

## **A STUDY OF FOREIGN DIRECT INVESTMENT ON AUTOMOBILE SECTOR IN MAHARASHTRA**

### **Research Scholar**

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### **Research Guide**

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### **Abstract :**

*Foreign Direct Investment (FDI) in automobile sector has made a significant contribution to the growth in this sector specific and also developments and growth in the other related industries, like, metal, paint, electrical electronic gadgets, tube and tyre, auto components, etc. In India, In 1991, the government of India liberalized its policies regarding the automobile industry and FDI entered the sector. Basic Facts: Maharashtra is the second largest state in India both in terms of population (9.4% of India's population) Role of State Government FDI Status of Maharashtra History of Foreign Direct Investment An Indian company may receive Foreign Direct Investment under the two routes Automatic Route Government Route According to United Nation Conference on Trade and Development (UNCTD) According to International Monetary Fund (IMF) Economic growth Trade Technology diffusion and knowledge transfer Increased competition Employment Analyzing the progress of Maharashtra Automobile Industry through Foreign Direct Investment.*

**Keywords :** FDI, Automobile, Populations, UNCTD, IMF, Trade.

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### **Introduction :**

The automobile industry in India is one of the largest industries and a key sector of the economy. It is in fact the 'industry of industries' as it has considerable forward and backward linkages. Foreign Direct Investment (FDI) in automobile sector has made a significant contribution to the growth in this sector specific and also developments and growth in the other related industries, like, metal, paint, electrical electronic gadgets, tube and tyre, auto components, etc. In India, the Automobile industry was regulated like all other industries & investors needed to obtain licenses. There were also several other restrictions till late 1970's and had only four principal manufacturers in the market. Reforms happened over the years but the breakthrough was in early 90's that greatly influenced the developments to the industry in general and specifically to the automobile industry. In 1991, the government of India liberalized its policies regarding the automobile industry and FDI entered the sector. In 1993, FDI was also permitted in the passenger car segment of Indian automobile industry. The norms for foreign investment and import of technology have also been liberalized over the years for manufacture of vehicles. At present, 100% foreign direct investment is permissible under the automatic route in this sector, including passenger car segment. The growth of Indian middle class, the increasing purchasing power, the strong macro-economic fundamentals have attracted the major auto manufacturers to Indian market.



## **Maharashtra Overall Conditions :**

### **(1) Basic Facts :**

Maharashtra is the second largest state in India both in terms of population (9.4% of India's population) and geographical area (10% of India's total area). 42% of the population lives in urban areas and 67% are less than 34 years old. The state has four of the biggest cities in the country Mumbai (12 million people), Pune (2.5 million), Nagpur (2 million) and Nashik (1.1 million). The state has been politically stable and has been investor friendly. Maharashtra is one of the largest, wealthiest and most developed states in India by current economic indicators. As of 2010 Maharashtra had a Per Capita Income of \$1,660, far ahead of national average of \$1,219. Maharashtra's GDP Per Capita crossed the US\$2,000 threshold for the first time in 2011.

### **(2) Role of State Government :**

Policy decision-making is shared among federal and state levels. As shown before the federal government is in charge of policies regarding central taxes, and major ports, highways, and airways, while the state government manages infrastructure provision, land distribution, energy and water supply, local taxes like octroi and sales. Some matters like education and health are joint responsibility.

### **(3) FDI Status of Maharashtra :**

The state has succeeded in attracting Rs 68,409 crore in foreign direct investment (FDI) in the first six months of the current financial year. This is almost half of the total Rs1,44,674 FDI that has come into the country, state industries minister Subhash Desai told a select group of senior journalists. In the last two years, Vidarbha and Marathwada, the backward regions of the state, received a huge push in terms of industrial investment. They received investment to the tune of Rs1.50 lakh crore, just behind the most favoured Mumbai region, which stood out with Rs3.25 lakh crore. Khandesh with Rs25,000 crore, Pune Rs50,000 crore were far behind as investment destinations. The state has become the most favourite destination for foreign investment due to its policies of providing ease of doing business, quality infrastructure, encouragement and skilled manpower, the minister claimed. We have achieved 84.5% in terms of ease of doing business, up from earlier year's 49.5%, and this is expected to rise to 90% in the near future, Desai said. Singapore's Asian Competitiveness Association has chosen Maharashtra for the top slot in terms of industrial progress, he added. The investments have come mainly from Japan, England, Mauritius, USA and The Netherlands, in fields like service sector, real estate and infrastructure, computer hardware and software, telecommunications, motor vehicles and medicines. On the impact of demonetization, Desai said, It will have some impact on medium and small medium industries for some time, but expressed hope that it will not affect growth of Nagpur's MIHAN project. The IT industry is anyway not going to be hit. So, Mihan's IT units will get going. It is also getting new investments like another aircraft maintenance, repair and overhaul (MRO) depot to be operated by private airline Indigo, the minister said. Asked about high power charges in the state, that were driving away units like steel rolling mills to neighbouring states, where electricity rates were cheaper, Desai said



the situation may change in near future. &quot;Maharashtra is trying to reduce.

### **History of Foreign Direct Investment :**

The history of Foreign Investment in India can be traced back with the establishment of East India Company of Britain; British capital came into India during the colonial era of Britain in India. Before independence, major amount of foreign investment came from the British companies. British companies setup their units in mining sector and in those sectors that suits their own economic and business interest. After Second World War, Japanese companies entered Indian market and enhanced their trade with India, yet U.K. remained the most dominant investor in India. After Independence India was accepted Mix Economy. Further issues relating to foreign capital, operations of MNCs, gained attention of the policy makers keeping in mind the national interests the policy makers designed the FDI policy which aims FDI as a medium for acquiring advanced technology and to mobilize foreign exchange resources. The first Prime Minister of India considered foreign investment as “necessary” not only to supplement domestic capital but also to secure scientific, technical, and industrial knowledge and capital equipments. The major investing countries are Mauritius (mainly routed from developed countries), USA, Japan, UK, Germany, the Netherlands and South Korea. An Indian company may receive Foreign Direct Investment under the two routes as given under:

#### **Automatic Route :**

FDI in sectors /activities to the extent permitted under the automatic route does not require any prior approval either of the Government or the Reserve Bank of India.

#### **Government Route :**

FDI in activities not covered under the automatic route requires prior approval of the Government which are considered by the Foreign Investment Promotion Board (FIPB), Department of Economic Affairs, Ministry of Finance.

### **Definition of Foreign Direct Investment :**

1. According to United Nation Conference on Trade and Development (UNCTD) FDI Refer to An Investment made to acquire lasting interest in enterprises operating outside of the economy of the Investor.
2. According to International Monetary Fund (IMF) Foreign Direct Investment reflects the aim of obtaining a lasting interest by a resident entity of one economy (direct investor) in an enterprise that is resident in another economy (the direct investment enterprise). The “lasting interest” implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the latter.
3. Need of FDI for Economy and Automobile sector.
4. Market potential and accessibility.
5. Political stability.
6. Market infrastructure.
7. Easy currency conversion.
8. India is the ideal country to make Foreign Direct investments in because of its features



like:

9. Developing economy Low salaried employees
10. Low wage workers
11. Abundant human resources
12. Big private economy

### **Advantages of FDI :**

#### **(1) Economic growth :**

This is one of the major sectors, which is enormously benefited from foreign direct investment. A remarkable inflow of FDI in various industrial units in India has boosted the economic life of country.

#### **(2) Trade :**

Foreign Direct Investments have opened a wide spectrum of opportunities in the trading of goods and services in India both in terms of import and export production. Products of superior quality are manufactured by various industries in India due to greater amount of FDI inflows in the country.

#### **(3) Technology diffusion and knowledge transfer :**

FDI apparently helps in the outsourcing of knowledge from India especially in the Information Technology sector. Developing countries by inviting FDI can introduce world-class technology and technical expertise and processes to their existing working process. Foreign expertise can be an important factor in upgrading the existing technical processes.

#### **(4) Increased competition :**

FDI increases the level of competition in the host country. Other companies will also have to improve on their processes and services in order to stay in the market.

#### **(5) Employment :**

FDI has also ensured a number of employment opportunities by aiding the setting up of industrial units in various corners of India.

### **Objective of the Study :**

- Analyzing the progress of Maharashtra Automobile Industry through Foreign Direct Investment.
- To forecast the growth and role of automobile industry in terms of production, domestic sales & exports in Maharashtra
- To assess the impact of the FDI in the economic development of a country;
- The period of the Study is from 2010 to 2017
- To find out obstacle and Suggestions on Automobile for FDI.
- To Examine the Source of FDI on economic Growth

### **Hypothesis :**

- There is a significant association between FDI inflows in automobile sector and growth in production of automobile.
- There is a significant association between Automobile production and Country's rapid economic and Industrial development.
- Flow of FDI shows a positive trend over the period 2010- 2017
- FDI has a positive impact on economic growth of the Maharashtra

### **Research Methodology :**

The data is based on below component.

#### **1. Secondary Data :**

Secondary data will be collected automobile sector data published by Society of Indian Automobile Manufactures (SIAM), and reports published by Information Credit Rating Agency (ICRA). FDI flows are collected from official publication of government of India, various publications of RBI, Planning Report and from official web RBI and DIPP. Other data was collected from economic reviews, newspapers, journals, magazines etc.

#### **2. Primary data :**

Primary data will be collected with the help of structured Questionnaire, personal direct and indirect interview; personal observation etc that time will be use convenience sampling method.

#### **I. Tools and Technique :**

Data can be analyzed with the help of statistical tools like average, Correlation, Compounded Annual Growth Rate (CAGR), proportion analysis, trend analysis, pie-diagram, Regression analysis, t-test etc.

#### **II. Scope and limitation :**

The study is based on secondary data and finding of the study depends entirely on the Accuracy of such data.

#### **Conclutions :**

The growing importance of FDI in the world economy has placed the activities of direct investors and direct investment enterprises under increasing scrutiny and raised demands for more statistical work. The IMF plans to investigate—in consultation with other international agencies, regional agencies, and member countries—the feasibility of conducting such a survey. The result is a global database of cross-border holdings of securities and derived portfolio investment liabilities with the capacity for showing bilateral and partner-country data from the creditor or debtor perspective.

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