The Scientific Temper (2023) Vol. 14 (2): 273-281

E-ISSN: 2231-6396, ISSN: 0976-8653

Doi: 10.58414/SCIENTIFICTEMPER.2023.14.2.03

https://scientifictemper.com/

RESEARCH ARTICLE.

Studies on challenges and opportunities for foreign direct investment in the automobile industry in India

Avdhesh Kumar, Manoj Agarwal

Abstract

Direct investment by a foreign entity into a domestic company is known as a foreign direct investment (FDI). In this way, the concept of direct control sets this type of investment apart from foreign portfolio investment. The current study aims to find various challenges and policies regarding foreign direct investment in India. And its proposition in the development of the Automobile industry of India. For this specific purpose, "primary and secondary data collection methods" were used to find the appropriate data to analyze. A total of 110 people from the automobile industry manufacturers were taken using a random sampling method. India is taken as the study area. Using a quantitative study (questionnaire) with a descriptive method, all the data was analyzed using a regression model with the help of tools like Excel and SPSS (Statistical Package for the Social Sciences). The analyzed data results indicate a significant impact of FDI on "India's Development of the Automobile Industry." There is a significant impact of FDI and Government policies on the Development of the Automobile Industry in India.

Keywords: Foreign Direct Investment; Automobile; Government Policies; Challenges; India; Development of Automobile Industry.

Introduction

Investments and production worldwide are now better, more cost-effective, and quicker than ever because of the current industrial revolution, which is being pushed by frontier technologies, robotization, and digital breakthroughs. This has opened up enormous possibilities for economic growth and long-term improvement. Over the past three and a half decades, FDI has skyrocketed in the global economy. Foreign direct investment (FDI) has grown and expanded across nations due to globalization, with favorable benefits to the productivity of domestic workers, as explained by Singh et al. (2012). Under the premise of free movement of labor and capital across borders and the absence of transportation costs, "the Heckscher-Ohlin-Samuelson model (ENCYCLOPEDIA) implies that FDI and international commerce can be substituted." According to the model proposed by Liu et al. (2001), there is an indirect relationship between international commerce and the interchange of production components between the two. Most developing and transitioning countries see FDI as crucial. FDI is seen as a complement to limited domestic capital by Miteshi and Stefanova (2017). FDI is seen as funding both ownership transitions and new capital investments. At the same time, it aids in the renewal of large quantities of antiquated capital amassed during transition economies' central planning years. Therefore, as indicated by Singh (2009), enticing FDI with favorable policies has become a critical battlefield in transition and emerging countries. According to the New Growth theory, greater productivity per person is necessary for greater economic expansion. This will increase real GDP, benefiting individuals in their quest for financial gain. FDI benefits economies because it brings new growth opportunities and massive profits, which have a ripple effect across a wide range of economic spheres "in terms of technical and managerial know-how, skill upgradation, better and improved infrastructure, employment opportunities, increased competitiveness, and the possibility for local markets to expand globally." This is one positive aspect of FDI on host economies, but there is a negative side if FDI results in the repatriation of earnings and creates intense rivalry for domestic and local firms, so taking away their markets. The effects of FDI on host economies

School of Commerce and Management, Shri Venkateshwara University, Gajraula, Uttar Pradesh, India

***Corresponding Author:** Avdhesh Kumar, School of Commerce and Management, Shri Venkateshwara University, Gajraula, Uttar Pradesh, India, E-Mail: avdheshchaudhary@rediffmail.com

How to cite this article: Kumar, A., Agarwal, M. (2023). Studies on challenges and opportunities for foreign direct investment in the automobile industry in India. The Scientific Temper, **14**(2):273-281.

Doi: 10.58414/SCIENTIFICTEMPER.2023.14.2.03

Source of support: Nil

Conflict of interest: None.

Received: 10/03/2023 **Accepted:** 24/04/2023 **Published** : 30/06/2023

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

Foreign Direct Investment Equity Inflows by Country, April 2000–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	USA	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		2,92,353.3	4,67,351.43	
Total Investment from Every Country		33,04,332.54	5,47,321.26	

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

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

Financial Yearwise, FDI Inflows Data *(Amount US$ Million)*								
SN.	*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/RBIs 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	29,422
2.	2011-12	34,833	1,022	8,206	2,495	46,556	(+) 34	16,812
3.	2012-13	21,825	1,059	9,880	1,534	34,298	(-) 26	27,582
4.	2013-14	24,299	975	8,978	1,794	36,046	(+) 5	5,009
5.	2014-15	30,933	978	9,988	3,249	45,148	(+) 25	40,923
6.	2015-16	40,001	1,111	10,413	4,034	55,559	(+) 23	(-) 4,016
7.	2016-17	43,478	1,223	12,343	3,176	60,220	(+) 8	7,735
8.	2017-18	44,857	664	12,542	2,911	60,974	(+) 1	22,165
9.	2018-19	44,366	689	13,672	3,274	62,001	(+) 2	(-) 2,225
10.	2019-20 (P)	49,977	1,757	14,175	8,482	74,390	(+) 20	552
cumulative total		355,945	10,352	112,136	31,607	510,039	-	150,200

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

can be both beneficial and detrimental; thus, it is vital to analyze FDI in terms of their sectoral breakdown and kind, which can have far-reaching consequences on economic development and growth (Wang, et al. 2013).

Foreign Direct Investment (FDI)

The term FDI refers to a specific type of worldwide financial transaction in which an investor from one economy gains a material stake in a business based in another one (Mwilima 2003). Investors from different economies are considered related if they own at least 10% of the voting power in a business operating in the same economy. Foreign direct investment (FDI) is crucial to global economic integration since it fosters permanent ties between country economies. FDI encourages international commerce by providing easier access to foreign markets and may be a significant engine of economic growth. FDI stocks, flows, and revenue is broken out by partner nation, sector, and FDI restrictions.

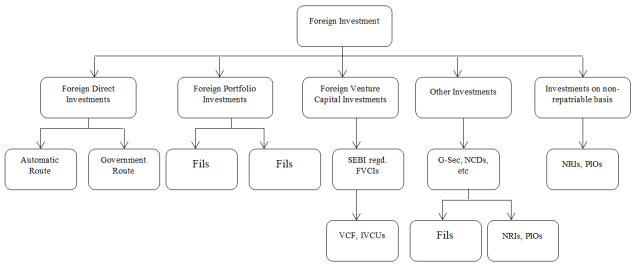

Figure 1: Foreign Investment

Country-wise FDI Inflows

Table 1 shows the "country-wise FDI inflows of top 10 countries" from April 2000 to June 2121. FDI flows measure cross-border direct investment transactions over a quarter or year. Table 1 shows that Mauritius has the highest FDI inflow with 27.71% out of the top 10 countries followed by Singapore with 21.64% and the U.S.A with 8.32% respectively, while, Cyprus has the lowest FDI inflows of the top 10 countries with 2.05%.

Financial Year-Wise FDI Inflows Data

Table 2 shows the "financial year-wise FDI inflows from 2010 to June 2020." Table 2 shows that the total FDI flow into India is 34,847 for the financial year 2010-11, FDI flows into India increased for the financial year 2011-12 and stands at 46,556, for the financial year 2012-12 FDI flow into India decreased and stands at 34,298, finally for the financial year 2019-20 FDI flow into India increased and stands at 74,390.

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 percent) all saw development in the double digits. According to data from 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 the 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).

FDI policies in India

The "Foreign Exchange Management Act, 1999, section 6(3), (FEMA)" as modified from time to time, together with "Notification No. FEMA 20/2000-RB issued May 3, 2000," regulates "foreign investment in India." This Master Circular is a compilation of the many regulatory frameworks and directions from the "Reserve Bank of India."

Investment Gateways into India

Investment from abroad is welcome in nearly all fields. The FDI process can be completed in the "Automatic Route or the Government Route (Dhar, K. 2012)."

- **"Under the Automatic Route**," Neither "the Reserve Bank of India nor the Government of India" needs to permit the investment to go forward with "the foreign investor or the Indian enterprise."

"Under the Government Route," The "Foreign Investment Promotion Board (FIPB)" of the "Indian Ministry of Finance" must first provide its permission. Annex-2 details the procedure for foreign investors to enter India and sector-specific investment caps.

The Indian government is responsible for developing its FDI policy. The "Manual on Investing in India- Foreign Direct Investment, Policy & Procedures" details the rules and regulations governing FDI in India. This file can be found in the public domain by visiting "the Department of Industrial Policy and Promotion website under the Ministry of Commerce and Industry (www.dipp.nic.in)." The way of investment, including the receiving of money, "the issuance of shares/convertible debentures/preference shares, and the reporting of investments to RBI," is governed by FEMA Regulations.

Prohibition on Investment in India

No direct or indirect foreign investment of any kind is permitted in any corporation, partnership, proprietary concern, or other organization (including Trusts) involved in or proposing to participate in the subsequent actions:

- "Business of chit fund,"
- "Nidhi Company,"
- "Agricultural or plantation activities"
- "Real estate business, or construction of farmhouses."
- "Trading in Transferable Development Rights (TDRs)."

Building roads, bridges, or residential or commercial properties are not part of the Real Estate Business. To avoid doubt, businesses structured as partnerships or sole proprietorships with investments subject to FEMA rules are barred from operating in the print media industry.

Foreign direct investment (FDI) is restricted in several industries, including but not limited to the following:

- "Retail Trading."
- "Atomic Energy."
- "Lottery Business."
- "Gambling and Betting."
- "Agriculture (excluding Floriculture, Horticulture, Development of seeds, Animal Husbandry, Pisciculture and Cultivation of vegetables, mushrooms etc. under controlled conditions and services related to agro and allied sectors) and Plantations (Other than Tea plantations)."

Eligibility for Investing in India

Investments in India are permitted under the "Foreign Direct Investment Policy of the Government of India" by any foreign national residing outside of India, excluding citizens of "Pakistan and Bangladesh," or by any foreign legal entity incorporated outside of India, excluding legal entities incorporated in "Pakistan and Bangladesh (Kumar & Thacker 1996)."

Former *Overseas Corporate* Bodies (OCB) that have reorganized as foreign corporations are eligible to make new FDI investments in India so long as they have not come to the attention of the "Reserve Bank of India or the Securities and Exchange Board of India."

Finances for Miniature Manufacturing Facilities

Suppose an Indian firm qualifies as a small-scale industrial unit. In that case, a foreign investor can invest in it if it does not engage in any activities banned under India's Foreign Direct Investment policy. The maximum allowed for such investments in an Indian company/SSI (small-scale industry) Unit is 24 percent of the paid-up capital. When an SSI unit meets the following conditions, it may issue "equity shares, fully convertible preference shares, or fully convertible debentures" above 24 percent of its paid-up capital (Mohan 2002).

- It's no longer a minor player,
- It does not now, nor does it intend to, produce any goods that are specifically designated for the small-scale market,
- It satisfies the limits set forth for individual industries in Annex-2.

If a firm or SSI unit invests in equipment and machinery more than the restrictions set by the "Micro, Small, and Medium-Sized Enterprises Development Act of 2006," then the company or SSI unit will be considered have renounced its SSI status.

Various Challenges regarding FDI

Even though over a hundred of the Fortune 500 are already invested in India, there are still obstacles to increased FDI. There has been a noticeable increase in employment, income, the transfer of technology, and general economic steadiness due to these FDIs (Nielsen et al. 2017). India's top priority is improving the regulatory framework and bolstering political and social stability. Despite the benefits of foreign direct investments (FDIs), greater FDIs in India face several obstacles.

Resource challenge

The quantity of India's resources is legendary. The infrastructure and day-to-day operations can benefit from abundant accessible labor and large resources. But there are also unused resources. Both rural and urban communities have ample access to the available resources. The goal is to improve infrastructure in a decade, which would take an estimated US$150 billion. It's the first step in fixing the problems with FDI on a wider scale.

Equity challenge

The rate of development in India now is far higher than in the past, yet it is obvious that this growth has not been shared equally. This implies that although resources in the more metropolitan areas have been fully utilized, those in the poorer regions have been mostly left untouched. If you want an accurate picture of the economy's progress, the rural areas must catch up to the metropolitan centers. As a result, we may encourage both economic progress and social justice.

Political Challenge

Foreign investors need to know they have the backing of the political system. Foreign investors need to make a compelling case for more FDI capital in sectors like banking and insurance to fix this problem. As a result, Parliament and countries with investments in India must establish a common ground. The country's FDI reforms will be strengthened as a result.

Federal Challenge

One of the biggest challenges to attracting more foreign direct investment is speeding up the implementation of policies, rules, and regulations. The most important component is ensuring that all Indian states apply the same policies. Therefore, it is crucial to demand that all Indian states implement policies simultaneously. Several factors, including India's low rankings in competitiveness, quality of infrastructure, and skills and productivity of workers, make the country a less desirable location for FDI than it could be. It stands to reason that India would draw enormous FDI inflows due to its large and fast-increasing domestic market (FDI) due to ongoing reforms to the country's institutions and economic policies that make it more welcoming to private investment and spur economic expansion.

Review of Related Literature

This section of the current study examines the previously published literature from various authors to understand the gap and problems for the topic. For this purpose, this section has been divided into three parts following: -

- "Foreign Direct Investment"
- Impact of Government Policies on Foreign Direct Investment
- Development of the automobile industry through Foreign Direct Investment

"Foreign Direct Investment"

Duggal, A. (2017) studied foreign direct investment in India. Descriptive Methods and Secondary Sources RBI automated channel accounted for 64.98 percent of all FDI inflow in 2017. According to Singh, S. (2019), the Indian economy is one of

the world's leading developing markets. It used to be one of the delicate five, but that designation has since been removed. There has been a dramatic increase in FDI to this country from other countries since 2014, making it one of the top foreign destinations worldwide. In their analysis of the Indian car sector from 2001-2014, Sur and Nandy (2018) contrasted the technological efficiency of foreign enterprises (FFs) with that of domestic firms (DFs). The findings show that foreign enterprises have better technical efficiency (TE), that younger firms of both national and international origin are more technically efficient, and that domestic car firms do not gain from exporting operations, mostly due to their inward orientation. Domestic and international demand for Indian-made automobiles continues to rise. In 2017, India surpassed China to become the world's fourth-largest car market, as analyzed by Miglani, S. (2019), who looked at "the role of government policy, infrastructure, and other enabling factors in the expansion of India's automobile and automotive component sectors." Manufacturers are now playing catch-up with upgrading, digitizing, and automating to satisfy consumers' future demands (particularly electric cars) and stay ahead of competitors.

Impact of Government Policies on Foreign Direct Investment

FDI is a key economic driver, and Contractor F. J. et al. (2020) analyzed regulatory factors' role in encouraging or discouraging F. D. I (FDI). Using data from the World Bank's 189 member states, researchers discovered that nations with stricter contract enforcement and more streamlined international trade procedures attracted more foreign direct investment. Based on the interaction terms, it appears that MNCs are prepared to forego a country with a stronger institutional component in exchange for one with a weaker one. Foreign direct investment (FDI) is positive for economic growth in the host economy, as stated by Bermejo Carbonell, J., & Werner, R. A. (2018). The findings were strong and unmistakable: the favorable conditions did not indicate that FDI stimulated economic development. There was also no uptick in growth once Spain joined the EU and the euro. The impacts of foreign direct investment (FDI) on host nations' economies were studied by Alfaro, L. (2017), who used a theoretically informed combination of macro and micro techniques. The findings demonstrated that the benefits of FDI were not independent of local circumstances but were contingent upon them.

Development of the automobile industry through Foreign Direct Investment

Using an analysis of supplier links between overseas subsidiaries and domestic enterprises, Pavlnek (2018) looked at how FDI affected regional development in the automobile industry's integrated peripheries. The empirical analysis of FDI in the automotive industry found that large FDI by

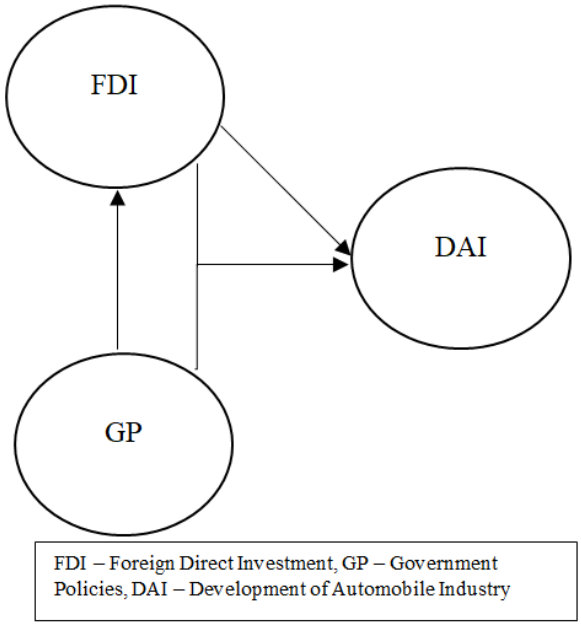

Figure 2: Hypothesis

corporations in the integrated periphery has a positive long-term effect on regional development, but this impact is dampened by the reliant and weak supplier ties between overseas operations and home enterprises. Erdal, L., & Göçer,. (2015) used panel causality and cointegration methods to study the impact of FDI on research and development and Innovation in ten Asian developing countries between 1996 and 2013, concluding that countries with capital deficiency and technology gap issues should seek out more FDI to boost capital accumulation and economic growth. While FDI in the auto industry has positively affected "economic growth, job creation, and export competitiveness in CEE economies," it has also significantly increased their reliance on an owned sector and controlled sector by parties outside the region. The economic advantages of the automobile sector for CEE nations are capped by external control due to truncation and the lack of prospects for developing an indigenous automotive industry (Pavlínek, P. 2015).

Objectives

- To find various challenges regarding FDI in India
- To find different policies toward FDI in India
- To examine the impact of Government policies on FDI in India
- "To find the impact of FDI on Automobile Industry Development in India."

Hypothesis

- "There is a significant impact of FDI on the development of the automobile Industry in India."
- "Government policies have a significant impact on FDI in India."

- "There is a significant impact of FDI and Government policies on the development of automobile Industry in India."

Research Questions

These are a few questions this study will address.

- What is FDI?
- What is the purpose of the FDI?
- Does FDI impact the development of the Automobiles Industry in India?
- What are the challenges faced by FDI?
- Does India have any policies regarding FDI?
- How do Indian policies create an impact on FDI?

Materials and Methodology

The study focused on different objectives, which explored the various challenges and policies regarding the FDI in India and its hand in developing the nation's automobile industry from 2010-2020. Regarding this imminent purpose, "the study used both primary and secondary data collection methods" to find and gather data to help determine and evaluate various hypotheses. The data from a sample of 110 people who are manufacturers in the automobile industry were taken using the random sampling method. The study automobile sector in India was studied and will be denoted as the study area. And the secondary data was taken from the official website of the Reserve Bank of India between the years 2010 to 2020. At the same time, the quantitative study method was used for the data formation with descriptive and theoretical methods to present the data. The questionnaire was used. Excel and SPSS were used as tools, while the regression model was used to find the result.

Result

"There is a significant impact of FDI on the development of automobile Industry in India."

Table 3: Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.773[a]	.598	.548	2.28103

a. Predictors: (Constant), FDI (In Millions)

Table 4: ANOVA

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	61.865	1	61.865	11.890	.009[b]
	Residual	41.625	8	5.203		
	Total	103.489	9			

a. Dependent Variable: Automobile Industry (in Millions)

b. Predictors: (Constant), FDI (In Millions)

Table 5: Coefficients

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. error	Beta		
1	(Constant)	10.535	2.950		3.571	.007
	FDI (Amount US$ Million)	.000	.000	.773	3.448	.009

a. Dependent Variable: Automobile Industry (in Millions)

Table 3 defines the model summary, indicating a significant degree of connection. The R-value for the simple correlation is 0.773, which reflects how much of the overall variance in the dependent variable, "the impact of FDI on development of the automobile Industry in India." The independent variable can be used to explain the results.

Table 4 is an ANOVA table that shows how well the data fits by the regression equation (i.e., predicts the dependent variable). As can be seen in the table, the regression model provides reliable forecasts of the outcome. The above table 4 shows the significant impact of FDI on the development of the automobile Industry in India, as the significance value is 0.009, which is smaller than 0.05.

The above table is the coefficient table. Table 5 of the coefficients in the model demonstrates how effectively FDI impacted the development of the automobile Industry in India. The table highlights that the regression model shows a significant value of 0.007 (the significance value is less than 0.05).

There is a significant impact of Government policies on FDI in India.

Table 6 defines the model summary, indicating a significant degree of connection. The R-value for the simple correlation is 0.214, which reflects "how much of

Table 6: Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.214[a]	.046	.037	2.54373

a. Predictors: (Constant), Government policies

Table 7: ANOVA

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	33.541	1	33.541	5.184	.025[b]
	Residual	698.823	108	6.471		
	Total	732.364	109			

a. Dependent Variable: FDI

b. Predictors: (Constant), Government policies

Table 8: Coefficients

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. error	Beta	t	Sig.
1	(Constant)	12.818	1.183		10.837	.000
	Government policies	-.194	.085	-.214	-2.277	.025

a. Dependent Variable: FDI

the overall variance in the dependent variable, the impact of Government policies on FDI in India." The independent variable can be used to explain the results.

Table 7 is an ANOVA table that shows how well the data fits by the regression equation (i.e., predicts the dependent variable). As can be seen in the table, the regression model provides reliable forecasts of the outcome. The above table 7 shows the significant impact of Government policies on FDI in India, as the significance value is 0.025, which is smaller than 0.05.

The above table is the coefficient table. Table 8 of the Coefficients in the model demonstrates how effectively Government policies impacted India's FDI. The table highlights that the regression model shows a significant value of 0.000 (the significance value is less than 0.05).

There is a significant impact of FDI and Government policies on the Development of the Automobile Industry in India.

Table 9 defines the model summary, indicating a significant degree of connection. The R-value for the simple correlation is 0.293, which reflects how much of the overall variance in the dependent variable, the impact of FDI and Government policies on the development of the automobile industry in India. The independent variable can be used to explain the results.

Table 10 is an ANOVA table that shows how well the data

Table 9: Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.293[a]	.086	.069	3.38553

a. Predictors: (Constant), FDI, Government policies

Table 10: ANOVA

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	115.049	2	57.525	5.019	.008[b]
	Residual	1226.414	107	11.462		
	Total	1341.464	109			

a. Dependent Variable: Development of Automobile Industry

b. Predictors: (Constant), FDI, Government policies

Table 11: Coefficients

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	15.082	2.274		6.631	.000
	Government policies	.264	.116	.216	2.282	.024
	FDI	-.212	.128	-.157	-1.659	.100

a. Dependent Variable: Development of Automobile Industry

fits by the regression equation (i.e., predicts the dependent variable). This table demonstrates the reliability of the regression model's predictions for the dependent variable. The above table 10 shows the significant impact of FDI and Government policies on the development of the automobile industry in India, as the significance value is 0.008, which is smaller than 0.05.

The above table is the coefficient table. Table 11 of the Coefficients in the model demonstrates how effectively FDI and Government policies have impacted the Development of the Automobile Industry in India. The table highlights that the regression model shows a significant value of 0.000 (the significance value is less than 0.05).

Discussion

Going through various literature, the points which came to light are different points the last authors studied. Most studies from the kinds of literature point out the FDI, its returns, the inflows and outflows, and how various industries influence FDI. The development of various sectors through FDI inflows through various countries and companies but filtering out the excess and picking the literature which matches with the study, and various points can be found. In terms of FDI, Duggal (2017) discovered that the RBI automated route accounted for 64.98 percent of the overall FDI inflow. Similarly, Singh (2019) said that after years of decline, India's economy had become a leading FDI destination since 2014. While Sur and Nandy (2018) found that foreign businesses had a higher technical efficiency (TE), they also found that younger firms of both nationalities were comparatively more efficient and that domestic vehicle manufacturers did not gain a competitive advantage from exporting operations. However, Miglani (2019) claims that in 2017, "India overtook China to become the world's fourth biggest auto market, and demand for Indian-made automobiles has only increased."

Foreign direct investment (FDI) is higher in nations with effective contract enforcement and streamlined international trade procedures, as found by Contractor et al. (2020). However, Bermejo Carbonell and Werner (2018) found no proof that FDI causes economic expansion. There was also no uptick in growth once Spain joined the EU and the euro.

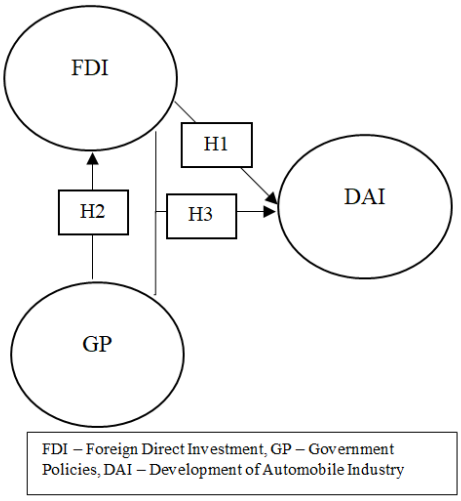

Figure 3: Hypothesis confirmation

However, research by Alfaro (2017) shows that the benefits of FDI are not independent of domestic factors. As a result, The beneficial long-term regional development benefits of massive FDI by automotive sector companies in integrated peripheries are mitigated, according to research by Pavlnek (2018), because of the reliant and weak supplier linkages between foreign subsidiaries and domestic enterprises. In addition, Erdaland Göçer (2015) said that nations with issues such as lack of capital and a technological gap should seek to attract more FDI to boost capital accumulation and economic growth. While FDI in the automotive sector has been shown to positively impact "economic development, job creation, and export competitiveness" in CEE nations (Pavlnek, 2015), it has also dramatically increased these economies' reliance on the foreign-owned and -controlled sector. Down below, we explore and explain the primary data's findings.

The data gathered and analyzed result confirms the various hypotheses, as seen in figure 3. The regression model was used to find the different results from the objectives. As per the above figure, the first hypothesis was confirmed as the FDI has a direct impact on the development of the automobile industry, which can be seen as Table 3 (Model Summary) confirms that "there is a significant relation between FDI and Development of automobile industry in India." While Table 4 (ANOVA) confirms that "there is a significant impact of FDI in the development of the automobile industry in India."

Similarly, the second hypothesis was confirmed as there is a significant "impact of Government policies on FDI in India," which can be seen in table 6 (Model Summary), which confirms that "there is a significant relationship between government policies and FDI in India." While Table 7 (ANOVA) confirms that "there is a significant impact of Government policies on FDI in India."

In correlation to that, the third hypothesis was confirmed as there is a significant impact of FDI and Government policies on the Development of the Automobile Industry in India, which can be seen as table 9 (Model Summary) confirms that "there is a significant relation of FDI and government policies towards development of automobile industry in India." While Table 10 (ANOVA) confirms that "there is a significant impact of FDI and Government policies on development of automobile Industry in India."

Conclusion

India's high level of engagement in global value chains may be directly attributed to the success of its car industry, a major contributor to the country's GDP growth. The FDI has been an efficient ladder for the automobile industry to grow and prosper. The importance and value of FDI can be found in various literature done in the past. Similarly, the policies can be found in various books and official government websites. The past data can also be found in various databases of banks and RBI. After that going through the responses of various people who are manufacturers of the automobile industry, the result was curated using a questionnaire from which the result indicates that the "FDI has a direct impact on the development of automobile industry" as the FDI brings investment from various sources and it helps to grow the infrastructure, local knowledge, working techniques, quality, and quantities for manufacturing etc. In contrast, Government policies directly impact FDI as the government's flexible and easy policies help companies and countries invest more, as the policies help companies find better returns and profit. In comparison, more tax and non-flexibility tie the hand of the companies. Similarly, the government policies and FDI both put efforts into developing the automotive industry as the government policies make it easier for companies to invest and that investment helps the industry grow while the growth of the industry pushes the government to make better policies and the cycle goes on.

Most challenges come through government policies, such as how the policies change FDI and how much effort a company has to put into the investment. As stated above, a few of the challenges regarding the FDI are Recourse, Equity, Political, and Federal challenges. While many policies can be found in the government books as FDI is given in "Sub-Section (3) of section 6 of the Foreign Exchange Act, 1999." And a regulatory framework issued by RBI is compiled in Master Circulation.

Acknowledgments

We are thankful to the Vice Chancellor, Shri Venkateshwara University, Gajraula, Uttar Pradesh for the encouragement and suggestions to conduct the present study. We also declare that there lies no conflict of interest among us for the present study.

References

Alfaro, L. (2017). Gains from foreign direct investment: Macro and micro approaches. The World Bank Economic Review, 30(Supplement_1), S2-S15.

Bermejo Carbonell, J., & Werner, R. A. (2018). Does foreign direct investment generate economic growth? A new empirical approach applied to Spain. Economic geography, 94(4), 425-456.

Contractor, F. J., Dangol, R., Nuruzzaman, N., & Raghunath, S. (2020). How do country regulations and business environment impact foreign direct investment (FDI) inflows? International Business Review, 29(2), 101640.

Dhar, K. (2012). Foreign Direct Investment: An Overview. Available at SSRN 1999795,12-18.

Duggal, A. (2017). Foreign direct investment in India. Journal of Internet Banking and Commerce, 22(3), 1-10.

Erdal, L., & Göçer, İ. (2015). The effects of foreign direct investment on R&D and innovations: Panel data analysis for developing Asian countries. Procedia-Social and Behavioral Sciences, 195, 749-758.

Heckscher-Ohlin-Samuelson Model." International Encyclopedia of the Social Sciences. . Retrieved August 25, 2022 from Encyclopedia.com: https://www.encyclopedia.com/social-sciences/applied-and-social-sciences-magazines/heckscher-ohlin-samuelson-model

https://legislative.gov.in/sites/default/files/A1999-42_0.pdf

https://legislative.gov.in/sites/default/files/A2006-27.pdf

https://www.acma.in/index.php

https://www.rbi.org.in/scripts/BS_ViewMasterCirculars.aspx?Id=3630

Kumar, S., & Thacker-Kumar, L. (1996). Investing in India: Strategies for tackling bureaucratic hurdles. Business Horizons, 39(1), 10-17.

Liu, X., Wang, C., & Wei, Y. (2001). Causal links between foreign direct investment and trade in China. China economic review, 12(2-3), 190-202.

Miglani, S. (2019). The growth of the Indian automobile industry: Analysis of the roles of government policy and other enabling factors. Innovation, Economic Development, and Intellectual Property in India and China: Comparing Six Economic Sectors, 439-463.

Miteski, M., & Stefanova, D. J. (2017). The impact of sectorial FDI on economic growth in Central, Eastern and Southeastern Europe (No. 1/2017). Working Paper, 5-20.

Mohan, R. (2002). Small-scale industry policy in India. Economic policy reforms and the Indian economy, 213.

Mwilima, N. (2003). Foreign direct investment in Africa. Social Observatory Pilot Project, Final Draft Report for the Labour Resource and Research Institute, 29-45.

Nielsen, B. B., Asmussen, C. G., & Weatherall, C. D. (2017). The location choice of foreign direct investments: Empirical evidence and methodological challenges. Journal of World Business, 52(1), 62-82.

Pavlínek, P. (2015). Foreign direct investment and the development of the automotive industry in Central and Eastern Europe. Foreign investment in eastern and southern Europe after 2008: Still a lever of growth, 209-255.

Pavlínek, P. (2018). Global production networks, foreign direct investment, and supplier linkages in the integrated peripheries of the automotive industry. Economic Geography, 94(2), 141-165.

Singh, D. (2009). Foreign Direct Investment (FDI) and Growth of States of India. Shikha, Foreign Direct Investment (FDI) and Growth of States of India, 222-237.

Singh, S. (2019). Foreign direct investment (FDI) inflows in India. Journal of General Management Research, 6(1), 41-53.

Singh, S., Chauhan, A. K., & Pandey, N. (2012). Foreign Direct Investment (FDI) in Bric Countries: A Panel Data Analysis of the Trends and Determinants of FDI. European Journal of Economics, Finance and Administrative Sciences. – September, 48-58.

Sur, A., & Nandy, A. (2018). FDI, technical efficiency and spillovers: Evidence from Indian automobile industry. Cogent Economics & Finance, 6(1), 1460026.

Wang, D. T., Gu, F. F., David, K. T., & Yim, C. K. B. (2013). When does FDI matter? The roles of local institutions and ethnic origins of FDI. International Business Review, 22(2), 450-465.