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STRUCTURAL CHANGES IN THE AUTOMOBILE INDUSTRY: DURING PRE AND POST REFORM PERIOD IN INDIA.

SUNITA SHARMA AND ARUN SHARMA

Sr. Asstt. Prof.
Deptt .of Economics University of Jammu.

Abstract:

In the era of liberalization and globalization the Indian automobile industry has assumed a special position in the industrial landscape of India. It has a well-established name globally being the second largest two wheeler market in the world, fourth largest commercial vehicle market in the world, and eleventh largest passenger car market in the world and expected to become the third largest automobile market in the world only behind USA and China. The Indian automobile industry bagged the position of being the ninth largest in the world moreover it has been aptly described as the sunrise sector of the economy as this sector has witnessed tremendous growth. The review of literature shows that the liberal industrial policy has encouraged the structural changes in the Automobile industry, resulting into increased competitiveness, with strong backward and forward linkages thereby propelling the growth of this sector .Keeping this in view ,an attempt has been made in the present study to investigate the structure of the automobile industry during pre-reform period and after post-reform period and to analyze the structural changes in this industry. The present study is mainly descriptive in nature based on secondary sources such as reports, books, journals and articles etc. With the liberalization and globalization, the Indian automobile industry has demonstrated sustained growth as a result of increase in competitiveness and relaxed restrictions. This sector is now characterized by the frequent introduction of new models where the consumers being the primary beneficiaries are reaping advantages of multiple choices, better technology and relatively low prices. With the announcement of Auto policy 2002 the automobile industry has got further boost to become vivacious and globally competitive. The measures like low entry barriers, investment incentives by the government has made Auto-mobile industry more competitive at international front.

KEYWORDS:

Liberalization, Globalization, Pre-Reform , Post-Reform , Structural Changes.

INTRODUCTION

In the era of liberalization and globalization the Indian automobile industry has assumed a special position in the industrial landscape of India. It has a well-established name globally being the second largest two wheeler market in the world, fourth largest commercial vehicle market in the world, and eleventh largest passenger car market in the world and expected to become the third largest automobile market in the world only behind USA and China. The Indian automobile industry bagged the position of being the ninth largest in the world moreover it has been aptly described as the sunrise sector of the economy as this sector has witnessed tremendous growth.

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In the automobile industry of India, till 1980 the policy instruments used were protection, capacity licensing, restrictions on foreign exchange allocation, restrictions on foreign collaborations, price controls, the reservations of certain components and parts for small scale units etc. Prior to 1980s, the functioning of the auto industry was heavily regulated, for cars and commercial vehicles. The firms were required to obtain licenses from the Indian government for entry, expansion, diversification and relocation. The licensing of the vehicle production involved not only an estimation of the total demand but also its distribution by the types of vehicles according to the nation's priorities, and the number of producers

The regulatory policy environment outlined above was instrumental in building up an indigenous motor vehicle industry in India which had a limited design capability in a few segments of the industry but had a vast manufacturing capability. In the early 1990's a series of rapid policy changes such as liberalized entry rules, capacity expansion, further growth and easier access to imported technology were introduced. Licensing was removed in several segments of the industry and the system of product specific capacity licensing was relaxed (known as broad-banding) initially in the two-wheeler and then in the four wheeler segment. The liberalization of the policies regarding entry into the motor vehicle industry was heralded, strangely enough, by the takeover of the Maruti car (renamed Maruti Udyog Ltd) by the government. The Public sector, which till (1980) was out of the vehicle industry now entered it in a big way that too with foreign equity participation (26 percent) which initiated the operation of joint venture in automobile industry.

Since 1968 onwards till 1980s, the priority was given to commercial vehicles but later on the efforts were made to boost car and two wheeler production, leading to a shift in the emphasis from public transport to private personalized transport.

In the new industrial policy of 1991, the govt. of India undertook a series of reforms in the automobile industry such as abolition of industrial licensing for automobile industry in 1991 and in case of passenger cars in 1993. Automatic approval for imports of capital goods, foreign equity up to 51 percent which later on increased to 74 percent in segments like commercial vehicles, public transport vehicle including automotive commercial three wheelers, automotive components and ancillaries was allowed moreover the Import of second hand car was also permitted, but not with a left hand side steering. A condition of dividend balancing (i.e. outflow on account of dividend payments has to be balanced by the foreign exchange earnings through export over a period of time) was imposed for approval of projects in the car segments. Dividend balancing was spread over seven years from the commencement of production. Balancing was not required beyond the seven year period.

REVIEW OF LITERATURE

From time to time various studies have been conducted by different scholars and economists to analyze the different aspects of automobile industry. Some of them are:

The study of V.Sumantram et.al. (1993) has found that after 1990 the liberalization policy has fostered the formation of new alliances with global manufacturers which has facilitated the growth of Indian automobile industry. Narayan (1998) in his study found that in liberal regime technological changes are more frequent which increased the competitiveness in the automobile market resulting into some structural changes in it. MahipatRanawat (2009) has found that govt. policy has positive influence on the development of India's automobile industry making it self-reliant, and more dynamic. Ahmed (2012) in his study found that with its strong forward and backward linkage the automobile industry has strong and positive multiplier effect in propelling the progress of Indian economy. The review of literature shows that the liberal industrial policy has encouraged the structural changes in the Automobile industry, resulting into increased competitiveness, with strong backward and forward linkages thereby propelling the growth of this sector.

OBJECTIVES AND METHODOLOGY OF THE STUDY:

In this background an attempt has been made in the present study to investigate the structure of the automobile industry during pre-reform period and after post-reform period and to analyze the structural changes in this industry. The present study is mainly descriptive in nature based on secondary sources such as reports, books, journals and articles etc.

STRUCTURE OF AUTOMOBILE INDUSTRY DURING PRE-REFORM PERIOD:

During 1940 and 1950 Indian roads were ruled by Ambassador Car from Hindustan Motors and The Fiat from Premier Auto Limited. After the introduction of economic planning in 1952, three other firms

entered into manufacturing programme of automobiles. By 1956 two more units with programme of commercial vehicles manufacture had entered the industry.

By 1960's there were seven units engaged in the manufacturing of motor vehicles-Hindustan Motors, Premier automobiles standard motors products Ashok Leyland, Bajaj Tempo, Tata Engineering and Locomotive Company and Mahindra and Mahindra. There were no new entries into the four wheelers segment from 1960 onwards until early 1980's with the exception of standard motors products (SMP) which moved into the manufacture of light commercial vehicle (LCV) in 1965 and Sipani automobile from Bengaluru which entered into the manufacture of small cars in 1976. There has been gradual erosion of the market share of standard motors and by 1980 it ceased to be a player in the passenger car segment. There was duopoly in passenger car segment till 1980.

From 1980 onwards in passenger car segment many changes took place. In the passenger car segment the launch of Maruti 800, marked the beginning of a new era. In 1980 the government of India entered into joint venture in passenger car segment with Japanese motor firm Suzuki. Suzuki acquired a 26 percent stake in the undertaking which was later on increased to 50 percent. However, in 1981 the assets of Maruti Ltd. were nationalized and the state owned Maruti Udyog was launched in 1984. In 1980 there were five manufacturers in passenger car segment—they are Maruti Udyog Limited, Hindustan Motors Limited, Premier Automobile Limited, Standard Automobile Limited and Sipani Automobiles limited. Among these five manufacturers Maruti marked a quantum leap in both technology and in scale of production which increased from 3000 to 100,000 units per annum. Till 1990, Maruti enjoyed a market share of over 50 percent among passenger car due to the absence of competition.

In 1980, the commercial vehicles segment was infused with renewed vigour. Various Japanese manufacturers in the light commercial vehicles segment started joint venture with Indian manufacturers. They are—Allwyn-Nissan, Daimler-Chrysler Motors (DCM)-Toyota, Swaraj-Mazda and Eicher-Mitsubishi. In 1980s Bajaj Tempo and Tata Engineering and Locomotive Company dominated the commercial vehicle segment whereas Mahindra and Mahindra dominate the light utility vehicle segment. In 1980 Tata Engineering and Locomotive Company had developed many indigenous design and components. Tata Engineering and Locomotive Company after the expiry of its contract with Daimler Benz indigenously developed the Benz model and introduced it in the market. In late 1980 the commercial vehicle segment faced slow down due to Gulf war, devaluation of rupee and increase in the auxiliary custom duty, rise the cost of diesel fuel. All these had an adverse impact on the production and demand of commercial vehicles. In the commercial vehicle segment Tata Engineering and Locomotive Company dominated the market share.

The two wheelers segment also witnessed several structural changes in 1980's. The two wheelers segment consists of motorbikes, scooters and mopeds. Scooters are the most popular type of two wheelers in the Indian automobile market. In contrast to the stagnancy in four wheelers segment, the two wheelers segment has witnessed new entries. Indian two wheelers industry had a small beginning in the early 50's when automobile product of Indian (API) manufactured scooters. In 1955 the two wheelers segment had just two producers that is Enfield Indian Ltd (EIL) and automobile products of India (API). During 1960-62 Escorts Ltd (EL) Bajaj auto Ltd (BAL) and Idcal Jawa private ltd (IJPL) made their entry into the market. The 1970's witnessed a stream of entries during 1970-75 kinetic engineering Ltd (KEL) scooters India Ltd (SIL) Gujarat small Industries corporation kirloskar Ghatgepatel all made their entry into two wheelers segment, the period 1976-80 saw the state industrial development corporation entering into production of two wheelers Sundaram Dayton Ltd (SUCL) and Majestic Auto Limited (MAL) also set up factories for the production of mopeds during the same period. Despite the numerous entries into vehicle manufacture during 1970-80, the structure of the market has remained more or less the same throughout this period.

Through the 1980's Bajaj continued to dominate the scooter segment with a market share of over 60 percent. Lohiavespa and kinetic Honda were the two other manufacturers of scooter in 1980's. By 1980 Bajaj produced two models - Bajaj Super and Bajaj Chetak. In the two wheelers segment Bajaj Auto Limited dominated the market. The company had successfully introduced indigenously developed model of varying engine capacity which helped the company to consolidate its market position. In moped segment, Mopeds Indian Limited was a market leader with their Suvega models. In 1980 mopeds production exceeded to motor cycle production. In late 1980s Kelvinator of India started production of the Avantic Garelli. Mopeds India was the initial market leaders by the mid 1980 whereas kinetic TVS and Hero Majestic were the major players in late 80's. Between 1983 & 1986, moped production in India exceeded scooters production. Mopeds have played a significant role in filling the transportation requirement of the Indian customers.

In 1980 the motor cycle segment witnessed a shake up with the arrival of Japanese manufacturers. In 1980 there were four joint ventures between the domestic and Japanese

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manufactures, Hero group of India and Honda group of Japan, TVS joined with Suzuki, Bajaj with Kawasaki and Escorts with Yamaha. The product produced by these manufacturers were very similar in the 100cc two stroke class. Only exception of the Hero Honda CB 100 four stroke model.

Therefore till 1990 there had been little expenditure on R&D programmes and the two wheelers segment dominated the market as compared to other segment of automobile industry. Thus in pre reform period the two wheeler sector got more priority than four wheeler segment.

There had been sellers concentration in commercial vehicles, where two to three firms controlled over 80 percent of the market share. In case of two wheelers segment Bajaj Auto Limited (BAL) had been able to capture a greater proportion of market share acting as a dominant in the market.

Table 1.1 Structure of Automobile Industry in Pre -Reform Period (1950 -1990)

Segment	Manufacturers	Models	Market structure	R&D
Passenger cars	Hindustan motors, Premium automobile limited & Maruti Suzuki	Ambassador(1950)Fiat(1952),Maruti 800(1983), Omni79 6cc(1986)Maruti gypsy(1985)and Maruti 1000(1989)	Duopoly of HML&PAL(1940-1980) Near by Monopoly of Maruti Suzuki(1980-1990)	low
Commercial vehicles	Tata Engineering & locomotive Company, Ashok Leyland& Mahindra & Mahindra	Tata 709 EX Tata Novas , Tata Prima Tata 4018, Tata 4923,Tata 3516, Tata 3118, M&MFC150 ,M&MFC260,FJ460 CJ340DP(1989) ALL PantherBS-II	Monopoly of Tata Engineering & Locomotive Company initially and then oligopoly market	low
Two wheelers	Bajaj Auto, Yamaha Motors, Automobile products of India & Hero Honda	Bajaj Vespa(1960)Bajaj Chetak(1972)Bajaj super(1976) Bajaj Priya(1977) Hero Honda CD 100(1984) Kawasaki Bajaj KB100&126(1986)	Monopoly of Bajaj Auto(1960-1984) and oligopoly(1984-1990)	low
Three wheelers	Bajaj Auto, Piaggio	Bajaj Tempo(1954) Bajaj rickshaw and rear engine Autorickshaw(1977)	Monopoly of Bajaj Auto Initially and then duopoly	low

Thus in pre-reforms period the automobile industry had several inadequacies. There had been existence of nearby monopoly practices. The market was dominated by few large manufacturers initially. There was absence of competition, moreover the expenditure on research and development was low, only few manufacturers were capturing greater market share and enjoying greater market power resulting into seller's concentration. All these factors have hindered the growth and development of automobile industry further the restrictive set of policies and the absence of adequate technology and purchasing power the automobile industry in pre-reform period grew at a snail's pace.

Structure of Automobile Industry during Post-Reform Period: The structure of the automobile industry has changed at a faster rate after liberalization and many international giants who resisted investing in India ten years earlier now realized India as a priority destination for their investment. With the entry of the global manufacturers the automobile industry witnessed several structural changes. Due to favorable investment climate, more investor friendly industrial guidelines, the big automobile players such as Hyundai, Mitsubishi, General Motors, Honda, Mercedes etc. opened their manufacturing programs in India. To compete with these global manufacturers, the domestic producers have offered models with higher fuel efficiency and better quality. Liberalization of Indian economy has opened up new opportunities and challenges for automobile industry. In passenger car segment, with the entry of other car manufacturers Maruti Suzuki which enjoyed about 50 percent of the market share faced more competition. Maruti became more aggressive in its operations and launched a number of models to consolidate its position.

Tata motors entered in passenger car segment in 1991 with the launch of Tata Sierra. Recently Tata Motors launched the world's cheapest car Tata Nano, which cost around one lakh. This car gets instant recognition on the global front. Besides these domestic manufacturers, international manufacturers started their operations. Hyundai Motor India was established in 1996. Hyundai manufactured several models in India. It is the second largest auto exporter from India Ford Motors, BMW India, General Motors, Toyota Motors are other notable manufacturers in India their cars are generally light, aerodynamically shaped and compact. This provided a fillip to the passenger car segment. Today India is the ninth largest car manufacturer in world.

After the reforms of 1991 commercial vehicle segment had experienced several structural changes. Tata Motors, Mahindra & Mahindra and Ashok Leyland are major manufacturers in commercial vehicle segment reflecting oligopoly market structure and indicating seller's concentration in the market. Manufacturers adopt the various cost reduction strategies like bulk buying of raw material, product promotion, Product differentiation, providing insurance, cheap finance facility and advertisement to promote the production and demand for commercial vehicles. Tata motors dominated the commercial vehicles segment by holding 68 percent market share. The company has launched vehicles that are rugged, reliable, environmental friendly and fuel efficient.

Two and three wheelers-Two wheelers are very popular mode of transportation due to their fuel efficiency and ease of use in congested traffic. With the increase in income level, wider product range, easy availability of loan from the banks, relatively low interest rates and discounts offered by the manufacturers, Indian two wheeler industry has got spectacular growth in last few years. After facing a recession in early 1990, the two wheeler segment bounced back with more growth and more production. In the two wheeler segment Hero Honda Motors Limited (HHML) have the largest share of the market. In 2010 the joint venture between Hero and Honda got terminated, and Hero group of India purchased the 26 percent stake of the Honda in joint venture Hero Honda. Bajaj Auto Limited is another name in the two wheeler segment, the other noted manufacturer in two wheeler segment are Royal Enfield Limited, Kinetic Engineering Limited and Yamaha Motors India. The products of all these are popular for their mileage and attractive looks and are famous among Indian youth.

In three wheeler segment Bajaj Auto Limited dominates the market by holding 68 percent of the market share. The other producers of three wheelers are Piaggio holding 28 percent of the market share and Mahindra & Mahindra which holds 1.01 percent of market share. Due to the absence of competition there exists duopoly in the three wheelers segment

Table.2 Structure of Automobile Industry Post Reform Period (1994-2011)

Segment	Manufacturers	Models	Market structure	R&D
Passenger cars	Maruti Suzuki, Hyundai, Tata Motors, BMW, General Motors, Toyota, Ford India Mercedes India	Maruti Zen(1993) Maruti Suzuki Esteem(1994) Maruti Zen D(1998) Balero WagonR(1999) Alto VXi(2001) Swift (2005) Swift Dzire(2008) Kizashi(2011) and Maruti Ertiga(2012)	Oligopoly	Research and Developments High
Commercial vehicles	Tata Motors Mahindra & Mahindra and Ashok Leyland	Tata Ace(2005) Tata Super ACC(2000) Mahindra Mahindra xylo	Oligopoly	Research and Developments High
Two wheelers	Hero Honda Motors Limited Bajaj Auto Limited Yamaha Motors Kinetic Engineering Limited	Hero Honda CBZ(1994) Hero Honda Passion(2001) CDDeluxe, glamour,Pleasure(2005) Splendor Hunk(2007) Impulse (2011) Bajaj pulsor(2010 Bajaj avenger and discover(2005) Bajaj Platina(2006) Bajaj pulsor 135(2009) Bajaj Pulsar 200NS(2012)	Oligopoly	Research and Developments High
Three wheelers	Bajaj Auto, Piaggio and Mahindra & Mahindra	Bajaj Autorickshaw , Piaggio Auto ,Champion DX	Duopoly	Research and Developments Low

Structural changes have been experienced by the automobile industry after the liberalization and globalization where now, international automobile players are playing an important role in the automobile industry due to liberalized industrial policy.

Table 1.3 Structural Changes in Automobile Industry during Pre and Post Reform Period: (1950 -2011).

Initial Years(1950 -1980)	1980-1990	1991-2011
<ul style="list-style-type: none"> Manufacturing was licensed Excise and Custom duties were high. High entry barriers Research and Development expenditure was low. Product and Process promotion was absent Seller's concentration Hindustan Motors Limited, premium Automobile Limited; Ashok Leyland, Tata Engineering and Locomotive Company and Mahindra & Mahindra were major manufacturers in four wheelers segment. Duopoly of Hindustan Motors Limited and Premier Automobile Limited in Passenger car segment Nearby Monopoly of Tata Engineering and Locomotive Company in Commercial vehicle segment. Bajaj Auto, Yamaha Motors, Automobiles Product of India & Piaggio were major producers in two and three wheelers segment. Near by monopoly of Bajaj Auto in Two and Three Wheeler segment. 	<ul style="list-style-type: none"> Removal of Capacity Restrictions. policy changes in early 1990 Modest decline in Excise and Custom duties. Lower entry barriers Research and Development expenditure was moderately high. Improvement in Product and Process Innovations. Seller's concentration In the passenger car segment there was monopoly of Maruti Suzuki. Tata Motors held largest share in Commercial Vehicles segment indicating monopoly in this segment. Bajaj Auto dominated the two and three wheelers segment. Monopoly of Bajaj Auto in Two and Three wheeler segment. 	<ul style="list-style-type: none"> Delicensing of the automobile industry and passenger car industry Removal of Quantitative Restrictions 100 percent approval of FDI through automatic route. Substantial decline in the Excise and Custom duties Higher level of research and development expenditure Higher Product and Process innovation Increased competition Low entry barriers Maruti Suzuki, Hyundai Motors, Toyota, Ford, General Motors and Tata Motors are the major players in the passenger car and commercial vehicle segment Bajaj Auto, Yamaha Motors and Hero Honda dominated the two wheelers segment Oligopoly in Passenger car, Commercial Vehicles and Two wheelers segment. Duopoly of Bajaj Auto and Piaggio in Three Wheelers segment reflecting seller's concentration in market.

After the liberalization policy of 1991, Automobile Industry has encountered several structural changes. With the abolition of Quantitative restrictions and approval of 100 percent FDI through automatic route, the industry became more vivacious and vibrant. The industry has changed from seller's market to buyer's market where manufacturers adopt several cost reduction (like mass production, bulk buying enjoying economies of scale, process innovation) and Product and Process Promotion strategies (like diversification, product differentiation ,advertisement, cheap insurances facilities and better services) to attract the domestic as well as international consumers and to produce more fuel efficient vehicles.

After globalization , various automobile giants started their operations in India, resulting into a numbers of mergers and acquisitions. These are helpful in attaining economics of scale and augmenting product ranges. The automotive industry witnessed a large number of mergers and acquisitions in late 1990 and the turn of the millennium (2000).All these mergers and acquisitions have resulted into the sharing of technical knowledge, reduction of the product development time and cost . The various incentives announced by the government of India such as reduction in excise duty on passenger cars and multi-utility vehicles, rationalization of excise duty structure, reduction in custom duty ,and the import duty on steel have acted as an incentive for the commercial vehicles manufacturers to increase their production capacity, attracting more domestic and foreign investors in this sector, designing the environmental and fuel efficient vehicles in the emerging markets. With the liberalization small players producing automotive components faced intense competition from the international players. Rising cost of raw material like steel, rubber and non-ferrous metals and Increase in rates of interest, posed a threat to the Indian automobile industry by raising the cost of production. There is shortage of trained and expert manpower, due to which the automobile industry has to suffer huge losses. Availability of trained manpower facilitates the sustainable development of this industry. Thus there is an urgent need of improving the skilled and semi skilled human resources in this crucial sector. In the growing and competitive market the manufacturers have to opt for fuel efficient technology and vehicles

CONCLUSION :

With the liberalization and globalization , the Indian automobile industry has demonstrated sustained growth as a result of increase in competitiveness and relaxed restrictions. This sector is now characterized by the frequent introduction of new models where the consumers being the primary beneficiaries are reaping advantages of multiple choices, better technology and relatively low prices. With the announcement of Auto policy 2002 the automobile industry has got further boost to become vivacious and globally competitive. The measures like low entry barriers, investment incentives by the government has made Auto-mobile industry more competitive at international front.

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