Automotive Sector - A Country Wise Comparative Analysis: India-Spain-Brazil

Ananth Rangarajan[1, 2], Miguel Mendia Betelu[1, 3], André Boaventura Gomide[1, 4]
[1]University of Windsor, Windsor, Ontario, Canada
[2]Vishwakarma Institute of Technology, University of Pune, Pune, Maharashtra, India
[3]Universidad Pública de Navarra, Pamplona, Spain
[4]Universidade Federal de Santa Catarina, Florianópolis, Brazil

Abstract

The automobile industry in any nation has always been a good indicator of the economic progress the country has been making. Also, being highly multinational; it is the auto industry which paves the way for reforms in foreign trade; gets in foreign investment and facilitates exposure of the country on a very broad international stage. Further; this industry is highly responsible for channelizing a country's technically skilled population; as it employs everyone from Engineers to Managers; from Shop floor work men to Advertising experts. Through a country wise comparative analysis; this paper tracks the automotive sector in the countries of: India; Spain; Brazil. Through a detailed study in each of these countries; and an exhaustive analysis of the collected data; this paper presents the challenges faced by the automotive sector in these countries. In the second part; the authors have made an attempt to highlight the differences in the market demands of the auto sector in these countries and how the industry has to cater to them. In the final facet of this paper; we discuss the recent economic slowdown; how did it affect these nations; their auto sectors and the attempts made to recover from it.

Keywords
India, Spain, Brazil, Automobiles, Recession.

Introduction
The end of World War 1 saw a quantum change in the way industry and industrialization across the world was perceived. Many new economies and markets emerged and also many markets got redesigned according to the effects on those countries across the course of the war. It was very interesting to see these economies which belonged to countries suffering badly from the war; shape out after all the violence and get back on track to avoid suffering from bankruptcy and poverty. It is a surprising fact that those very countries that were affected really badly in the war that sprung back and are leading the industrial revolution today. The First world war took place when the Industrial revolution was established and the second world war took place in a completely industrialized world, but by the end of the second world war, it was seen that new economies were emerging and there was a radical change in the economies affected by the war; in fact it would be more appropriate to say that the world now no longer had the USSR as the clear leader in terms of economic standing. As also; military might was fast becoming a less viable way of showing a country's progress on the world stage; economies started in believing in the power of industrialization and the benefits brought in by the industrial age as their path to progress; many war torn states like Japan and Germany took fore seat in post WW-2 manufacturing efficiency and overtook many countries successful in the war too. Also the aftermath of the war saw economic downturns in many of these countries as they couldn't simply sustain the economic strain put by the war. India, Spain and Brazil were three new economies reborn after the war period and waiting to see the light of the day; We chose these very countries not only because we (the authors) hail from them but because it would be best to explain the global automotive sector from three very differently colored perspectives; and three very different cultures thriving in three completely dissimilar continents.

Economic Background

INDIA:
Company rule in India brought a major change in the taxation environment from revenue taxes to property taxes, resulting in mass impoverishment and destitution of majority of farmers and led to numerous famines. While the credit rating of India was hit by its nuclear tests in 1998, it has been raised to investment level in 2007 by S&P and

Moody's. In 2003, Goldman Sachs predicted that India's GDP in current prices will overtake France and Italy by 2020, Germany, UK and Russia by 2025 and Japan by 2035. By 2035, it was projected to be the third largest economy of the world, behind US and China. [1]

SPAIN:
Until 2008 the **economy of Spain** had been regarded as one of the most dynamic within the EU, attracting significant amounts of foreign investment. During the last four decades the Spanish tourism industry has grown to become the second biggest in the world, worth approximately 40 billion Euros, about 5% of GDP, in 2006. Spain's economy had been credited with having avoided the virtual zero growth rates of some of its largest partners in the EU. In fact, the country's economy had created more than half of all the new jobs in the European Union over the five years ending 2005, a process that is rapidly being reversed.[3]

BRAZIL:
Brazil has a moderate free market and export-oriented economy. Measured nominally, its gross surpasses a trillion dollars, the tenth in the world and the second in the Americas; measured by purchasing power parity, $1.9 trillion, making it the ninth largest economy in the world and the second largest in the Americas, after the United States. In Reals , its GDP is estimated at R$ 2.9 trillion reals in 2008.The service sector is the largest component of GDP at 66.8%, followed by the industrial sector at 29.7% (2007 est.). Agriculture represents 3.5% of GDP (2008 est.).

Automotive Market History

INDIA:
The automobile sector in India has always been largely influenced by government reforms. In 1991, the congress led government launched a comprehensive reforms program that changed the economic scenario for ever. Prior to 1991; the investment in the backbone sectors such as heavy, basic & capital goods were reserved for the government alone and were referred to as the Public Sector. Also one very interesting thing to be seen with the Indian automobile industry is that during the early days of the license raj and even some time after the 1991 reforms were introduced; cars were still an instrument of luxury for the average Indian; but after this Cars have only become more and more affordable to the average Indian and thus cars are now becoming a necessity and this goes a long way in determining what type of cars to introduce in the Indian market.

SPAIN:
The founding of the SEAT motor company represented a watershed in the Spanish Automobile industry. Most attention has been focused on the second half of the 20th century; after SEAT came Fasa Renault, Citroen, Peugeot, Ford, and General Motors, laying the foundations of the present industry which is wholly controlled by the subsidiaries of Large multinationals. [6] In the 1940s. Looking back at the first half of this century one can appreciate how the Civil War splits the period. Spanish car sales are now at their lowest level since 1997, and December's fall is the sharpest experienced since January 1993 following falls of 40% in October and nearly as sharply in November, recording a 49.6% fall. [7]

BRAZIL:
IN Brazil's case, the automobile industry did not just come into existence; in fact it was created by the government; the nation's rail; river and coastal transport were largely neglected during the first half of the 20th century and the nation was fast losing its time to recover; It was then that under Getulio Vargas; that a plan was chalked out to improve the automotive scenario in the Latin American nation. The year 1952 saw the creation of the CDI (Conselho de Desenvolvimento Industrial) under Adm. Lucio Meira to study this newly emerging sector. In August 1952; the Banco Do Brasil banned imports of those auto parts into Brazil for which "national similars" were available; and subsequently in April 1953; it banned the imports of complete motor vehicles. [11].

Export Practices

INDIA:
India has emerged as one of the world's largest manufacturers of small cars. In 2008, Hyundai Motors alone exported 240,000 cars made in India. Nissan Motors plans to export 250,000 vehicles manufactured in its India plant

by 2011. Similarly, General Motors announced its plans to export about 50,000 cars manufactured in India by 2011. In September 2009, Ford Motors announced its plans to setup a plant in India with an annual capacity of 250,000 cars for US$500 million. Tata Motors has been focusing on the export market in recent years and apart from South Africa it has been exporting to some other African countries, Europe, Middle East and in the Asian markets .According to Bloomberg L.P., in 2009 India surpassed China as Asia's fourth largest exporter of cars. [8]

SPAIN:
A trend was established during the 1960s that Developing and under-developed countries developed their own motor vehicle assemblies and then Producing industries. Western Europe in general has been increasingly involved in export activities; and this came only after internal demands were satisfied. Some of its cars have been sold outside Europe, badged as Volkswagens, such as the SEAT Ibiza hatchback, known in South Africa as the Volkswagen Polo Playa, the SEAT Inca panel van as the Volkswagen Caddy, or the SEAT Córdoba also known as the Volkswagen Polo Classic. Though Spain holds the honor of being only the fifth country in the world to export automobiles; the Industry slumped in 2009 and this was primarily due to a policy change by the Spanish government.[11]

BRAZIL:
The Brazilian government's control of imports has guaranteed the existence of the automotive industry in Brazil; and by making imports conditional upon three times as much has encouraged exports. The scale of Brazilian exports to the USA and to Europe has not yet reached the maturity level to facilitate Complimentary imports or Quotas or restraints. Also Brazil is very conscious as to not find itself in foreign debt; But if seen on the larger interest; Brazil has indeed arrived as an automobile exporter. It exports more than 25% of its production and also by the end of the 21st century the exports rose to about 350,000 passenger cars and LCVs a year; and about 25,000 HCVs. [11]

Economic Downturn of 2008-09

INDIA:
India's economy benefited from recent high economic growth which declined greatly due to the global economic crisis. Economic growth in India during FY2008-09 stood at 6.7%. The global crisis had relatively less impact of India because exports account for only 15% of India's GDP. Global recession has hit the Indian auto industry, India is strong and growing industry but the impact of recession is evident now on industry as sales & growth of automobile companies have declined. Passenger Vehicles segment registered negative growth. One of its supporting facts is that the sales in December 2008 for passenger vehicles fell by 13.86% over December 2007 Two Wheelers registered minor growth of 1.85 % during April – December 2008. However, Two Wheelers sales recorded 15.43 percent fall in December 2008 over the same month last year. Although the sector was hit by economic slowdown, overall production (passenger vehicles, commercial vehicles, two wheelers and three wheelers) increased from 10.85 million vehicles in 2007-08 to 11.17 million vehicles in 2008-09. The fall in wholesale prices from a year earlier is mainly due to a statistical base effect and doesn't suggest contraction in demand.[20].

SPAIN:
Although Spain has avoided recession in the first half of 2008, unemployment in the country has risen by 425,000 over the past year, reaching 9.9 percent. Car sales in Spain fell 31 percent in May. Spain's factory output slumped 5.5 percent in May. Spain had a 7.9 percent decline in retail sales in June compared to the previous year, the largest drop since Spain began registering the results and the seventh consecutive monthly decline. According to Spanish automobile manufacturers' association ANFAC new car sales fell 27.5 percent in July from the same time in 2007, the third consecutive monthly drop of over 20 percent. According to reports of Anfac, a major car manufacturers association of Spain, in 2009 production of cars in Spain auto industry would be reduced by 25 percentage. This implies that levels of production in auto industry of Spain would come down to that of 1994. Central government has put aside an amount of 800 million Euros for Spain auto industry. This amount is a part of an economic stimulus package worth 11 billion Euros. [20]

BRAZIL:
While previously thought immune to the global financial crisis, the economy of Brazil shrank 3.5% in the fourth quarter of 2008, with industrial production in January, 2009 17.2% below that of January, 2008. Growth for 2008 as a whole was 5.1%.[13] Most analysts are now expecting Brazil's central bank to slash its benchmark lending rate by

150 basis points on Wednesday following on the release of the GDP contraction data. For the whole of 2008, the economy grew 5.1% after expanding 5.7% in 2007.[20] The manufacturing sector dragged the economy down in the fourth quarter, with industries like steel producers and automakers all scaling back production as demand dried up. Industrial output slumped 7.4% from the third quarter, its biggest drop since the fourth quarter of 1996.

Looking Forward-Future Scope

INDIA:
The Indian economy has grown multifold over the past couple of decades and this has led to the Indian middle class become more and stronger in terms of purchasing power. All this is expected to change the Indian automotive market as the Indian industry enters an age of maturity and serious competition from all the major auto manufacturers on the world; As the FDI CAP opened and more and more foreign companies began investing in India; instead of suppressing Indian companies it only made them work harder and develop products with higher quality in order to sustain the competition; thus benefitting the Indian industry; people; government and economy.

SPAIN: Spain holds an outstanding position in the European production ranking, both in vehicles and components. Levels of productivity. To be able to maintain its competitiveness in the enlarged EU-25, it is imperative to: Pay attention to the logistical needs of the countries which do not belong to the geographical core of the EU. Harmonize (even unify) fiscal regimes. Support R+D in the manufacturing countries. Allow for support to replacement investment, especially when it is used to incorporate technological advances into the manufacturing of new models. Carefully consider the economic impact of environmental requirements. Harmonize the legislation that has to do with CO2 reductions, particles emission and NOx (gasoline-diesel mix).

BRAZIL: Optimism is high as the country continues to enjoy an economic revival that has helped lift an estimated 20 million Brazilians from poverty. [20] A sharp drop in interest rates in recent years has also led to a credit boom, driving up sales of everything from cars to real estate. To keep up with red-hot demand; the auto industry is expected to invest $5 billion in 2008, according to Anfavea. That should increase annual production capacity by nearly 9 percent, to 3.8 million vehicles from 3.5 million. [20] Sales are also surging because of longer finance plans. Five years is the industry norm in Brazil, although Ford in 2007 introduced payment terms of as long as seven years. These new buyers -- many from the emerging middle-class -- are propelling sales of roomier luxury vehicles once considered too expensive for the average Brazilian. Even the recent surge in oil prices is unlikely to put the brakes on Brazil's auto market. Almost 90 percent of all new cars sold in the country are equipped with flex-fuel engines, which run on either gasoline or cane-based ethanol. Some automakers, like Volkswagen, are even phasing out the production of gasoline-only cars in Brazil, betting that the ethanol craze is here to stay.

Acknowledgements

The authors would like to sincerely thank the University of Windsor, Ontario for providing them with sufficient help to work on this paper and Funding to the presenting author to attend the conference at Dhaka, Bangladesh.

References

1. "CIA — The World Factbook — Rank Order — GDP (purchasing power parity)". Cia.gov. 2009-03-05. Retrieved 2009-03-13.
2. Kumar, Dharma (Ed.). "4". *The Cambridge Economic History of India (Volume 2)*. p. 422.
3. (*Official report on Spanish recent Macroeconomics, including tables and graphics*, La Moncloa, retrieved 2008-08-13
4. Mounting joblessness in Spain | and worse to come, The Economist, January 22, 2009
5. MDIC - Brazil Balance of Trade 2008
6. Automotive Industry in Spain, Spain Base, Barcelona; www.spainbase.com
7. ANFAC Asociación Española de Fabricantes de Automóviles y Camiones www.anfac.com
8. Hybridization of MNE subsidiaries; The automotive sector in India; Florian A. A. Becker-Ritterspach; University of Groningen, Department of International Business Management, The Netherlands.
9. The west European motor industry: Where Now? – The Economist (Special Report)
10. STATE AND INDUSTRY IN THE 1940s: The Spanish Automobile Industry; S. Estapé-Triay Department of Economics and Business Universitat Pompeu Fabra; Bacelona; Spain.

11. The Brazilian Motor Industry; Change and Opportunity; Automotive Special Report No. 8 – David Stevens.
12. Joe Nocera (2008-12-23). "Talking Business - Avoiding a Financial Collapse, Indian-Style". India: NYTimes.com.
13. "Spain drops reassuring gloss as crisis deepens". Daily Telegraph. 2008-07-18.
14. "Spanish retail sales suffer record fall". Reuters. 2008-07-30.
15. Vehicle Factory Jabalpur; JABALPUR; PIN – 428009; Madhya Pradesh, India; http://ofb.gov.in/units/index.php?unit=vfj
16. Ashok Leyland (I) Limited. www.ashokleyland.com
17. URO, Vehículos Especiales, S.A. (UROVESA) http://www.urovesa.es/
18. WikiPedia online encyclopaedia http://en.wikipedia.org/wiki/Pegaso
19. IVECO Brazil www.iveco.com/brasil
20. Tata Nano http://tatanano.inservices.tatamotors.com/tatamotors/
21. WikiPedia online encyclopedia “Late 2000s recession”.
22. World Bank “World Development Indicators”: web.worldbank.org/
23. Spanish automobile market share: www.wikinvest.com