exports is urgently required.

Labour laws’ reforms to facilitate better productivity and reduction in manpower costs as has already been committed by the Government should be expedited.

- Greater tax incentive on expenditure incurred on research and development in automotive sector.
Easier availability of market credit for funding automobile acquisition is required. Despite lower interest rates, availability of easy credit in rural and semi-urban areas requires more focused attention.

- Serious and sustained dialogue on regional cooperation in automobile sector should begin at the earliest. Dialogue should be regular and focused in which Governments and industry should both engage.

Reduction of peak tariffs is necessary to facilitate free flow of automobiles. Non-tariff barriers should be phased out with mutual dialogue and consensus.

- Mutual recognition should be accorded to the testing and certification agencies in various countries.”

Having discussed the background to suzuki motors’ investment in India, Amar Nayak\(^{20}\) says, “Osamu Suzuki’s leadership was crucial to the success of Suzuki Motors bid to enter India. His quick decision making style gave Suzuki Motors an edge over Mitsubishi Motors in the final rounds of negotiations with MUL. The managers from MUL found it better to discuss issues with Osamu Suzuki because of his quickness in making decisions. Mitsubishi Motors that had almost won the bid before Suzuki Motors entered the race was slow because of bureaucracy in its working. Osamu Suzuki bid to offer the best package amongst all the bidders to MUL based on his intuition of large demand for cars in India. For most other investors, the Indian automobile market did not have much

potential as the total demand during 1960-1980 had remained at lower than 50,000 cars per year. The two local manufacturers met this demand with Hindustan Motors Ltd. (HML: Ambassador) manufacturing 30,000 cars and Premier Automobile Ltd. (PAL: Fiat) manufacturing the balance of 20,000 cars. Contrary, to the logic of most foreign automobile manufacturers, Suzuki Motor predicted Indian market potential to rise to 200,000 cars per annum by the year 2000. In 1983, MUL set a target to manufacture 100,000 passenger cars (800 cc) per year. At this time, Suzuki Motors domestic production of passenger cars of 800 cc or greater than 800 cc cars in Japan was lesser than the production target set by MUL in India. Suzuki Motors also accepted the terms of the government in terms of its lower equity participation. Many other bidders to the joint venture declined to this policy of the Government of India. It may be worth to note here that General Motors and Ford Motors ceased their automobile operations in India when the government passed a law in 1953 requiring foreign car businesses to produce locally and to include local equity participation. Suzuki Motors Company agreed to 26% shareholding in MUL in 1982. Only after about six years did it invest additional amounts to raise its equity to 40% in 1989 and then to 50% in 1992.

It is stated in the Annual Report of Tata Motors Limited\textsuperscript{21} that Tata Motors Limited is India’s largest automobile company, with consolidated revenues of USD 14 billion in 2008-09. It is the leader in commercial vehicles and among the top three in passenger vehicles. Tata Motors has winning products in the compact, midsize car and utility vehicle segments. The company is the world's fourth largest truck manufacturer, and the world's second largest bus manufacturer with over

\textsuperscript{21} Annual Report of Tata Motors Limited, 2008-09
24,000 employees. Since first rolled out in 1954, Tata Motors as has produced and sold over 4 million vehicles in India.

Tata Motors is the first company from India's engineering sector to be listed in the New York Stock Exchange (September 2004), has also emerged as an international automobile company. Through subsidiaries and associate companies, Tata Motors has operations in the United Kingdom, South Korea, Thailand and Spain. Among them is Jaguar Land Rover, a business comprising the two British brands which was acquired in 2008. In 2004, it acquired the Daewoo Commercial Vehicles Company, South Korea's second largest truck maker. The rechristened Tata Daewoo Commercial Vehicles Company has launched several new products in the Korean market, while also exporting these products to several international markets. Today two-thirds of heavy commercial vehicle exports out of South Korea are from Tata Daewoo. In 2005, Tata Motors acquired a 21% stake in Hispano Carrocera, a reputed Spanish bus and coach manufacturer, and subsequently the remaining stake in 2009. Hispano's presence is being expanded in other markets.

In 2006, Tata Motors formed a joint venture with the Brazil-based Marcopolo, a global leader in body-building for buses and coaches to manufacture fully-built buses and coaches for India and select international markets. In 2006, Tata Motors entered into joint venture with Thonburi Automotive Assembly Plant Company of Thailand to manufacture and market the company's pickup vehicles in Thailand. The new plant of Tata Motors (Thailand) has begun production of the Xenon pickup truck, with the Xenon having been launched in Thailand in 2008. Tata Motors is also expanding its international footprint by franchises and
joint ventures assembly operations in Kenya, Bangladesh, Ukraine, Russia, Senegal and South Africa.

The *Annual Report of Hyundai Motor India Limited*\(^{22}\) presents the facts that Hyundai Motor India Limited is a wholly owned subsidiary of world’s fifth largest automobile company, Hyundai Motor Company, South Korea, and is the largest passenger car exporter. Hyundai Motor presently markets 49 variants of passenger cars across segments. These includes the Santro in the B segment, the i10, the premium hatchback i20 in the B+ segment, the Accent and the Verna in the C segment, the Sonata Transform in the E segment.

Hyundai Motor, continuing its tradition of being the fastest growing passenger car manufacturer, registered total sales of 559,880 vehicles in the year 2009, an increase of 14.4% over 2008. In the domestic market it clocked a growth of 18.1% as compared to 2008 with 289,863 units, while overseas sales grew by 10.7%, with export of 270,017 units. Hyundai Motor currently exports cars to more than 110 countries across European Union, Africa, Middle East, Latin America and Asia. It has been the number one exporter of passenger car of the country for the sixth year in a row.

In a little over a decade since Hyundai has been present in India, it has become the leading exporter of passenger cars with a market share of 66% of the total exports of passenger cars from India, making it a significant contributor to the Indian automobile industry. In 2009, in spite of a global slowdown, Hyundai Motor India’s exports grew by 10.7%. In

\(^{22}\) *Annual Report of Hyundai Motor India Limited, 2009-10*
2010 Hyundai plans to add 10 new markets with Australia being the latest entrant to the list. The first shipment to Australia is of 500 units of the i20 and the total i20 exports to Australia are expected to be in the region of 15,000 per annum.

The Annual Report of Mahindra & Mahindra also describes that Mahindra & Mahindra is mainly engaged in the Multi Utility Vehicle and Three Wheeler segments directly. The company competes in the Light Commercial Vehicle segment through its joint venture subsidiary Mahindra Navistar Automotives Limited and in the passenger car segment through another joint venture subsidiary Mahindra Renault. In the year 2009, on the domestic sales front, the Company along with its subsidiaries sold a total of 220,213 vehicles (including 44,533 three wheelers, 8,603 Light Commercial Vehicles through Mahindra Navistar Automotives and 13,423 cars through Mahindra Renault), recording a growth of 0.6% over the previous year.

The company’s domestic Multi Utility Vehicle sales volumes increased by 3.3%, as against a decline of 7.4% for industry Multi Utility Vehicle sales. A record number of 153,653 Multi Utility Vehicles were sold in the domestic market in 2009 compared to 148,761 MUVs in the previous year. Hence, Mahindra & Mahindra further strengthened its domination of the domestic Multi Utility Vehicle sub-segment during the year, increasing its market share to 57.2% over the previous year’s market share of 51.3%.

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23 Annual Report of Mahindra & Mahindra Ltd., 2009-10
Mahindra & Mahindra is expanding its footprint in the overseas market. In 2009 the Xylo was launched in South Africa. The company formed a new joint venture Mahindra Automotive Australia Pty. Limited, to focus on the Australian Market.

It is reviewed in the Annual Report of Hero Honda Corp. that Hero Honda has been the largest two wheeler company in the world for eight consecutive years. The company crossed the 15 million unit milestone over a 25 year span. Hero Honda sold more two wheelers than the second, third and fourth placed two-wheeler companies put together.

As one of the world's technology leaders in the automotive sector, Honda has been able to consistently provide technical know-how, design specifications and R&D innovations. This has led to the development of world class, value - for- money motorcycles and scooters for the Indian market. On its part, the Hero Group has took the responsibility of creating world-class manufacturing facilities with robust processes, building the supply chain, setting up an extensive distribution networks and providing insights into the mind of the Indian customer. Since both partners continue to focus on their respective strengths, they have been able to complement each other. In the process, Hero Honda is recognized today as one of the most successful joint ventures in the world. It is therefore no surprise that there are more Hero Honda bikes on this country's roads than the total population of some European countries.

Hero Honda's bikes are sold and serviced through a network of over 3500 customer touch points, comprising a mix of dealers, service centers

24 Annual Report of Hero Honda Corporation, 2008-09
and stockiest located across rural and urban India. Hero Honda has built two world-class manufacturing facilities at Dharuhera and Gurgaon in Haryana, and

Hero Honda was the torchbearer for the two-wheeler industry during 2008-2009. It sold more two-wheelers during the year than the combined volumes of the second, third and fourth placed competitor. Overall, the company sold 3.72 million two-wheelers, growth of 12% over previous year. Motorcycle sales in the domestic market, which account for more than 95 per cent of Hero Honda's sales, were up by 11%. The company posted sales of USD 2.4 billion and profits after tax of USD 256.40 million during the year 2008-2009. During the year under review, your Company exported 81,194 two-wheelers, a decline of 10%. Its third and most sophisticated manufacturing plant at Haridwar has just completed a full year of operations.

The annual report of Bajaj Auto Ltd.\(^{25}\) also clarifies the fact that Bajaj Auto is ranked as the world's fourth largest two and three wheeler manufacturer and the Bajaj brand is well-known across several countries in Latin America, Africa, Middle East, South and South East Asia. Despite falling demand in the motorcycle segment, the company has succeeded in maintaining an operating EBITDA (earnings before interest, taxes, depreciation and amortisation) margin of 13.6% of net sales and other operating income. From 1.66 million motorcycles in 2007-2008, the company’s domestic sales fell by 23% to 1.28 million units in 2008-2009.

\(^{25}\) Annual Report of Bajaj Auto Ltd., 2008-09
Bajaj Auto is the country’s largest exporter of two- and three-wheelers. During 2008-2009, Bajaj Auto’s international sales achieved an all-time high of 772,519 units of two and three wheelers, representing a growth of 25% over the previous year. The growth was driven by the export of two-wheelers, which increased by 31% over 2007-2008 to achieve sales of 633,463 units in 2008-2009. The company expanded its footprint in Africa and Middle East, where the region’s share rose from 30% of the export business in 2007-2008 to 43% in 2008-2009. The total value of exports was USD 528 million, representing a growth of 29%.

The company’s domestic sales of three wheelers in 2008-2009 were 12% lower compared to the previous year, and stood at 135,473 units. Exports of three wheelers grew at 2% to 139,056 units.

To sum up, it can be said that large domestic market, cheap labour and human capital are the main determinants of FDI inflows to India, however, its stringent labour laws, poor quality infrastructure, centralize decision making processes and a very limited numbers of SEZs make India an unattractive investment location.

On the other hand automobile industry is contributing significantly and playing an important role in the economic development of India. The sector has shown a tremendous growth after liberalization through attracting huge amount of FDI. The inflow of FDI has affected the sector in all the areas of manufacturing, sales, personnel research and development and financing. FDI has helped to improve the financial position of the automobile sector in India. The automobile industry has a tremendous scope for growth in passenger cars and commercial vehicles. In order to meet the challenges posed by globalization the Indian
automobile manufacturers need to ensure the technological advancement, appropriate marketing strategies and adequate customer care feedback system in their organizations.

The above review of literature proved beneficial in identifying the research issues and the research gaps in a clear way. There is hardly any study in India which has taken macroeconomic variables like foreign exchange reserves, total trade, financial position, research and development expenditure while assessing the determinants and impact of FDI on Indian economy. Further, there is hardly any study in India, which documents the trends and patterns of FDI in automobile sector of the country. Thus, the present study is an endeavour to discuss the trends and patterns of FDI in automobile sector of the country, its determinants and its impact on Indian economy. The present study differs from the earlier studies in many ways and enriches the existing literature in the following ways-

Firstly, the study presents the experiences of first and second generation of economic reforms on Indian automobile industry.

- Secondly, the present study documents the trends and patterns of FDI in automobile sector of the country.
- Thirdly, the present study tries to highlight the changing pattern of FDI inflow in selected automobiles companies of the country.

(B) RESEARCH METHODOLOGY

Research Methodology is a procedure to design the plan for proposed research study. Scientifically developed Research Methodology is a tool, which enables the researcher to establish with a high degree of confidence between the research activities and observed outcomes. The following methodology was adopted to conduct the present research work:
SAMPLE DESIGN

To conduct the survey work for the proposed research study following sample design has been adopted -

SELECTION OF AREA

As the proposed research study is a macro level study of all India level hence no specific area was selected for the present study but to study the impact of FDI on a specific automobile manufacturing unit, Maruti Sujuki Limited was selected at micro level.

SELECTION OF SAMPLE UNITS

Automobile sector is a vast area containing different types of manufacturing units engaged in the production of different types of vehicles and auto equipments etc. Hence, it was not possible to cover all types of automobile manufacturing units in a single research topic. So researcher divided the study in two frames-

First to study the impact of FDI on automobile sector of India and

☐ Second to study the impact of FDI on the growth of Maruti Sujuki Limited at micro level.

The purpose of selection of Maruti Sujuki Limited was that this is the first joint venture automobile company of the country and passed through the different phases at shareholding status during 29 years of its working from public sector company to Sujuki owned Private Sector Company. This company regularly remained the bearer of FDI in India.
As this study is based on secondary data and information only, no primary survey was conducted for the study.

**PERIOD OF RESEARCH STUDY**

The proposed research work has been conducted at both macro and micro level for which the period for collection of data and survey work was taken from 1991-92 to 2010-11.

**COLLECTION OF DATA AND INFORMATION**

The proposed study is based on secondary data only which were mostly obtained from the following sources-

- Society of Indian Automobile Manufacturers (SIAM)
- Reserve Bank of India (RBI)
- Ministry of Heavy Industries & Public Enterprises
- Department of Heavy Industries (DHI)
- Maruti Sujuki Ltd.
- Internet
- Journals, Reports and Business Magazines etc.

**TABULATION, ANALYSIS AND INTERPRETATION OF THE DATA AND INFORMATION**

Data collected from different sources were tabulated and classified chapter-wise so as to make the study systematic and scientific. After tabulation of the data, an analysis was made using different statistical and mathematical tools so as to find out factual position of the related aspects
of the proposed study. After completing the analysis work, the results of the study were interpreted in a simple and systematic manner.

CONCLUSION AND SUGGESTIONS

In the end of research work, logical conclusion were drawn from the research study and constructive suggestions were proposed in the light of the results of the study so that these may prove useful in effective utilization of FDI in the country with specific reference to automobile sector.

(C) HYPOTHESIS OF THE RESEARCH STUDY

The present research study is based on the following hypothesis:

FDI plays a pivot role in the growth of the country.

- In the post liberalization period, India is getting FDI in an increasing trend.
- In automobile sector of the country, FDI has direct impact on growth of the automobile manufacturing unit in terms of production, sales, export, employment etc.