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# The Role of Foreign Direct Investment in Automobile Industry's Expansion in India: A Study with reference to period for 2011~2020

***[1]Avdhesh Kumar**
E-mail - avdheshchaudhary@rediffmail.com
Phone Number: +91 9560527356
Research Scholar, Shri Venkateshwara University, Gajraula, Uttar Pradesh

**[2]Dr. Devesh Kumar**
Email - deveshkumarsiddhu@gmail.com
Mob: +91 9837552880
Associate Professor, School of Commerce & Management,
Shri Venkateshwara University, Gajraula, Uttar Pradesh

**Correspondence: *[1]Avdhesh Kumar,**
E-mail: - avdheshchaudhary@rediffmail.com

## ABSTRACT

Even though India's automobile sector is amongst the world's biggest, it only contributes 7.1 percent of the country's GDP. It also accounts for 22 percent of the country's GDP in manufacturing. When India's economy was liberalized in 1991, the industry was initially exposed to "Foreign Direct Investment (FDI)". It has since gone a long way. The amount of FDI going into the automobile industry has been steadily rising. Various industries in India have seen significant economic liberalization in the recent few years. India's vehicle industry is expanding at an annual value of 18 percent. The primary advantages of India in the car business include modern technology, cost-effectiveness, and a highly skilled workforce. India also boasted a well and qualified Automotive Industry, along with vehicle testing and Research And development centers. For three-wheeled vehicles, India is ranked third, while for two-wheelers, it is ranked second. Mauritius, Singapore, United States, Netherlands, Japan, United Kingdom, Germany, and South Korea are the primary investors. It makes a significant variational effect on the economy because of its extensive backward and forward connections with various vital sectors of industry. A vast range of vehicles, including passenger vehicles, compact, moderate, and large transport vehicles, multi-utility automobiles, scooters and motorcycles, mopeds, and three-wheelers, are produced by the Indian automotive industry. The ten-year study period from 2010-11 to 2019-20 regarding production, regional and global shipments, and the industry's development potential in 2020-21 A.D. was investigated in this analytical research design. The impact of "Foreign Direct Investment (FDI)" stock inflows on vehicle manufacturing.

***Keywords:*** *FDI; automobile industry; Development; Financial Development*

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## 1. Introduction

In terms of manufacturing and supply, the Indian car market is among the biggest in the world. In terms of antecedents, the first automobile hit the road in 1897. In the years preceding 1940, India lacked an automobile manufacturing industry and relied solely on imports. A few years after "Hindustan Motors" was founded in 1942, Premier, the company's main competitor, began production in India. "Mahindra & Mahindra" was founded in 1945 and began producing utility vehicles at its factory. Government ownership and the license raj held down the economy during the 1950s and 1960s. The automotive sector began to flourish in the 1970s, but it was mostly dominated by tractors, commercial vehicles, and scooters because of trade restrictions. As late as the 1980s, "Hindustan Motors" and Premier were still the dominant players in the industry, selling a small choice of crusty old models. It was in 1991 that the Indian automotive industry began a new chapter with the introduction of a new industrial strategy and the automatic opening of 100 percent "Foreign Direct Investment (FDI)" in India. This is because the number of factories and technology imports has increased. When multinational companies started competing, the demand for products that met international standards skyrocketed. In recent years, the Indian middle class has grown in size and spending power, which has enticed global automakers to enter the Indian market. The foreign investors who are on the top ranks are "Hyundai (South Korea)", "Suzuki" and "Honda (Japan)", "Piaggio and FIAT (Italy)", "Mercedes", "Volkswagen", "BMW", and "Daimler (Germany)", "Nissan" and "Toyota (Japan)", "General Motors" and "Ford (USA)", "Renault (France)". As a result, car manufacturing in India has grown from 2 million vehicles in 1991 to approximately 30 million in 2020, making India one of the world's most important manufacturing hubs. 13 people work on each truck, six on each automobile, four on three-wheeled vehicles, and one on two-wheeled vehicles each time a vehicle is manufactured. Industry engagement has a multiplier impact that should be taken into consideration. More than 32 million people are currently employed in the vehicle sector. For every 1,000 people in India, there are 20 automobiles for passengers, 5 trucks for commercial purposes, 11 personal vehicles, and 108 two-wheelers for the country's two-wheeler population.

The fierce rivalry in India's automobile sector, which has seen foreign firms catch up to domestic manufacturers in terms of pace, has made it more convenient to drive the most opulent cars. Korean-based "Hyundai Motor Company" owns 100 percent of the Indian arm of its business. There were 240,000 automobiles shipped from India by "Hyundai Motors", the country's second-largest automaker with a 17 percent share and 5.5 billion dollars in sales in 2017(Indian Journal of Public Health Research & Development Year 2019 volume 10 issue 12). Through India-based manufacturing, "Nissan Motors" expects to ship 250,000 automobiles overseas by 2019. Following "Maruti Suzuki", "Hyundai", "Tata Motors", and "Mahindra & Mahindra", it is India's fifth-largest car manufacturer. Because of its ongoing worldwide reorganization, General Motors has decided to discontinue its operations in India, where it has been present for more than two decades, by the end of 2017. Major economic indicators, such as employment rate, capital formation, living standards, GDP development, trade imbalance, and infrastructure development, all point to a declining trend in India's economy. The Government of India understood the need for foreign money for the country's development in wake of the financial crisis and the lack of capital. Out of necessity, emerging countries began liberalizing

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their economies to attain higher rates of development of the economy. Since 1979, even a communist country like China has implemented an economic policy of liberalization to speed up economic development. By 1991, India had also joined the contest. Since the year 2000, FDI has been flooding into the automotive industry. This study relies on data that has been published elsewhere, which is known as secondary data in research. There has been a significant increase in the amount of "Foreign Direct Investment (FDI)" flowing into the vehicle industry.

### *1.1 Foreign Direct Investment (FDI)*

An investment in the form of a majority stake in a company in another nation is known as a "Foreign Direct Investment (FDI)". Direct control sets it apart from foreign portfolio investment.

#### *1.1.1 Country-wise FDI Inflows*

**Table 1. Country-wise FDI inflows (Top 10 Countries)**

| **STATEMENT ON COUNTRY-WISE FDI EQUITY INFLOWS FROM APRIL 2000 to JUNE 2021** | | | | |
|---|---|---|---|---|
| **S.No** | **Name of the Country** | **Amount of FDI Inflows** | | **Percentage with Inflows** |
| | | **(In Rs crore)** | **(In US$ million)** | |
| 1 | Mauritius | 8,61,906.67 | 151,647.54 | 27.71 |
| 2 | Singapore | 7,63,132.99 | 118,393.74 | 21.64 |
| 3 | U.S.A | 2,93,079.92 | 45,553.08 | 8.32 |
| 4 | Netherland | 2,37,210.07 | 37,734.32 | 6.90 |
| 5 | Japan | 2,14,552.03 | 35,987.85 | 6.58 |
| 6 | United Kingdom | 1,68,186.53 | 30,599.58 | 5.59 |
| 7 | Germany | 76,322.86 | 13,195.94 | 2.41 |
| 8 | Cayman Islands | 80,353.47 | 11,654.03 | 2.13 |
| 9 | UAE | 74,341.07 | 11,382.69 | 2.08 |
| 10 | Cyprus | 61,335.90 | 11,202.66 | 2.05 |
| **Sub Total** | | **292353.3** | **467351.43** | |
| **Total Investment from Every Country** | | **33,04,332.54** | **547,321.26** | |

**Source:** ***RBI's Bulletin for August 2021 dt.17.08.2021 (Table No. 34 – FOREIGN INVESTMENT INFLOWS)***

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*1.1.2 Financial Year-Wise Fdi Inflows Data*

**Table 2. Year-wise FDI inflows (from 2010-20)**

| **FINANCIAL YEAR-WISE FDI INFLOWS DATA** *(Amount US$ Million)* | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| S no. | *Financial Year (April-March)* | ***FOREIGN DIRECT INVESTMENT (FDI)*** | | | | | | ***Investment by FII's*** *Foreign Institutional Investors Fund (net)* |
| | | *Equity* | | *Reinvested earnings +* | *Other capital +* | *FDI FLOWS INTO INDIA* | | |
| | | *FIPB Route/ RBI's Automatic Route/ Acquisition Route* | *Equity capital of unincorporated bodies #* | | | ***Total FDI Flows*** | **percentage development over the previous year (in US$ terms)** | |
| **FINANCIAL YEARS 2010-11 TO 2019-20** | | | | | | | | |
| 1. | **2010-11** | 21,376 | 874 | 11,939 | 658 | **34,847** | **(-) 08 percent** | **29,422** |
| 2. | **2011-12** | 34,833 | 1,022 | 8,206 | 2,495 | **46,556** | **(+) 34 percent** | **16,812** |
| 3. | **2012-13** | 21,825 | 1,059 | 9,880 | 1,534 | **34,298** | **(-) 26 percent** | **27,582** |
| 4. | **2013-14** | 24,299 | 975 | 8,978 | 1,794 | **36,046** | **(+) 5 percent** | **5,009** |
| 5. | **2014-15** | 30,933 | 978 | 9,988 | 3,249 | **45,148** | **(+) 25 percent** | **40,923** |
| 6. | **2015-16** | 40,001 | 1,111 | 10,413 | 4,034 | **55,559** | **(+) 23 percent** | **(-) 4,016** |
| 7. | **2016-17** | 43,478 | 1,223 | 12,343 | 3,176 | **60,220** | **(+) 8 percent** | **7,735** |
| 8. | **2017-18** | 44,857 | 664 | 12,542 | 2,911 | **60,974** | **(+) 1 percent** | **22,165** |
| 9. | **2018-19** | 44,366 | 689 | 13,672 | 3,274 | **62,001** | **(+) 2 percent** | **(-) 2,225** |
| 10. | **2019-20 (P)** | 49,977 | 1,757 | 14,175 | 8,482 | **74,390** | **(+) 20 percent** | **552** |

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| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **CUMULATIVE TOTAL** | **355,945** | **10,352** | **112,136** | **31,607** | **510,039** | **-** | **150,200** |

**Source:** ***RBI's Bulletin for August 2021 dt.17.08.2021 (Table No. 34 – FOREIGN INVESTMENT INFLOWS)***

*1.1.3 FDI Development Rate for Automobile Industry*

Luxury and premium carmakers benefit from new product introductions in India's growing market. As of 2016 (Czech National Bank), For the three months ending June 30, 2013, luxury automakers like Honda (up 45 percent) and Audi (up 28.8 per cent) all saw development in the double digits. According to data given by the "Automotive Component Manufacturers Association of India (ACMA)", India's 2012-2021 passenger car production is predicted to expand at a CAGR of 13 percent from 2012-2013 level of 3.23 million units. After that, you'll reap the benefits. Sometime after 1993-94 228.6 percent tax development declined to 16.1 percent in 1996-97 and gradually climbed to 139.4 percent (2002-03) then lowered to-31.4 percent owing to US problems in 2008-09, did tax development begin to increase again. (2001-02) sales grew by 0.2 percent to 25 percent. (2009-10). The car industry's overall income development rate has risen from 3.4 percent to 24.2 percent (during 2010-20) (Safiuddin, 2010).

### *1.2 FDI Policy of Government of India*

Several proper strategies have been done by the Government of India to streamline the "foreign direct investment" policy. FDI Policy of the Government of India stipulates a cap on foreign investment in specific industrial areas. The current trend has been to move numerous operations into areas with no restrictions on foreign direct investment. Mainly put in three categories:

i. Restricted
ii. Prohibited
iii. Unrestricted Sectors (Up to 100 percent foreign ownership)

### *1.3 Top Automobile Companies in India*

*Tata Motors*: One of India's leading automakers, "Tata Motors", is based in Mumbai. A global automaker based out of Mumbai, India, "Tata Motors" has been around since 1945. Founded in 1903 as "TATA Engineering and Locomotive Company", "Tata Motors" is a subsidiary of the "Tata Group". Compact utility vehicles are produced by this business. It has been the unchallenged leader in the commercial vehicle market for the past few decades.

*Hindustan Motors Limited*: B.M. Birla established "Hindustan Motors Limited" in 1942. A subsidiary of "Birla Technical Services", it is in operation. Before "Maruti Udyog", this business was India's largest vehicle manufacturer. The first automotive manufacturer in India was "Hindustan Motors". Most notable vehicles created by "Hindustan Motors Limited" are the "Ambassador", "Mitsubishi Lancer", "Pushpak", "Trekker", "Porter", and "Mitsubishi Lancer Multi Utility Vehicle".

*Ashok Leyland*: "Ashok Leyland" is amongst India's major well-known manufacturers of commercial vehicles. It was first created in 19485. Throughout the years, the firm has been

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identified with the construction of commercial vehicles such as trucks, buses, and ambulances. Over 30 percent of the commercial vehicle market in India belongs to the company.

*Maruti Suzuki India Limited*: In the year 1981, "Maruti Suzuki India Limited" was formed. It is owned in part by "Suzuki Motor Corporation" of Japan. Currently, it is the country's largest automobile manufacturer. Before 2007, "Maruti Suzuki India Limited" was known as "Maruti Udyog Limited", which is credited for bringing about the car revolution in the country.

*Hyundai Motor India Limited*: Korean manufacturer "Hyundai Motors" owns 100 percent of "Hyundai Motor India Limited (HMIL)" in New Delhi, India. Founded on May 6, 1996, this firm has quickly become one of India's most popular carmakers. These vehicles include the "Santro", "Getz Prime", "Hyundai i10" and "Accent", "Hyundai i20 Accent", and "Verna" and "Sonata".

## 2 Review of Literature

**Isha Jaswal et. al., (2022)** stated as trade rules in India have become more flexible, FDI has been a majorly important factor in the country's financial development, both on a macro and sector level. The link between "Foreign Direct Investment (FDI)" and economic development is a hot topic across the world. There are a variety of national and worldwide events that contribute to the volatility of the number of inflows. FDI is expected to have a positive influence on a wide range of industries, including metals, construction, automobiles, computers, and electronics.

**Jacob et. al., (2021)** quoted that one nation's financing in another state's company can be referred to as a foreign direct investment. Emerging economies benefit from inflows of capital from abroad. Increased "Foreign Direct Investment (FDI)" strengthens the global trade network and also provides financial aid to the host nation and is frequently considered a key stimulant for economic development in the entertainer countries. Economic development is aided by "foreign direct investment (FDI)" because it spurs private economy, promotes human capital accumulation, and streamlines knowledge transfer.

**Reenu Kumari et. al., (2021)** researched that as the Indian economy continues to grow, "Foreign Direct Investment (FDI)" in the country is also growing. Foreign and local investors must have access to each other's markets to build long-term commercial relationships. That globalization and FDI alone will not stimulate economic development when other variables such as market size, currency exchange, human resources, and infrastructure are involved is a surprise to all investors. The financial development of a nation also depends on the form of FDI and the industry development, which is feasible when the foreign corporation invests/or targets that specific area.

**Taniya Ghosh and Prashant Mehul Parab (2021)** examined through both regular and quasi approaches, FDI has consistently and solidly contributed significantly to explaining India's TFP rise. TFP is affected asymmetrically by FDI; lower levels of FDI have a greater negative influence on the economy than higher levels of FDI investment have had a beneficial effect. For the international spillover variable, there is only sporadic evidence for its existence.

**Hammad Ejaz Khan (2021)** found that the GDP in four south Asian nations, namely Bangladesh, Pakistan, Sri Lanka, and India, has grown significantly due to the development of exports, overseas investment, and economic development, which introduced fresh national policies, technical changes, and improved facilities to the area. Whereas India is also focusing on

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export industries to reduce the inefficiencies in a commercial segment, both nations are emerging processes to benefit from economic development.

**Ms. Ishita N. Shah (2020)** stated that most economists consider FDI to be a key factor in stimulating economic development. Studies on the linkage between FDI and economic development, particularly in developing countries, have produced a considerable amount of evidence. Since the policy framework was liberalized in the early 1990s, "Foreign Direct Investment (FDI)" in India has grown significantly. Even so, they're insignificant when seen concerning GDP or total investment. As a result, they have only a minimal impact on our economy. However, this is in sharp contrast to the vital role that "Foreign Direct Investment (FDI)" has played in the development of other fast-expanding Asian economies, such as ASEAN and China. The fast rise of Singapore, Thailand, Malaysia, Indonesia, and China has been powered by the "FDI-Export" paradigm during the past two or three decades. External and internal reasons explain India's low FDI rate in comparison to other comparable nations.

**Smita Miglani (2019)** quoted that financial development in India is mostly driven by automobiles, which have a large position in international production networks. Strong government backing has fueled this industry's expansion, allowing it to carve out a niche for itself among India's industrial industries. Autos made in this country are specifically targeted toward low- and middle-income consumers, setting it apart from other industries that make automobiles. There is a growing demand for Indian automobiles both domestically and internationally, with India being the world's fourth-largest automobile market in 2017.

**Areej Aftab Siddiqui et. al., (2018)** studied that in the recent rapidly changing worldwide trading and investment market, each region is striving to increase exports and attract more investments. As a result, the link between FDI and GDP development in each sector of the economy should be investigated and analyzed. Only a few studies have looked at the influence of FDI on the development of the overall economy, while others have looked at the impact of "foreign direct investment" on specific industries.

**Petr Pavlínek (2018)** found that the development of the automobile sector in interconnected peripheral regions is dependent on the organizational linkages with GPNs, including capital reliance, technological reliance, expertise involvement, and strategic judgment dependency. This indicates that the car industry's integrated peripherals are structurally reliant on foreign capital to a large extent.

**Rao et. al., (2018)** stated that "foreign direct investment" has received progressively preferential coverage in many nations' economic policies during the last three decades, particularly in emerging countries (FDI). With at least two variables, it's hard to understand why FDI is so appealing, given what we've learned in the intervening decades. To begin, it was offered as a component of the so-called "Washington Consensus," which has now been proven to have problematic foundations. 2nd, the economic impact of "Foreign Direct Investment (FDI)" on the host nations remains equivocal.

**Deep Parikh (2018)** suggested FDI should be targeted toward diverse sectors of the Indian economy, according to the research. Infrastructure development in a variety of businesses should also be encouraged through governmental measures, according to experts. This study shows that getting "Foreign Direct Investment (FDI)" is critical in export-oriented businesses since exports

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affect development as much as FDI. It's important to note that employment has a big impact on industry development, but not on investment. In a way to lure funds and further boost development in all sectors of the Indian economy as a whole, it is necessary to improve the skills of India's present labor population.

**Jatinder Singh (2017)** showed how shrinking market share, domestic passenger vehicle manufacturers began losing ground to international competition in the mid-1980s. If foreign enterprises continue to enter the market under a liberal investment framework, their market position is likely to degrade further. For so long, the Indian government has been actively intervening in the country's economy to build up its indigenous manufacturing potential. The study also finds that the level of rivalry in the automobile business has grown by a factor of several hundred times as well. They have had to invest more and more in the production of fuel-efficient, technologically sophisticated goods to maintain their market position. The industry's underperformance capacity has grown significantly and is expected to grow much more shortly. In the days to come, they'll have to contend with an expanding amount of “Foreign Direct Investment (FDI)” in the automotive sector. It's a daunting task indeed.

**Kale, Dinar (2017)** examined how the policies of the Indian government have, in many respects, been responsible for the development of the automotive industry, which was then fostered in the microeconomic environment that the Indian government helped to establish. Aside from the significant impact brought about by the tools of fiscal policy, the industrial policy even affected the knowledge acquisition at the business level and molded the accumulation of technological competence.

**Kamal (2017)** identified the influence of the “Make in India” efforts on potential investments in the automotive industry, as well as the impact of such measures on the expansion of the automotive industry. One of the most important industries of the Indian economy is the automotive sector, which also includes the component manufacturing sector. The development of an economy, including India's, is inextricably linked to the state of its transportation infrastructure, and India is not an exception to this rule. One of the most important industries in the world market is the automotive sector. Since it has robust forward and backward connections with a number of the economy's most important subsectors. The automobile industry holds a significant and prominent position within the framework of the Indian economy.

**Pavlínek (2016)** stated that importing parts from overseas-to-overseas affiliates located near manufacturing sites, exporting parts produced from imported raw materials, and distributing just in time via made-to-order vendor parks are all possible thanks to advanced logistics networks and transportation systems.

**Tripura Sundari (2015)** studied that FDI Finance relies heavily on “Foreign Direct Investment (FDI)” in a country's economy. Portfolio investment and direct investment are examples of this movement of foreign cash. “Foreign Direct Investment (FDI)” may bring in new money as well as cutting-edge technology by boosting the country's economic development. The most considerable relevant factor is recognized as the Rate of Return, approachability, monetary policy, currency exchange, working population, and the urbanization effect.

**Dr. C.U. Tripura Sundari (2014)** stated that “Foreign Direct Investment (FDI)” is expanding in India as the country's growing market size draws more investment. With the development of a

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country's domestic market, FDI inflows increase proportionately. Increased FDI into India results in increased productivity as well as the introduction of new ideas, leadership abilities, and technical expertise, all of which contribute to the development of the economy via the beneficial impact, correlation influence, and competitive market influence. Increased aggregate demand stimulates rapid economic expansion, which in turn increases the volume of the marketplace.

**Angamuthu (2014)** investigated automobile owners' perceptions of car brand choice concerning passenger vehicle market expansion. According to manufacturing, selling of products, and trade diversion, the two-wheeler market declined steadily from 2007-08 to 2009-10. (Angamuthu, 2015). At the moment, India's 2W producers are doing well. There has been a noticeable increase in the number of 2W vehicles during the past several years. Around 15.45 million 2W were generated in India between 2011 and 2012. In the 2011–12 fiscal year, 2W sales totaled 13435769, an increase of 12.53 percent over the previous year. In the same period, India exported 1947198 units of 2W. Compared to 2011–12, the Indian 2W market is expected to manufacture 17.93 million cars in 2014–15, an increase of 16 percent, but only 86 percent of the domestic economy and the other 14 percent of the export industry.

**Werner Baer and Rahul A. Sirohi (2013)** found that foreign direct investment, while essential to economic development, has been recognized as FDI quality because of its structural composition and its impact on the local industry, or what has been referred to as FDI volume. We find that perhaps the nature of FDI has changed dramatically in the neoliberal period by evaluating two fundamental drivers of FDI quality, the industry allocation of FDI itself and the method of entrance. First, “Foreign Direct Investment (FDI)” has shifted from the industrial sector to public utilities and services.

## 3 Discussion

Automakers had put on new wheels and went on the right path thanks to a policy of 100 percent “Foreign Direct Investment” in 1991. Automobiles were scarce and costly before 1991. As a result, the automobile industry was extremely constrained and expensive since it couldn't produce all of the components it needed. However, with a policy shift and 100 percent FDI in the automobile industry, things changed. Major firms entered the market and began to alter production standards in terms of both quality and quantity. The economic structure was altered as a result of FDI, allowing the industry to attract greater value and investment. Increased investment equated to increased development and development. It helped the industry find ways to source components and materials at a lower cost. Auto manufacturing in India has benefited greatly from foreign direct investment, and the country now has one of the world's largest automotive industries. The Indian vehicle sector has become a significant exporter as a result of this. This allowed other industries to expand more steadily and discover greater investment opportunities. “Foreign Direct Investment (FDI)” has been crucial in helping the automobile sector, as well as other industries, prosper in this era of increased international commerce and investment. In turn, this led to a rise in the country's GDP and an increase in investment and “Foreign Direct Investment (FDI)”. Additionally, FDI improved market capitalization and infrastructure, while also affecting human labor in a variety of ways. This has the added benefit of creating additional employment, whether they're in the same industry or not.

## 4 Conclusion

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FDI had a profound impact on the country as a whole, making certain markets the largest in the world and others the most dominating in the country. In the automotive business, there has been a tremendous increase in all aspects of the industry. There was a healthy increase in production, and local and export sales for the Indian vehicle sector. Our country's economic success is enhanced by FDI equity inflows into the vehicle sector, which raises production levels across a wide range of vehicle types. Making it one of the world's largest manufacturers and distributors. Additionally, it generated several job listings in the same business or a different industry, both directly and indirectly. It improved transportation, currency rates, market size, and infrastructure. The GDP of the country increases as a result of the development of more effective trade and investment portals. As a result, additional FDI is attracted, and so forth. Some increase may be witnessed as a result of "foreign direct investment" in contrast with pre-1991 when just a few businesses and their products controlled the market and they made sales in very small numbers and with superannuated goods. It was mostly every company that changed after the policy change and the introduction of FDI in 1991, resulting in a change of direction, the entry of larger players in the industry, better quantity and quality control, easier availability of parts and raw materials, more competition, better reliability, quality infrastructure, creating employment opportunities, more investment, better trades, transportation boost, lower prices and so on. on. It is now easier to export goods thanks to increased commerce and investment. Manufacturers expect to grow production and export their vehicles in the future years, as many have already begun the process.

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