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ANALYSIS OF GLOBALIZATION AND DEREGULATION POLICY OF INDIA ON THE GROWTH OF AUTOMOBILE INDUSTRY

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ABSTRACT

The automotive industry is considered a driver for the growth of Indian economy and is important contributor to the global economy. The Indian auto industry being of the most vibrant and accounts for 22 per cent of the Country's GDP. As per the reports of 2014-15, 31 per cent of small cars that are sold globally are being manufactured in India. The Two Wheelers segment with 81 per cent market share is the leader of the Indian Automobile market owing to a growing middle class and a young population. Moreover, the growing interest of the companies in exploring the rural markets further aided the growth of the sector. The overall Passenger Vehicle (PV) segment has 16 per cent market share. India being one of the major auto exporter has an expectations of growth rate for the near future. According to the statistics of April – January 2016 , growth of 18.36 percent has been experienced over April – January 2015. Various initiatives are being taken by the Government and dominant players to make India a leader in the segment of Two wheeler and Four Wheeler market by 2050. This article will identify growth factor and significant factors that have led to the growth of automobile industry. It will help to indentify the contribution of other states that have led to the growth of automobile industry globally.

Key words: Automobile, economic growth

INTRODUCTION

The growth prospects of a national economy are largely determined by its key industries. In recent decades, the automobile industries in many countries have proven to be one of the strongest drivers of technology, growth, and employment (Gottschalk and Kalmbach, 2010) and its development has characterized global competitiveness of leading industrialized economies. The automobile industry is fairly developed one and involves huge investments in research and development and technology and is seen as an indicator of the economic progress of a country. An understanding of the automobile industry in some of the developed countries enables one to study the emerging trends in developing countries (Choudhary and Goyal, 1997) like India. The Indian Automobile Industry has got a tremendous market potential after economic liberalization in 1990s like never before. The various tax reliefs by the Government of India have made remarkable impacts on the industry. The country's large middle class population, growing earning power, strong technological capability and availability of trained manpower at competitive prices are also the reasons that attracted a large number of multinational auto companies, especially from Japan, the U.S.A., and Europe, entering the Indian market. At this juncture firstly, the study endeavors to analyze the post- (deregulation and global environment) liberalization era.

Descriptive and analytical in nature, part of this study is based on secondary data collected from various authentic and reliable sources like the reports and statistics provided by Society of Indian Automobile Manufacturers (SIAM), ICRA and Moody's, Economist Intelligence Unit (EIU) and Deloitte, International Organization of Motor Vehicle Manufacturers (OICA), Govt. of India, trade journals and white papers, industry portals, monitoring industry news and developments, and research articles from various authors. The study is focused on making a situational/scenario analysis (SWOT analysis, Porter's Five Forces industry analysis and PEST analysis) in this part, to provide with an understanding of the overall scenario of the Indian automobile industry in the post-economic liberalization era.

Indian Automobile Industry – Post-Economic Liberalization Era

Since the 1980s, the Indian car industry has seen a major resurgence with the opening up of Indian shores to foreign manufacturers and collaborators. In the early 1990s, the Indian economy faced a very serious economic slump that this almost self-sufficient system had endured for decades finally led to a massive balance-of-payment crisis. After the International Monetary Fund bailed it out, the Indian government had to take a course of expedient actions toward liberalization and deregulation under the guidance of the International Monetary Fund and World Bank (Jenkins, 1999; and Joshi and Little, 1996). This period became the melting point for the industry in India when large number of foreign players came into the country through collaborations and partnerships. The face of the Indian automobile industry completely changed in the open economy era post liberalization, which brought a remarkable change in the Indian automobile industry. Yeong-Hyun (2006) called it a shift from CLP (controls, licenses and protectionism) to LPG (liberalization, privatization and globalization).

In 1991, the Government of India embarked on an ambitious structural adjustment programme aimed at economic liberalization, based on the pillars of De-licensing, Decontrol, Deregulation and Devaluation. Post-liberalization, the Government of India's new automobile policy announced in June 1993 contained measures, such as de-licensing, automatic approval for foreign holding of 51 per cent in Indian companies, abolition of phased manufacturing programme, reduction of excise duty to 40per cent and import duties of 'Completely Knocked Down units (CKD)' to 50per cent and of 'Completely Built Up units CBU' to 140per cent, and commitment to indigenization schedules (Mukherjee, 1997). The New Industrial Policy was drafted to deregulate market entrance, production capacity and plant location in a wide range of industries, and it was applied to the auto components sector in 1991 and the automotive vehicles sector/passenger car industry in 1993 (Mohnot, 2001; and Ohri, 1997). No industrial license is required for setting up of any unit for manufacture of automobiles except in some special cases. The norms for Foreign Investment and import of technology have also been progressively liberalized over the years for manufacture of vehicles including passenger cars in order to make this sector globally competitive.

Liberalization of economic policies and the outward orientation introduced since 1991 brought about a dramatic change in this industry. These new measures effectively dismantled the license raj, which had made it difficult for Indian firms to import machinery and know-how, and had disallowed equity ownerships by foreign firms (Krishnan, 2005). These newly implemented liberalization measures allowed two local firms that had been specialized in light commercial vehicles, namely Tata Engineering and Bajaj Tempo, to enter the passenger car industry.

Given the merits of market potential, India witnessed a rushed entry of global car manufacturers in the auto industry. With ten of the world’s leading automobile companies having set up new production facilities around the country, India’s passenger car industry has experienced in the past decade a substantial increase in production, a wave of new models, and unprecedented marketing wars among automobile companies. The world’s major carmakers in the first five years following liberalization were Daewoo, Mercedes-Benz (later changed to DaimlerChrysler), Fiat, General Motors Opel, Ford, Honda, Hyundai, Mitsubishi, PSA Peugeot Citroen and Toyota. Volvo jumped into the commercial vehicle industry, where local manufacturers, such as Tata Engineering, Ashok Leyland and Bajaj Tempo, had been dominant. Today, multi-national companies are using India as a manufacturing "base for exporting vehicles to other countries". The growth rate of the Indian automobile industry is well over 25 per cent, which is enormously larger than other developing countries like Korea and Brazil (Mukherjee, 1997).

By the April of 1996, there were about eighteen automobile companies that had either begun operations in India or were in the process of launching in the country. As a result, while initially there were only about three vehicles to choose from, consumers now have wide variety of options (Mukherjee and Sastry, 1996). Further in 1997, some more reforms were made where new foreign entrants required establishing actual production facilities, the minimum foreign equity was raised to $50 million, and the minimum indigenization was to be 50 per cent in the third year and 70 per cent in the fifth year.

While India has been able to attract a large amount of automotive capital in the past decade, its market has not grown as fast as many expected. The country's small, stagnant market has forced auto companies to scramble for the right models to meet Indian consumers' needs and to look for exporting markets to shore up efficiency in production. While the export of cars from India is still minimal, that of auto components has increased dramatically since liberalization. Thanks to numerous collaborations and joint ventures with global companies, the Indian auto component industry has been greatly upgraded in both technology and finance and gained competitiveness in global markets. Auto companies have become highly creative in running the just-in-time system and overcoming the country's business-unfriendly transportation infrastructures. The buyer-supplier relationships have been characterized by carmakers' single sourcing and suppliers' multiple supplying, both reflecting India's market conditions, government's auto policies and, in general, history of the auto industry.

Again in 2005, the government altered auto policy allowing 130 per cent Foreign Direct Investment in Indian automobile industry. With 130 per cent Foreign Direct Investment, the Indian auto industry became a level playing field, with government's role reduced to providing direction to the industry. The new automobile policy attracted a large number of automobile companies and almost all the global auto companies established facilities in India. These included GM and Ford from US, Toyota and Honda from Japan, seven (Fiat, BMW, Mercedes-Benz, Audi, Volkswagen, Volvo, and Porsche) European and two (Hyundai and Daewoo) South Korean companies. All these measures resulted in tremendous increase in the production levels, from 2 million in 1992 to 9.7 million in 2009 (Mukherjee, 2000).

Every major shift in policies made by the Indian government, the automotive industry has come out stronger and better. While the shift in policies seems to have mostly been brought by chance events, the Indian government has at least to be credited for making the right decisions and implementing them correctly. It is paradoxical that the Indian middle class, the most attractive feature for foreign investment in the liberalization phase, was an outcome of the statist ideologies in the regulatory phase. The product innovations of domestic firms like Tata Motors and Bajaj Auto today are the fruits of indigenization and protection policies of the regulatory phases (Ranawat and Tiwari, 2012).

A study by Rathore and Swarup (2009) estimated that sales of vehicles in India were roughly around one million units per annum by the year 2009. However, they say that this level of sales is "abysmally low" if one were to take into accounting the other developing countries such as Pakistan and Sri Lanka where the penetration level is still higher. The penetration level in India is substantially low at seven cars per one thousand people. They thus say that even at the level of one million units per annum, "this is just the tip of the iceberg" (Rathore and Swarup, 2009).

To maintain this high rate of growth and to retain the attractiveness of Indian market and for further enhancing the competitiveness of Indian companies, the Government through the Development Council on Automobile and Allied Industries constituted a Task Force to draw up a ten year Mission Plan for the Indian Automotive Industry. The challenge was to give shape to a futuristic plan of action with full participation of the stakeholders and to implement it in a mission mode to remove the impediments coming in the way of growth of industry. Besides making concerted efforts for removal of obstacles for accelerated growth, the prime need was to put in place required infrastructure well in time to facilitate growth. Through this Automotive Mission Plan 2009-2016, Government also wants to provide a level playing field to all players in the sector and to lay a predictable direction of growth to enable the manufacturers to take more informed investment decision (Automotive Mission Plan, 2010).

The Automotive Mission Plan 2009-2016 was released in 2010, which visualizes India emerging as a destination of choice in the world for design and manufacture of automobiles and auto components with output reaching a level of $ 145 billion accounting for more than 13 per cent of the GDP and providing additional employment to 25 million people by 2016. LPG also had a positive impact on other sectors vital for automobile industry to thrive. In education sector, thrust on technical education resulted in setting up of numerous engineering colleges and allied technical institutes, between 1991 and 2009, increasing the availability of skilled manpower manifold. Availability of trained engineers and technical personnel propelled further pursuits – technology improvements, research and development, advanced innovations, benchmarking exercises and borrowing best practices, etc. Presence of efficient manpower, availability of advanced technology, low-cost labour and availability of raw materials and ancillary units helped in enhancing production capacities and reducing cost per unit (Automotive Mission Plan, 2010).

At present 130 per cent Foreign Direct Investment is permissible under automatic route in this sector including passenger car segment. The import of technology/technological up-gradation on the royalty payment of 5 per cent without any duration limit and lump sum payment of USD 2 million is also allowed under automatic route in this sector. With the gradual liberalization of the automobile sector since 1991, the number of manufacturing facilities in India has grown progressively. The cumulative production of automobile for April-December 2014 registered a growth of 14.94 per cent over same period in 2013 and in December 2014 it increased by 13.91 per cent year-on-year (ASA and Associates, 2015). Automobile Industry comprises of automobile and auto component sectors and is one of the key drivers of the national economy as it provides large-scale employment, having a strong multiplier effect. Being one of the largest industries in India, this industry has been witnessing impressive growth during the last two decades. It has been able to restructure itself, absorb newer technology, align itself to the global developments and realize its potential. This has significantly increased automotive industry's contribution to overall industrial growth in the country.

LIBERALIZATION OF INDIA ON THE GROWTH OF AUTOMOBILE INDUSTRY

The industry is poised for a giant leap forward as it is being rapidly integrated into the global automobile supply chain. Global automobile firms are looking towards India not only for its growing market but also as an efficient supplier base. The researcher evaluated various secondary studies conducted on the automobile industry in India by other researchers.

Pillai (2012) reported that the car sales are getting into a steady stage, in the month of December 2011. In spite of the general slump in automobile market, the used car segment has not taken much of a beating. Many of the dealers reported steady sales in December 2011, contrary to the negative sales in the previous few months. This is attributed to the package announced by the Government of India for the automobile industry in terms of reduction in the excise duty of cars, and attractive packages announced by the car manufacturers.

Many players have been considering India as their global manufacturing hub for small cars and governments new auto policy are further designed to promote such developments. But, as the global integration of Indian economy goes on and as other developing countries are also emerging as prominent global players, the industry is likely to face more challenges and in order to meet these challenges, the Indian automobile manufacturer as well as the related industries like auto-component suppliers will have to build on their ongoing progress and continue to strengthen their technological capabilities with the support of public policy that needs to pay more attention on the drivers of technological change.

TRENDS IN INDIAN PASSENGER VEHICLE MARKETS

Market share

The top four players namely Suzuki, Hyundai, Tata Motors and Mahindra and Mahindra constitute almost 80 per cent of the passenger car sales thereby making it a highly concentrated market. However, increasing competition across vehicle segments is expected to lower the concentration levels. As can be observed from the Table 1, new players are quickly gaining market share, though small in percentage but it is expected that the passenger car market will have 5 or more players making up for 80 per cent of the market in the upcoming years. In the financial year 2015 and 2016, industry volumes were impacted by production disruptions at Maruti Suzuki which led to a sharp decline in its domestic market share from

45.9 per cent in the financial year 2014 to 38.8 per cent in the financial year 2015 and 39.1 in 2016. The volumes of all the players were also observed on the path of slow growth due to the overall slump slowdown in the automobile industry in the year 2015-16. Though, MUL and most of the other major players were able to sustain their market share and volumes by sailing on the push in the rural sector (Gupta, 2016).

Although due to production snarls at MUL, a part of the demand shifted to other OEMs like Toyota and Honda which gained market share is also facilitated by their new product launches. Also, market participants having diesel models and newly launched compact SUV's in their portfolio specifically M&M and Renault and general diesel variants offered by Tata Motors and Ford consolidated their market position. The increasing scenario of passenger car segment has shown positive effect on the sales of the segment. Passenger car production in India is projected to cross three million units in 2014-15. Sales of passenger cars during the period 2015-16 are expected to grow around 13 per cent.

Table 1
Trends in Market Share of Leading Manufacturers in the Domestic PV Market (in percentage)

	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16
Maruti	50.4	46.7	46.7	45.9	46.1	46.1	45.9	47.0	45.3	45.9	38.3	39.1
Hyundai	16.0	14.6	14.4	16.4	16.9	14.1	14.0	15.9	16.4	14.7	14.8	14.3
Tata	16.2	14.7	15.5	16.9	16.5	16.4	14.7	16.9	16.5	14.1	14.1	14.7
M&M	6.6	7.4	7.6	7.5	7.4	6.5	8.4	7.8	8.1	7.3	9.5	14.6
Toyota	3.7	4.3	4.7	4.1	4.1	3.7	3.6	3.1	3.3	3.4	6.1	6.2
GM	1.3	1.2	1.0	1.7	1.7	1.8	4.3	4.0	4.5	4.3	4.2	3.3
Ford	1.2	1.2	1.4	1.6	1.5	3.0	1.2	1.8	1.9	4.0	3.5	1.9
Honda	1.6	1.9	1.4	3.5	3.7	4.4	4.0	3.4	3.2	1.4	1.1	1.7
Volkswagen	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.3	1.3	3.0	1.4
Nissan/Renault	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	1.2	1.4
Skoda	0.0	0.0	0.0	0.0	0.0	0.0	0.9	0.9	0.9	0.9	1.3	1.1
Others	8.0	7.0	4.3	3.4	3.1	3.0	1.0	1.1	1.6	1.2	1.9	3.3

Source: ICRA and ACG

SALES, PRODUCTION AND EXPORT TRENDS

In India, car production has been greater than sales over the decade. The CAGR of sales and production were 15.8 per cent and 17.6 per cent respectively during the last decade. The domestic sales witnessed and reported a very strong volume growth over the last few fiscal years, with as much as more than 20 per cent growth in 2013 and even higher than 25 per cent in the year 2014. However, the domestic passenger vehicle industry started observing a drastic slowdown since the beginning of the financial year 2015 with the year ending at only 4 per cent year on year growth. The society of Indian Automobile Manufacturers revised and reduced the projected growth of the industry several times for the year 2016 which finally concluded at just 2 per cent over the previous year.

Table 2
Trend in Domestic Passenger Vehicle Sales

FY	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16
Sales ('000)	**691**	**675**	**710**	**905**	**1,092**	**1,143**	**1,380**	**1,550**	**1,553**	**1,950**	**2,520**	**2,638**	**2,686**

Source: SIAM, ICRA and ACG

In the last two years, around 25 new models and 13 refreshed versions of ongoing brands have been launched in the Indian market. This has been amongst the strongest pace of new product introductions in

India so far since the start of the industry. However, this increased supply push has coincided with a period of slow industry volume expansion making it difficult for the market to assimilate all new models. Around half of these new product introductions have received a lukewarm market response, exerting pressure on the profitability of OEMs as well as associated suppliers and dealers. In December 2015, the demand for passenger vehicles declined by 1.1 per cent YoY, despite steep discounts being offered across the board to push year-end sales. While growth momentum slowed down in the passenger cars segment, the Utility Vehicle (UV) segment continued to witness strong volume growth aided by increasing demand for recently introduced models. M&M registered a YoY growth of 16.1 per cent in volumes in December 2015, while Renault also continued to scale-up volumes on the back of the successful launch of Duster. (Money control, 2016)

Table 3

Trend in Domestic Passenger Vehicle Production

FY	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16
Production ('000)	675	710	901	1361	1,213	1,312	1,545	1,778	1,839	2,357	2,987	3,153	3234

Source: SIAM, ICRA's and ACMA

Riding majorly on the domestic demand the production trends were very similar to the sales trends. After seeing an exceptional growth of production at more than 25 per cent for two consecutive years in 2013 and 2014, the economic slowdown paralyzed the manufacturers specifically the major players to a point that the units had to be either shut-down or work at half the capacity for several days with piling inventory in the year 2015 and 2016 with the year-on-year growth in production posted at just 4 per cent and 3 per cent respectively. (SIAM, 2016b; ICRA, 2014a; and ACMA, 2016)

Table 4

Trend in Passenger Vehicle Exports

FY	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16
Exports ('000)	22	53	72	159	166	175	198	218	335	446	444	511	554

Source: SIAM, ICRA

Counter-balancing the declining domestic sales due to the subdued sentiments in the domestic auto market, a concerted export push and has kept the country's biggest car makers in good stead. Growing exports also offers a partial hedge on foreign exchange exposures at a time when the rupee has been vacillating sharply.

Maruti Suzuki and the other major players in the country took a conscious call in lieu of the slowing European markets, which accounted for more than 70 per cent of their exports and took a note of the need to develop alternate markets. Consequently new market in Latin America, Africa and the ASEAN countries were targeted and as a result now the dependence on European markets has come down to just 25 per cent and currently 75 per cent of vehicle exports are going to Non-European markets.

Although the economy is adversely affected due to a falling rupee but it is proving beneficial as far as the exports are concerned. This is being attributed as one of the reasons for growing exports in the sector. The exports in the sector has seen a continuous growth every year over the decade, except for the 0.4 per cent decline in 2014, which was majorly attributed to the dependence over the European markets which entered an economic turmoil during the period. With the manufacturers realizing and developing the new markets, the export has again seen respectable growth with 14 per cent in 2015 and 9 per cent in 2016 despite an overall slowdown even in the Asian and non-European markets.

CONCLUSION

The market is growing at very fast pace for the last decade. In the highly price sensitive market, reduction of prices because of lower duties and taxes and progressive indigenization, and rising middle class incomes are likely to further increase industry growth rate. Penetration in rural and semi urban areas is extremely low and could provide fresh markets. New entrants will have to deal with uncertainty of demand; different and evolving customer needs; a relatively poor supplier base; a market crowded with competition; and industry wide capacity shortages. The researcher suggest that further study can be conducted to find out if there is a shakeout as many analysts expect and whether further opportunities for survivors will open up or not. Another study could be conducted to know if India could emerge as a significant manufacturing base for exports.

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