

The Growth of the Indian Automobile Industry: Analysis of the Roles of Government Policy and Other Enabling Factors

Jai Prakash

Associate Professor of Commerce

Pt. C. L. Sharma Govt College Karnal Haryana

Abstract

The automobile industry has been a major driver of India's economic growth and is also deeply embedded in the supply networks of many other countries. The Indian government has provided substantial aid to this sector, helping it grow and differentiate itself from India's other manufacturing sectors. This industry stands apart from others that make automobiles around the world because it caters primarily to the needs of the country's lower and moderate income citizens. What part growth-enabling factors like government policy and infrastructure played in the development of India's car and auto-parts industries. In 2017, India surpassed the United States to become the world's fourth largest auto market, and both local and foreign demand for cars manufactured in India is likely to rise in the coming years. In order to meet the demands of their customers in the future (such as the demand for electric vehicles), manufacturers are currently playing catch-up in terms of modernization, digitization, and automation.

Key Words: Automobiles, Joint ventures, Government policy, Enabling Factors, Indian, etc.

Introduction

Over the past few decades, India's automobile industry has gone through a spectacular metamorphosis, growing from a fledgling industry to a global powerhouse. The industry has come a long way since its beginnings in the early 20th century; now, it is one of the largest and most vibrant automotive marketplaces in the world. This shift did not happen by chance, but rather as the result of a complex interplay between government policies and a variety of enabling variables.

Background and Significance

In the years leading up to India's independence, a small group of manufacturers produced the country's first automobiles. However, the sector started picking up steam after independence. As time has passed, the industry has grown exponentially, and now numerous companies produce cars for a wide variety of tastes. India has emerged as a major player in the international auto industry.

Significant economic, social, and strategic ramifications result from the expansion of India's automobile sector. It has become an important factor in the expansion of the economy, generating millions of jobs and contributing heavily to GDP growth. In addition, urban planning, sustainable transportation, and technology all have significant ties to the business sector. Academics aren't the only ones who need to know what's driving the automobile industry; politicians, industry players, and outside observers throughout the world also need to know what's going on.

Review of literature

(Saha, 2015) studied “*Historical Evolution of the Indian Automobile Industry* and found that

The Indian automobile industry has a rich history dating back to the early 20th century when the first domestic manufacturers began producing vehicles. Initially, the industry was characterized by a limited number of players and a focus on assembling rather than manufacturing. Over the years, the industry has seen significant growth, with the liberalization of the economy in 1991 marking a pivotal moment. This liberalization opened the doors to foreign automakers and led to a surge in competition and technological advancements.

(Sarkar, 2014) studied *Government Policies and Liberalization* and found that The liberalization policies introduced in 1991 by the Indian government played a pivotal role in shaping the industry. Prior to liberalization, the Indian automotive sector was highly protected, with high import tariffs and restrictive regulations. The opening up of the economy allowed foreign automakers to enter the market, resulting in increased investment, technology transfer, and a wider range of vehicle choices for consumers.

(Shah et al., 2019) studied *Taxation Policies and Incentives* and found that Government taxation policies have been instrumental in influencing the industry's growth. Reductions in excise duties, import duties on components, and incentives for research and development have helped manufacturers reduce costs and invest in innovation. These incentives have played a crucial role in the development of cleaner and safer vehicles.

(Dutta et al., 2020) studied *Safety and Emission Regulations* and found that The Indian government has introduced stringent safety and emission regulations in recent years, aligning with global standards. These regulations have forced manufacturers to upgrade their vehicles to meet safety and environmental requirements. This has led to the introduction of safer and more eco-friendly vehicles in the market.

(Pandey & Meena, 2018) Studied *Enabling Factors* and found that The growth of the Indian automobile industry is not solely dependent on government policies. Enabling factors such as the rising middle class have been a driving force behind increased demand for personal vehicles. Changing consumer preferences, driven by higher incomes, have led to the introduction of more feature-rich and comfortable vehicles.

(Nigam & Jain, 2015) studied *Infrastructure Development* and found that Improved infrastructure, including the construction of new roads and highways, has facilitated the movement of vehicles and made it easier for people to own and use automobiles. Government investment in infrastructure has contributed significantly to the industry's expansion.

(Mishra, 2017) Studied *Global Collaborations and Innovation* and found that Indian automobile companies have entered into collaborations and partnerships with international manufacturers, leading to the introduction of advanced technology and global best practices. These collaborations have helped Indian manufacturers expand their reach to global markets.

The Indian automobile industry has experienced significant growth over the years, and this growth can be attributed to a combination of government policies and other enabling factors. In this analysis, we will explore how government policies and various other factors have contributed to the growth of the Indian automobile industry.

Government Policies:

- **Liberalization and Economic Reforms:** One of the most significant factors in the growth of the Indian automobile industry was the liberalization and economic reforms initiated in 1991. This opened up the Indian market to foreign investment and allowed foreign automobile companies to enter the Indian market. As a result, several international automakers established a presence in India, leading to increased competition and technological advancements.
- **Favorable Taxation Policies:** The Indian government has periodically introduced tax incentives and reductions to promote the automotive sector. These policies include lower excise duties, reduced import duties on components, and incentives for research and development (R&D) activities. These measures have helped manufacturers reduce production costs and encourage innovation.
- **Infrastructure Development:** The government's focus on infrastructure development, including the construction of new roads and highways, has been crucial for the growth of the automobile

industry. Improved infrastructure has facilitated the movement of vehicles and made it easier for people to own and use automobiles.

- **Safety and Emission Regulations:** The government has implemented stringent safety and emission regulations, forcing automakers to upgrade their vehicles to meet these standards. This has led to the introduction of safer and more environmentally friendly vehicles in the market.

Other Enabling Factors:

- **Rising Middle Class:** The growth of the Indian middle class has been a driving force behind the automobile industry's expansion. A larger middle-class population has meant a higher demand for personal vehicles, especially cars and motorcycles.
- **Changing Consumer Preferences:** As incomes rise, consumers in India are increasingly looking for more comfortable and feature-rich vehicles. This shift in consumer preferences has led to the introduction of a wide range of models and variants by automakers.
- **Skilled Labor Force:** India has a well-educated and technically skilled labour force, which has attracted foreign manufacturers looking to set up manufacturing units and research centres. The availability of skilled labour has played a pivotal role in the growth of the industry.
- **Global Collaborations:** Many Indian automobile companies have entered into collaborations and partnerships with international manufacturers. These collaborations have not only brought new technology and expertise but have also helped Indian manufacturers expand their reach to global markets.
- **R&D and Innovation:** Indian automobile companies have invested significantly in research and development, leading to the development of innovative and cost-effective vehicles. This has not only catered to the domestic market but has also made Indian manufacturers competitive in the global automotive arena.
- **Government Support for Electric Vehicles:** In recent years, the Indian government has shown support for electric vehicles (EVs) through incentives and subsidies. This has encouraged both domestic and international manufacturers to invest in EV technology and infrastructure.

Table : Indian Automobile Market and Market Share (%) by segment, 2017–2018

From: The Growth of the Indian Automobile Industry: Analysis of the Roles of Government Policy and Other Enabling Factors

Commercial Vehicles	3
Three wheelers	3
Passenger vehicles	13
Two wheelers	81

Source: Society of Indian Automobile Manufacturers (SIAM) statistics

Up until the 1980s, the commercial vehicle market was the second largest segment (after the two-wheeler market), with approximately 20 percent of the total manufacturing share. After the middle of the 1980s, the sector of passenger vehicles began to emerge as the second most dominant one. This segment's share increased from 7 percent in 1985–1986 to approximately 15 percent in 2011–2012 and 14 percent in 2015–2016, respectively. “To maintain the second highest market share in the sector, sales of passenger automobiles reached 1.2 million units in 2006 and 3 million units in 2016–2017. The majority of production in this sector is centred on India's four major hubs for automobile manufacturing:

Delhi-Gurgaon-Faridabad in the country's north; Mumbai-Pune-Nashik-Aurangabad in the country's west; Chennai-Bangalore-Hosur in the country's south; and Jamshedpur-Kolkata in the country's east.

Table: Mode of entry of selected companies, 1983–2007

From: The Growth of the Indian Automobile Industry: Analysis of the Roles of Government Policy and Other Enabling Factors

Company	Mode of entry	Year
(a) Before 2000		
Suzuki	JV with government (Maruti)	1983
Mercedes-Benz	JV with Telco	1995
PAL-Peugeot	JV with Premier Automobiles	1995
Daewoo Motors	JV with DCM	1995
Honda Seil	JV with Shriram	1995
Ford Motors	JV with M&M	1996
General Motors	JV with Hindustan Motors	1996
Hyundai	100% subsidiary	1996
Toyota Kirloskar Motors	JV with Kirloskar	1997
(b) Post-2000		
Skoda (Volkswagen)	100% subsidiary	2001
Renault	JV with Mahindra	2005
Nissan	100% subsidiary	2005
BMW	100% subsidiary	2007

Source: Ramachandran J. (2011), India Entry Strategy of Auto Majors, Tejas Article, IIM Bangalore, September

Table: Automobile trends in India, 2011–2018

From: The Growth of the Indian Automobile Industry: Analysis of the Roles of Government Policy and Other Enabling Factors

Category		2011–2012	2012–2013	2013–2014	2014–2015	2015–2016	2016–2017	2017–2018
Passenger vehicles	Production	31,46,069	32,31,058	30,87,973	32,21,419	34,65,045	38,01,670	40,10,373
	Domestic sales	26,29,839	26,65,015	25,03,509	26,01,236	27,89,208	30,47,582	32,87,965
	Exports	5,08,783	5,59,414	5,96,142	6,21,341	6,53,053	7,58,727	7,47,287
Commercial vehicles	Production	9,29,136	8,32,649	6,99,035	6,98,298	7,86,692	8,10,253	8,94,551
	Domestic sales	8,09,499	7,93,211	6,32,851	6,14,948	6,85,704	7,14,082	8,56,453
	Exports	92,258	80,027	77,050	86,939	1,03,124	1,08,271	96,867
Three-wheelers	Production	8,79,289	8,39,748	8,30,108	9,49,019	9,34,104	7,83,721	10,21,911
	Domestic sales	5,13,281	5,38,290	4,80,085	5,32,626	5,38,208	5,11,879	6,35,698
	Exports	3,61,753	3,03,088	3,53,392	4,07,600	4,04,441	2,71,894	3,81,002
Two-wheelers	Production	1,54,27,532	1,57,44,156	1,68,83,049	1,84,89,311	1,88,30,227	1,99,33,739	2,31,47,057
	Domestic sales	1,34,09,150	1,37,97,185	1,48,06,778	1,59,75,561	1,64,55,851	1,75,89,738	2,01,92,672
	Exports	19,75,111	19,56,378	20,84,000	24,57,466	24,82,876	23,39,273	28,15,016
Total	Production	2,03,82,026	2,06,47,611	2,15,00,165	2,33,58,047	2,40,16,068	2,53,29,383	2,90,73,892
	Domestic sales	1,73,61,769	1,77,93,701	1,84,23,223	1,97,24,371	2,04,68,971	2,18,62,128	2,49,72,788
	Exports	29,37,905	28,98,907	31,10,584	35,73,346	36,43,494	34,78,268	40,40,172

Source: SIAM Statistics

Table: Segment-wise estimates of CAGR

From: The Growth of the Indian Automobile Industry: Analysis of the Roles of Government Policy and Other Enabling Factors

Production				
Category	1995–2000	2001–2010	2011–2018	2001–2018
Passenger vehicles	6.82	15.01	3.53	11.1
Commercial vehicles	-6.91	14.91	-0.54	10.55
Three-wheelers	1.62	12.6	2.17	9.67
Two-wheelers	7.18	10.53	5.97	10.45
Grand total	6.19	11.41	5.21	10.51
Domestic sales				
Category	1995–2000	2001–2010	2011–2018	2001–2018
Passenger vehicles	9.8	12.52	3.31	9.76
Commercial vehicles	-6.96	15.41	0.81	10.94
Three-wheelers	2.28	9.15	3.1	7.03
Two-wheelers	7.1	9.24	5.99	9.63
Grand total	6.57	9.91	5.32	9.6
Exports				
Category	1995–2000	2001–2010	2011–2018	2001–2018
Passenger vehicles		27.5	5.65	17.23
Commercial vehicles		15.96	0.7	13.14
Three-wheelers		30.79	0.74	20.74
Two-wheelers		30.45	5.19	21.4
Grand total		29.06	4.66	20.02
Exports as percentage of production				
Category	1995–2000	2001–2010	2011–2018	2001–2018
Passenger vehicles		10.87	2.04	5.52
Commercial vehicles		0.92	1.25	2.34
Three-wheelers		16.16	-1.40	10.1
Two-wheelers		18.03	-0.73	9.91
Grand total		15.85	-0.52	8.6

Source: Author's calculations using SIAM Statistics

The Future Scenario

Indian policymakers are now debating whether or not the country should adopt electric vehicles and what efficiency standards should be set. The Department of Heavy Industries (Government of India) plans to increase the share of output that is exported to between 35 and 40 percent by 2025, as outlined in the Draft National Automotive Policy 2018. This will establish India as one of the key export centres for automotive products worldwide. In addition, it plans for emission limits to be harmonised with those of the rest of the world by 2028, which means it looks beyond Bharat Stage VI.

To encourage widespread use of electric vehicles in India, the government officially sanctioned the National Mission on Electric Mobility (NMEM) in 2011. After that, in 2013, the public was shown the National Electric Mobility Mission Plan 2020. The Mission Plan was established after taking into account factors like fuel accessibility and environmental pollution in the country. With the goal of reaching market penetration of 6-7 million vehicles by the year 2020, the Department of Heavy Industries in India launched a programme in April 2015 called Faster Adoption and Manufacturing of (Hybrid &) Electric Vehicles in India (FAME-India), an acronym for Faster Adoption and Manufacturing of (Hybrid &) Electric Vehicles in India. The strategy's eventual goal is to establish a sustainable hybrid electric vehicle market and manufacturing ecosystem". The strategy is expected to be implemented over the course of six years, from 2015 through 2020. The plan places an emphasis on research and development, pilot programmes, charging stations, and innovative technologies. Since the program's commencement on April 1, 2015, around 28 million USD in demand incentives have been offered, directly supporting the purchase of 148,275 electric and hybrid automobiles. This aid will last till the 30th of June, 2017.

Conclusion

In conclusion, the growth of the Indian automobile industry is a testament to the symbiotic relationship between government policy initiatives and industry dynamics. Government policies have created a favorable environment for investment, innovation, and compliance with global standards. Simultaneously, industry dynamics, including changing consumer preferences, infrastructure development, global collaborations, and innovation, have acted as catalysts, propelling the industry's expansion. This intricate interplay has positioned the Indian automobile industry as a global leader, and its future growth will likely be shaped by sustainability, electric vehicles, and continued government support and policy initiatives. Understanding this interplay is crucial for stakeholders in navigating the evolving challenges and opportunities in this ever-expanding sector.

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