

# Impact of Financial Globalisation on Automobile Industry: An Indian Perspective

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## Abstract

Globalization means the dismantling of trade barriers between nations and the integration of the nations' economies through financial flow, trade in goods and services, and corporate investments between nations. Globalization has increased across the world in recent years due to the fast progress that has been made in the field of technology especially in communications and transport. The government of India made changes in its economic policy in 1991 by which it allowed direct foreign investments in the country. As a result of this, globalization of the Indian Industry took place on a major scale. In this paper, we have discussed about the financial impact of globalization in India, Merits and Demerits of Globalization.

## Keywords

Financial Globalization, Automotive Industry, Trade, Indian Industry

## I. Introduction

Effects of Globalization on Indian Industry started when the government opened the country's markets to foreign investments in the early 1990s. Globalization of the Indian Industry took place in its various sectors such as steel, pharmaceutical, petroleum, chemical, textile, cement, retail, and BPO [1, 2]. There are some features that the automotive industry shares with other globalized industries such as electronics, apparel and consumer goods and several that set it apart.

The first common feature is that in all of these industries, including automotive, Foreign Direct Investment (FDI), global production and cross-border trade have accelerated dramatically since the late 1980s. Real and potential market growth and a huge surplus of low-cost but skilled labor in countries like Brazil, China and India have attracted large FDI flows to supply local markets and to export back to developed countries. The emergence of such global sourcing patterns has been facilitated and encouraged by trade and investment liberalization through World Trade Organization (WTO) agreements [3].

## II. Financial Globalization: The Indian approach

The Indian economy is now a relatively open economy, despite the capital account not being fully open. The current account, as measured by the sum of current receipts and current payments, amounted to about 53 per cent of GDP in 2007-08, up from about 19 per cent of GDP in 1991. Similarly, on the capital account, the sum of gross capital inflows and outflows increased from 12 per cent of GDP in 1990-91 to around 64 per cent in 2007-08. With this degree of openness, developments in international markets are bound to affect the Indian economy and policy makers have to be vigilant in order to minimize the impact of adverse international developments on the domestic economy. In early 1990s the Indian economy had witnessed dramatic policy changes. The idea behind the new economic model known as Liberalization, Privatization and Globalization in India (LPG) [4], was to make the Indian economy one of the fastest growing economies in the world. An array of reforms was initiated with regard to industrial, trade

and social sector to make the economy more competitive. The economic changes initiated have had a dramatic effect on the overall growth of the economy. It also heralded the integration of the Indian economy into the global economy. The Indian economy was in major crisis in 1991 when foreign currency reserves went down to \$1 billion and inflation was as high as 17%. Fiscal deficit was also high and NRI's were not interested in investing in India. Fig. 1 shows Motor vehicle production, selected countries, 1996-2006, in '000 units and in % for growth rate in '000 units and in percentages.

	1996	1998	2000	2002	2004	2006	Growth rate (%) <sup>2</sup>
China	1,240	1,628	2,009	3,251	5,071	7,272	19.3
India	541	535	867	892	1,511	1,876	13.2
Republic of Korea	2,354	1,787	2,858	3,148	3,469	3,840	5.0
France	2,359	2,923	3,352	3,693	3,666	3,164	3.0
Brazil	1,813	1,547	1,671	1,793	2,210	2,597	3.6
Mexico	1,222	1,460	1,923	1,805	1,555	2,043	5.3
Russian Federation	1,029	1,021	1,203	1,220	1,388	1,495	3.8
Germany	4,843	5,727	5,527	5,145	5,570	5,818	1.8
Spain	2,412	2,826	3,033	2,855	3,012	2,776	1.4
Canada	2,397	2,570	2,962	2,629	2,712	2,544	0.6
Japan	10,346	10,050	10,141	10,258	10,512	11,484	1.0
United States	11,832	12,003	12,774	12,280	11,988	11,351	-0.4
United Kingdom	1,924	1,976	1,814	1,821	1,856	1,650	-1.5
Italy	1,545	1,693	1,738	1,427	1,142	1,212	-2.4

Fig. 1: Motor Vehicle Production, Selected Countries, 1996-2006, in '000 Units and in % for Growth Rate in '000 Units and in Percentages [3]

Accordingly, in India, while encouraging foreign investment flows, especially direct investment inflows, a more cautious, nuanced approach has been adopted in regard to debt flows. Debt flows in the form of external commercial borrowings are subject to ceilings and some end-use restrictions, which are modulated from time to time taking into account evolving macroeconomic and monetary conditions. Similarly, portfolio investment in government securities and corporate bonds are also subject to macro ceilings, which are also modulated from time to time. Thus, prudential policies have attempted to prevent excessive recourse to foreign borrowings and dollarisation of the economy. In regard to capital outflows, the policy framework has been progressively liberalised to enable the non-financial corporate sector to invest abroad and to acquire companies in the overseas market. Resident individuals are also permitted outflows subject to reasonable limits. Fig. 2 shows the GDP Growth of Selected Countries (% change per year) [5].

	1990-95	1996	1997	1998	1999	2000	2001	2002	2001a	2002a	2001b
China	10.7	9.6	8.8	7.8	7.1	8.0	7.5	7.1	7.1	7.3	7.3
India	5.4	7.2	4.5	6.0	7.1	3.9	4.5	5.7	5.0	5.6	
Indonesia	8.0	7.6	4.7	-13.1	0.9	4.8	3.0	4.3	1.7	3.4	
Malaysia	8.8	10.0	7.3	-7.4	6.1	8.3	1.0	4.8	0.0	2.5	
Philippines	2.3	5.9	5.2	-0.6	3.4	4.0	2.5	3.5	2.5	2.9	
Republic of Korea	7.8	6.8	5.0	-6.7	10.9	8.8	2.5	4.5	1.8	3.2	1.9
Thailand	9.0	5.9	-1.5	-10.8	4.2	4.3	2.0	4.0	1.6	2.7	
Argentina	5.9	5.5	8.1	3.9	-3.4	-0.6	-1.4	2.6	-1.5	1.2	-1.5
Brazil	1.9	2.7	3.3	0.2	0.8	4.5	2.2	3.5	1.3	1.9	0.5
Chile	7.9	7.3	7.5	3.9	-1.1	5.4	4.0	4.7	3.2	3.5	
Colombia	4.4	2.1	3.4	0.6	-4.1	2.8	2.1	2.8	2.1	2.9	
Ecuador	3.4	2.0	3.4	0.4	-7.3	2.3	4.0	4.0	5.9	4.5	
Mexico	2.2	5.2	6.8	5.0	3.8	6.9	0.8	4.0	-0.1	2.2	
Peru	4.5	2.5	6.8	-0.5	1.0	3.1	0.5	4.0	0.4	3.4	
Uruguay	3.3	5.6	5.1	4.5	-2.9	-1.3	1.0	2.5	-0.8	1.5	
Venezuela	4.0	-0.2	6.4	0.2	-6.1	3.2	3.3	2.8	2.9	2.5	
Ghana	4.1	4.6	4.2	4.7	4.4	3.7	4.0	5.0			
Kenya	2.0	4.2	2.1	1.6	1.3	-0.2	1.3	2.0			
Nigeria	3.5	4.3	2.7	1.9	1.1	3.8	3.1	2.2	3.0	4.1	
South Africa	0.7	4.2	2.5	0.7	1.9	3.1	2.8	3.4	2.6	2.9	
Tanzania	2.9	4.6	3.5	3.7	3.6	5.1	5.9	6.2	5.2	5.4	
Uganda	7.0	9.1	4.8	5.6	7.6	3.5	4.9	6.3			

Fig. 2: GDP Growth for Selected Countries (% Change Per Year)

### III. Global overview of the World Employment Report

A “design anywhere, make anywhere, sell anywhere” strategy will lead to the formation of a global plant floor. Moreover, automakers will improve portfolio-level planning and incorporate design for capabilities in the design of future vehicles [8]. Aberdeen Group’s Chief Supply Chain Officer (CSCO) Survey (January 2011) collected data from 191 companies, 69 of which were discrete industry companies. That survey revealed that the increase in the number of suppliers, customers, carriers, and countries is highlighting the importance of collaborative synchronization between all parties in the multi-tiered global supply chain. As a result, Aberdeen’s research indicates a growing shift in focus towards internal collaboration and external collaboration with suppliers and trading partners [9, 11]. Asia - The report says that the three decades of sustained growth, averaging almost 8% per year (or 5.5% per capita) in many countries of East and South-East Asia has had no parallel in recorded economic history, but the situation in the region has deteriorated dramatically in the past year.

In Indonesia, steep increases in unemployment and underemployment are being accompanied by food shortages caused by an early drought. The ILO warns that “real wages in 1998 could well fall further than the 15% or so expected drop in per capita GDP. Unemployment in 1998 could reach between 9 to 12% of the labour force, compared to about 4% in 1996, though much of this increase will be reflected in rising underemployment rather than open unemployment.”

In Thailand, unemployment could rise to about 6% in the labour force in 1998, or almost 2 million jobless, compared to 1-2% or 400,000 to 700,000 unemployed just two years ago. The reliance of many Thais on the traditional safety net of the extended family could trigger a four to five-fold increase in underemployment. The ILO says that the ripple effect of such trends will impact far from the urban centres, because “many people in the rural areas, especially the elderly rely on remittances from working family members in Bangkok.”

In the Republic of Korea job losses have accelerated in the past year, nearly doubling between November 1997 and February 1998 to 5%, and reaching 7% in June of this year.

In Hong Kong, the unemployment rate rose sharply to 4.5% at the

end of the second quarter of 1998, from 2.9% in 1997.

In China, it is estimated that 3.5 million workers will be laid off in 1998 and unemployment will increase to 5-6%. Hopes for increasing productive employment lie in the expanding role of private industry, especially small and medium-sized enterprises [6].

### IV. Automobile Industry in India

The automobile industry in developing countries is experiencing a rapid transformation [12]. The automobile industry in India happens to be the ninth largest in the world. Following Japan, South Korea and Thailand, in 2009, India emerged as the fourth largest exporter of automobiles. Several Indian automobile manufacturers have spread their operations globally as well; asking for more investments in the Indian automobile sector by the MNCs. Fig. 2 shows Segmentation of market share of automobile industry in India

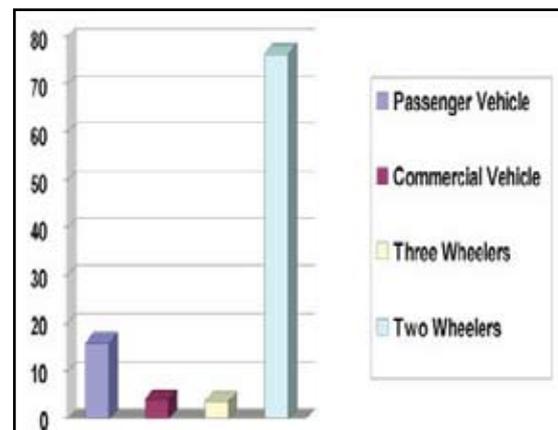


Fig.2: Segmentation of market share of automobile industry in India

Passenger Vehicle: 15.96%

Commercial Vehicle: 3.95%

Three wheelers: 3.60%

Two wheelers: 76.49%

GLOBAL ACQUISITIONS		
Acquired By	Target	Value (Rs. cr)
Bharat Forge	Imatra Kilsta AB, Sweden	261.0
Bharat Forge	Federal Forge, US	41.0
Bharat Forge	CDP Aluminiumtechnik	35.4
Bharat Forge	Carl Dan Peddighous	157.5
Sundaram Fasteners	76% JV with Bleisthal Produktions GmbH, Germany	20.0
Sundaram Fasteners	Precision Forging unit of Dana Spicer, UK	11.9
Sundaram Fasteners	Unit of Textron Deutschland Beteiligungs	NA
Amtek Group	Zelter, Germany	157.5
Amtek Group	Sigma Cast, UK	NA
Amtek Group	GWK, UK	42.0
Tata Auto Comp	Wunsch Weidings, Germany	NA
UCAL Fuel Systems	Amtec Precision Products Inc, USA	126.0
Sona Koyo Steering Systems	21% in Fuji Autotech France	27.7

Fig. 3: Global Acquisitions [10]

Source: fe Motobahn, The Financial Express, 9 September 2006

## V. Indian Automobile Industry SWOT Analysis

### A. Strengths

1. Domestic Market is large
2. Government provides monetary assistance for manufacturing units
3. Reduced Labor cost

### B. Weaknesses

1. Infrastructural setbacks
2. Low productivity
3. Too many taxes levied by government increase the cost of production
4. Low investments in Research and Development

### C. Opportunities

1. Reduction in Excise duty
2. Rural demand is rising
3. Income level is at a constant increase

### D. Threats

1. Increasing rates of interest
2. Too much competition
3. Rising cost of raw materials

The Industry needs to gear itself to take advantage of its strengths and the various opportunities available globally by identifying its weaknesses [7].

### VI. The Merits of Globalization are as Follows:

- There is an International market for companies and for consumers there is a wider range of products to choose from.
- Increase in flow of investments from developed countries to developing countries, which can be used for economic reconstruction.
- Greater and faster flow of information between countries and greater cultural interaction has helped to overcome cultural barriers.
- Technological development has resulted in reverse brain drain in developing countries.

### VII. The Demerits of Globalization are as Follows:

- The outsourcing of jobs to developing countries has resulted in loss of jobs in developed countries.
- There is a greater threat of spread of communicable diseases.
- There is an underlying threat of multinational corporations with immense power ruling the globe.
- For smaller developing nations at the receiving end, it could indirectly lead to a subtle form of colonization.

### VI. Conclusion

The human society around the world, over a period of time, has established greater contact, but the pace has increased rapidly since the mid 1980's. The term globalization means international integration. It includes an array of social, political and economic changes. Unimaginable progress in modes of communications, transportation and computer technology have given the process a new lease of life [2]. In the automotive industry, technical necessity, political sensitivities and market variation have kept final vehicle assembly, and by extension much of parts production, close to end markets. Powerful lead firms and industry associations, large-scale

employment and relatively high rates of unionization, and the iconic status of motor vehicles in the minds of consumers (and policy-makers) in many countries increase the political clout of the automotive industry. As a result, regional and national production structures remain surprisingly strong and coherent in comparison to other volume good producing Industries where global sourcing of parts and materials is the norm and worldwide demand for finished goods can be met from a handful of giant production clusters. As a Result, political pressures go a long way toward explaining patterns of direct investment in the automotive industry [3].

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