



## IMPORTANCE OF FOREIGN DIRECT INVESTMENT IN INDIAN ECONOMY- A CASE STUDY OF AUTOMOBILE SECTOR

<sup>1</sup>Y. Satguru Roshan, <sup>2</sup>Devanshi Dixit and <sup>3</sup>Krati Agarwal

<sup>1</sup>Research Scholar, Department of Applied Business Economics,  
<sup>2&3</sup>(M.Com Final), Faculty of Commerce, Dayalbagh Educational Institute,  
Dayalbagh, Agra-282005

### ABSTRACT

*The Foreign Direct Investment includes the transfer of capital, advance technology, and goods & services, come from developed nation to the developing for improving living standard, gaining new technology, providing employment opportunity, increasing gross domestic product, establishing new plants and raising foreign reserve etc. Thus, is useful investment for achieving good growth. Therefore, the Government of India had granted the permission to foreign investors for starting their business & setting-up plants and allowed 100% Foreign Direct Investment for Automobile Sector in the year 1991. Since, time, it has been resulted, India ranks second in two-wheeler, third in three-wheeler and enjoys abundant capital goods, brilliant engineering talent, low over all cost, political stability, legal and accounting frame-work etc.*

**Key-words-** Foreign Direct Investment.

### Introduction

India is looking forward to developing its auto components industry and pharmaceuticals industry which is becoming an influencing factor in the automobile market Foreign Direct Investment has already penetrated the market. The Automobile sector in India was opened up to foreign investments in the year 1991. In 1993, FDI was allowed in the passenger car segment. FDI Inflows to Automobile Industry have been at an increasing rate as India has witnessed a major economic liberalization over the years in terms of various industries.

As a result of all these reforms India open the door for FDI which restore the confidence of foreign investor. The first FDI player in the Indian automobile industry was Suzuki and today, automobile industry in India is growing by 18 percent per year .100 percent Foreign Direct Investment (FDI) is allowed in the automobile industry in India. Automobile Industry is one of the key roles played on GDP factor of Indian economy. Moreover India is considered to be the 4<sup>th</sup> largest FDI destination in Asia.

Direct Investment Inflow in India-Opportunities and Benefits under Automobile through establishing Engineering Centers, Two Wheeler Segment, Exports, establishing Research and Development Centers, Heavy truck Segment and Passenger Car Segment. These kinds of activities would happen when serious of initiative, progress and supports taken by Government, Organisations and public. Foreign Direct Investment (FDI) is a type of financial instrument to substantiate the foreign funds in India for economical and country development. Foreign Direct Investment act as an important and vital component of development strategy in both developed and developing nations and policies are designed in order to stimulate inward flows. In fact FDI provides a win-win situation to the host and the home countries. Both countries are directly interested in inviting FDI, because the benefit a lot from such type of investment.

FDI has an important contribution in the growth of a developing country. It is essentially through an investment in equity or starting a subsidiary company, technology transfer with management skills and applying improved management methods leading to cost reduction and may lead to increase in productivity. The ‘home’ countries want to take advantage of the vast markets opened by industrial growth. On the other hand the ‘host’ countries want to acquire technological and managerial skills and supplements domestic saving and foreign exchange. The basic advantages in automobile sector influenced by FDI includes, advanced technology, cost-effectiveness and efficiency and efficient manpower. This gives the future prospect of Indian Automotive sector is looking bright. Indigenous automobile companies are replacing foreign multinational companies in term of consumer satisfaction. FDI is a controlling ownership in a business enterprise in one country by an entity based in another country.

Further, the integration of global financial markets paves ways to this explosive growth of FDI around the world. Thus this paper investigates.

## **Present State of Knowledge**

**Dr. N. Ravichandran and Ms. Rashni.A.Rajan 2016<sup>1</sup>**, in their research paper titled “**Effect of FDI Inflows in Indian Automobile Industry**” have explained that the Indian Automobile Industry is one of the largest automotive market in world and has scored the sixth position in passenger & manufacturing car segment. According to them, in Foreign Direct Investment, foreign funds are utilized for the economical development of a country. In last, the purpose of this research paper is to investigate the effect of FDI in Automobile Industry.

**R.L.Kannan and Prof.T.Ramachandran 2015<sup>2</sup>**, in their research paper titled “**Impact of Foreign Direct Investment on India’s Automobile Sector-With Reference to Passenger Car Segment**” have explained that the FDI inflows help industry to grow at an increasing rate and give advanced technology, cost-effectiveness & efficient man power. Further their issues include an opportunity & benefit, recent trend and an important role played by the foreign investors in development of Indian Automobile Industry. They have analyzed the growth for passenger car segment, production, sales & investment, found that this industry stands second position in two-wheeler and third in three-wheeler. In last, they have used three statistical tools; Arima, Linear and Compound model to measure future production of automobile industry.

**V.V.Bhaskar and Y.V.S.S.Sarma 2014<sup>3</sup>**, in their research paper titled “**Role of Foreign Direct Investment:- In the growth of Automobile Industry**” have discussed that the FDI gives an important contribution for the growth of developing countries, this is possible in following modes; starting new subsidiary company and transferring technology. According to researchers, in 1991, Indian government permitted in country to promote economic growth, since that time automobile industry has been getting maximum share among recipient countries and playing an important role in increasing the GDP of a country. In last, this research paper has viewed about FDI and its data for the export of automobile for the year 2001-02 to 2011-12.

**T.Rajesh and A.S.Dileep 2013<sup>4</sup>**, in their research paper titled “**Foreign Direct Investment in Automobile Industry**” have indentified that the since the approval of LPG Policy, FDI has developed Indian automobile industries. As they have explained that in the year 1980, Japanese automobile company “Suzuki” joined joint-venture with “Maruti udyog” and later, 1983, the government permitted this company to enter for Indian market. Further they have described, in

1991, government liberalized the policies and after two years, allowed in passenger car segment also. In last, the purpose of this research paper is to analyze the progress of industry.

### Need of the Study

Researchers have discussed about the effect, impact and role of foreign direct investment in Automobile industry, but less attention given for the requirements to invest. Therefore, it is necessary to know through this research paper.

### Objective

To know the reasons to invest in an Automobile industry.

**Statistical tools-** Mean and Standard Deviation.

#### FDI Inflows in Automobile Sector

Descriptive Statistics				
Particular	N	Sum	Mean	Std. Deviation
PC	7	24,898.26	3,556.89	1,107.94
TW2	7	20,242.18	2,891.74	270.63
TW3	7	19,525.06	2,789.29	332.12

This table gives the information about the inflow; the passenger car has got maximum share but minimum for three-wheeler and the rest two 'mean' and 'standard deviation' have given same results.

#### Automobile Import Data

Particular	N	Sum	Mean	Std. Deviation
PC	7	20,40,056	2,91,436.57	41,638.83
TW2	7	2,19,50,096	31,35,728	4,85,481.20
TW3	7	24,13,903	3,44,843.28	71,628.37

This table gives the information about the import; the two-wheeler has got maximum share but minimum for three-wheeler, the mean is maximum for three-wheeler but minimum for passenger

car and the last standard deviation is identified as maximum for two-wheeler and minimum for passenger car.

### Automobile Export Data

Particular	N	Sum	Mean	Std. Deviation
PC	7	1,30,25,282	18,60,754.57	6,25,896.30
TW2	7	6,33,21,016	90,45,859.42	22,64,673.02
TW3	7	3,04,86,552	43,55,221.71	8,17,324.98

This table gives the information about export; the two-wheeler has got maximum share and minimum for passenger car, and mean is same and the last standard deviation has given reverse results. It is maximum for two-wheeler but minimum for passenger car.

### Automobile Production Data

Particular	N	Sum	Mean	Std. Deviation
PC	7	1,30,25,282	18,60,754.57	6,25,896.30
TW2	7	5,53,21,016	79,03,002.28	38,47,438.56
TW3	7	37,81,411	5,40,201.57	1,38,945.67

This table gives the information about production; the two-wheeler has maximum share and minimum for three-wheeler and but the rest two 'mean' & 'standard deviation' have maximum contribution for two-wheeler and minimum for three-wheeler.

### Conclusion

As India is more focusing on more development of automobile sector for which India opened foreign direct investment in the year 1991. Foreign Direct Investment is also playing an important role in developing country. Integration of global financial markets is helping in Foreign Direct Investment. This paper has focused on reason to invest in automobile industry. As the analysis shows the maximum inflow is for maximum outflow for passenger car and minimum for three-wheeler. In case of automobile import data has maximum for two-wheeler and

minimum for three-wheeler. Similarly, in automobile production data has maximum for two-wheeler and minimum for three-wheeler. This shows then rate of foreign direct investment in India and helps to now the position of foreign direct investment in automobile sector.

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