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INDIAN AUTOMOBILE INDUSTRY AND GLOBALISATION

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ABSTRACT:

This paper has attempted to analyze the effect of globalization on Indian automobile industry. Automobile industry is contributing significantly and playing an important role in the economic development of India. This sector has shown a tremendous growth after liberalization. This paper highlights how the globalization process has affected the areas of manufacturing, sales, personnel research and development and financing. Globalization has helped to improve the financial position of the automobile sector in India.. The study has explored that globalization is changing the economic geography of the automotive industry; globalization is creating new challenges and opportunities for corporate strategy. Globalization is having a significant impact on industry structure. The entry of global auto-majors in to India has significantly altered the automobile – manufacturing scenario in the country. The automobile industry has a tremendous scope for growth in passenger cars and commercial vehicles. The bargaining power of customer is increasing day by day. The paper evaluates that 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.



KEYWORDS : Globalization, Automobile industry, Corporate strategy, Global auto-majors.

1.1 INTRODUCTION:-

India started the process of integration with the global economy in 1991-92. Since then the policy changes have been taking place at national, regional and international level which are affecting the functioning and performance of the business. In the post-liberalization era the business environment is changing dramatically and industry is exposed to fierce competition. India, as a member of WTO is committed to liberalizing imports and lowering the tariff rates. This process has led to free movement of goods between countries including India. This has resulted in considerable freedom for enterprises to enter the market, expand and diversify their investment across the world. India after liberalization process has recorded a tremendous growth. Globalization has affected Indian industry and manpower directly and indirectly. With globalization India sees itself as one of the great nations of the world.

This paper has attempted to analyze the effect of globalization on Indian automobile industry. 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. The automotive sector is one of the

core industries of the Indian economy. Indian Government's impetus to the industry by allowing continuous economic liberalization since 1991 has made India one of the sought after destination for many global automotive players. At present, India is the world's largest two wheeler manufacturer, second largest tractor manufacturer, fifth and largest commercial vehicle market, largest three wheeler markets and fourth largest car market in Asia.

1.2 OBJECTIVE OF THE STUDY:-

The present research aims at the fulfillment of the following objectives:

1. To study an impact of globalization on the growth and development of automobile industry.
2. To study the problems of the automobile Industry in globalization era.
3. To recommend suggestions for development of the automobile industry.
4. To suggest remedial measures for the betterment of automobile industry

1.3 METHODOLOGY OF THE STUDY:

For this research endeavor the researcher has collected secondary data. The secondary data in the form of archival information necessary for this investigation was collected mainly from the various libraries (academic), archives and Government publish sources as well as the Internet (Web sites relating to the study topic) have been used.

1.4 REVIEW OF RELEVANT LITERATURE

1.4.1 Mr. S. D. Naik in his article 'Decade of transition, structural change pointed that since the launching of the economic reforms in 1991 and the gradual opening up to external competition, the economic environment has changed dramatically. Because of increased domestic and external competition, the manufacturing sector is under tremendous pressure to cut costs, improve quality and offer better customer service. With the liberalization of imports, lowering of import tariffs, and increased foreign direct investment (FDI) many foreign brands have entered the market.

1.4.2 In an Article – "What will it take for the Indian auto industry to become a global leader?" Dr. Rajiv Tondon, CEO Adayana Inc., expressed views on a strategy to be adopted to increase competitiveness of auto industry in global market. A collective industry strategy focused on sustainable competitive advantage through worker adoption and of the efficient development and deployment of technology. The industry needs to come together to understand and implement industry-identified strategies to address workforce shortages, both in terms of quantity and quality.

1.4.3 In an article published by author Ashok Kumar "India's auto industry revived up for success" has expressed his view regarding development of auto industry in India. The author pointed out that India now rank amongst the most preferred destinations for most of the major global OEM players, for example, Hyundai: exports base for small cars, Ford: exporting Completely Knocked Downs (CKDs) of Ikon to south Africa and other countries, Skoda : Hub for export of cars to neighboring countries..

1.5 IMPACT OF GLOBLISATION ON GROWTH AND DEVELOPMENT OF AUTOMOBILE INDUSTRY:

Automobile is one of the major industrial sectors in India. Subsequent to liberalization, automobile has been aptly described as the sunrise sector of the Indian economy, as it witnessed tremendous growth. Automobile industry was relicensed in July 1991 with the announcement of the New Industrial Policy. The passenger car industry was, however, relicensed in 1993. In 1993 when Indian govt. has decided to adopt globalization policy, it was the death of the License Raj. Globalization in India had a favorable impact on the overall growth rate of the economy.

1.5.1 INDIAN AUTOMOBILE INDUSTRY – GROWTH DRIVERS

- Higher GDP growth.
- India's huge geographic spread.
- Increasing Road Development, Golden Quadrilateral.
- Increasing disposable income with the service sector.

- Easier finance schemes.
- Replacement of aging four wheelers.
- Graduating from Two wheeler to Four wheeler.
- Increasing dispensable income of rural agri sector.
- Growing concept of Second Vehicle in Urban Areas.
- Reduction in excise duty and taxes.
- Increase in working population

The progressive liberalization of the norms of foreign investment and import of technology appear to have benefited the automobile sector with production of total vehicles increasing from 1.8 million in 1992-93 to 10.81 million in 2007-08. It is likely that the production of such vehicle will exceed) marked by consistent growth at a frantic pace, the automobile industry recorded production of a wide variety of vehicles - including over 1.76 million passenger vehicles, 0.54 million of commercial vehicles, and over 8.52 million two-and-three wheelers (scooters, motor-cycles, mopeds, and three wheelers) - in 2007-08. At present, India is the second largest producer in the two wheelers segment and also the largest motorcycle manufacturer in the world. India is the fourth largest commercial vehicle market in the world, and it is the fifth largest manufacturer of commercial vehicles. India is also the fourth largest car market in Asia.

1.5.2 AUTOMOBILE DOMESTIC SALES TREND:

Globalization in India had a favorable impact on the overall growth in sale of auto industry. The Indian automobile industry, worth around US \$ 38 billion in 2007, has grown at Compounded Annual (CAGR) 13.80 per cent over the last five years with total sales of vehicles reaching around 11 million vehicles in 2007-08.

1.5.3 AUTOMOBILE EXPORT TREND:

India is fast emerging as a manufacturing base for car exports. According to the CMIE (Centre For Monitoring Indian Economy Pvt. Ltd.), a total of 12, 37,135 vehicles were exported in the year 2007-08 , 22.30 per cent jump as compared to the last year. Commercial vehicle export grew at 19.10 per cent, while export of Passenger vehicles increased by 9.37 per cent. India exports automobiles in about 203 countries. The total revenues from exports of automobiles, in the year 2008-2009 were USD 6,001.81 million with a growth of 33.85% from the previous year. The total exports from India in the year 2008-2009 were USD 185,295.36 million and in the year 2007-2008 were USD 163,132.18 million. The automobile industry in India contributes 3.24% of total exports in the year 2008-2009 compared to 2.75% in the year 2007-2008. Passenger car exports from India are likely to touch the all-time high of 1 million by 2010, according to industry reports.

1.5.4 GROSS TURNOVER OF AUTOMOBILE INDUSTRY:

Table 4 shows that turnover of automobile manufacturers over the period from 1995-96 to 2004-05. The turnover of automobile was Rs. 3, 13,580 mn in 1995-96 was increased to Rs. 8, 35,581 mn in 2004-05. The turnover has grown at CAGR of 13.63 per cent for last 6 years. The annual growth rate of turnover ranged between 0.26 per cent in 1997-98 to 26.31 per cent in 2004-05. The year 2004-05 had higher growth in last 10 years.

1.5.5 MARKET SHARE OF AUTOMOBILE INDUSTRY:

Table No. 5 shows that Passenger cars make the largest segment globally, accounting for over 50 per cent of the total sales (units). But in India, it is the two-wheelers segment that dominates the automobile market, accounting for 76.2 per cent market share in terms of units sold, while cars and MUVs account for 14.2 per cent of the units sold (FY2008).

1.5.6 INSTALLED CAPACITY:

The automobile industry especially over a period of time and particularly after liberalization, has installed a robust capacity. The installed capacity in different segments of automobile industry is as under. From the table no. 6 it reveals that out of total installed capacity of automobile sector, 83.33 per cent belongs to two and three-wheeler and rest 16.67 per cent capacity is of four wheelers. (Table No. 6)

1.5.7 FDI IN AUTOMOBILE INDUSTRY:

The automobile sector in India was opened up to foreign investments in the year 1991. 100% Foreign Direct Investment (FDI) is allowed in the automobile industry in India. The present study state that FDI inflows have shown significant growth in the post liberalization period. The compound annual growth rate of Actual FDI inflows during this period comes out to be as high as 29.56 percent. (Table No. 7)

1.5.9 RESEARCH AND DEVELOPMENT

Since liberalization, Indian indigenous R&D spending at the enterprise level has grown significantly. In 1991, indigenous enterprise R&D spending as a share of sales was less than 0.1 percent.³ by 2004 that share was more than 0.5 percent.

While there is more improvement to be squeezed out of the conventional internal combustion engine, manufacturers are looking ahead to hybrid vehicle technology and, ultimately, to a hydrogen-based fuel-cell vehicle. The development costs and infrastructure changes necessary to take the step to fuel cell technology are staggering, so it makes sense for auto manufacturers to team up and share knowledge in order to move the industry as a whole ahead faster.

1.5.10 INNOVATIONS:

Due to globalization innovations are taking place both in terms of technology and organization primarily put together local contents in global standards. Indian companies are now exposed to manufacturing excellence techniques used globally.

They need to scale up on innovations to remain competitive.

1.6 PROBLEMS OF INDIA AUTOMOBILE INDUSTRY :

1.6.1 Rising Input Costs:

Prices of core inputs in the Manufacture of vehicles, like steel, Non-ferrous metals and rubber, have grown over the last few Years, which in turn has increased the production cost of vehicles.

1.6.2 Fuel Price Volatility:

Rising fuel prices is continuously affecting the lifestyles as well as influencing the car buying decisions of the Indian consumer. They are continuously restricting themselves from buying new cars and even from going on long drive.

1.6.3 Growing Competition:

Competition in India's automobile and auto-parts industry has been growing in the recent years. Since liberalization, over 20 new players entered the market in the passenger car segment alone. These global majors have been expanding their product portfolio and enhancing their production capacities, thereby increasing the competition among domestic players.

1.6.4 Changing Consumer Preferences:

With growing purchasing power among Indian Consumers, the demand for better and comfort vehicles with greater efficiency is growing. There has been continuous change in consumer demand in the motor vehicle industry, making companies to focus on innovation continuously.

1.6.5 Environmental Issues :

The automobile sector affects the environment in multiple ways, starting from the use of materials that causes environmental degradation, and ending with the management of scrap. That is why many countries are discouraging sale of fuel-inefficient cars, as also polluting cars, through suitable taxation policy.

1.6.6 Poor road infrastructure :

India's road net work, comprising of a modest national highway system (that is only 2 per cent or less of the total roadway length) is woefully inadequate and dilapidated, and can barely keep pace with the auto industry's rapid growth.

1.6.7 Skill shortage :

Skill shortage is the biggest concern that all automotive companies are facing. New skills are needed for the vehicles of the future, which will be fundamentally different from what we have today on account of the technology.

1.6.8 Lack of research and development focus:

Indian vehicle manufacturers have been spending less than 0.4 per cent of sales on research and development. The expenditure on research and development as proportion of the GDP is a meager 0.66 per cent and is substantially lower in comparison to developed nations, and marginally lower than china.

1.6.9 Complex tax structure:

Indian tax structure, though changing, still remains unfavorable as compared to competing exporting nations. The burden of direct and indirect taxes is higher in India than in other countries.

1.6.10 Insufficient design capabilities:

Over the last five years, global automakers have been passing on responsibilities of research, design, development, testing, validation, and integration to vendors. India at present does not have sufficient design capabilities.

1.6.11 Low international credit ratings:

Automobile companies are concerned about the ability of India's own car makers to build their brands. The growing domestic investor confidence is still not paralleled by similar outlook by foreign investors.

1.6.12 Surplus capacity:

Automobile Manufacturers have estimated that the surplus capacity would become a major problem in the passenger car industry with capacity utilization level coming down to 50 per cent.

1.6.13 Exporting to the world market will be a challenge:

One of the most serious issues that Indian automotive manufacturers and suppliers face is the export of low-cost vehicles and components.

1.6.14 Free import of used cars:

Indian automobile manufacturers strongly oppose free import of used cars. Import of used cars has declined the sales of Indian car industry.

1.6.15 Rigidity in labour laws:

Many automobile experts are of the opinion that stringent labour laws in India are hindering the overall development of the auto industry.

1.7 SUGGESTIONS FOR BETTERMENT OF INDIAN AUTOMOBILE INDUSTRY:

1.7.1 Road infrastructure should keep pace with the growth of the automobile industry. It is suggested that continuous investment in road infrastructure should be made.

1.7.2 It is suggested that there should be improvement in efficiency of the Indian Power sector so that Indian companies will get uninterrupted quality power at competitive rate.

1.7.3 The researcher is of the opinion that the competitive nature of the automobile industry has prompted the companies to take up new and innovative marketing strategies to thwart the competition.

1.7.4 In order to meet the growing scarcity of trained human resources, the researcher has to suggest to set up a National level Automotive Institute which will run training courses in automobile sector and formulate courses and modules for training in Automobile sector.

1.7.5 The researcher is of the opinion that investment in Research and Development programme for automobile sector should be developed. RFID Radio Frequency Identification technology should be used for identifying and managing everyday items.

1.7.6 The researcher is of the opinion that the burden of direct and indirect taxes is higher in India as compared to in other countries. The tax structure inflates the on-road price of passenger cars by nearly 50% in India, while the same in China is limited to 23-28 per cent. Total taxes from both Center and State not to exceed 25 per cent.

1.7.7 Due to rising inflation and interest rates coupled with high fuel prices restricted the customers from any fresh purchases of automobile. It is suggested that government should make serious effort to control and reduce the inflation.

1.7.8 The hike in fuel prices has come as a further dampener to the automobile industry, which is expected to see a slowdown in demand with potential buyers postponing their buying of Vehicle. The Researcher is of the opinion that the consumption of crude oil be reduced massively.

1.7.9 It has been estimated that surplus capacity would become a major problem in the passenger car industry with capacity utilization levels coming down to 50 per cent. The researcher is of the opinion that SIAM should ask its members to cut down the capacity utilization by 5 -10 per cent.

1.7.10 The researcher is of the opinion that the industry should adopt global standards to increase export of vehicles.

1.7.11 The researcher is of the opinion that a five-tier custom duty structure should be introduced to meet the challenge of free imports under the WTO regime.

1.7.12 The researcher is of the opinion that labour laws should be rationalized. It is suggested to reduce the multiplicity of trade unions and adequate infrastructure is required to ensure availability of trained manpower.

1.7.13 The automobile industry should balance three aspects - earn profit, delight the customer and protect the environment.

1.7.14 The empirical data indicates that as many as 10 persons had lost their lives per hour due to road accidents in India every year. For minimizing road accidents the researcher has some suggestions which include, a Corridor Management Plan need be drawn up for major State highways so that the problems of ribbon development, encroachments, uncontrolled access and poor safety can be tackled.

1.7.15 The researcher is of the opinion that to sustain and accelerate the growth trajectory and develop new competitive advantages, the Indian automobile component firms will need to continuously strive to increase their efficiency, quality and value proposition. The researcher suggests that, in order to increase IT penetration, it is vitally important to understand IT adoption challenges faced by the manufacturing industry firms.

1.8 CONCLUSION :

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. The globalization process has affected the sector in all the areas of manufacturing, sales, personnel research and development and financing. Globalization 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.

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TABLE NO. 1 PRODUCTION OF AUTOMOBILE SECTOR FOR THE PERIOD OF 1992 - 93 TO 2006-07

Category	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000
M and HCV	75385	65975	102002	129651	155696	20.1	95854	80528
LCV	52726	75467	92977	87786	84855	-3.3	65040	55363
CARS	163302	209695	264368	348240	411145	18.1	401002	390709
MUV	39176	49896	49371	106251	134583	26.7	134653	113328
2 WHEELERS	1503332	1756155	2195260	2656017	2979227	12.2	3072667	3374508
3 WHEELERS	65454	91608	133193	176413	221619	25.6	234867	209033
GRAND TOTAL	1899375	2248796	2837191	3504358	3987125	13.8	4004083	4223469

SOURCE : CMIE MAY 2008

Category	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Mand HCV	88185	90849	120502	166123	214807	219295	294290	291114
LCV	63869	55348	83195	108917	138896	171788	225724	254062
CARS	507306	564126	557410	843235	1027858	1112794	1322728	1517481
MUV	125938	123748	165920	149437	182018	196506	222495	244648
2 WHEELERS	3758111	4323644	5076221	5622741	6529829	7608699	8436212	8009292
3 WHEELERS	203234	212753	276719	356223	374445	434423	556126	500592
GRAND TOTAL	4746643	5370468	6279967	7196676	8467853	9743505	11057575	10817189

TABLE NO. 2 AUTOMOBILE DOMESTIC SALES TREND

(In Numbers)

Category	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	% Incr Over 06-07
M and HCV	89999	115711	169583	211980	221550	294166	293095	-0.36
LCVs	55059	74971	107963	136390	170091	223136	252722	13.26
Total CV	145058	190682	277546	348370	391641	517302	545817	5.51
Passenger Cars and Utility Vehicles	743487	902096	1031387	1227974	1318648	1578431	1765039	11.82
Scooters	908268	825648	939982	983127	992985	976014	1075591	10.20
Motorcycles	2887194	3647493	4357732	5241876	6196653	7092787	6544482	-7.73
Mopeds	408263	338985	331587	351169	375922	393415	431983	9.80
Total Two Wheeler	4203725	4812126	5629301	6576172	7565560	8462216	8052056	-4.85
Three Wheelers	219276	272929	347222	374657	436804	547806	505938	-7.64
Grand Total	5311546	6177833	7285456	8527173	9712653	11105755	10868850	-2.13
		16.31	17.93	17.04	13.90	14.34	-2.13	

Source : CMIE MAY 2008

TABLE NO. 3 AUTOMOBILE EXPORT TREND

(In Numbers)

Category	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	% of increase over 2006-07
HCV	4824	5638	8188	13474	14078	18610	22100	18.75
LCVs	6770	6617	9244	16466	26522	30927	36899	1
Total CV	11594	12255	17432	29940	40600	49537	58999	19.10
Passenger Cars Utility Vehicles	53656	72005	129291	166402	175572	198452	217054	9.37
Scooters	28332	32566	53687	60699	83873	35397	25482	-28.01
Motorcycles	56880	123725	187287	277123	386202	545592	776141	42.26
Mopeds	18971	23391	24078	28585	43181	38655	18224	-52.85
Total Two Wheeler	104183	179682	265052	366407	513256	619644	819847	32.31
Three Wheeler	15462	43366	68144	66795	76881	143896	141235	-1.85
Grand Total	184895	307308	479919	629544	806309	1011529	1237135	22.30
		66.21	56.17	31.18	28.08	25.45	22.30	

Source : CMIE APRIL 2008

TABLE NO. 4.00 GROSS TURNOVER OF AUTOMOBILE INDUSTRY

YEAR	TURNOVER [Rs. in million]	CHANGE (%)
1995-96	313580	
1996-97	364450	16.22
1997-98	365411	0.26
1998-99	368262	0.78
1999-00	422933	14.84
2000-01	492024	16.33
2001-02	499136	1.45
2002-03	595184	19.24
2003-04	661769	11.19
2004-05	835851	26.31

Source : SIAM 2007.

TABLE NO. 5 MARKET SHARE OF AUTOMOBILE INDUSTRY

Segment	2006-07	2007-08	% change in Last year
Two Wheelers	76.2	75.13	- 1.4
Car & Multi utility Veh.	14.2	16.4	15.49
Three Wheelers	4.9	3.78	-22.85
Commercial Vehicles	4.7	5.05	7.44

Source : SIAM 2008.

TABLE NO. 6 INSTALLED CAPACITY OF AUTOMOBILE INDUSTRY

(In numbers)

S.No.	Segment	Installed Capacity
1.	Four Wheelers	1,590,000
2.	Two and Three Wheelers	7,950,000
	Grand Total	9,540,000

Source : SIAM (Annual Report 2007)

Table No. 7 SUB SECTORS OF FDI INFLOWS IN AUTOMOBILE INDUSTRY:*(from January 2000 to December 2009)*

•	Sub Sectors	Amount of FDI inflows	
		Rupees in crores	US \$ in million
1.	Automobile industry	6,651.65	1,441.17
2.	Auto Ancillaries/Parts	8,823.97	1,965.54
3.	Passenger Cars	2,891.56	647.11
4.	Others (Transport)	2,187.38	492.69
	Total of above	20,554.56	4,546.51

(SIAM 2009)

Table No. 8 NEW PLANT INVESTMENTS*

COMPANY	INVESTMENT (US \$ million)	CAPACITY (cars/yr)
Fiyat / Tata	1000	2,00,000
Ford	50	1,00,000
GM	325	1,40,000
Honda Siel	250	2,00,000
Renault / Nissan	1125	4,00,000
Toyota kirloskar	350	1,00,000
Volkswagen	937	
Total	4487	11,40,000

SIAM 2009