

# ISAS Insights

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## Outlook for the Continuing Success of Japanese and South Korean Automobile Makers in India

*The automobile industry is a key growth engine in India. It has created millions of jobs and contributed to the country's gross domestic product. The Narendra Modi government is paying great attention to this industry as the top job-creator under the 'Make in India' initiative. In this promising sector, the Japanese and South Korean automakers have, for long, outperformed other brands. Their cutting-edge technologies and qualitative customer service seem to be the secret to their success. The Japanese and South Korean automotive enterprises, which led the miracle of economic development in their countries, are expected to cater significantly to India's growing domestic demand and further develop their export-oriented production bases in India in the near future.*

Sojin Shin<sup>1</sup>

### India's Automobile Industry Today

India was ranked as the sixth-largest car producer in the world in 2016, with an annual production of 4.4 million vehicles.<sup>2</sup> China, Japan, Germany, the United States (US) and South

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<sup>2</sup> See the official website of the International Organization of Motor Vehicle Manufacturers. Data available at <http://www.oica.net/category/production-statistics/>. Accessed on 5 July 2017.

Korea were the top five economies that outpaced India in producing passenger and commercial vehicles in 2016. However, the Indian government expects the country's automobile market to become the third-largest in the world by volume by 2026, after China and the US. India's automobile industry contributes approximately 45 per cent to the country's manufacturing gross domestic product (GDP) and 7.1 per cent to the country's total GDP. The latter contribution is likely to increase to 12 per cent in the next decade.<sup>3</sup>

The major global car manufacturers have been increasing their investments in India for two reasons, namely, to cater to India's growing domestic demand, and to leverage on India's competitive advantage to build their manufacturing plants and make India their export-oriented production base. It is not just the foreign investors who are deeply interested in the automobile sector in India, which directly and indirectly employs 19 million people. The Narendra Modi government is also paying considerable attention to the sector as it is the 'top job-creator' among the various industries that the 'Make in India' initiative is focused on. The government estimates that the automobile industry would generate an additional 65 million jobs by 2026.<sup>4</sup> It also expects the industry to increase the export of cars by five times and that of auto components by 7.5 times by then.

## **Japanese and South Korean Automobile Makers in India**

Anyone travelling to India would easily recognise some of the following car brands – Alto, Baleno, Brio, Celerio, City, Dzire, i10, i20, Santro, Swift and WagonR. These are the names of the most popular four-wheeled vehicles produced in India by Japanese and South Korean automotive enterprises. In fact, the top 10 selling cars in 2016 and 2017 in India have been dominated by either the Japanese or South Korean brands.<sup>5</sup>

Maruti Suzuki, a joint venture between India and Japan, has long held the largest market share in India's automobile industry. It began assembling cars in 1983 and gradually increased the volume of its products over the years. In 2015-16, it produced 1.3 million vehicles and exported

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<sup>3</sup> Union Heavy Industries and Public Enterprises Minister Anant Geete remarked. See "Auto Sector to Contribute 12% to GDP over Next Decade", *Hindustan Times*, 22 May 2017.

<sup>4</sup> See the official website of 'Make in India'. Available at <http://www.makeinindia.com/sector/automobiles>.

<sup>5</sup> "Top 10 Selling Cars in Jan 2017: Celerio outsold Baleno after 9 Months", *The Economic Times*, 7 February 2017.

123,000 of them. Maruti Suzuki exports its products to over 125 countries, including many European countries such as Germany, France, Italy and the United Kingdom, which incidentally have highly competitive automotive markets of their own. Maruti Suzuki has a nationwide service network spanning over 1,500 cities and towns, and an extensive sales network that spreads across 1,471 cities in India.

Honda Cars India is a wholly-owned subsidiary of Honda Motor Company in Japan. It was established in 1995 and now has two manufacturing plants – one in Greater Noida in Uttar Pradesh and the other in Tapukara in Rajasthan. It has around 5.4 per cent of the market share in India, behind Maruti Suzuki, Hyundai and Mahindra.<sup>6</sup> In fact, Honda was outperforming other brands in terms of volume in the two-wheeler market in India in the 1980s and 1990s, when it had a joint venture with India's Hero Cycles. However, it then decided to concentrate on the four-wheeler market following its split with Hero in 2010.

Compared to the Japanese automotive enterprises, the South Korean car companies were late entrants into India. Hyundai Motor India is a wholly-owned subsidiary of Hyundai Motor Company, a South Korean automotive enterprise, which was founded in 1996 in India. It has a fully-integrated state-of-the-art manufacturing plant in Sriperumbudur in Tamil Nadu. It has maintained its position as the second-largest car manufacturer after Maruti Suzuki since 1999.<sup>7</sup> However, Hyundai Motor India has been the largest passenger car exporter in the market for the past 10 consecutive years. It currently exports its vehicles to around 92 countries across Africa, Middle East, Latin America, Australia and the Asia Pacific. Also, it has 475 dealers and more than 1,226 service points across India to provide the necessary service support to India's domestic consumers. Furthermore, it has developed a multi-million dollar research and development facility in Hyderabad to further enhance its products through cutting-edge engineering skills.

Kia Motors, Hyundai Motor Company's subsidiary company, recently decided to build a manufacturing plant in Anantapur in Andhra Pradesh. This project aims to produce 300,000 units per year through an investment of US\$1.1 billion (S\$1.5 billion). Kia will begin building the plant this year and it should be completed by 2019. In fact, Kia is expecting some synergy

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<sup>6</sup> "Top 3 Auto Companies Hold 70% Market Share", *The Times of India*, 28 January 2016.

<sup>7</sup> See the official website of Hyundai Motor Company. Available at <http://www.hyundai.com/in/en/AboutUs/Milestones/index.html>. Accessed on 6 July 2017.

effect from the location which is just 390 kilometres from Hyundai Motor India in Sriperumbudur.

Why are the Japanese and South Korean enterprises active in the automobile industry in India? They are well known for being the driving force behind the economic development in their respective countries between the early 1960s and the latter part of the 1980s. Their cutting-edge global technologies and high degree of customer service, now customised in India, seem to point to the possibility of a similar success story in the Indian market.

## **Future of India's Automobile Industry**

Many car makers in India, including Maruti Suzuki, Toyota, Hero, Mahindra and BMW, have reduced the prices of the different models of their products under the new Goods and Services Tax (GST) regime. There seems to be some negative views on the implications of the GST reform for the automotive sector. For example, car dealers are likely to suffer losses in clearing off the inventories of vehicles produced before the GST took effect on 1 July 2017. Moreover, several other issues are expected under the new GST system, such as dealing with vehicles that might attract heavier tax burden than before, and evolving marketing strategies which may be taxable.<sup>8</sup> In spite of their concerns, the general sense is that the tax reform will ensure greater transparency in the automobile industry.

While some of the Japanese and South Korean car manufacturers prefer to wait and see the impact of the new tax regime on their sales, others hope to come up with new models to boost sales in India. For example, Hyundai Motor India expects to increase its sales through the launch of new models that can accommodate the lifestyle of Indian consumers. In fact, its sales volume in India accounts for around six per cent of total sales in the global market, since the launch of its new sports utility vehicle in 2015.

Further, the strong performance of the Japanese and South Korean car manufacturers is expected to be further enhanced through the production of more electric cars. The Indian

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<sup>8</sup> For the detailed discussion, see "GST: 10 Caution Points for Auto Industry & Automobile Dealers", *The Economic Times*, 30 June 2017; and "GST Rate on Used Cars: Creating An Unintended Challenge for the Automotive Industry", *The Economic Times*, 3 July 2017.

government aims to have an all-electric vehicle fleet in the country by 2030. Many automakers, including the Japanese and South Korean brands, agree that it is a good step to helping India become a global leader in deploying technology that would counter the increasing oil imports, reduce local air pollution in cities by limiting carbon dioxide emissions. Toyota's Camry hybrid has been the best seller in the market, which can be powered by the company's petrol unit paired to an electric motor. Hyundai, which also introduced the all-electric version, has seen rapid sales in the global market. It plans to launch the model in India next year and will assemble its parts in India. It will export the model to other countries from India as well.

## **Conclusion**

India has, for long, been an attractive market for the Japanese and South Korean automobile manufacturers. By virtue of the quality of their products and high customer service standards, these companies have occupied leading positions in India's manufacturing sector. On its part, the Indian government welcomes their involvement, as they provide millions of jobs to the local workers, and, in the process, lend support to Modi's 'Make in India' initiative. These manufacturers have invariably adapted so as to stay ahead of the race and meet the local demands and desires. With India laying new emphasis on electric cars, these manufacturers are expected to cater more to India's growing domestic demand and further enhance their own export-oriented production bases in India.

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