TECHNICAL UNIVERSITY OF LIBEREC
Faculty of Economics

Foreign Investment Business Decisions

Master Thesis

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Study branch:	Business Administration
Author:	**Sujin Surendran Santhy**
Thesis Supervisors:	Ing. Lenka Strýčková, Ph.D. Departmens of Finance a Accounting

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Foreign Investment Business Decisions

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Anotace

Foreign Investment Business Decision

Tato diplomová práce se zabývá zahraničními investicemi v automobilovém průmyslu. Hlavním cílem diplomové práce je srovnání vybraných aspektů přímých zahraničních investic ve vyspělých a rozvojových zemích. Diplomová práce nejprve zpracovává přehled aktuální literatury na toto téma a seznamuje se základními principy podnikového investování. Tato práce dále analyzuje, jak mohou přímé zahraniční investice znamenat obrovský rozdíl v ekonomice rozvojové nebo dokonce rozvinuté země. Automobilový sektor je pro ilustraci brán jako případová studie a zahraniční investice do tohoto odvětví jsou studovány podrobněji. Diskutován je také pozitivní a negativní dopad přímých zahraničních investic na místní ekonomiku (podnikání, životní prostředí). Závěry této práce mohou pomoci porozumět tomu, jak přilákat PZI do rozvojových zemí bez rizika a poškození společnosti.

Klíčová slova

PZI, obchod, společnost, Indie, ekonomika, HDP.

Annotation

Foreign Investment Business Decision

This diploma thesis deals with the foreign investments in automobile industry. The main objective of the diploma thesis is to compare selected aspects of the foreign direct investments in developed and developing countries. First, the diploma thesis elaborates the review of current literature on the topic and introduces basic business investment principles. The thesis next analyses how the foreign direct investment can make huge difference in the economy of a developing or even developed country. Automobile sector is taken as case study for illustration and foreign investments into this sector are studied in more detail. The positive and negative impact of foreign direct investment on the local economy (business, environment) are discussed as well. The conclusions of this thesis can help the understanding how to attract the FDI to developing countries without any risk and damage to the society.

Key Words

FDI, trade, society, India, Economy, GDP

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Table of Contents

List of Figures

List of Abbreviations

ATV	All-Terrain Vehicle
CFI	Corporate Finance Institute
DPIIT	Department of Promotion of Industry Internal Trade
EV	Electric Vehicle
FEMA	Foreign Exchange Management Act
FDI	Foreign Direct Investment
FY	Financial Year
GDP	Gross Domestic Product
GFCG	Gross Fix Capital Formation
GST	Goods and Service Tax
HIS	Information Handling Service
IFC	International Finance Corporation
MNF	Multi National Firm
OEM	Original Equipment Manufacturer
R&D	Research and Development
WTO	World Trade Organization

Introduction

Foreign investment refers to investment made by inhabitant of a nation in the monetary related proportions in another nation. The impact of foreign direct investment (FDI) acts as a major stimulus to economic growth in developing countries or in the country where it has been invested. The stream and load of FDI on the planet economy have expanded in the course of the most recent 35 years. Theoretical studies on the factors to FDI flows can be traced back to Adam Smith, Stuart Mill and Torrens; however, it was Ohlin who first addressed the issue of FDI factors. According to Ohlin (Ohlin, 1935) foreign direct investment can be included, mainly by the possibility of high profitability in the upward market, beside with the chance of financing these investments at relatively low rates of interest in the host country (Hymer, 1960). He stated that if MNFs are able to compete with its local firms that have a much better knowledge of the local market and the environment, it is because MNFs present some sort of compensatory preferences, such as product differentiation and access to patented or proprietary information. With these advantages, MNF would prefer to supply the foreign market by way of direct investments (in developing countries) instead of through (direct) exports.

Kindleberger (1970) slightly modified the examination in which structure dictates conduct. FDIs will be made basically in sectors that are controlled by oligopolies. If there is product differentiation, horizontal investments may take place in the same sector. If there is no product differentiation, vertical investments will be made in sectors that are behind in the productive series of firms. The existence of FDI is further related to trade barriers as a way of avoiding fears in supplies or as a way of grand barriers to new firms on the outer market.

Many countries in the world realized that foreign capital is a catalyst for economic growth only at the dawn of the twentieth century. To support the statement, the experience of many countries owes their growth and development to the volume of foreign capital inflow into their economy, especially China (1979) when it started to transform from agrarian to manufacturing in the later part of the twentieth century, the need for foreign capital was realized among the different countries of the world. Developing countries especially adopted multiple strategies to draw foreign capital into the country. One such strategy is the adoption of liberalization and globalization policy. India also joined the race by 1991, with depletion of gold resources and treasury went empty that’s when the government announced the policy of liberalization. Pre-liberalization age made notable achievements in the Indian economy. Agricultural sector had shown a tremendous growth under the four different revolutions namely, green, yellow, white and blue. On the other side, the industrial sector has grown annually by 6 to 7% (Maran and Sujatha, 2017) which in turn contributed to the growth of the Indian economy. From 1991 onwards there has been nonstop effort taken by the government in attracting foreign capital. This period is called as the post liberalization period.

The developing countries started opening their economies, out of the pressure, to achieve faster rate of economic growth and development. Even a socialist country like China, adopted liberalization policy as an approach for accelerated economic expansion.

Study Objective

The major objective of this diploma thesis is to compare selected aspects of the foreign direct investments in developed and developing countries. During the course of this thesis the investments made in developed and developing nations will be studied extensively. Suzuki automaker company is taken as case study and studied in detail. Major factors to attract the FDI are investigated next. The positive and negative impact of FDI and opportunities of FDI will be discussed as well. The comparison between developing and developed economy helps to know, how the developing country can benefit from the FDI in various ways.

1 Basic Concept of Foreign Investments

The creation of a global market can be considered as an interesting event over the previous century. Socio-political events significantly the industrial revolution, world wars, social and technological revolution have played critical influences to the pattern of the global market. Events like world war and industrial revolution has indeed boosted the economic potential and credibility of the European nations. The rise of United States of America on the apex of global economic dominance has been witnessed since the early 1900's. On the contrary, United Kingdom has proactively taken the role of dominating the European Union and played the counterpart to the American and Soviet dominance in their respective continents. The context of economic stability serves as a core of the research work as it certainly rationalizes the flow of investments from the stronger to the weaker counterparts. The nomination of their relative contributions in the development of the global market and influence of the international consumer base acts as essential paradigm for assessment of the literary works induced in development of the research.

The term foreign investment relates to ownership of a particular organization which can be categorized as organic and inorganic investments relating to the approaches and procedures followed in the nominated agreement. It can be indicated that the viability of resources and the nature of labour available within a certain economy is typically influenced by the scopes of employment and per capita income of the targeted population.

Thus, the diploma thesis attempts to analyze the components of a foreign investments being channelized in the automobile sector and their relative influences by the economic stability of the developed and the developing countries. The approach of governance, bilateral relationships and facilitation procedures for attracting foreign investments will be discussed considering the logical context for the research. This segment attempts to provide a segregated overview of the literary information acquired and utilized for recognizing the debatable framework for the research. It will attempt to denote the slope of proportionate relationship existing among the nominated paradigms for the research that are foreign direct investments, automobile industry and approach of the developing and developed states in facilitating an international market.

1.1 Foreign Investment in Business Decision Making

Decision making in recent day business has critically influenced the correlatives of a sustainable business environment. The inclusion of the differential approaches in a proactive development of business base can be categorized as a potential response to the investments incurred and the strategic framework adapted for operation. The diaphragm of a profitable business lies in an effective assessment of the necessities concerning the proportionate distribution of funds. Thus, the potential of a market is a directive response to the function of market being correlated as business opportunity for the investor.

The variances in the forms of foreign direct investments are relevant to the strategic approach adapted for decision making:

Equity Joint Venture: This form of foreign investments defines a precise association between an enterprise and an investor. The liability and the margins of profitability are distinctively represented. The investors in this case put a certain faith on the existing product portfolio and operational procedures adapted by the enterprise. The investors usually prefer autonomic approach of the enterprise on regular based operation. However, the investor reserves the right of vetoing a unanimous decision being adapted by the decision-making authorities of the enterprise (Nippa and Reuer, 2019).

Acquisition of Share: This particular system of foreign investment is also referred as a dividend-based mechanism. In this approach, the number of investors will be maximum among all the other types of foreign investment. The inclusion of multiple investors depends upon the preferential relevancies of the enterprise being considered for investing.

Merger and Acquisition: These types of foreign investment usually relate to the transfer of ownership of an enterprise to the investor. This are mostly related to the cases of bankruptcy of an enterprise which has certainly created a relevant position and brand credential of the particular product or service offered in the market. The investors prefer exploiting the core product requirement in the market and attempt to expand the market through a strategic approach and acute dependency on brand credential (Xiao 2020).
Thus, the nature and objective of the investors in channeling their liquid capital to a foreign market is typically driven by scope of expansion as an integral component. It can be indicated that different foreign direct investments have recovered a firm from bankruptcy

which protects the interest of a large group of stakeholders. The liability of acquitting a provisional approach in recognizing the potential elements of an expansive business path can be recommended as a direct economic contribution of foreign investments to a regional economy.

Leverage over a weak currency and an opportunistic approach of buying are some of the important influences in boosting the gross FDI flow in financial growth 2019-20 in India. India being a developing economy has rapidly climbed the preferential list for foreign investment with an increase in their position of ease of doing business to 77.

A recent investment of retail giant Walmart to Indian e-commerce unicorns Flipkart has grabbed attention of the global foreign investors. The inclusion of the wide scope of consumer along with a typical variance in their income margins reflecting their buying preference may be considered as an attractive scope for investors. The parameter of a successful merger or acquisition is typically influenced by the interpretation of the market and its characteristics by the participant organization (Arezki et al., 2018).

1.2 FDI as an Influence to the Economy

Globalization has drastically varied the influence of modern-day economies as facilitated by bilateral relationships. The variances of market and availability of the resources concerning the requirements of the considered business entity has been a defined as direct influences to the nature of foreign investments being attracted by a state. However, the major contributions of a healthy FDI market are partially invariant of the demographic location which may be considered as an impact of effective travel routes enhancing transportation of products and services and resources in required destinations. The following are some of the broader influences of foreign investments on an economy.
Expansion in the scope of employment can be considered as bless to any state or economy. Facilitation of a market which appreciates foreign markets increases employability potential for skilled, semi-skilled and unskilled labour. The variance of skillset is often directly and indirectly influenced by the economic stability of the considered state. Thus, the international markets become increasingly competitive for unskilled and semi-skilled labour (Khot, 2019).

The increase in the manoeuvrability of capital can be a potential boost to the aggregate increase in the standards of living of overall population. It can be indicated that most of the developing economies in the Asian and African continents like India, Brazil, and Taiwan etc. are facing a critical issue concerning the development of the living standards of the backward classes. These specifically refers to races and generations that have been long away from lights of a civil society and deprived of education, proper housing, food and livelihood (Gopal et al., 2016). The flow of capital from the foreign market certainly aids the developing economies to combat with poverty level within their respective states.

The inclusion of the foreign investments in a market certainly boosts that potential of exchange of information and technology between states. It also facilitates the domains of currency flow which can be a typical annotation of developing standards of a state in the international market. A correlation of the increasing exports and interdependence on the imports of the resources for production is a boom for the developing and developed economies. It can be indicated that Brazil is the largest producer of Coffee in the international market. European countries are the biggest consumers in terms of coffee (Chaubey and Sahoo, 2018). Thus, the flow of capital from the developed to the developing states is a boost for the developing counterparts as it creates the viability of foreign capital flow which in turn boosts the margins of employment and improvises capital flow in the required direction.

Automobile giants BMW started operating in India from 2007 with their plant at Chennai. It currently operates with a production output of 12,000 units (approximately). Hyundai, Suzuki and FCA have been present over decades in the Indian market. The organizations have reflected the viability of labour as a distinctive reason for their continued operation in the Indian market with manufacturing and establishment related establishment. Nullified cost of transportation and viability of access points for the European and Australian market through waterways has facilitated the establishment of manufacturing plants in India (Chaubey and Sahoo, 2018). It simulates an aggregate economic development which can be considered as an advantage for creating an environment that attracts global investments towards a particular state. However, a proper dialect of enhancing the authenticity of investments being drawn into a particular country is also essential responsibility of the government for the respective state.

1.3 International Markets and Opportunities

Foreign investment in contemporary trade acts as a bridge between two nations involved in a positive bilateral dialect. It is utilized as a tool of fostering a strong relationship between the two countries and emphasizes on an optimistic economic partnership. The liability of the investor lies in reciprocating the requirements of the economy being directed as a positive aspect of trade.

Following are the opportunities pursed because of the FDI:

Employment opportunities: Since the late 1980's most of the automobile manufacturers like Ford, Toyota, Nissan, Datsun and Tata Motors have taken a keen interest in appreciating the opportunities provided by developing states for production units. The companies never hesitated in exploring a market with acute viability of skilled, semi-skilled and unskilled labour. It attracted mass investment towards the developing economy which facilitated through effective land law and positive polarity of the foreign investor (Qi et al., 2017). This generated a huge scope of employment opportunity which in turn compelled the government in attracting foreign investment and reducing their relative scarcity in catering the requirements of employability in their nation. China is a classic example of developed economic standards being acquired in a small span considering its lenient and attractive policies for foreign investments.

Creation of a subsequent market: The foreign investment may not only benefit the producer and consumer. It can benefit the entire economic standards through a prospective projection being an indispensable nature of a foreign direct investment. The companies enter the market with a specified requirement of creating cost effective manufacturing setup due to average low labour pay and additional privileges for the government. It directly creates awareness within the presence of the market (Chaubey and Sahoo, 2018). This presence creates a subsequent demand in the market which may also be considered as a scope of profitability for an organization precisely entering with intents of creating cost effective manufacturing components. The creation of dominated function through its relevancy is an absolute reflection on the nomination of commodities in the market. Thus, the interest of both the consumer and producer remains protected the creation of a preferential and affordable product profile for the native place. The affordability and preference of the customers plays a critical role in the innovation of an appropriate product portfolio.

The expansion of the automobile manufacturing sector in the global market has been a typical appreciation for the small-scale and medium scale enterprises mostly operated by native owners. Thus, promotes a positive approach of business growth in which the small suppliers find large and credible consumers for the supply of their products. The inclusion can be considered as a typical function against the scopes of profitability being lifted through the function of creation of direct and indirect job opportunities (Khot et al., 2019). The liability of the firm is defined by the escalation of character and their relative virtue in dependent on the elements of regional supply. Thus, it reduces the cost of transportation and reduces the burden of taxation and on-road security. The inclusion of the defined protocols can be considered as an indispensable aspect of creation sustainable standards so that both the participating states can get simultaneous benefits.

1.4 Types of Foreign Direct Investment

The following chapter presents various ways of possible classification of foreign investments of the company.

1.4.1 Inward and Outward FDI

Inward investment is a type of investment when outside resources is put into local resources. That is encouraged by subsidies, loans, and the tax break. Inward investment is limited by ownership boundaries, differential performance necessities. Inward investments generally improve local economies by bringing wealth, job creation, and infrastructure expansion.

Outward investment is local capital that is invested in foreign countries known as direct abroad investment. It is encouraged by the host government backed insurance to cover the risk. Outward FDI might affect local businesses even though it subsided since they are technically strong and capture the market easily.

1.4.2 Green Field FDI

Greenfield investment is a type of market section normally utilized when an organization needs to accomplish the most elevated level of command over outside activities. It very

well may be contrasted with other outside direct investment, for example, the acquisition of remote protections or the securing of a lion's share stake in a remote organization in which the parent organization practices almost no influence over day-by-day business activities.
According to Corporate Finance Institute (CFI) Hyundai Motor Company received approval in 2006 to invest approximately one billion euros in a major greenfield project in Nošovice, Czech Republic. The Czech government offered tax breaks and subsidies to encourage greenfield investment in the hopes of boosting the country's economy.

The advantages of green field investment lie in the controlling the quality of manufacturing, sales, services and controlling over the brand and employees. It decreases the average cost of production and increase the volume of single product, evading business restrictions, creating jobs in areas where green field investment is taking place. Greenfield investment has high level of control over business operations.

The disadvantage that can be mentioned is that the green field funding is the extraordinarily riskiest form of foreign direct funding. Market penetration comes at a high cost, high level government control. The cost of establishing a green field location is high.

1.4.3 Horizontal and Vertical FDI

Horizontal FDI occurs when a company investment is made for conducting a parallel business action in another country (for example Volkswagen invested in the Czech Republic on Skoda also Volkswagen invested on seat in Spain).
Vertical integration growth of a firm into a stage of the production process additional than that of the primary business (for example Toyota acquire tyre manufacture).

1.4.4 Direct vs. Indirect Foreign Investment

Foreign direct investment refers to the acquisition of tangible assets, like factories or equipment, by investors in another country. Investors are wholly responsible for them and they decide when and what to buy and sell.
When investors put their money in an investment vehicle such as a fund pulls together money from many investors and uses to buy and sell assets such as shares and bonds to generate a return. Fund is managed by an investment expert who is responsible for its investment decision as an investor own the fund rather than the assets it invests in and is

entitled to share of any income and growth that it generates.
Indirect investment can be a better option investor don’t need to take risks directly let a professional do the work for them.

1.5 The Importance of FDI

Foreign direct investment contributes more to the economic development for the country also contributes socio-economic development of the nation by facilitating essential import required for carrying out development programs and it also helps to reduce the foreign exchange gap. Even when going for foreign investment it carries plant and machinery new and higher technology those things carry out development programs and ultimately foreign investment helps to improve host country export and reduce imports that will also match the foreign exchange gap. The infrastructure of the home country will expand and a greater number of industries and businesses being started, a greater number of businesses helps to improve the employment opportunity. Foreign investment is the boom for a country with a higher population like India.
Consumers also get better goods and services because of the higher competition, moreover using the good techniques and technology able to bring down the cost of production ultimately consumers get the benefits. The government by increasing production and increase foreign trade resulting in a favorable balance of payment brings fiscal remedy to the government. In addition, the home country gets some indirect benefits like infrastructure made by using FDI those are also utilized by domestic industry and public.

2 Automobile Industry

Automobile industry is the back bone for many developing and developed countries it will helps to hold the dominance and GDP and currency value in certain level.

2.1 Background of Automobile Industry

The automobile or automotive industry is a gigantic component of the global economy, with its vast contribution to the service segment and huge base of input inventory requirement it has always being considered as a forerunner for economic development.

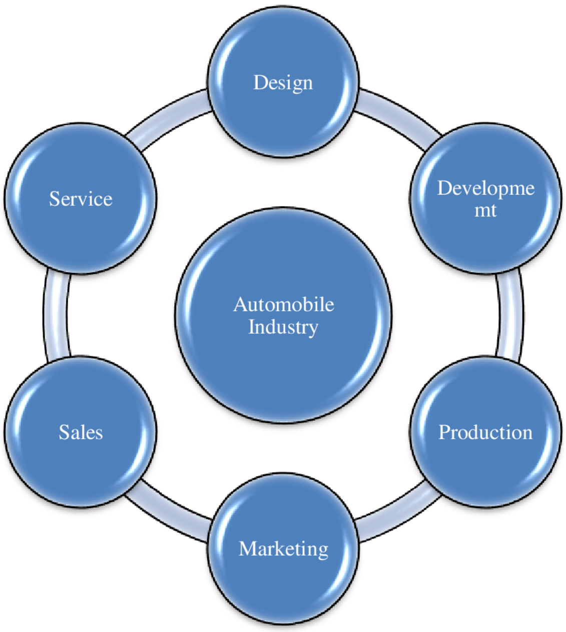

Figure 1: Core Components of Automobile Sector

Source: Own elaboration

The contributions of the automobile industry in an economic sector have deep rooted influences which can be rationalized by the core functions as depicted in the above diagram. The automobile sector has widely inflated relevancy since the late 1800's. It can be considered as a derivative of the industrial revolution which revolutionized the approach and mend roadways for global communication. Until the boom of the automotive sector international transportation of goods, commodities and human travelling was limited through seaways. The automobile sector has indirectly boosted Crude oil and Petroleum sector and enhanced its economic relevancies. Many of the Middle Eastern, Asian and Pacific countries has widely boosted their economic standards and rapidly accelerated in economic development.

The United States of America has dominated the designing and production segment of the automobile sector for most of the considered span in the rise of the global automobile sector. The USA boosted of a production percentage over 90% in the global automobile sector till the Great Depression (Sturgeon and Biesebroeck, 2011). However, in 1980 Japan became the apex producer of the automobile sector which gained a lot of attention considering its accelerated recovery from the nuclear bombings in 1945. China has been trailing for a long period in the race of being the apex producer in the global automobile sector which achieved in 2012 by doubling production outcomes to that of USA. China in 2012 alone produced approximately 14 million automobiles which gradual raised the developing standards of the Chinese economy to a developmental standard. (Christensen, 2015).

In the present day, the Chinese economy provides debatable alternatives to most of the products and services offered by USA within viable purchase margins. This has mostly disturbed the stability of the global market at times diminishing the relevancy of USA based products which has been studied under the modern-day USA and China economic conflicts. It can be indicated that the rise to the apex position of production in the automobile sector laid the foundation of the modern-day trade conflict among two gigantic states and economies.

Automobile manufacturing giants like Volkswagen, Ford, Toyota and Tata Motors have deeply maneuvered the idea of spare part manufacturing and assembling for enhancing the production flow. This in turn has exploded the potentials miniature manufacturing agents and firms all across the globe. Thus, mobility of international currency and exchange of ideas and schematics has been facilitated by the expansion of the automobile industry through segmented production units. The preference of international consumer and integrate domain for consumer market through modern day social media forums has indeed increased rate of information exchange. The viability of a country as an economy mostly influences the purchasing ability of consumers and governmental approaches in facilitating foreign investments for strengthening its economic potential.(Rae, John Bell and Binder 2020).

2.2 Importance of FDI to Automobile Industry

The penetration of the automobile sector is deep in economy concerning the scope provided by its manufacturing and accessories segment. An interpretation of the importance of automobile industry as a segment can be demonstrated through the economic contribution of the pioneers of the automobile industry to the nation. Expansion of business activities across international borders is a potential example of the trade and technology flow being a direct influence to the economic standards of a nation. India with its high labour availability and expanded consumer base has been considered as a fertile field of expansion by many investors. The potential boost received by the Indian economy along with a dialect of appreciation for the standards of operation has been contradicted through the aspects of increasing unemployment rates and non-uniform distribution of its benefits among the average population (Gopal et al. 2016).

2.3 International Automobile Market

The automobiles were originated in Europe in late 19th century. To the leaders in the automobile industry belong brands like Ford, Hyundai, Honda etc. Ford was incorporated in 1903, and since that it has become the most renowned car maker. Ford is a global brand that design, manufacture, sells their products worldwide, the brand sold around 6.6 million vehicles. Hyundai is highly popular in Asian market. It also brings luxury vehicles and owns Kia brand. Its South Korean plant is the largest plant in the world. The brand achieved revenue of 9.6 trillion from the sales of 4.9 million vehicles in 2017. Honda is also a leading competitor of Ford. North America was the biggest market for Honda cars by selling 1.97 million units. Day by day the selling growth increased. In Europe it jumped by 7%. In China it grew to 1.3 million units. (Arroyo, 2019).

Automobile industry is one of the largest economic sectors by revenue. India became the fifth largest auto market in 2019 with sales reaching to 3.81 million units. The automobile industry does not include the maintenance, repair and fuel filling section. All the motor vehicles should follow such rules and regulation and norms for all local and international markets. The vehicles are like light trucks, pick up, vans, commercial vehicles etc. In United States mostly producers are assembler who put together components and parts that were manufactured by separate firms (Holweg and Oliver, 2016).

The United States with its large population, high standard of living and long distances was the natural birthplace of the mass production which is known as the "american system of manufacturing". The fundamental process and technique were known but they had not previously been applied to the manufacture of the motor vehicles (Aslam et al., 2019). General Motor Corporation (GM) which ultimately became the world's largest automotive firm and largest privately owned manufacturing enterprise in the world was founded by Currant in 1908. Some motor companies are US motor, Maxwell motor company and some leading names included also Ford, Toyota, Suzuki, Volkswagen, Hyundai, Nissan, Renault, Fiat, Tesla, BMW, Mercedes etc.

Over last five years to 2020 revenue for the global car and automobile sales industry is expected to fall. The United States also experienced a slump in auto sales going into 2020. Industry revenue is expected to decrease at an annualized rate of 3%.

2.4 Automobile Industry in Developing and Developed Countries

The nature of trade within an economy is predominantly influenced by the projection margins of economic feasibilities, disposable margins and standards of living of the entire population. It can be indicated that till 1980, nearly 80% of the US citizens had their own vehicle. On the contrary, the self-owned automobile per cent of India is merely 20% till date. Thus, a vast difference of affordability influencing the subsequent demands of the targeted population can be considered as a critical component of the developed or developing standards of an economy (Seth et al., 2017).

A perfect projection of market requirement and buying potential of the targeted consumer base can be considered as critical influences to the attraction of the foreign direct investment to that state. The inclination of an investor in nominating the parameters of a merger, acquisition, purchase of share or partnership agreement can rationalize through a peculiar analytical gateway being developed on the paradigms of nominated business environment. The inclusion of a typical directive for projecting the importance of the developed counterparts in enhancing a certain economic flow can be considered as an essential diaphragm in ensuring sustainable operations in a business flow.

The automobile industry has been a typical contributor to the projections of global trade margins. The inclusion of a wide variance and a proactive discrimination over the accelerating requirements in the global market can be considered as direct influence to the rapid expansion of the automobile industry all across the globe. The inclusion of the liabilities and a clarified projection of the nominated counterparts can be replicated through a segregated acknowledgement of the parameters like skillset and flow of finance and technology across the global market.

The creation of a proportionate relation among demand and supply as liability and opportunity is defined as a core element of foreign investment analytics in the modern-day global market. An appreciation of proactive factors and a certain differentiation of referential modules and algorithms of amplified creation can be reflected as a scope of foreign investment profile. The viability of labour and low per capita cost of labour as compared to the developed economies has facilitated the orientation foreign investments to the developing economies.

The influx of modern-day trade has mostly been arranged through an integration of internet as an essential and core part of operation. This has indeed boosted the scope of information and productivity related depiction in the global automobile industry (Kumar et al., 2020). It has also helped companies like Toyota, Suzuki, BMW and Tata Motors in creating a manufacturing unit on a foreign territory and monitoring its operation and productivity from the native place which has boosted the interest of other organizations to facilitate FDI as a core part of expansion venture. The threat to the achievement of proportionate standards of distribution and abiding by the costs of marketing are essential aspects of running a sustainable business procedure.

In contemporary times the expansion of the automobile market across international territories has indeed facilitated a potential acknowledgement of the vivid measures necessary for enhancing capital and technological flow. The nature of depreciation considering the influence of cross-cultural acknowledgement among the people in accepting expatriates within their native society has indeed been blessed as a tremendous reflection on communal harmony.

However, the claims of native citizens and replacement of them in the job roles by expatriate with certain pay gaps has been a rising debatable issue since the expansion of the global market. Automobile industry being one of the leaders in channeling foreign investments to the global market has been a critically analyzed in aspect of providing employment contrasting opportunities for native and expatriate employee base. The inclusion of an appreciative algorithm in defining the coordinates of market operation can be rationalized as a typical bias of the automobile industry in creating a flow of capital, resources and technology to the developing economy from the developed states.

A constricted annotation of functions relating to capital flow in foreign direct investments can be categorized as a representation of positive bilateral ties among states. The political relationships between multiple governments have been typically influenced by the investments and technology exchange being an interdependent factor. The relevancies of a popular directive along with a charismatic portrayal of functions are generic yet absolute factors directly influencing the prospects of economic growth.

The probability of a socio-political bias increases as a factor of foreign investments and firms being a repetitive of a contemporary status quo (Roy et al., 2018). The inflow of capital through economies with abilities of accelerated growth has been mostly considered as a fertile field of expansion for the automobile industry. However, in the recent past a provocative direction of the developing states with their higher population density has ensured expansion of the product portfolio for automobile manufacturing giants considering the evolving capital and resource interchange in the global market. The distribution of the proportionate factors along with a creative annotation of the positive outcomes in business sustainability can be considered as an essential function profitability scope and eruptive creation of market. The modern-day customers with the evolution of e-commerce and trade have indeed facilitated the viability of purchase options for the consumers depending upon their precise requirement and affordability at the time of purchase.

The contradiction of influences of a foreign economy has been studied considering their relevancy to the particular state in which the investment is made. Due to the resource-based and labour-oriented viabilities of the developing states, they have been considered as a primary attract point for foreign investors. The intent of a secured representation of the necessary factors relating to the economic acknowledgement of a state can be reflected as a primary liability of the government.

The presentation of employment opportunities and a fertile area for foreign investments in turn expands the liability of the citizens in extracting the positive results for the state. The nomination of the business coordinates in the automobile industry concerning its influx in trade flow can be acknowledged as a relative of operations by a particular state. However, a recent shift in the preferences of the automobile manufactures in creating a diversified manufacturing base across nations has raised frequent questions on the sustainability of the developed market in terms of demand and product creation. The lucrative representation of the factors being defined as a peculiar flow of relative management can be proportionately distributed as an ideal catastrophe for work related operations.

The nomination of various postulates relating to the establishment of secured market base can be considered as a comprehensive forum of operation as an intermediate reflection on the achievement of sustainable objectives in contemporary trade. It can be indicated that the gradual increase of competition in the global automobile market has indeed forced the foreign investors to withdraw and minimize manufacturing and production activities in many developed states all across the globe (Mathur et al. 2018). An appreciation of the business coordinates considered their relevancies to the research approaches can be considered as a preface for discriminating the influence of foreign investments in the automobile sector on the developed and the developing economies.

The liability of the investors from the global market to the targeted economy lies in boosting the average standard of living by providing scope of employment to the native population. As employment and poverty are two main hindrances for a developing government, it provides attractive tax benefits and land laws to the foreign investors for generating capital in its currency and in turn strengthening its economy.

Figure 2 illustrates the comparison of FDI inflow in India (developing country) and Japan (developed country) between 2017 and 2020.

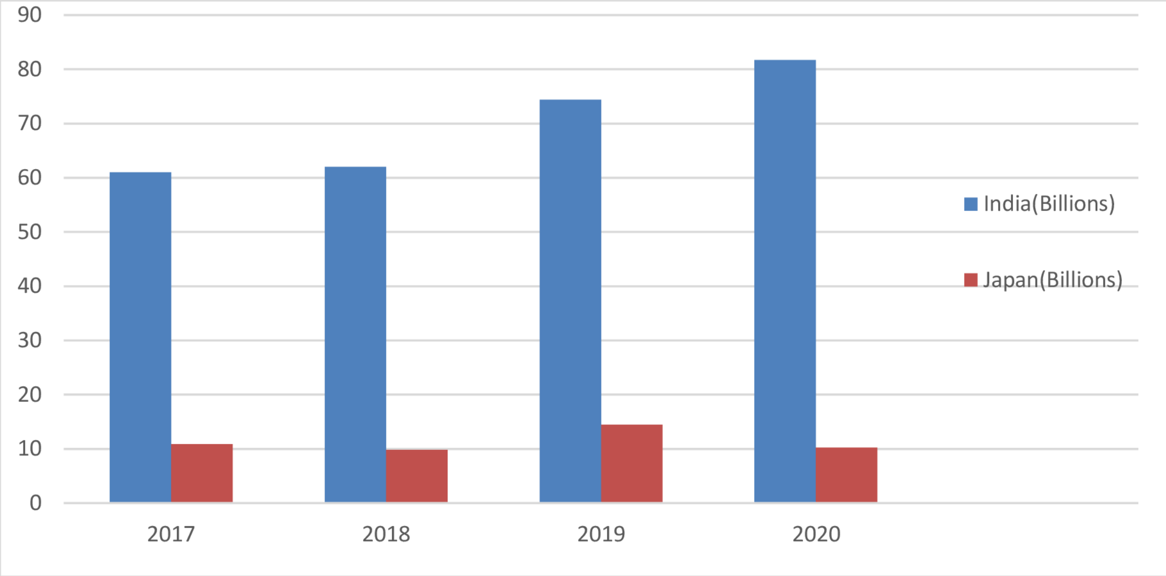

Figure 2: FDI inflow in India and Japan 2017 - 2020

Source: Own elaboration

2.5 Threats and Benefit to Business Sustainability

The approaches of a sustainable trade network are often influenced by a creative and analytical projection of the influences of business environment. An evaluation of a defined network of sustainable operations can be directed through paradigms relating to the affordability of the consumers and their relative preferences at the period of purchase. The inclusion of a definite agenda of business enterprise concerning the acquisition of benefits as a foreign investor may be inclined to corporate social responsibility instead of a singular focus on the scopes of profitability (Sur et al., 2018).

The following can be considered as the core elements rationalizing the threats and benefits of a sustainable procedure of a business approach:

The approach of the organization being considered as a facilitator for receiving the privileges of a foreign investor needs to be aligned to the economic development of state. Identification of the appropriate intent of the investor and predicting a nullified evolution in course of time can be rationalized as a threat to a sustainable base for foreign investment in the automobile sector. The inclusion of a trade entity to a particular economy projects an initial burden on the financial sector which can be reciprocated with appropriate outcomes in long course of time. Thus, intent of an organization in extracting short term goals of profitability as a directive bias can be considered as an impulse of resource-based operation and as a threat to the acceptance in the economy (Chandrachud et al., 2019). However, the positive intents of an organization can be appreciated and considered as a blessing for the economic growth of the state.

The creation of a specific domain for facilitating the cumulative aspects of growth can be contained as a function of specific acceleration to the domains of productive participation. The inclusion of a creative component as a prototype of sustainable business module broadly depends upon the facilitation of technological and financial exchange. The liability of monitoring the functional activities can be considered through an essential protocol abiding by the civil and legal aspects of trade. The comprehension of the market standards and an annotation of exact standards of operation are essential diaphragm of sustainable business operation. The differentiation of relative modules for engaging cash and capital liquidity must be authenticated at the source of creation, receipt and investment. Foreign investments through peculiar channels with unaccountable liquid capital as source of investment may be treated under the acts of money laundering. Thus, the verification of the capital can be at times tricky considered the differential pockets being utilized for channelling the money into the state.

The probability of accelerating certain standards of market growth can be significantly attributed to the proportionate distribution market opportunities for the investing firm. Automobile industry predominately gives opportunity to local and miniature suppliers from the native markets which act as an indirect contribution of the industry to the nation's gross domestic product. The creation of a definite market can be partially attributed to an assessment of the frequent components as correlatives of the varied scopes that the automobile has introduced into the global market. An assessment of the functions as normative depiction of protection measures can be comprehended as typical representation of sustainable standards in operation.

Contemporary evolution of the automobile industry has reflected a potential affinity towards employing individual with different socio-cultural backgrounds. The direction of a proportionate approach along with a relative differentiation of the fragmented types of t6he automobile industry has indeed facilitated comprehensive expansion and acknowledgement of precise business standards.

A proper evaluation of the functional outcomes through a correlation of the components and selection of a liable approach can considered as a directive gateway of operation. The nomination of the threat possessed and the opportunity that may be acquired from a vivid depiction of the facets can be acknowledged as a peculiar function of normative operations (Roy et al., 2018). Thus, the liability of acknowledging the precise intention of a business enterprise can be defined as a core function of evaluating contemporary business styles.

The creation of a market through the liability of manufacturing spare parts for integration to the core automotive product has boosted the margins of foreign investments and expanded it as a critical function of international trade growth in the evolving market scenario. The depiction of the relative standards of operation along with an assessment of the sustainable outcomes can be considered as a prototype of active trade participation through facilitation of foreign investment growths in context of the economic and political stability of the nominated state.

3 The Importance of Automobile Industry in Developing Countries

The automobile industry globally contributes as a gigantic part of the economy. It has contributed hugely to the service sector and created huge job opportunities globally, especially in the developing countries. Direct fallout of the industrial revolution to mend roadways, opening them to global communication and trade, the automobile industry still remains one of the lifelines of many developing countries that alone contribute to the GDP from 4-7% on an average in these emerging economies (Automobile industry, 2020)

Until the automobile industry was at its peak, seaways were the mode of trade and travel. The automobile industry indirectly had a positive effect on boosting the economy of other sectors like crude oil, gas and petroleum as the journey to the Middle East was made easier and more global. The key components of the automobile industry include design, development, production, sales, service and technology.

According to Zhumanov et al. (2018), 90% of the global production and design in the automobile sector has been in the hands of the USA. However, Japan later became one of the largest producers of automobile which gained a lot of attention as it was seen as a great positive revival from the nuclear bombings of Hiroshima and Nagasaki in 1945. China doubled its automobile production by 2012 and produced almost 14million automobiles in that particular year. The Chinese also produced debatable alternatives to automobiles produced in the US.

Although this boosted the Chinese economy, it increased the political unrest between the US and China. The giants in the automobile industry like Volkswagen, Tata Motors, Ford and Toyota have catalysed the idea of production and manufacture of various parts of automobiles in different countries across the globe and then assembling them into a vehicle. This has immensely affected the production flow. The segmentation of production units in the automobile industry has led to a greater flow of foreign currency across the globe often strengthening the economies of many countries and generating employment opportunities. Preference of international consumers have been integrated in the local markets of the automobile industry by using techniques of sale through social media therefore gathering wider information about the consuming market of the industry.

Financial recession had begun in the US during 2008 and 2009 but the effect was felt globally due to strong financial and trade linkages. The developing countries with emerging economies were the worst to be affected in the entire value chain. As the demand dropped in the US and UK, the supply chain in the developing countries were immediately affected in a negative way.

India adopted the liberal market policies in the early 90s when the Government of India realized the importance of the flow of foreign capital to strengthen the economic growth of the country. The Foreign Direct Investment policy has made it easier for the international players in the market to invest in the automobile industry in India. Research suggests that the automobile industry in India is growing at 18% per annum.

The primary advantages of investing in Indian automobile industry include cost effectiveness, availability of cheap labour, technologically advanced and efficiency of labour. The countries that invest a major share in the Indian automobile industry are Mauritius, USA, Japan, UK, Germany and Netherlands (FDI, 2020). Mumbai, Delhi and Ahmedabad receive major chunks of FDI for the automobile sector in India.

The automobile industry in India had got a huge boost in 2006 when a number of foreign investors invested in the automobile sector of the country. This led to an increase in employment opportunities for Indian youth and also generated revenues for the Indian government. The effect of FDI was also felt among the consumers. It was seen that the market size had increased due to the investments made by global players in the automobile sector.

3.1 The Effects of Automobile Industry on the Economy of Developing Countries

The automobile industry is a thriving industry in both developed and developing countries. Like any other industry this also contributes to many dimensions of growth and development in a country. It generates government revenue, marks development in a country, encourages people development, creates employment opportunities and accelerates the growth of technology, innovation and R&D.

Revenue generation: Significant tax revenue is generated due to the sale of vehicles from the automobile industry. Tax levies due to usage, personal taxes and business or commercial taxes also add up to the tax revenue collected from the automobile industry. Both sales and production of used and new vehicles, parts invite taxes, excise, VAT, import duties and local taxes became the revenue for the country. The government of any country earns from these revenues. For e.g., India's automobile industry is estimated to have a worth of around $74 billion and also it is expected to grow so much that it might provide revenue worth $300 billion annually by the year 2026. The automobile industry accounts for about 12% of the GDP of India (Sasidharan, 2020).

Economic development: The automobile industry contributes to global economic development 3% of GDP output on an average is produced by the automobile industry, globally with higher rates in China and India. There seems to be a direct and proportional correlation between foreign direct investment and growth in output of the automobile industry. FDI brings about influx and growth of all industries related to the automobile industry leading to the strengthening of the automobile ecosystem. For example, South Korea could step out of the massive recession in the year 2000 only because 40% of the total FDI was contributed by the automobile industry of the country. South Korea is currently the fifth-largest producer of vehicles globally.

Mobility: The emergence of the automobile industry has led to more options for transportation and thus it has helped in the migration of a population and development of a particular area beyond the urban centers. For example, Noida developed as an IT hub due to the easy transport services from Delhi.

People development: The quality of life has been increased for the existence of automobiles. Increased mobility, security and comfort are factors contributing to this positive growth. This industry also contributes to skill development and generation of employment. 7% of South Korean working capacity worked in the automobile industry directly or indirectly according to a survey conducted in 2011.

R&D and innovation: Automobile industry globally pays the third most for R&D out of all other industries. For consumer demands of better designs, increased performance, more safety, higher emission standards and lowering of cost, the R&D departments of automobile industries are continuously at work. The use of most modern technology including robots has been normalized and made essential for the industry. Automation solutions have also been designed by the industry in turn supplying better automotive for greater supply and boosting the economy of the country in turn. The automobile industry in developing countries also employs the best scientists and engineers for craftsmanship.

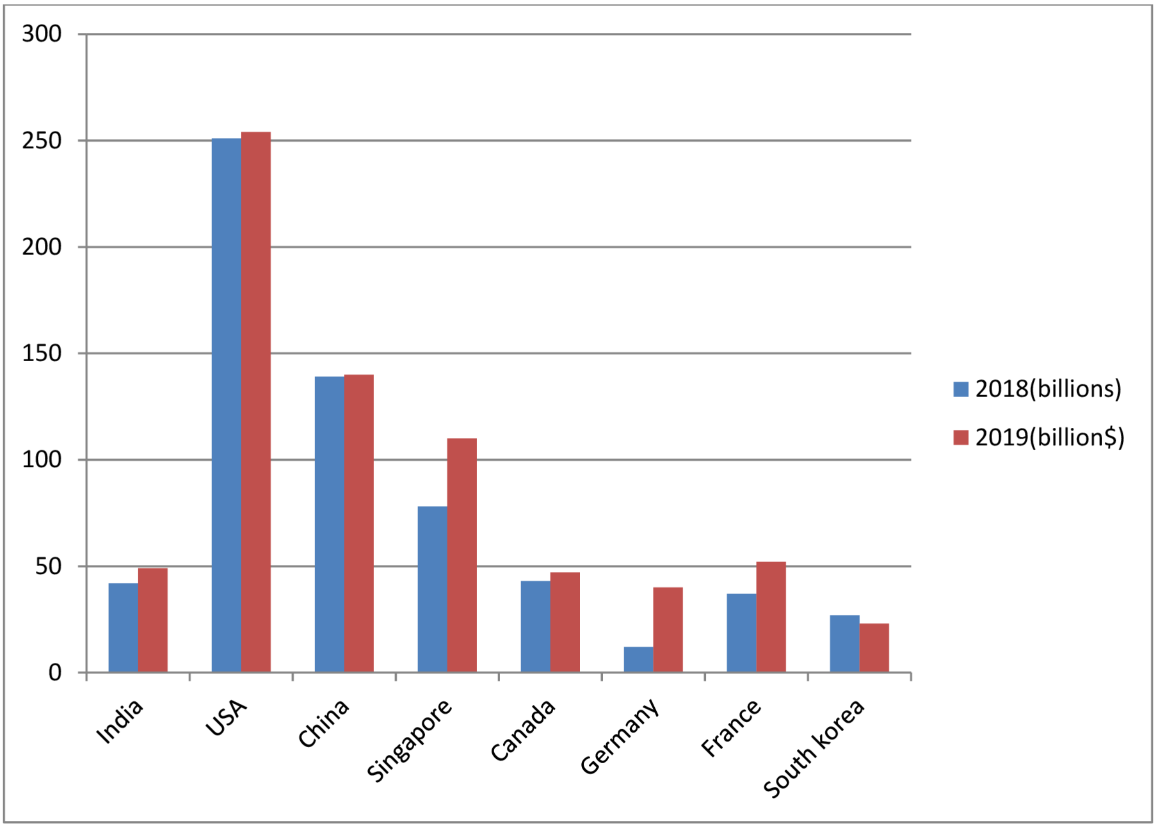

Figure 3: FDI Inflow in Developed and Developing Countries in 2018-2019

Source: Own elaboration

The graph in the Figure 3 illustrates the amount of FDI inflows in developing countries from a period of 2018-2019. If we study the graph carefully, we would notice that FDI in developing countries have never been uniform over any phase of time. Thus, it must be mentioned that foreign direct investments in developing countries have increased considerably and gradually because of several economic, political and social reasons within the developing nations. For instance, if we are to consider the case for India, it is imperative to mention that FDI inflows have risen considerably post liberalization. This involves FDI for the production of automobiles in developing countries as well. Over the years, owing to technological advancement, efficiency of workers in the production of automobiles have attracted huge amounts of foreign direct investment into the sector.

3.2 Sustainability in the Automobile Industry

As the automobile industry globally grows its business, the focus of policies should shift to increasing productivity, customer satisfaction and safety. Sustainability is a tripartite concept involving economic stability, social welfare and environmental sustainability. The structure of business models is thus undergoing changes globally. Sustainability is all about the process of possible progress.

Another important factor of sustainability is about developing alternatives. Any portion of the business model which goes beyond the scope of sustainability needs to be altered and an alternative option should be created since sustainability is the global need of the hour in all industries.

Government plays the major role in the sustainability of the automobile industry which is listed here:

- **Supporting the industry during recessions or other downturns**

As pointed out by (Luthra et al., 2016), the auto industries that have matured with time occasionally need the aid of the government to be back in the market with greater business. For example, Chrysler and General Motors filed for bankruptcy to the US government in 2009 and the government had provided immediate aid bailing them out. Both Chrysler and General Motors had bounced back with more business than before. They also created more job opportunities and repaid the debt of the government. This in turn increased the FDI inflows and generated revenues for the government of the country. This restored the economic stability of the industry as well as social welfare of generating job opportunities in the country.

- **Encouraging more technology and innovation-driven growth**

As opined by Kale (2017), the demand for a greater variety of products and additional features are on the rise among consumers of the automobile industry as it matures with time. This creates the necessity to innovate, automate and involve R&D at the industry level. As the world is moving towards a more ecologically sustainable future, the R&D departments might have to come up with vehicles using renewable sources of energy to run. Robotics is an industry that works in perfect harmony with the automobile industry to create a network of mutually sustainable industries that help each other sustain and grow.

According to a research, Germany's automobile industry in 2011 spent $20.6 billion in 2011. This will encourage both ecological sustainability and mutual reliability of industries for survival and economic stability.

- **Improving efficiency, emissions and safety**

Fuel efficiency and emission reduction are the primary concerns of the automobile industry now as there are existing government norms and initiatives as part of making a country more environmentally sustainable in nature. South Korea and China have invested in alternative fuels and hybrid vehicles to encourage 'green mobility' leading to a more sustainable environment and also keeping in mind about social welfare. Germany has cut out on 30 million metric tons of emissions from 1990 to 2010.

- **Improving asset longevity**

If the vehicles produced from the automobile industries are made more sustainable in terms of life, there will be a significant reduction in waste products and scraps that cause environmental damage (Wang and Yang, 2021). Asset longevity will also ensure better pricing of vehicles in the market leading to more economic stability of the industry as a whole.

3.3 Competitiveness and Rivalry in the Indian Automobile Market

The competition and rivalry that exists in the Indian automobile sector are majorly attributed to market penetration by different international brands. These international brands have given rigorous competition to the home-grown brands of the country. However, this does not mean the domestic brands are completely surpassed by these international brands. The customer base of India is interested in investing in domestic brands.

Here, it is mentionable that from the financial year 2010, South Korean brands have improved their performance and availability and this is evident from the increase of 3.98% market share in 2020. To be more precise, Hyundai was the only predominant brand operating in the Indian market as of 2010. Back then, the market share associated with this South Korean brand was 16.15%. Currently, Kia, which is a subsidiary of the aforementioned South Korean company, has entered the market and this has resulted in the expansion of market share for the Korean brands. However, for the Indian brands, this share was not higher than 12.34% (Pazhani and Abdullah, 2019).

4 Case Study: Foreign Investment in the Indian Automobile Sector

India is one of the fastest developing countries in the world after globalization. Indian government widely accepts FDI, India is the fifth biggest FDI recipient in the world, that helps to develop the country in all aspects.

4.1 Components of the Indian Automobile Industry

The automobile sector in various countries has not only brought about a direct economic bloom but has also positively affected various industrial sectors like petroleum, crude oil and so on. Further, the trade of automobiles has promoted a global network of relationships between various economies, each affecting the other in a symbiotic way.

The automobile industry comprises a few core elements which are imperative in its functioning and growth of the same:

Design – the first and one of the most important components of an automobile industry is its design. Every automobile company has its own design of models which determines the production of the same (Lampón et al., 2016). Thus, in order to ensure greater sales, every automobile company within the sector should first build on having competitive designs which will help in the rise of the sales of their products.

Production – production of automobiles or parts of automobiles is yet another and the next important component on which every automobile company bases itself on. Based on the designs, every automobile company produces their products by using heavy metals and other raw materials. The use of these also binds the sector with other important industries like petroleum, crude oil, heavy metals and so on.

Development – this component includes development of old models and changing them based on the market tastes and preferences along with developing new plans and strategies for the functioning of the industry based on global competitive pressures in order to ensure that the economy is able to optimize production and sales of the automobile products (Kamal, 2017).

Marketing – marketing strategies and devices used for ensuring better trade is the next step or focus that every automobile sector should emphasize on after the production of its commodities. It is only through a proper marketing mechanism that an automobile company would be able to cover its manufacturing costs and also reach its targets of profits. For developing countries, this is an extremely important component because, the market being comparatively smaller than in developed countries need to be enticed with the products in order to stand out in the existing competition where innumerable companies are present and also pose a stiff competition to the rival firms.

4.2 Comparison of Automobile Sector of India with Other Developing Countries

The manufacture and trade of automobiles in every economy is based on several factors including the target population of the industries who are not only expected to have buying power but the target population is also expected to be large enough. This helps the automobile companies to reach their target profits. It is also necessary to emphasize the importance of global trade on the automobile industry. This is also one of the factors that affect foreign investment in the production of automobiles in developing countries (Ray and Miglani, 2018).

Owing to their economic conditions and comparative backwardness as compared to developed countries, it was often seen that the people of the target countries lacked sufficient purchasing power though the total manufacturing cost of the automobiles were less which attracted enough foreign investors. It can be seen that the developed countries have higher car sales with an annual increase in the same, while the sales rate of the region in the Asia Pacific is the minimum. Therefore, the negative growth rate implies that there has been no increase in the sales rate in these countries, which are primarily developing countries.

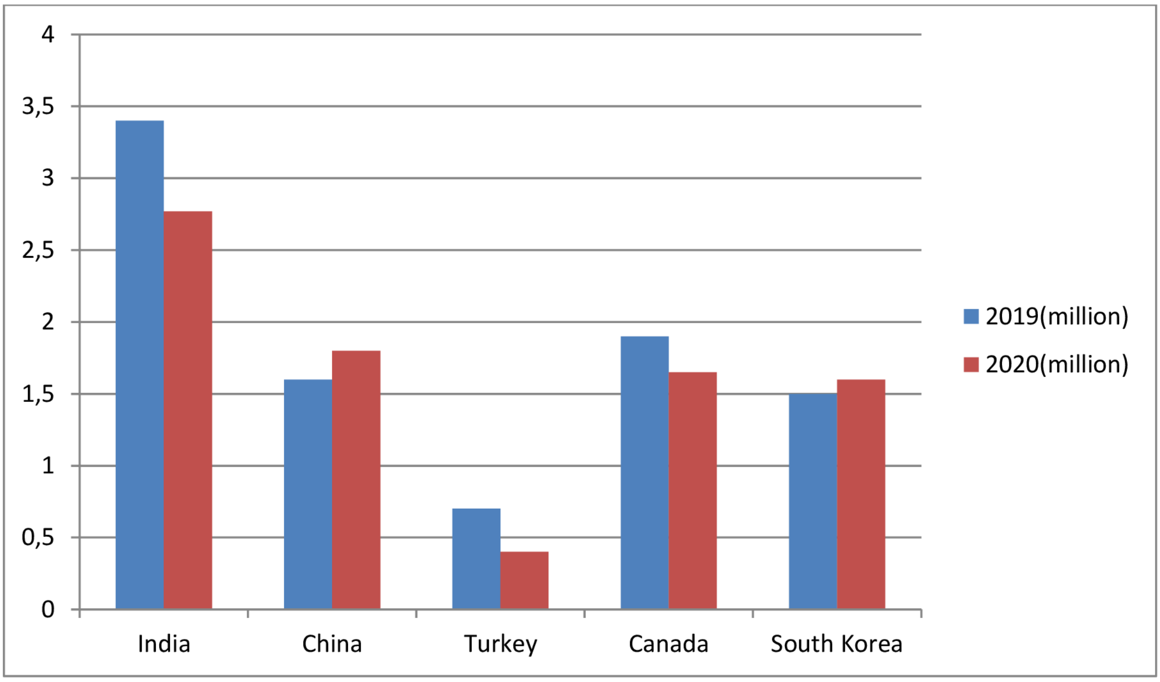

Figure 4: Car Sales in Developed and Developing Countries

Source: Automobiles, 2020

Considering Figure 4 it can be seen that the developed countries have higher car sales with an annual increase in the same, while the sales rate of the region in the Asia Pacific is the minimum. Therefore, the negative growth rate implies that there has been no increase in the sales rate in these countries, which are primarily developing countries.

4.3 Assessment of Predominant Companies in India in the Automobile Sector

The graph in the Figure 5 depicts the share of each automobile company in India. The market shares are based on their sales within the country and various other factors. If we analyze the chart provided above, we would see that Maruti Suzuki followed by Hyundai have the most pre dominant shares in the market followed by other countries. However, Maruti Suzuki own almost more than half of the shares of the entire automobile sector as compared to the rest of the companies with holding 51% share in the automobile market.

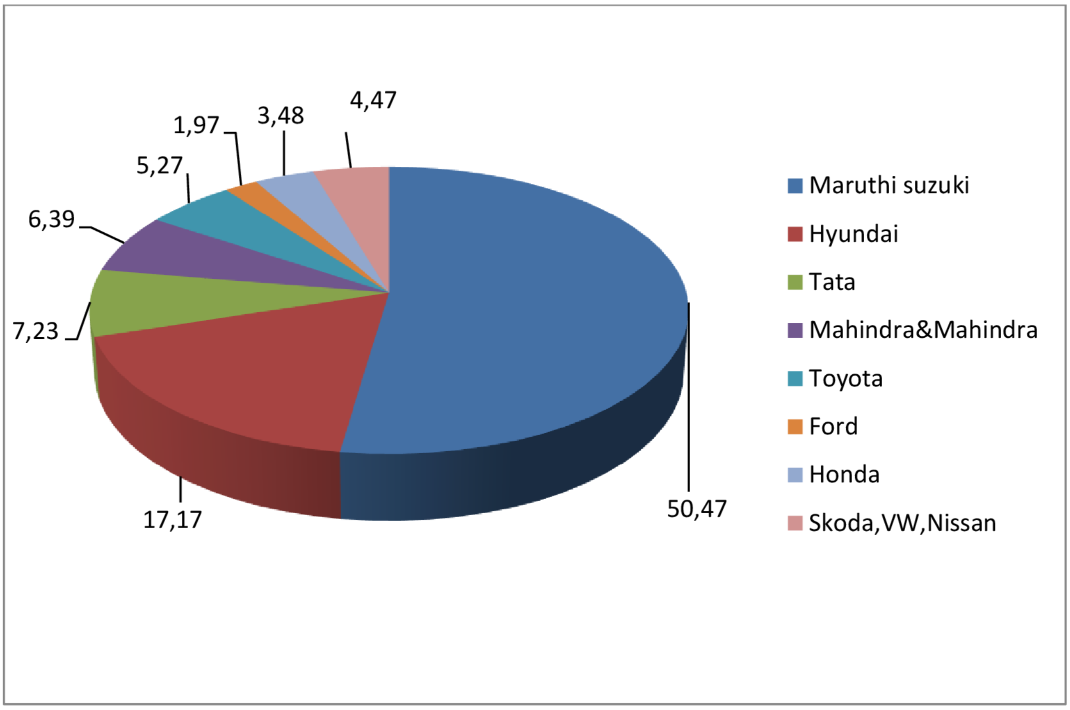

Figure 5: Car Market Share in India 2020

Source: Market share, 2020

We can analyse the reasons for the market share dominance based on the following factors which has led to the growth of Maruti Suzuki as the most popularly used automobile company in India. Possible reasons might include:

Mass Market-Oriented Products – it was recently that Maruti Suzuki declared its sale of 20 million passenger vehicles in the country which not only throws light on its effective way of running the competition in the sector but also its popularity among the people of India, one of the most predominant reasons for this is the design of passenger vehicles and two wheelers of Maruti Suzuki (Shrestha et al., 2019). The products of the company are designed to cater to the tastes, likes and dislikes of the Indian market, keeping in mind Indian standards of comfort. The hunchback seats for instance became hugely popular in India when they were introduced in Suzuki cars first. Thus, be it two wheelers or passenger vehicles or luxury four wheelers, the company aimed at designing products according to the tastes and preferences of the masses.

Long lasting products – this is one of the most essential features that helped Maruti Suzuki gain huge popularity in India. As a result of being a developing nation, people with purchasing power often buy two wheelers or four wheelers which they see as a form of investment that would yield them their desired service for years together. Thus, only a small and minute section of India's population purchases automobiles regularly as and when new models are introduced. Maruti Suzuki thus ensures on manufacturing long lasting products that would help it to attract consumers for the durability of the models (Nandhini, 2019). Even for people who purchases automobiles on loans, it is almost impossible for them to buy new automobiles or new designs frequently and thus the more durable designs and companies obviously gain popularity.

Increased employment with corporate sustainability – Maruti Suzuki also owns a good and reputable name in the Indian market because of its huge number of employments in the automobile sector which not only increases per capita income of the people but also causes the gross domestic product of the country to rise (Ramya and Bharathi 2018). Further, the company ensures it is competent enough in the field of corporate social responsibility and also focuses on sustainable development through a diligent use of resources available in nature.

4.4 Objectives of Automobile Policy in India

The following are the major objectives of the auto policy of India:

Making India a worldwide hotspot for auto segments. It was aimed that India, as a result of having the 9th largest automobile economy in the world would be made a source for supplying automobile components globally.

Supporting the improvement of vehicles that can be run by other sources of energy. In order to maintain environmental standards of pollution, the auto policy of India also focussed on the need for using alternative sources of energy, preferably renewable in order to manufacture and run the automobiles. This would not only reduce non-renewable sources of energy from being exhausted but also ensure that there is less environmental pollution (Adinda, 2018).

Creating residential security techniques that are comparable to universal norms. Every automobile device should have safety measures installed which are at par with the global standards of safety and security.

Directing India's software industry into the automobile industry. The auto policy also aimed at the conglomeration of the software industry of India into the automobile industry.

This is because of enhancing the skills, techniques and technology of production and sales of the automobile products in India (Babajide and Lawal, 2016).

Making India a universal centre for assembling little and cheap traveller vehicles. India as a result of having cheap yet skilled and efficient labour could manufacture a number of automobile parts on its own. Thus, the auto policy aimed for making India the sole manufacturer of such automobile products which would not only ensure India's sales and profits thereby strengthening its economic position, but owing to the presence of such labour, India would also be able to attract sufficient investment from multinational companies.

Being the worldwide place for assembling two wheelers. Since the manufacturing cost of two wheelers were less as compared to four wheelers, the auto policy of India, apart from manufacturing small and cheap automobile parts also aim towards globally manufacturing two wheelers like bikes, bicycles and so on.

The Department of Heavy Industry is the main office liable for advancing the development and advancement of the car business in India (Athukorala, 2019). The office helps the business' development through strategy activities, giving innovative coordinated effort, redesigning, and R&D offices to the car makers.

Likewise, the development of Indian middle-income class and their expanded buying power bolstered by solid large scale financial basics have been instrumental in drawing in significant vehicle makers in India. A few worldwide players, including driving car producers Suzuki and Honda, have put intensely in India and have figured out how to tap the Indian market.

Every one of these elements and the activities of the legislature means that the Indian vehicle Industry has been rising as another segment that has boundless potential for development and has guarantee to offer significant profits for speculations. The car part has not exclusively been gathering the prerequisites of the local market yet has been entering profound into the worldwide market.

4.5 Determinants of FDI Inflow

The potential growth that the Indian economic climate predicted as well as the reference to the country as the economy, which is the fastest-growing one, has made investments in the Indian market seems lucrative. Added to this, the middle-class consumer population of the country depicting high demand enables international businesses to search for effective ways of market penetration through investment. Yielding outcomes of labour-intensive production by the means of outsourcing turn outs to be one of the major factors that lead multinational companies to invest in foreign countries.

As indicated earlier, this factor is essentially true in the Indian context. While the wage rate is set to be 15 dollars an hour for a worker in the American subcontinent, the rate is around 1 dollar per hour as far as the workers from the Indian subcontinent are concerned. Further, India represents a country where although the wages are lower than in most of the economies of the western part of the world, the labor force of the country is a skilled one. This factor again acts decisively to ensure that foreign investments are taking place. The landscape of India provides it with the advantage of having access to the sea, which enables the transportation costs to be low (Kirti and Prasad, 2016).

Besides, other attributes of transportation and infrastructure of the country make it capable of observing industrial development. Supply of commodities, mostly stable political scenarios to encourage the development, suitable exchange rates, etc. also act as determinant factors in ensuring that the international ventures are finding the track record of the country appropriate for investment (see Figure 6).

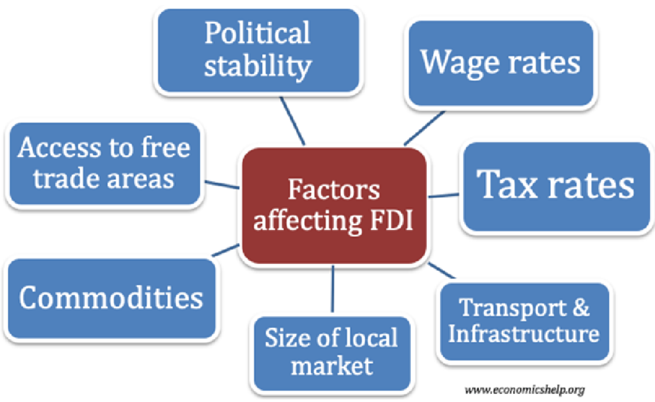

Figure 6: Factors Affecting FDI Inflow

Source: www.economicshelp.org, 2020

4.6 Role of the Authorities in Attracting Overseas Investments to India

FDI inflows help a country strengthen various sectors within the income, it is necessary to ensure an increased FDI inflow to these countries. The government of the developing countries can play an active role in attracting FDI inflows.

One of the first and most important steps that the government should take is to create a free trade environment for foreign companies and thereby reduce the restrictions so that the profit margin of the foreign investors are increased which influence them to invest in various sectors of the economy. The government can additionally strengthen the infrastructure of the economy so that along with the investment promotion agency in the country foreign investors would get attracted to investing in the various sectors of the country (Mustafa et al., 2018).

The government of developing countries should also target a few core industries so that they attract investors for those specific industries in order to strengthen them further. It is also important for the governments of such countries to attract foreign investments from various multinational companies instead of focusing only on the ones who pre dominate the arena of foreign direct investment. This broadens the scope of the country for receiving foreign investments for various sectors. Thus, while on one hand, the efficiency and cost of labourer are important factors which determine foreign investment flows, the government can also play an active role in attracting the same.

4.7 Government Program and its Impact

As depicted by official data, the rise in the number of overall FDI inflows is turning out to be excellent, especially in light of the figure of 64,357 million dollars of FDI transfer in 2018-19. This amount was significantly higher than the investment amounts of 2000-2001 (approximately 4069 million dollars). However, as far as the growth in inflows per annum, which is also termed as GFCG (Gross Fix Capital Formation), is concerned, the lowering depiction of FDI is discernible, specifically post 2008-2009 (Pazhani and Abdullah, 2019).

This information contradicts the claim of the government that the Make in India initiative taken in 2014 was responsible for bringing about an unprecedented boost in the direction of FDIs. Further, it is also evident that the annual growth rate of Gross FDI Equity and FDI has witnessed single-digit reports in the financial year of 2016-17, while during 2018-19, they confirmed negative growth.

According to Angamuthu (2018), currently, another trend is relevant in the Indian context and it relates to earning reinvestment and repatriation, which a negative trend is considering that it dilutes the effectiveness of FDIs. Repartition of earnings has witnessed a 48% growth in 2018-19.

4.8 Government Policy on FDI

Between March 2000 and 2020, the FDI inflow for India accounted for some 469,999 million dollars as a report published by a DPIIT Report (Tawade, 2020). This massive amount may infer the idea that the government has taken significant measures for easing the process of investments and making opportunities lucrative by relaxing the norms related to FDI dealings. The equity of FDI amounted to around 49.97 billion dollars for the financial year 2018-19.

This is perhaps attributed to the amended policies of the Indian government, directed in this direction. Norms of retail sourcing for single brands have eased due to the observed changes by policy enforcement. Foreign retail brands have also become eligible in terms of keeping an online presence as well as establishing retail stores.
Opportunities for pharma manufacturing firms for setting up factories in India have also improved significantly, considering the allowance of 100% FDI in regards to contract manufacturing.

The coal mining industry is also to precede through an automatic route, which demarcates an end Coal India's monopoly on the sector. FDI limit has also been increased by 26%, in connection with Digital Media. Although the manufacturing sector is not in the list of leading sectors that attracted most of this incentive, it has remained under the influence of policy implications of the government, invariably. 100% direct investment can be made by foreign ventures in this sector and this is under the automatic route, as regulated by the Heavy Industry Department deals with this sector (Ray and Miglani, 2016).

5 Assessment of the Potential of Foreign Investment in Automobile Industry in India

Market economies that are emerging intend to attract maximum FDI so that the excess efficiency from there spills over into the domestic firms to increase productivity of firms in the domestic market. The Indian automobile industry is one of the key beneficiaries of the globalization and liberalization of the market that took place in the 90s. Due to the inward orientation of the domestic firms, they were not able to tap the market overseas. This resulted in the need for domestic firms to collaborate and tap resources overseas and also strengthening their technological and R&D wing.

If the focus remains on skill development of the workforce of this industry so that the efficiency and productivity spill overs from the foreign firms can be reaped in the best possible way. This in turn will strengthen the economy of the country as a whole. FDI has emerged as one of the primary sources of external funding in the last three decades. Research suggests that during the period of 1998-2014, the total capital inflow from external/foreign sources have increased in a seven-fold manner in 30 emerging economies with an average growth of 14.3% per year (Understanding the slowdown in capital flows to emerging markets, 2016).

The future of the automobile industry in India can be considered bright. It is already the world's largest manufacturer of tractors and second largest manufacturer of buses. It also ranks the highest in manufacturing two and three-wheelers globally. Not only this, India is also already the third largest manufacturer of heavy trucks and fourth largest manufacturer of cars in the world. Also, the sale of passenger vehicles in India has increased by 2.7%, two-wheeler by 4.86% and three-wheeler by 10.28% in FY 2018-19 compared to the previous FY 2017-18 (India, 2020).

$22.4 billion FDI has already been invested in the automobile sector of India during April 2000 to June 2019 which accounts for 5.1% of the total FDI inflow alone. 35 million employments have already been generated and forecasts say that there will be millions of more employment generated from the automobile industry of India in the coming years. India's automobile industry is currently estimated to have a worth of around $74 billion and also it is expected to grow so much that it might provide revenue worth $300 billion annually by the year 2026 (Economic times, 2020).

According to the official announcements made by the Government of India, Volkswagen has already confirmed an investment of $80 billion in 2nd bet on India in 2020. SoftBank Group Corp has also shown eagerness to invest in the EV (electronic vehicle) industry in Andhra Pradesh. Meritor has recently made investments worth $36.5 million for the introduction of e-axel in India. They are currently looking for a site in Pithampur Industrial belt to expand their manufacturing of products that already exist. Therefore, one can infer that the automobile industry will be booming more in the years to come and FDIs will have an increased flow boosting both the industry and the economy of the country.

There is also a forecast of rising job opportunities in the automobile sector due to the rise in foreign investments and setting up of new manufacturing and production hubs. Future assessments into the investments in the automobile industry of India shows a generally bright side with increased foreign investments, increased generation of employment, increased share in the GDP and also increased share in the global R&D. It is seen that there is a direct correlation between the influx of FDI and efforts relating to technology and R&D in the automobile sector.

5.1 The Influence of New Technologies on FDI in the Automobile Industry

There is seen to be a great existing correlation between the influx of FDI and investment into technology and R&D in the automobile industry. Just like smartphones now have more use than just calling and texting, consumers are also interested in vehicles that are more than just steel bodies with wheels that can transport one from one place to the other. There is an increased demand from the consumer end for developing the product design, ensuring more safety and security, lowering emission rates and introducing more automation in modern vehicles. To meet consumer demands, the firms have to invest more in technology and R&D in order to develop their existing products and create a larger market for their modified products. Research shows that the automobile industry globally invests the third most in the R&D sector.

A few recent technical advancements in the automobile sector due to the increase in foreign investment are noted here:

Predictive Automobile Technology: Artificial Intelligence and Machine Learning are the most essential technologies to be integrated in the automobile industry. Automobiles are mostly shifting to incorporating gadgets with sensors or IOT devices so that it can be personalized and connected to personal devices like phones or tablets. These devices can also identify voice commands and work accordingly.

Automatic high beam control: A few highly intelligent automobiles have been incorporated with an automatic control of high beam headlight. There are inbuilt sensors or cameras in the rearview mirror that can sense vehicles approaching certain vicinity and withdraw the high beam automatically.

Backup cameras: Backup cameras have now become a standard gadget inbuilt in the vehicles. It was automated and incorporated in vehicle designing for providing greater safety of both the people in the vehicle and the vehicle itself. This camera gives a clear image of the rear end of the car and prevents it from scratches or even any minor collision. Also, the driver does not have to turn his head to reverse the car. It provides ease to the driver and helps save the car. This innovation was much valued in the entire automobile sector.

Autonomous or fully automated Vehicles: Fully automated vehicles already exist in the current market and it is supposed to be one of the greatest inventions of the automobile sector. These are self-driven, fully automated vehicles which use different cameras, sensors, EPS motors, devices which can accurately control breaks and auto gears. Not too many consumers have demanded for a fully automated car because of obvious anxieties. The technology is being made stronger so that vehicle accidents reduce.

Automated GPS vehicle tracking: Automated GPS tracking systems have been incorporated in a lot of vehicles that update the position of vehicle. The vehicle's position can be shared with anyone who is concerned and also for safety. This also helps the driver to navigate and select shortest routes to the destination which in turn saves fuel.

Vehicle to Vehicle Communication: This is one of the newest technologies in the automobile industries. The V2V communication sensor helps a vehicle communicate with the road, objects around it and other vehicles. This helps in decreasing traffic and clogging a particular road, vehicle accidents and casualties. This is a highly intelligent sensor which can make the owner aware of potential crashes and apply brakes automatically if required.

Automatic Lift gates: A comparatively simpler technology incorporated in the automobile sector. If the keys of the vehicle are with the individual who wants to open the car gates, and touches the body of the individual, the gates open automatically without having to insert the keys in the car door. This technology is great when one's hands are full.

Biometric Seat Technology: This technology takes care of the petty disturbances that the driver might face and makes the drive more comfortable and safer. It uses the data from the driver's palm, face, and throttle and matches it to the average recorded data and finds out whether the driver is stressed and instructs to take rest. This reduces chances of accidents and the ride is always safer.

Such new technological advances could hardly be made in the domestic automobile market independently before the liberalization of the market. With the huge influx of foreign investments in the domestic markets, there appeared the global big players in the domestic market. The domestic consumers got exposed to the new makes of vehicles and slowly the demand for incorporation of new technologies and product design was felt. Increased safety was also a concern for the consumers of the domestic markets. The consumers were ready to pay more prices for ensuring security and minimizing risks of road accidents. Also new government policies came into being related to environmental sustainability and reduction of emissions from vehicles. All these factors led to the requirement of introducing new technology in the automobile sector. The influx of FDI was thus one of the most important factors for the existing firms in the domestic market to invest in technology and R&D (Krasniqi et al., 2016).

5.2 The Implications of Covid-19 Crisis on FDI Inflows for the Indian Automobile Sector

The current global healthcare emergency of COVID-19 has managed to impair the global industrial sector in various domains. The Indian automobile sector is no exception. This sector has faced severe manufacturing disruptions during the period. The sales rate for the sector fell significantly during March 2020 and the industry is still not near recovering from the shock.

According to an estimation made by Tawade (2020), it suffered a production loss of more than $16 billion during the closure of business activities triggered by the closing of national borders and the nation-wide lockdown. This figure alone can have a long-lasting impact on making the revival of the automobile industry prolonged. Further, ensuring the safety of not only the external stakeholders but also the employees become an issue of necessity here, which the manufacturers need to take seriously to comply with their obligations of trading morally and ethically.

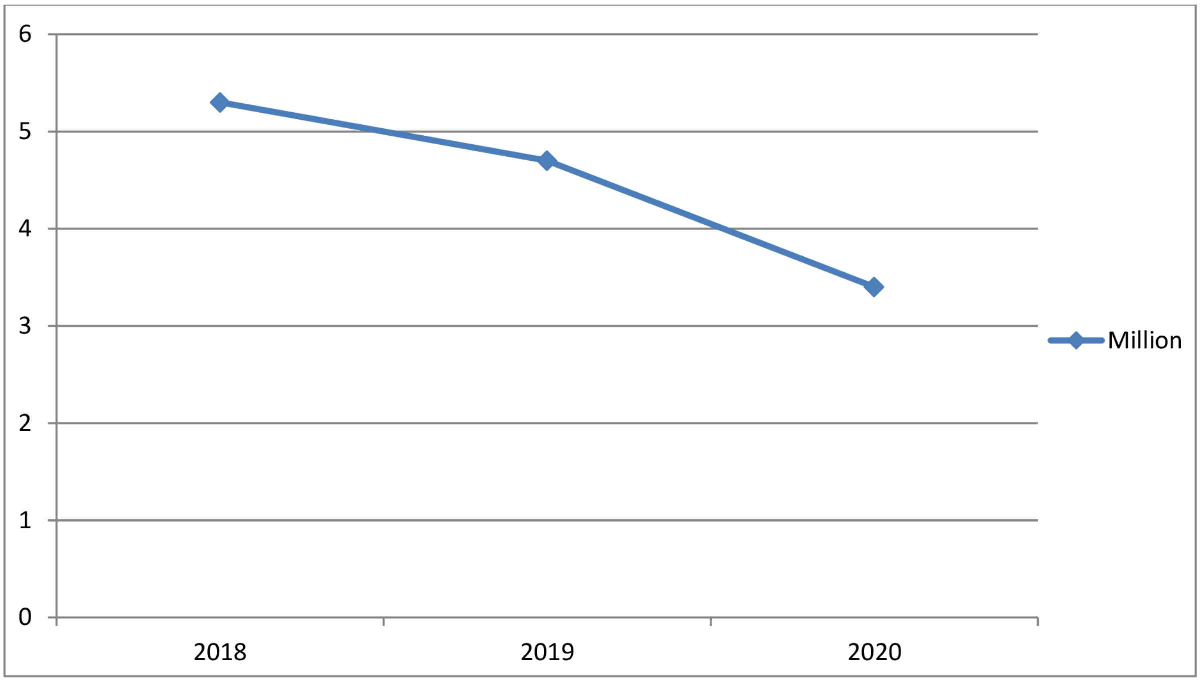

Figure 7: Car Sales in USA

Source: Own elaboration

The graph in the Figure 7 clearly shows a remarkable drop in the sales of automobiles in the US during 2020 due to the spread of Covid-19 that led to invention of the concept of social distancing. People were removed from the roads, pushed behind the doors and the world economy is facing a major crisis now. According to Standard and poor's (S&P) there is a notable reduction in the purchasing power of people and thus it affected the automobile industry like most other industries. There is a significant decline of sales by 24% in the USA compared to the last FY. 2019 already saw a slowdown in the automobile industry in India and also globally but it was picking up pace and new investments were being announced throughout the globe.

The arrival of 2020 and the pandemic took a heavy toll on the industry. Many factories in developing countries had to be partially or completely shut down for a few months due to announcements of lockdowns by the country and state governments. This also led to a decrease in production. Domestic firms in developing countries have curtailed on their cost to maintain their business in these trying times. Many people from the industry have lost their employment due to this condition. The steep drops in sales have also affected the corollary industries that drew from the automobile industry. Although the industry was expected to fight back its losses incurred in 2019 by 2020 but quite the contrary happened due to the medical emergency. Sales, production, workforce, investments everything has been affected adversely (Baldwin and Tomiura, 2020).

5.3 Trends in FDI Inflows in India

From the perspective of historical trends, it is evident that since the dip of 2012-13, India has witnessed steady growth in FDI inflows for no less than the past 20 years (Figure 8). Drawing from this record, India emerges as a viable option for FDI transfers for various multinational ventures who are looking for reliability in the manufacturing sector. Rising the level of investment for the host economy, international investors can improve the market outcomes in the country and this has been the case for India.

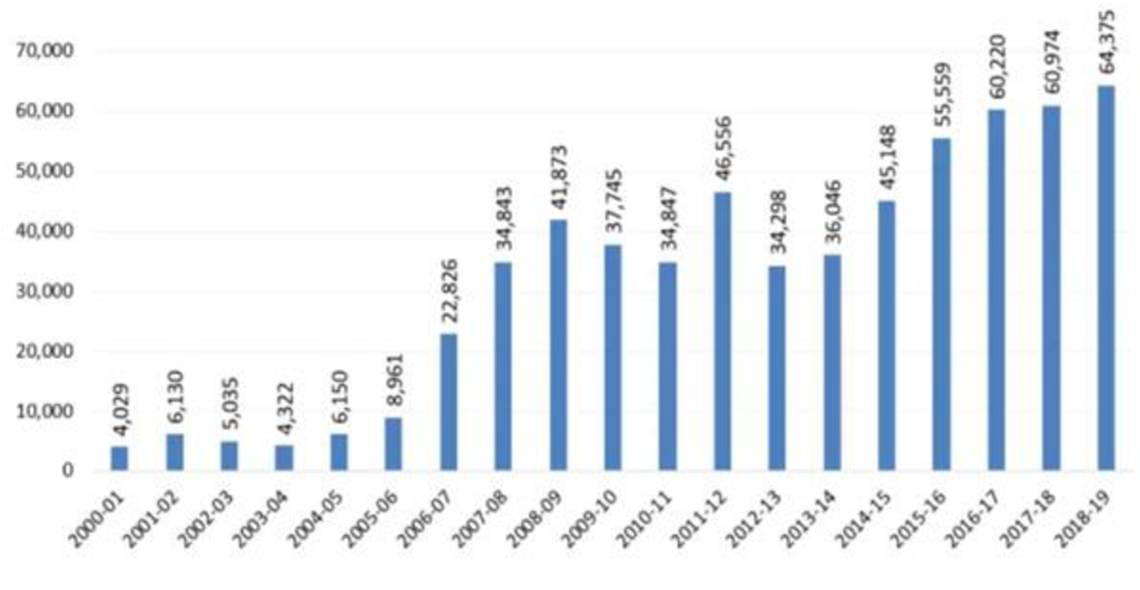

Figure 8: Historical Trends in FDIs in India

Source: blog.investyadnya.in, 2020

The predominant impact of FDI is noticeable in the context of infrastructural development, refinement in the processes of the supply chain as well as creating job opportunities for Indian citizens.

However, it needs to be kept in mind that FDI investments are not equal in the context of each state (Siddiqui and Ahmed, 2017). The sectorial composition of FDI transfers also varies. This factor has culminated in an uneven distribution of FDI depending on the state as well as the sector. For instance, according to Siddiqui and Ahmed (2017), while regions like Bombay or Delhi are soaring with the inflows of FDI, regions like Guwahati or Patna do not receive the same attention. The case is similar to such sectors as constructions or services that receive the maximum attention of international investors, whereas some other sectors are completely ignored by them.

5.4 Potential of Electric Vehicles for FDI in India

Conversion of electric vehicles (EV) appears to be a slowly emerging trait of the global automobile sector, while only a few couples of years ago it started to evolve from its status of a niche market. India also furnishes the example of one of such a country that is following conversion to EVs, in a perfectly slow and steady manner. Particularly due to this, a forecast of 100% EV conversion by 2030 is estimated, though realistic ideas of scholars like Choi and Baek (2017) assert the conversion to reach around 40-45% by the aforementioned period. The growth in the spectrum of EVs first started to become visible in 2015 and culminated in an unprecedented sales rate for EVs just in two years. The capital of the country reported maximum sales in EVs. To be more specific, for the year 2017, the EV sales accounted for 72,483 units and 23% of it was sold in Delhi. However, the following year witnessed a drastic decline in the sales rate (Vidhi and Shrivastava, 2018).

With regard to the future scopes of the EV market, it is relevant to mention that the segment of passenger cars is likely to be furnished with new models, particularly in comparison to utility vehicles. Improving production capacity for the reduction of the waiting period seems to be one of the pivotal goals of EV manufacturers so that the market demand can be effectively handled.

5.5 Practical Illustration of FDI in Automobile Sector

In this practical case study, Suzuki Automobiles is taken as an example for comparison of FDI in automobile sector in developed and developing country.

5.5.1 Introduction to Case Study: Suzuki Motor Corporation

This sector focuses mainly on the case study of Suzuki Motor Corporation. It begins with the objective of the case study follows by the background information of Suzuki Motor Corporation, Suzuki Motors SWOT Analysis, PESTLE Analysis, comparison between Suzuki in a developed country (Japan) and in developing country (India) and finally the section end with conclusion.

In this chapter, the basic information about Suzuki automobiles company is examined and its operation modules and also its operating countries. Major motive is comparison between developed and developing countries in terms of FDI and how the both sided countries got benefited or got damaged by FDI.

Figure 9: Suzuki Logo
Source: Suzuki.com

Suzuki Motor Corporation is a Japanese multinational corporation headquartered in Minami-ku, Hamamatsu. Suzuki manufactures automobiles, four-wheel drive vehicles, motorcycles, all-terrain vehicles (ATVs), outboard marine engines, wheelchairs and a variety of other small internal combustion engines. In 2016, Suzuki was the eleventh biggest automaker by production worldwide. Suzuki has over 45,000 employees and has 35 production facilities in 23 countries, and 133 distributors in 192 countries. The worldwide sales volume of automobiles is the world's tenth largest, while domestic sales volume is the third largest in the country.
In 1909, Michio Suzuki (1887–1982) founded the Suzuki Loom Works in the small seacoast village of Hamamatsu, Japan. Business boomed as Suzuki built weaving looms for Japan's giant silk industry. In 1929, Michio Suzuki invented a new type of weaving machine, which was exported overseas. The company's first 30 years focused on the

development and production of these machines.

Despite the success of his looms, Suzuki believed that his company would benefit from diversification and he began to look at other products. Based on consumer demand, he decided that building a small car would be the most practical new venture. The project began in 1937, and within two years Suzuki had completed several compact prototype cars. These first Suzuki motor vehicles were powered by a then-innovative, liquid-cooled, four-stroke, four-cylinder engine. It had a cast aluminum crankcase and gearbox and generated 13 horsepower (9.7 kW) from a displacement of less than 800cc.

With the onset of World War II, production plans for Suzuki's new vehicles were halted when the government declared civilian passenger cars a "non-essential commodity." At the conclusion of the war, Suzuki went back to producing looms. Loom production was given a boost when the U.S. government approved the shipping of cotton to Japan. Suzuki's fortunes brightened as orders began to increase from domestic textile manufacturers. But the joy was short-lived as the cotton market collapsed in 1951.

Faced with this colossal challenge, Suzuki returned to the production of motor vehicles. After the war, the Japanese had a great need for affordable, reliable personal transportation. A number of firms began offering "clip-on" gas-powered engines that could be attached to the typical bicycle. Suzuki's first two-wheeled vehicle was a bicycle fitted with a motor called, the "Power Free." Designed to be inexpensive and simple to build and maintain, the 1952 Power Free had a 36 cc, one horsepower and two-stroke engine. The new double-sprocket gear system enabled the rider to either pedal with the engine assisting, pedal without engine assist, or simply disconnect the pedals and run-on engine power alone. The patent office of the new democratic government granted Suzuki a financial subsidy to continue research in motorcycle engineering.

By 1954, Suzuki was producing 6,000 motorcycles per month and his company had officially changed its name to Suzuki Motor Co., Ltd. Following the success of his first motorcycles, Suzuki created an even more successful automobile: the 1955 Suzuki Suzulight. The Suzulight sold with front-wheel drive, four-wheel independent suspension and rack-and-pinion steering, which were not common on cars until three decades later.

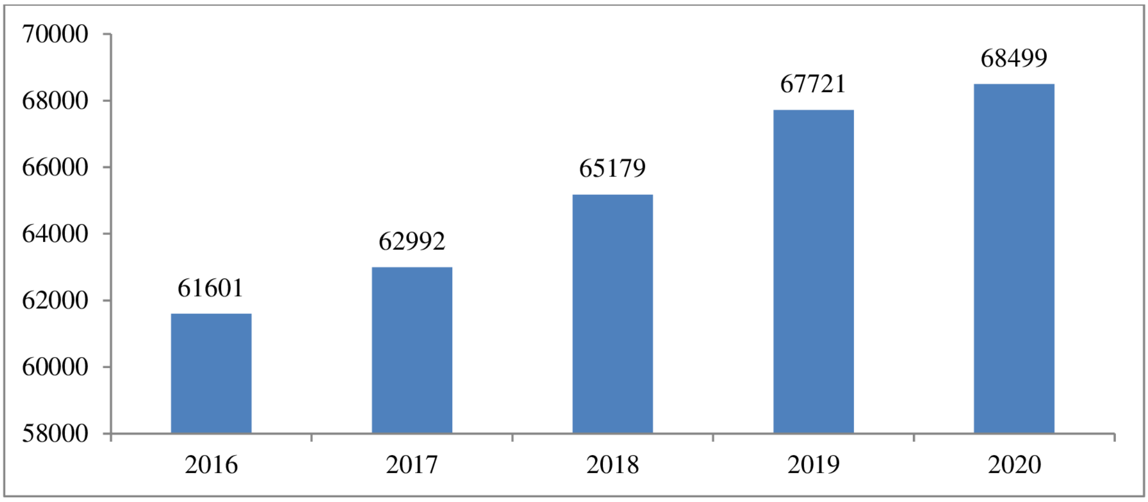

Figure 10: Suzuki Employee Number from 2016 to 2020

Source: Suzuki Annual report 2020, page30

Figure 10 illustrates as Suzuki Motor Corporative have increased their employment rate over years, this means that Suzuki Company also have a lead in reducing unemployment ratio in all the country where Suzuki company is established, this has a positive effect of the economy of those countries. Also, amidst Covid'19 pandemic, the company still has a steady increase employment rate.

5.5.2 SWOT Analysis of Suzuki Motor Corporation

Suzuki Motors Strengths

Suzuki motors strengths reveal that the company engage in massive advertisement all over the world, it shows that there is established market distribution for Suzuki motor and over years Suzuki maintained it brand name. Suzuki Motor does not base it production only on automobiles and the company create massive employment for people which means that the company contribute to standard living of people in the countries where Suzuki company exist.

Below are listed the strengths in the SWOT Analysis of Suzuki Motors:

- Size and scale of parent company.
- Effective Advertising Capability globally.
- High emphasis on R and D, especially in motorsport.
- Established market distribution channel and popular brand name.

- Suzuki Motors manufactures automobiles, Engines, Motorcycles ATVs, Outboard Motors.
- Has over 50,000 employees globally.

Suzuki Motors Weaknesses

A weakness of Suzuki Motors that can be mentioned in the SWOT Analysis is:

- Yet to make a stronghold in the emerging markets like India.

The weakness of Suzuki Motors shows that Suzuki has not developed a stronghold in developing countries, this is the reason Suzuki motor are not often use in developing countries compare to the rate other brand are use in developing countries.

Suzuki Motors Opportunities

The list of opportunities in Suzuki Motors SWOT analysis includes:

- Two-wheeler segment is one of the most growing industries.
- Export of bikes is limited i.e., untapped international markets.

Opportunities are open to Suzuki Motors because the company engages in production of two-wheeler and the segment is fast growing globally, also, companies that export bikes are limited and if Suzuki Motor key into exporting bikes, it will enjoy lot of advantage.

Suzuki Motors Threats

Competition in market has the major problem for every company which Suzuki motor is part, there are many other companies producing motors as Suzuki, so people tend to go for the best product but for Suzuki to overcome in threat their product should be quality one and also the company should not neglect it advertisement sector. Changes in government policies also create another threat for the company.

The threats in the SWOT Analysis of Suzuki Motors are as mentioned:

- Strong competition from Indian as well as international brands.
- Dependence on government policies and rising fuel prices.
- Better public transport will affect two-wheeler sales.

5.5.3 PESTLE Analysis of Suzuki Motor Corporation

PESTLE Analysis of Suzuki analyses the brand on its business tactics. Suzuki PESTLE Analysis examines the various external factors like political, economic, social, technological (PEST) which impacts its business along with legal & environmental factors. The PESTLE Analysis highlights the different extrinsic scenarios which impact the business of the brand.

Political Factors

Suzuki Company has production facilities in 20+ countries, and has distributors in 190+ countries. It has various subsidiaries in various countries. Political stability across world plays very important role in the performance of any company. The company needs to look at the political conditions of the countries in which it operates. The company needs to follow policies related to automobile sector by the government. The government of various countries wants global companies like it to generate employment opportunities and boost the industrial growth of that country, so the company must perform according to expectation of respective government.

Economic Factors

Several economic factors impact the business of Suzuki company. Due to Covid-19, the level of production in the globe have decreased, which leaded to unemployment and decreases the level of income of the people. Due to this the automobile sector was very hardly hit. The revenues of this sector fell tremendously due to less sales as people do not want to spend money on automobile during this difficult phase. The revenues of the Suzuki have also decreased by great number as compared to previous year. It is major global company in the automobile sector, as it was ranked 12th in terms of worldwide sales volumes among all automobiles manufactures. It also has performed very good in India in terms of sales and holds 55% of automobile market in the country.

Social Factors

Suzuki have sets it up its welfare camps in various countries for taking care of people in that locality. It has also opened its driving school in various countries to teach road behaviours to minimize the accident on the road. The culture of people now is changing as everyone want to have their personal car or bike, which have helped company in increasing its sales worldwide. Suzuki also sees customer safety as its top priority. Over the time it has manufactured very high standards car to satisfy its customer and also ensure their safety. It has also tried to increase the social value to its customers by continuously improving itself by seeing their customer requirements.

Technological Factors

Recent technological development in the industry should not be overlooked the company to compete with their competitors and also at same time provide more standardized products to its customers at low cost. The company have good number of profits and it invest heavy amount in research and development every year, which have helped it in sustaining profits in long term. The company have also invested in the green technologies to reduce its carbon emissions it results in the production processes. It has also developed many alternative fuels for its MPI engine.

Suzuki have looked very carefully on these factors to sustain the competitive advantage for the long period of time.

Legal Factors

The company has over 50000 employees, so the company must follow the discrimination and health and safety laws to make them satisfied. Suzuki operates in more than 150 countries and must follow the legal requirements of the countries in which it operates. Laws are enacted by the countries to ensure safety standards and also regulate the price of the particular product in the country. The company has always tried to follow these legal factors of various countries to satisfy its various stakeholders. The company has developed software to monitor compliances activities going throughout the company.

Environmental Factors

These factors are gaining great importance in today's world as customers are becoming more sophisticated now and they perceived the company image on the basis of what additional the company is doing to control the carbon emission and reduce the pollution it causes. Suzuki has followed laws related to emission of fuels and safety. The company uses many parts in its production process which can be recycled and reused. It has launched hybrid cars which causes less pollution and are economical also. It has also taken various environmentally friendly initiatives to teach people about the importance of having clean environment and ways to tackle the problem of climate change.

5.5.4 Comparison of FDI in Developing and Developed Country

The main goal of this diploma thesis was to compare the importance and other aspects of FDI in developed and developing economy. For this comparison was selected Suzuki company in India (developing economy) and Japan (developed economy).

Suzuki in India: Maruti Suzuki India Limited

Maruti Suzuki India Limited, formerly known as Maruti Udyog Limited, is a subsidiary of the Japanese automotive manufacturer Suzuki. It was founded and owned by the Government of India between 1981 until 2003. It was sold to Suzuki Motor Corporation by Government of India in 2003. As of July 2018, it had a market share of 53 percent in the Indian passenger car market.

Maruti Suzuki is one of the leading automobile manufacturers of India, and is the leader in the car segment both in terms of volume of vehicle sold and revenue earned. It was established in February 1981 as Maruti Udyog Ltd. (MUL), but actual production started in 1983 with the Maruti 800 (based on the Suzuki Alto Kei car of Japan), which was the only modern car available in India at that time. Previously, the Government of India held a 18.28% stake in the company, and 54.2% was held by Suzuki of Japan. However, in June 2003, the Government of India held an initial public offering of 25%. By May 10, 2007 sold off its complete share to Indian financial institutions. Through 2004, Maruti Suzuki has produced over 5 million cars.

Now, the company annually exports more than 50,000 cars and has an extremely large domestic market in India selling over 730,000 cars annually. The Maruti 800 remained the largest selling compact car of India till 2004 since its launch in 1983. More than a million units of this car have been sold worldwide so far. Currently, Maruti Suzuki Alto tops the sales charts and Maruti Suzuki Swift is the largest selling in A2 segment. More than half the cars sold in India are Maruti Suzuki cars. Maruti Suzuki's are sold in India and several other countries, depending upon export orders. Models similar to Maruti Suzuki's (but not manufactured by Maruti Udyog) are sold by Suzuki Motor Corporation and manufactured in Pakistan and other South Asian countries. During 2007-08, Maruti Suzuki sold 764,842 cars, of which 53,024 were exported. In all, over six million Maruti Suzuki cars are on Indian roads since the first car was rolled out on 14 December 1983.

The Indian economy expanded 1.6% year-on-year in Q1 2021, accelerating from an upwardly revised 0.5% growth in Q4 and beating market forecasts of 1%. It was the 2nd straight quarter of growth since the country exit a pandemic-induced recession. On the expenditure side, both private (2.7% vs -2.8% in Q4) and public (28.3% vs -1%) spending rebounded while gross fixed capital formation rose faster (10.9% vs 2.6%). Meantime, net trade contributed negatively to growth as exports climbed 8.8% (vs -3.5% in Q4) but imports jumped at a faster 12.3% (vs -5% in Q4). On the production side, output rose for manufacturing (6.9%); construction (14.5%) and utilities (9.1%). In the last fiscal year that ended on March 31st, the economy contracted a record 7.3%, less than earlier estimates of an 8% drop. It is Asia's 3rd largest economy.

Suzuki in Japan: Suzuki Motor Corporation

Suzuki Motor Corporation is a Japanese multinational corporation headquartered in Minami-ku, Hamamatsu, Japan since 1909, which specializes in manufacturing automobiles, four-wheel-drive vehicles, motorcycles, all-terrain vehicles (ATVs), outboard marine engines, wheelchairs and a variety of other small internal combustion engines. In 2014, Suzuki has over 45,000 employees worldwide and has about 35 main production facilities in 23 countries and 133 distributors in 192 countries. The worldwide sales volume of automobiles is the world's tenth, domestic sales volume is the third-largest in the country.

Japan's economic freedom score is 74.1, making its economy the 23rd freest in the 2021 Index. Its overall score has increased by 0.8 point, primarily because of an improvement in fiscal health. Japan is ranked 6th among 40 countries in the Asia–Pacific region, and its overall score is above the regional and world averages.

Japan's economy again occupies a perch in the middle ranks of the mostly free category. As has been the case since the inception of the Index in 1995, the main indicator holding the country back from greater economic freedom is government spending. Unfortunately, spending climbed once again (by more than 1 percent) in the 2020 budget.
IMPACT OF COVID-19: As of December 1, 2020, 2,109 deaths had been attributed to the

pandemic in Japan, and the economy was forecast to contract by 5.3 percent for the year.

Japan has 17 preferential trade agreements in force. The trade-weighted average tariff rate is 2.3 percent, and 393 nontariff measures are in effect. The government screens foreign investment in some sectors. The financial sector is competitive, but state involvement persists. The government has expanded the volume of concessional loans, which are interest free without collateral, primarily for small and medium-size firms affected by the pandemic.

Figure 11 illustrates the comparison of Suzuki revenues in Japan and India.

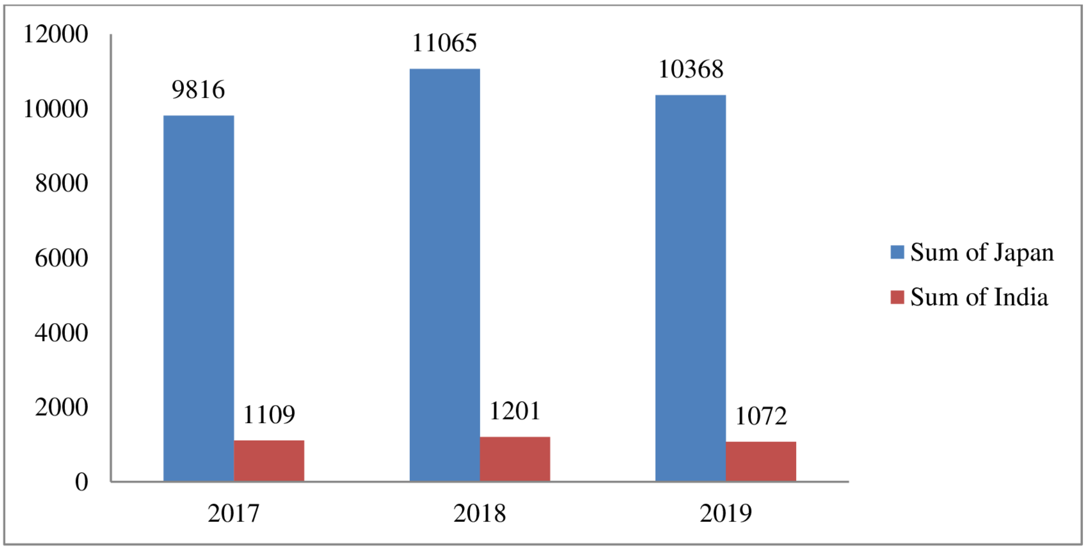

Figure 11: Revenues of Suzuki in Japan and India (in millions USD)

Source: Suzuki corporation company profile 2020, page 8-9.

In 2017, total revenue from Japan's company was 9,816 million of USD, also total revenue from Japan's company was 11,065 million of USD in 2018 and in 2019, the total revenue from Suzuki company in Japan was 10,368 million of USD but for India's Company total revenue was 1,109 million of USD in 2017, for 2018 the revenue was 1,201 million of USD and in 2019, Suzuki company in India has total revenue of 1,072 million of USD.

Comparing the result in figure 11, the revenue from Japan was far higher than revenue from India in the year 2017, 2018 and 2019, although there was a fall in revenue in the two companies between the year 2018 and 2019.

Figure 12 illustrates Income Tax of Suzuki companies in Japan and India.

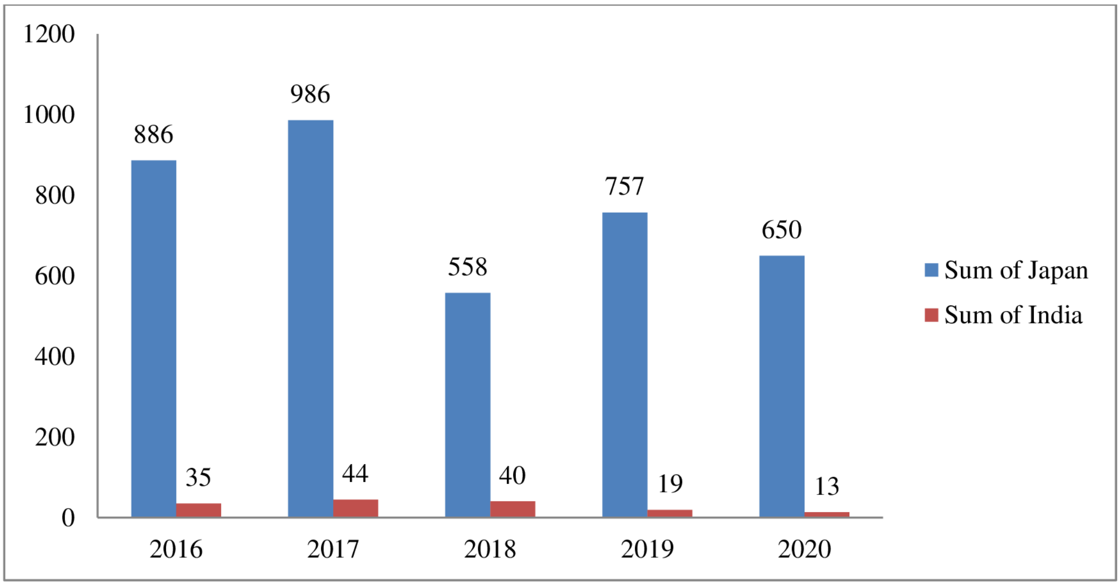

Figure 12: Suzuki Japan and India Income Tax (in millions USD)

Source: Suzuki Annual report 2020, page 30

In 2016, income tax from Japan's company was 886 million of USD, also income tax from Japan's company was 986 million of USD in 2017, for 2018, the income tax from Suzuki Company in Japan was 558 million of USD. Suzuki Japan income tax in 2019 was 757 million USD and in 2020 the income tax for Japan company was 650 million of USD.

Also, income tax from India Suzuki Company was 35 million of USD in 2016, for 2017 the income tax was 44 million of USD, in 2018, Suzuki Company in India has income tax of 40 million of USD. Also, the income tax in 2019 was 19 million of USD and in the year 2020, income tax for Suzuki India Company was 13 million of USD. It was obvious that there was drop in the amount of tax paid in 2019 and 2020, this was due to the fact that there the company revenue also falls dramatically, also for Suzuki in Japan, in the year 2018 the income tax fall to about 57% of the previous year. But in general Company in Japan pay more tax than India's Company.

Figure 13 illustrates Suzuki Automobile production number in Japan and India in units.

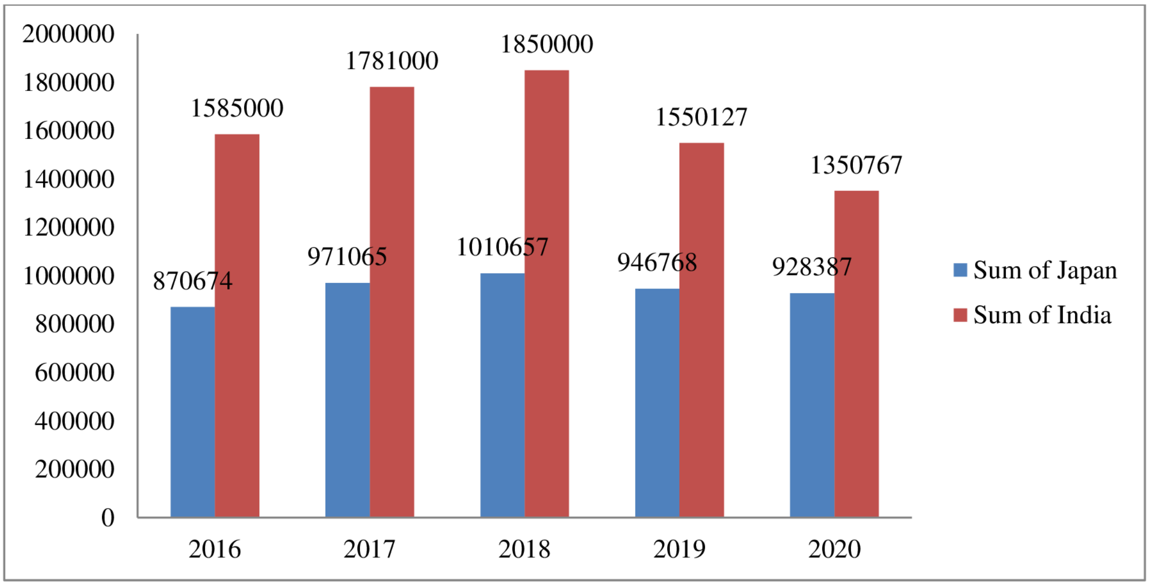

Figure 13: Suzuki Japan and India Automobile Number (in units)

Source: Suzuki Annual report 2020, page 30

For 2016, the automobile production number from Japan's company was 870,674 units, also production number from Japan's company was 971,065units in 2017. In 2018, Suzuki company in Japan produced 1,010,657 vehicles. Suzuki Japan automobile production number in 2019 was 946,768 and 928,387 vehicles were produced by Suzuki Japan's company in the year 2020.

The automobile production number from India's company was 1,585,000 units in 2016, also production number from India's company was 1,781,000 units in 2017. In 2018, Suzuki Company in India produced 1,850,000 vehicles. Suzuki India automobile production number in 2019 was 1,550,127 and 1,350,767 vehicles were produced by Suzuki India's company in the year 2020.

Comparing the result in figure 13, it is obvious that higher number of vehicles was produced in India compare to Japan and also in the two-country production index increase steadily in the year 2016 to 2018 and fall rapidly in the year 2019 and 2020.

Figure 14 illustrates Suzuki Automobile sales numbers in Japan and India.

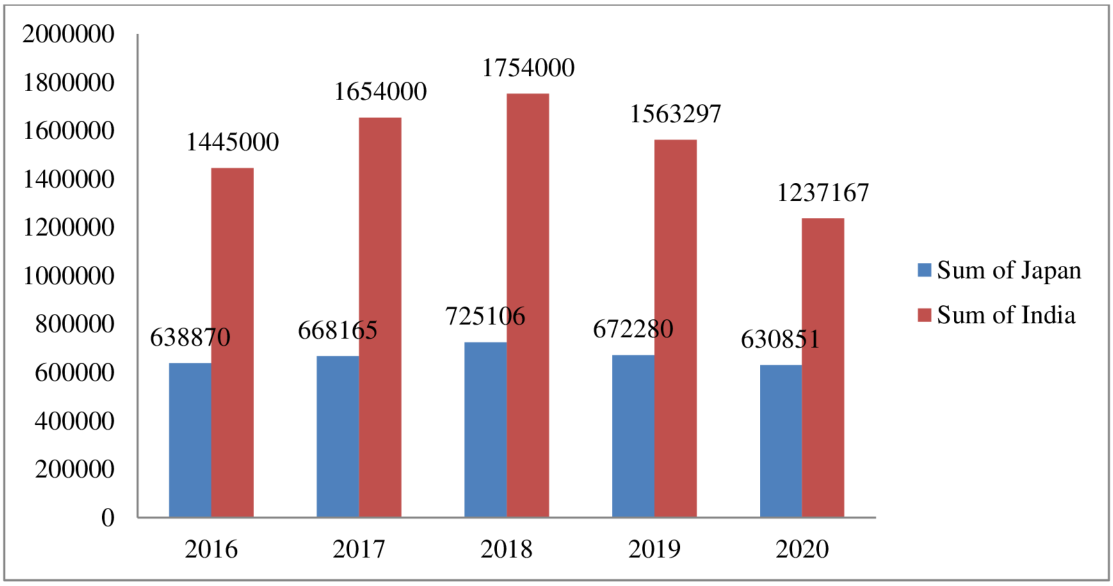

Figure 14: Suzuki Japan and India Automobile Sales Number (in units)

Source: Suzuki Annual report 2020, page30.

For 2016, the automobile sales number from Japan's company was 638,870 units, also sales number from Japan's company was 668,165 units in 2017. In 2018, Suzuki company in Japan sold 725, 106 vehicles. Suzuki Japan automobile sales number in 2019 was 672, 280 and 630,851 vehicles were sold by Suzuki Japan's company in the year 2020.

The automobile sales number from India's company was 1,445,000 units in 2016, also sales number from India's company was 1,654,000 units in 2017. In 2018, Suzuki Company in India sold 1,754,000 vehicles. Suzuki India automobile sales number in 2019 was 1,563,297 and 1,237,167 vehicles were sold by Suzuki India's company in the year 2020.

Comparing the result in figure 5, it is obvious that higher number of vehicles was sold in India compare to Japan and also in the two-country sales index increase steadily in the year 2016 to 2018 and fall rapidly in the year 2019 and 2020.

Assumption

Suzuki Company in Japan (developed country) have higher revenue and pay more tax in return compare to Suzuki company in India (developing country). Also, production and sales ratio increase in India's company than in Japan's company. Finally, the impact of Covid'19 affects Suzuki Motor Company negatively between the year 2019 and 2020.

Conclusion

The diploma thesis was based on the study of foreign direct investment business decisions, which was explained with examples of developing and developed countries. The goal of the diploma thesis was to compare selected aspects of the foreign direct investments in developed and developing countries. India was taken as an example of developing country. Comparison of selected factors of FDI between developing and developed country is illustrated on the case study and Suzuki automobile company. Many countries owe to FDI for their economic growth from agriculture to industrial era. Liberalization helps the developing countries to boost up their economic potential without any troubles especially India. The international cooperation is made by the FDI and it helps to flow the advancements from highly developed economy to low developed economy.

FDI has also exercised effective impact, in terms of infrastructural development, bringing in advanced technology and opening up windows for the country to be connected with the international business podium. This idea is generally applied to the impact of FDI in the automobile market of India as well. However, the practical condition of the market is barely compatible with this view. Connecting to global manufacturers, the Indian automobile industry can ensure compositeness in the overall planned development relevant to this sector. As far as the current scenario is concerned, it is evident that the industry is dealing with adversities in terms of investment opportunities, demand as well as obliging to safe manufacturing requirements. All these factors make it volatile to imagine quick recovery.

From a general perspective, the demand of the customers in the Indian market is progressively turning to EVs and this factor can enable the country to observe a stable conversation to technological up-gradation, both in terms of developing new models and manufacturing them.

The current global pandemic limited the FDI inflow and outflow, it makes a huge deficit in the developing and developed economy. Due to covid-19 economy of every country is collapsed so they must be aware of their future goals to attract the FDI into their countries to stabilize the economy.

This thesis presents the current state of foreign direct investments in the automobile industry. In the future, the FDI will reach its potential in developing countries because developing countries have lot more to improve and innovate, in contrast to developed countries which are self-sufficient. For this reason, the developing countries are more open for FDI and those countries are more liberal to investors to improve its own economy. At the same time, developing economy can give more financial return to the investor.

Automobile industry still improves its technology which might peak by creating flying cars, fuel free, fast-moving vehicles which are more user friendly, self-driving, have voice control, and are fully automated.

The theoretical part of the thesis introduces the basic concepts of business financing and foreign investment with the help of a search of literature. The practical part of the work is devoted to foreign direct investment. Above all, it focuses on comparing different aspects from the perspective of a developing and a developed country. A company from the automotive industry, which is also introduced, Suzuki Motor Corporation, was chosen for the case study. The practical part ends with the assumption itself and the conclusion presents the findings. The goal of the diploma thesis was successfully fulfilled.

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