# India's automotive industry faces challenges as foreign investment wanes



India has emerged as the most populous country in the world, overtaking China as of April 2023. However, India's economic landscape differs significantly from that of China, particularly in the automotive sector, where only a handful of domestic players, namely Tata and Mahindra, dominate. Despite being the third-largest new car market globally, the presence of international automakers in India is limited, with certain protectionist measures in place aimed at bolstering local manufacturers.

Notably, India imposes a 100 percent tariff on imported vehicles, which has deterred many foreign manufacturers. For instance, BYD had proposed to invest in a $1 billion factory in collaboration with Megha Engineering and Infrastructures, yet this proposal was turned down by the Indian government. A government official cited “security concerns with respect to Chinese investments in India” as a key reason for the rejection, illustrating the strained political relationship between India and China.

Attempts by other companies, including Tesla, to tap into the Indian market have also faced hurdles. Tesla's plan to manufacture cars from its Shanghai plant for the Indian market did not advance, with the government emphasising that any electric vehicles sold in India must be produced locally. Elon Musk recently reaffirmed Tesla's commitment to building a factory in India “as soon as humanly possible,” a development that has yet to materialise two years after the initial discussions.

As domestic politics complicate foreign investment, other automakers continue to strategise their market entry. BYD, for instance, has plans to capture 40 percent of India’s electric vehicle market by 2030, despite electric vehicles accounting for only 1 percent of all new car sales in 2023. In a similar yet thwarted effort, Great Wall Motor intended to invest in electric car manufacturing at an abandoned factory, but this proposal was also blocked by the government.

In contrast, foreign manufacturers are exploring different approaches to the Indian market. Volkswagen Group has indicated a preference for the lower end of the market, focusing on producing affordable cars to cater to India's vast population. This strategy aligns with the potential demand within the price-sensitive segment of the Indian market, even though low-budget vehicles typically offer lower profit margins. Reports suggest that Volkswagen's subsidiary—Skoda Auto Volkswagen India Private Limited (SAWVIPL)—plans to utilise a newly adapted vehicle platform known as "IMP" for their upcoming electric SUVs. This platform is designed to cater specifically to Indian consumers, potentially aiding the approval process with local regulators.

VinFast, the Vietnamese electric vehicle manufacturer, is employing a different strategy by targeting the premium segment. Pham Sanh Chau, VinFast's Asia CEO, declared at the India Auto Show in New Delhi that the company is looking to India as "our next growth frontier." VinFast aims to invest $500 million over five years to establish a car and battery factory in Tamil Nadu, with a capacity to initially produce 50,000 vehicles annually, scalable up to 150,000 depending on market demand. Chau noted that the company is in the process of appointing local dealers and exploring investments in charging infrastructure.

As electric vehicles gained only a modest share of the market—2.5 percent of more than 4 million vehicles sold last year—the Indian government has set an ambitious goal of having one-third of new car sales being electric by 2030. Yet, critics point out the government's slow implementation of policies necessary to support this target.

This divergence in business approaches encapsulates a broader trend in which foreign manufacturers seek to navigate the complexities of the Indian market. Volkswagen’s focus on cost-effective vehicles contrasts starkly with VinFast’s premium offerings. The outcome of these strategies in a rapidly evolving landscape, compounded by both political relations and market dynamics, remains to be seen.

Source: [Noah Wire Services](https://www.noahwire.com)

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