

## **Influence of Government Policies on Demand for Cars and Commercial Vehicles in India in a Comparative Perspective of the Experience of Developing Countries**

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*The paper examines the change in the degree of influence of government policies on demand for cars and Commercial Vehicles (CVs) in India during the period from 1980 to 1994. Then for the year 1991 it compares this influence for India with that of an average developing country. The main findings are that influence of government policies on demand for cars in India was greater during the early and mid eighties than during the nineties from 1991 to 1994. There was no change in the influence during the period from 1988 to 1994 on demand for cars and from 1980 to 1994 on demand for commercial vehicles (namely, light commercial vehicles, buses and trucks). The influence of government policies on demand for cars was greater in India than what the average experience of the developing countries would indicate. For commercial vehicles, the influence of policies on demand in India was similar to that across the developing countries. Thus, depending on the model for prediction, by year 2010, the level of ownership of cars predicted from the average experience of the developing countries would be only about 76 to 85 per cent of India's forecast of ownership of cars. For commercial vehicles, the ratio is near about unity for the same year 2010.*

Indian industries were regulated till late seventies with investment into different industries being largely determined by government policies like licensing of capacity, controls on imports and foreign collaboration, pricing of products and so on (Marathe, 1986; Sankar, 1983). A slow process of liberalization of these policies began from the early eighties. Now firms in different industries are free to invest for expansion of capacity, technological upgradation and entry into any new area of production according to expected profitability.

In the liberalized period, with no quantitative controls on production, technological choice and foreign collaboration, the supply price would largely depend on the technological opportunities and the degree of competition in the market. Policies would affect profitability and thereby investment into an industry largely through its effect on demand<sup>1</sup>.

The same level of investment in different industries may have different effects on growth, distribution and environmental protection of the economy. Thus for planning with the multiple objective of growth, distribution and environmental protection, it is

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1. Even tariffs on imports of components and raw materials can be thought of as affecting demand through increase in price of vehicles.