ISSUES AND CHALLENGES IN THE INDIAN AUTO COMPONENT INDUSTRY WITH SPECIAL REFERENCE TO INDO THAILAND FTA

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ABSTRACT

India’s economic relations with Thailand are set to undergo major changes as the Indo Thai FTA has come into force since 9 October 2003. As such this paper aims to describe the issues and challenges in Indian Auto component industry with special reference to India-Thailand Free trade agreement. The paper is based on the review of the existing literature on India-Thailand Free trade agreement focusing on Indian auto component industry.

FTA between Thailand and India has resulted in lowering of tariff of the specific components mentioned in Early Harvest Scheme but whether it has really promoted trade in components between the countries remains a cause of concern. In case of India-Thailand FTA few companies were able to drive home the benefits but Indian component manufacturers in general have not got any substantial benefit. The developing countries studied are making efforts to develop their automobile sector with direct and indirect influence of government through innovative policies and trade liberalization programmes. With the gradual opening up of the component sector, now the challenge is for individual governments to support the development of domestic critical component and sub-system suppliers through improvement in the investment environment, stronger patent regimes and incentives for R&D.

Keywords: Indian Auto Component Industry, FTA, International Trade, Exports, Imports, Automobiles.
Introduction:

Automobile industry is a symbol of technical marvel by human kind. Being one of the fastest growing sectors in the world its dynamic growth phases are explained by nature of competition, product life cycle and consumer demand. Today, the global automobile industry is concerned with consumer demands for styling, safety, and comfort; and with labour relations and manufacturing efficiency. The industry is at the crossroads with global mergers and relocation of production centres to emerging developing economies.

Due to its deep forward and backward linkages with several key segments of the economy, the automobile industry is having a strong multiplier effect on the growth of a country and hence is capable of being the driver of economic growth. It plays a major catalytic role in developing transport sector in one hand and help industrial sector on the other to grow faster and thereby generate a significant employment opportunities. Also as many countries are opening the land border for trade and developing international road links, the contribution of automobile sector in increasing exports and imports will be significantly high. As automobile industry is becoming more and more standardized, the level of competition is increasing and production base of most of auto-giant companies are being shifted from the developed countries to developing countries to take the advantage of low cost of production. Thus, many developing countries are making serious efforts to grab these opportunities which include many Asian countries such as Thailand, China, India and Indonesia.

The rising competition and increasing global trade are the major factors in improving the global distribution system and has forced many auto-giants such as General Motors, Ford, Toyota, Honda, Volkswagen, and Daimler Chrysler, to shift their production bases in different developing countries which help them operate efficiently in a globally competitive marketplace. During the second half of the 1990's, the globalization of the automotive industry has greatly accelerated due to the construction of important overseas facilities and establishment of mergers between giant multinational automobile manufacturers. Over the years, it is being observed that Asia is emerging as a global automotive hub. Exports of automobiles including components from Asia are also increasing by leaps and bounds. Asia has become the major consumer as well as supplier of automobiles.

The cheap labour and resources in India has captivated the attention of developed countries long years back. After globalization the trade benefits came into clear picture and India realized the potential of the World market. Free trade agreements, preferential and regional trade agreements brought the higher potential markets closer to India to develop the international trade to flourish the Indian presence in global market.

The 1991 policy statement brought a major shift in India from controlled policy to liberal one. Imports/Exports were made free from most of the restrictions. The next one and half decade of Indian experience is a story of perpetual increase of growth emanating from strong policy overture and unleashed potential of entrepreneurship. Innovation, ability to take risk and coping up with the need of the globalised world is the driving force of today's Indian economy. Indian automobile industry has also evolved in a similar fashion to cater the rising consumer demand in the country and eventually has started satisfying global customers. However, the threat of other competitive countries and the internal country policies affecting the sector directly or indirectly, the loop holes are stretching the limbs behind and withdrawing its roots of development. On one side the automobile industry is flourishing while on the other side the Indian auto component/ parts which is a spine of Indian automobile industry is shrinking. The study envisages the real problems faced by Indian auto component sector in international trade and the challenges to meet ahead.

Objectives of the Study:

- To provide a brief overview of the Global as well as Indian auto component industry.
- To Make the SWOT analysis of Indo-Thailand auto component industry.
- To describe the issues and challenges in Indian Auto component industry with special reference to India Thailand Free trade agreement.

Methodology:

The methodology adopted was the review of the existing literature followed by the use of secondary data from international and national data bases.
Literature Review:

The Indian automotive industry is one of the world’s fastest growing automotive industries growing at a Compounded Annual Growth Rate (CAGR) of approximately 17 per cent over the last five years. It is now the eleventh largest manufacturer of passenger cars, fourth largest manufacturer of commercial vehicles and the second largest manufacturer of two-wheelers in the world. It now produces 13 times more cars than it did 20 years ago (World Bank, 2005). Component suppliers are the strength of the emerging automobile industry. Indian automobile component industry is relatively labour intensive by global standards and is in a transition stage as a low cost base for exporting labour intensive products (Saripalle, 2005). Some studies have revealed that earlier the Indian automotive industry was not competitive enough for the global market due to inferior quality, lower labour productivity and high cost of raw materials in India (Prodoshnath et al., 2006).

Tariffs on components have come down from 35% in 2001-02 to mere 10% in 2008-09 with the possibility of going down further in near future. This has not only increased the production possibilities of cars but also fuelled international trade of components. Export and import of components have experienced almost similar growth pattern since 2000 (Nag et al., 2007). The Indian automotive component industry is highly fragmented. There-are nearly 6,400 players in the sector, of which only about 6 per cent are organised and the remaining 94 per cent are small-scale, un-organised players (KPMG Report, 2006, pp6).

Piplai (2001) studied the policy environment and its impact on the Indian automobile industry. While Piplai appears to be justified in saying that there has been excess capacity in the auto industry and the auto majors are facing difficulties in aggressively marketing their products, it is probably not correct to conclude, as he has done, that the current levels of competition resulting from liberalisation are unsustainable.

Narayanan (2006) has analysed the determinants of export intensity of Indian automobile firms using a Tobit model, taking the variables discussed in Narayanan (1998) and Narayanan (2004) as the determinants. This study is based on the premises that there is a systematic difference in the characteristics and performance between the firms that export and those which sell in the domestic market, mainly in terms of technology acquisition, which in turn depends on the policy regime. Technology acquisition, firm size, vertical integration, capital intensity, imports of components and policy regime are found to be the main determinants of export competitiveness, by this analysis.

Kathuria (1996) has done the analyses of the Commercial Vehicles (CV) industry in India in a detailed manner, dwelling on the concepts of vertical integration and subcontracting, production technology and technological change. After an overview of the global auto industry, he has traced the developments in the Indian auto industry from the 1950s to 1991. To evaluate the competitiveness of Indian commercial vehicles manufacturers in the domestic market, growth trends, structural trends, market shares, profitability, productivity ratios, prices, quality, dealer network and performance are analysed. Macro and micro performance of India’s vehicle exports with major markets and Indian vehicle characteristics have been outlined, along with an analysis of global demand patterns.

ACMA (2006) presents the recent trends in the Indian auto industry as a whole and their Implications for automotive supply chain in India. The market-oriented growth and growing automobile industry in India have ensured bright prospects for the Indian auto component sector, which is vibrant and competitive. Huge future growth potential of the automobile industry and increased access to consumer finance may lead India to a place among the top five automotive economies by 2025.

Veloso and Kumar (2002) have provided an overview of the major trends taking place in the global automotive industry, emphasising on the Asian market. Consumer preferences, government regulations and intense competition have been driving the firms towards new technologies, modernisation, research and changes in design and production. Market saturation in Triad regions (the United States, Western Europe and Japan) and rapid emergence of markets in Asia have led to increasing diversity in market needs. As a result, there are many models and segments coming up rapidly.

Narayanan (1998) has analysed the effects of deregulation policy on technology acquisition and competitiveness in the Indian automobile industry during the 1980s and finds that competitiveness has depended on the ability to build technological advantages, even in an era of capacity-licensing. McKinsey (2005) has predicted the growth potential of Indian-based automotive component manufacturing at around 500 per cent, from 2005 to 2015. This report describes the initiatives required from industry players, the Government and the ACMA to capture this potential. Piplai (2001) has examined the effects of liberalisation on the Indian vehicle industry, in terms of production, marketing, export, technology tie-up, product up gradation and profitability. Pingle (2000) has reviewed the policy framework of India’s automobile industry and its impact on growth. While the ties between bureaucrats and the managers of state-owned enterprises have played a positive role especially since the late 1980s, ties between
politicians and industrialists and between politicians and labour leaders have impeded the growth. ICRA (2005) has studied the possible impact of FTA with South Africa on the Indian automobile industry. The study finds that there are a few policies in South Africa that indirectly subsidise the auto industry, unlike India, in terms of financial grants. Hence it is suggested that India could minimise losses only if it goes for inclusion of certain auto components, which involve huge logistic costs of imports, creating a natural protection (for example, stampings, glass, seats, plastics and tyres) and those in which India enjoys economies of scale and is cost-competitive (e.g. castings and forgings) in this FTA.

ICRA (2004b) analysed the impact of Preferential Trade Agreement (PTA) with MERCOSUR on the automobile sector in India. This study finds a significant threat of imports in sub-compact and compact cars and certain auto-components. There is huge excess capacity and intense competition in MERCOSUR countries, propelling them to look for export opportunities.

ICRA (2004a) analysed the implications of the India-ASEAN Free Trade Agreements for the Indian automotive industry. ASEAN economies are globally more integrated than India. The current size of Indian and ASEAN market for automobiles is more or less the same but the Indian market has a larger growth potential than the ASEAN market due to the low level of penetration. The Investment Information and Credit Rating Agency of India (ICRA, 2003) studied the competitiveness of the Indian auto industry, by global comparisons of macro environment, policies and cost structure. This has a detailed account on the evolution of the global auto industry.

Global Auto Component Industry:

The world’s automotive manufacturing sector consists primarily of about 20 very large multinational corporations. The automotive supply sector, however, comprises of thousands of firms ranging in size from a few employees to more than 100,000. According to industry estimates, the size of the global auto component industry in the year 2008 was approximately US$1.4 trillion and is likely to grow to about US$1.9 trillion by 2015. Out of this total auto component demand by 2015, about 40% (i.e. US$ 750 billion) is likely to be sourced from low cost countries (LCCs) such as China, ASEAN countries and India. The trends that are shaping the global automotive industry are shown in the exhibit below:

![Global Trends in the Automotive Industry](image_url)

**Fig 1:** Global Trends in automotive Industry

**Major Auto and Auto Component Markets:**

The United States is far ahead of other countries when it comes to vehicle population per 1,000 vehicle driving age. It is home to the largest passenger vehicle market of any country. In 2007, there were about 250 million vehicles in the United States. The exhibit below shows the penetration of LCVs across the major countries and the emerging economies like Brazil, China and India. The exhibit above maps vehicle penetration and nominal GDP per capita. In the long run, the emerging economies like India hold immense potential as far as global automobile industry future is concerned.
The exhibit above shows per capita income and the number of inhabitants per vehicle in the year 2002 and expected ratio and per capita income in the year 2014. After comparing the potential for future auto and auto component markets, it can be deduced that the emerging economies like China and India would be at growth stage whereas the developed economies like US and Japan are the saturated stage, expected to remain stagnant or grow at less rate in the medium to long term.

The above analysis clearly indicates the importance of U.S. automotive market for the global auto component industries, especially for the emerging economies and ASEAN countries. The exhibit below shows US Auto
Component imports from the leading exporters:-

<table>
<thead>
<tr>
<th>Year</th>
<th>Mexico</th>
<th>Brazil</th>
<th>China</th>
<th>Thailand</th>
<th>India</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>18469</td>
<td>820</td>
<td>1470</td>
<td>380</td>
<td>141</td>
</tr>
<tr>
<td>2002</td>
<td>20433</td>
<td>1137</td>
<td>1885</td>
<td>516</td>
<td>177</td>
</tr>
<tr>
<td>2003</td>
<td>21477</td>
<td>1319</td>
<td>2363</td>
<td>498</td>
<td>191</td>
</tr>
<tr>
<td>2004</td>
<td>23672</td>
<td>1550</td>
<td>3246</td>
<td>540</td>
<td>296</td>
</tr>
<tr>
<td>2005</td>
<td>25445</td>
<td>1847</td>
<td>4328</td>
<td>535</td>
<td>462</td>
</tr>
</tbody>
</table>

Major US auto Component Imports (In us $m):2001-05

Indian Auto Component Industry:

The Indian automobile ancillary sector is transforming itself from a low-volume, highly fragmented one into a competitive industry, and backed by competitive strengths, technology and transition up the value chain. Broadly the Indian automotive component industry can be divided into the organized and the unorganized segments. While the forte of the organized sector is the high valued added precision engineering products, the presence of a large unorganized sector is characteristic especially of the lower value-added segments of the industry. The ACMA-McKinsey Vision 2015 document forecasts the potential for the Indian auto component industry to be US$ 40-45 billion by 2015. Investments and exports in this segment are witnessing continuous growth. Global automobile manufactures see India as a manufacturing hub for auto components and are rapidly ramping up the value of components they source from India due to:

- The cost competitiveness in terms of labour and raw material.
- Its established manufacturing base.
- Fine quality of components manufactured in India (used as original components for vehicles made by General Motors, Mercedes, IVECO and Daewoo among others).

Transition of Indian Auto Component Industry:

The Indian Auto component industry has transitioned from a supplier for the global after market to becoming a full-scale global Tier 1 supplier. The transition has been brought about by increased competition from foreign players that have helped Indian auto component industry becoming auto component manufacturer and export of complex auto spare parts. The exports from Indian auto components manufacturers to U.S. top 3 automotive majors have been in excess of US $ 900 Million last year. The exhibit below shows the transition of Indian auto component industry.
Classification of Auto Components:

The components in the Indian automotive component market are classified in the following sub-segments:

- **Engine parts**: 
  - Requires high precision and high quality adherence
  - These fall into three broad categories: Core engine parts, fuel delivery system and others.
  - Major parts include Pistons, piston rings, engine valves, fuel pumps etc.

- **Drive transmission & steering parts**: 
  - Major sub-segments in this category include gears (tooths), wheels/ wheel rims, steering gears and systems
  - Major parts include starter motors, generators and spark plugs, gears, steering gears and systems, wheel, clutch etc.
  - Technology intensive; top ten players account for about 80% of the total segment size
  - Size of replacement market for this segment is likely to increase esp. for wheels

- **Body and chassis**: 
  - The chassis is the skeleton upon which all other components are positioned
  - The parts under this segment include underbody, cloutside, body side, doors, plastic-molded parts and exhaust systems etc.

- **Suspension & braking parts**: 
  - Major sub-segments in this category are shock absorbers, leaf springs and brake shoe assembly segments
  - Gabriel India Ltd. and Mulpil Shown Ltd. are the majors in the shock absorber segment

- **Electrical parts**: 
  - New technology in cars and electric start two-wheelers are leading to the growth of this segment
  - Major parts include carburetors, starter motors, generators, bimetal bearings, distributors, air conditioning unit etc.

- **Equipment & Others**: 
  - Major equipment parts include headlights, dashboard instruments, washer motors and electric horns etc.
  - Other components include sheet metal components and plastic moulded parts

**Foreign Collaboration in the Auto Component Industry:**

The Indian automotive industry is characterized by a strong competition between increasingly quality conscious manufacturers. The large, highly skilled but low cost manufacturing base makes partnering linkages with overseas players attractive. These strengths coupled with India’s well established strengths in IT/software combined together to make India an emerging player in this sector. However, the industry needs to continue to increase its quality standards and develop new products to compete globally. Many domestic manufacturers have successfully entered into strategic alliances/collaborations while others are actively chalking out their plans. Many of the world’s leading Tier-1 suppliers have set up manufacturing facilities in India including Bosch, Delphi, Visteon and Denso etc. Additionally, there is a well-developed domestic component and ancillary industry with some suppliers already meeting global technical and quality standards at the Tier-1 level. Some of India’s leading OES (Original Equipment Suppliers) include TACO, Bharat Forge, Sundaram Clayton, and Sundaram Brake Linings that have
proven quality track record. However, many other suppliers lack such competence and are looking to upgrade their process/technologies to remain competitive.

**SWOT Analysis:**

**Indian auto Component industry:**

**Strengths:**

The major strengths of the Indian auto component sector to grow globally are:

1. Cost competitiveness in terms of Labour and Raw material.
2. Established manufacturing base.
3. Qualified and skilled man power.
4. Growing domestic automotive industry.
5. Manufacturing capabilities with international quality standards.
6. High operational efficiency.

**Opportunities:**

1. The growing need to outsource.
2. Huge opportunity in the tier- 1 and tier 0.5.
3. Continuous pressure on global OEMs and Tier 1s to reduce cost and source from low cost countries.
4. Higher frequency of introducing of newer models by automakers.
5. Global market opportunity itself is the ultimate opportunity provided by auto industry.
6. Leverage on product engineering expertise to improve the worthiness and exports of auto component.
7. Acquisition in foreign markets.

The strengths & opportunities above enabled the growth of Indian auto component industry in extent of global outsourcing; the following are the positive indications.

- The fine quality of components manufactured in India is used as original components for vehicles made by General Motors, Mercedes, IVECO, etc.
- The Japanese and British component manufacturers are seeking joint ventures in India.

**Weaknesses:**

1. Low investment in Research and Development.
2. Limited knowledge of product liability and offshore warranty handling.
3. Limited domestic market for various components inhibiting capacity creations.
5. Lack of experience in system integration.

**Threats:**

1. Competition from other low cost countries like China, Taiwan, Thailand etc.
2. Free Trade Agreements / Preferential Trade Agreements (FTA’s).
3. Expansion of the European Union inclusion of Hungary, Czech Republic Poland etc which are major exporting Countries to western Europe.
4. Appreciation of Rupee.
5. Developments of new technologies like fuel cell, hydrogen powered vehicles which may affect the auto component industry.
6. Large number of OEMs entering in Indian market may result into migration of talents from supplier to OEMs.

To overcome the weaknesses & threats the best way for the manufacturers is to remain competitive and improve growth prospects. The manufacturers are to be innovative with appropriate R & D budgets. The product specialization and their ability to integrate operations across several related areas of specialization could be an eventual key of progress. Domestic manufacturers need to increase their investments in companies in the US and Europe to go closer to global markets.
SWOT analysis of Thai auto component industry:

<table>
<thead>
<tr>
<th>Strength</th>
<th>Weakness</th>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production capacity available</td>
<td>Shortage of capable human resource and lack of knowledge</td>
<td>Global auto manufactures choose Thailand as regional base</td>
<td>Foreign investment in the region invest more in China</td>
</tr>
<tr>
<td>Multinational OEMs</td>
<td>Education system is not effective</td>
<td>AFTA enables bigger market</td>
<td>Export from China to ASEAN</td>
</tr>
<tr>
<td>Various supportive industries in the region</td>
<td>No IT fundamental</td>
<td>Market expansion by trade agreement (FTA)</td>
<td>Great potential for low cost products from China and India</td>
</tr>
<tr>
<td>Good skilled workers</td>
<td>No R&amp;D infrastructure</td>
<td>Asia Pacific market has appealing future prospects</td>
<td>Global structure excess capacity</td>
</tr>
<tr>
<td>Expansion of domestic market</td>
<td>Testing laboratories are not sufficient</td>
<td>Potential low cost generic R&amp;D</td>
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</tbody>
</table>

India Thailand FTA with current norms in Indian auto industry:

India and Thailand are mutually important trading partners among the ASEAN countries. The two-way trade between India and Thailand become very important when India entered into the Comprehensive Economic Cooperation Agreement (CECA) with ASEAN. A bilateral Free Trade Agreement (FTA) between India and Thailand came into effect on 9 October 2003. This was to be operated through an “Early Harvest Scheme” (EHS), for which there are 84 products including fruits, vegetables, wheat, diamond and auto components identified over which an accelerated duty reduction formula, given below, was to be applied:

By 31st March 2004: 50% reduction from existing rates.
By 31st March 2005: 75% reduction from existing rates.
By 31st March 2006: 100% reduction from existing rates.

Consequent to this FTA India’s exports of helical springs, pumps, ball bearings and lighting equipment to Thailand has declined sharply over the years. The exports from India to Thailand have been well over these years, in gear boxes and parts of Spark-Ignition Internal Combustion Piston Engine (SIICPE). India’s imports from Thailand have, however, increased in all these product categories over the years. India has a positive trade balance with Thailand only in Gear Boxes. However, this has been so high that the total balance, added for all these product
categories, has grown over the years, from a negative Rs. 2 crore in 1999-00 to a positive Rs. 100 crore in 2005-06. Hence this FTA has served well as an indicator that when India opens up trade with a country that is competitive in the auto industry, mutual gains are possible, since India is also competitive in certain segments such as in gear boxes, vis-à-vis Thailand. There would certainly be some sectors that might lose as a result of this, but the net gain could well be positive. However, a careful country-by-country study of sub-segments of auto Industries and policy/cost regimes is required to decide on any FTA in future.

Issues:

Some of the issues which the Indian auto component industry is facing in the global market are as follows:

• India’s shares in international exports of different auto products have been quite low, the highest being 2 per cent in global motorcycle exports. This shows that India is not competitive enough in the global auto market and also rather weakly integrated into the global production network.
• Despite higher profits, lower wage cost shares and less advanced technologies, Indian auto firms spend much less on R&D, relative to those in OECD countries. This needs the attention of both industrialists and policy makers.
• Tariff on automobile imports to India is much higher than many countries, while auto component tariffs are lower than our major competitors.
• FTA with Thailand has had negative impacts on some sub-segments, while it has been very constructive for a handful of them, mainly gearboxes, to improve the aggregate balance for the covered commodities to Rs. 100 crore in 2005-06, from a negative balance to begin with.
• Higher interest rates and tax rates, inadequate infrastructure and lower vehicle possession rate are the other features of India compared to her competitors.

Challenges:

• Indian tax rates are moderate, but are higher than East Asia and higher-income countries. The effective incidence of taxes in terms of share of taxes in profits, share of taxes in the Government’s revenue and in terms of time taken to pay taxes at different levels is also higher.
• Low Cost Countries that compete with India in the auto industry such as Malaysia, Indonesia, Vietnam, Thailand, China and Chile have lower real lending rates (difference between nominal lending interest rate and inflation) than India. This has implications for two main dimensions of the auto industry: bank-financed investments by both small and big players in the Indian auto sector and consumer finance that drives the demand for automobiles. Given the relatively higher lending rates in India, the domestic firms have higher capital costs for scaling up their operations and consumer demand for the auto industry is not likely to go up as much as it could with lower lending rates. The country is currently facing two critical short-term challenges depicted below.

These challenges are:

A. A slowing down of investment in the OEM auto sector, and
B. A sharp rise in imports, mainly from ASEAN countries.

A. Investment Slowdown:

According to a Business Today report (August, 2011), the Indian automobile industry is currently feeling a bit hobbled due to several factors. The industry talks of six Ms that determine investments in the automobile sector. These are men (labour), money (capital), material (inputs), matter (energy, water), and mandarin (policies) and market (domestic and global).

According to auto makers, India scores well only in two of these 6 Ms: Men and Market. The current problem, however, is that there are problems in these two areas as well. First, when it comes to Men (labour), there are two issues: lack of skilled workers and increasing militancy in the last few years which has even led to the death of a chief executive of an auto component maker in Greater Noida and of course, the strike at Maruti’s Manesar plant. With regard to the market again there are two issues: the slowdown in North American and European markets and a demand slump in the short run because of a sharp switch in customer preference for diesel engines due to an equally sharp rise in fuel costs.

Apart from these two detrimental factors, the recent increase in interest rates has further skewed the picture against
India as an investment destination when it comes to another critical M – Money (capital).
As a consequence of these issues, automobile manufacturers have either put on hold their investment plans or are going slow on them. As of now, as much as Rs 15,648 crore of investment by auto majors are in the pipeline. Investment in the auto components industry is also likely to be affected if auto majors continue to defer their investment plans.

B. Threat from Cheap Imports:
The second major issue that auto component makers are facing is with regard to sharply rising imports of auto components from ASEAN countries following the coming into effect of the Free Trade Agreement between India and ASEAN in January, 2010.

Conclusions:
Since the late1980s, the auto industry has seen various measures such as de licensing, tariff reduction and encouragement of FDI. In the recent years, there have been major efforts by the Government of India, such as establishment of NATRIP facilities, implementation of emission norms and release of the Automotive Mission Plan. India is a net exporter of automobiles and auto-components, the value of net exports in 2005-06 being Rs. 7,206 crore and Rs. 2,021 crore respectively in current prices. This shows that the automobile sector in India has become reasonably competitive. To increase its competitiveness further, tariff protection for automobiles should be brought down to the level prevailing for components.
This will also reduce the attractiveness of home market in comparison with international market and therefore may further encourage vehicles exports, which are the high value-added category. Since 2000-01, both exports and imports of automobiles and auto-components have been growing at high AAGRs. This indicates that the Indian auto industry is getting increasingly integrated with the global industry in the recent years. This is a good trend as it will allow Indian firms to take advantage of intra-industry trade that is bound to expand. This trend should, therefore, be further encouraged through appropriate policy measures.

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