Captains of the vehicle Industry,

Your Excellencies,

Members of the Diplomatic Corps,

Officials of the Government of India,

Member of the Media and the Press,

Ladies and Gentlemen -

A very good morning. It is my pleasure and privilege to welcome you all to the 45th annual session of ACMA.

Two years ago, exact to the date, standing on this very podium Mr Anand Mahindra in his inimitable and so very distinguished style said that we in the automobile industry are standing at the cusp of a defining moment. To Quote “A defining moment is when things shift irrevocably and alter the way that people look at themselves and at others”. As a result of this the Indian auto-component industry started its first steps to go global and to realize that the world is becoming our new hunting ground.

Friends, this is a prophecy come true as indeed we are seeing the emergence of a new face of the Indian automotive industry – a formative global face with increasing global footprints. We are fortunate to be in India when the Global Automotive Industry is going through an era of “discontinuity”. It is with this backdrop that we are gathered to celebrate ACMA’s 46th year of existence. Last year, we unveiled the “Vision of 2015” which spelt out the huge addressable opportunity for us and gave a strategic direction to be followed. This year we carry forward that theme to its next logical step – **Converting the Vision to Reality.**

Amidst this excitement of the Indian auto industry I very warmly welcome our Chief Guest, The President, CII, and Chairman, ITC, a US $ 3.0 Billion corporation. Mr. Yogi Deveshwar. This is perhaps the first time that our Chief Guest is from other than the automotive industry. Today, we are at a stage when our industry is confronting us with exponential growth rates that we have never seen or managed before. Obviously, there is need for a radical change in the way we think, manage our businesses and the way we perceive global business opportunities. We need to embrace a new set of growth paradigms that would enable us to seize the opportunities and address the challenges. You are the one who has played a key role in transforming the image of ITC from that of a cigarette vending MNC to the largest consumer product and agro-business company in India.

We believe that a non-automotive perspective from other industries that have experienced high growth can provide us with useful insight and direction.

May I also extend a very cordial welcome to our Guest of Honour, Mr. Ravi Kant, Managing Director, Tata Motors Ltd. On behalf of the component industry, may I congratulate you on your new position at Tata Motors. Having been present when you unfolded the globalization plan of Tata Motors, I have been in continuous awe of the paradigm where you said not to view exports as percentage of domestic sales but in multiples thereof. You have also proved the point that “opportunities and threats are two sides of the same coin” by having converted the imminent threats posed by globalisation into new and exciting business opportunities. I can never forget the week we spent in Korea in November last year. The tremendous amount of goodwill and brand India that you generated in Gunsan was something that had never been seen before. The component industry is keen to learn from you the art of converting threats into opportunities and we look forward to your address.

A special welcome to Professor Shoji Shiba. Shiba san, as the winner of the individual Deming Award, you are a personality who needs no introduction, specially to an audience who is pre-dominantly from the auto industry. It is our privilege to have you with us this morning and we look forward to having your insights on how to apply Breakthrough principles for providing Visionary Leadership.

Exponential growth may be easier to achieve than to sustain in the long run. Here we need to learn from experiences of the CEO of a global enterprise who has already tread this path and who has successfully overcome the “trials and tribulations” posed by both organic & inorganic growth. I am happy that Mr. Tobias Hagenmeyer, Chairman, Getrag, Germany is here amongst us. He brings forth vast experience and passion to change a legacy organization to be leaders in an era of Technology drive and cost reduction.

The market potential continues to grow….

On the home front, the continued robust performance of the automotive industry during the last one-year has been a highly satisfying feature for the auto-component industry. If the growth witnessed by the industry as a whole, is viewed in its true context the beginnings of a transformation are evident to even the most cautious analyst. Extrapolating this forward is not a very difficult task. The question really is do we have faith in ourselves, and the sanity to hold our wits together, to take advantage of the opportunities before us.

It is pertinent to note the remarks of Mr Jagdish Khattar, the Auto Industry leader: quote “While believing in the medium to long term growth story, however, we should not assume that the short term would necessarily be rosy”. The First quarter of this fiscal has seen a slowdown in growth for the automobile industry. Factor like implementation of VAT and introduction of Bharat Stage III variants to meet superior emission norms may have contributed to this slowdown. It remains to be seen whether this is a blip in the overall growth trend. To me these are warning signals and not a trend reversal.

Overall, vehicle industry has grown by almost 17% over the last 1 year. The 4-wheeler growth was sustained at a high level of over 23%, with passenger cars clocking 22% (crossing that of China even though on a lower base) and CVs registering 27%. Two-Wheelers grew at a more modest rate of 16%, but considering a base of 5.6 million, this modest growth is actually quite remarkable. Exports of vehicles also increased by 31% to a level of 630K vehicles out of which passenger cars accounted for 166K, CVs 30,000 and two-wheelers 360 K. More importantly, we also saw a new trend towards globalisation of the Indian vehicle industry. Indian OEMs have started spreading their wings and recording their intent by registering international presence through acquisitions as well as manufacturing tie-ups. With this initiative a new thought process is being engendered which we in the component industry too can emulate to create the incremental momentum.

Looking at the overall long-term picture, the vehicle industry seems well poised to achieve 2 million passenger cars by 2010 and a figure of 3 million by 2015 does not seem difficult at all specifically by the key economic drivers being in place. As per the current trends, the passenger car industry should touch 1.4 to 1.5 million nos. by the end of 2005-06. I reflect back with great satisfaction that the last time I was here on this podium as President in 2003 and the vehicle production in the country was 700,000 per annum we had projected the vehicle demand to double in a couple of years.

The auto-component industry increased its total output from US $ 6.7 billion to US $ 8.7 billion during the year – a growth of 30%. The past year kept the industry busy in adding capacity and more than half a billion USD of new investment in plant & machinery was put up by the component industry to meet the surging domestic and exports demand. In fact over the past three years the component industry has capitalized more heavily than in the past two decades put together! As a matter of fact the total amount invested by the auto component sector is half a billion USD as compared to the investment of USD 8.6 billion put in by India Inc which works out to 6.7% - this is quite significant for any one sector of the manufacturing industry.

If the vehicle industry continues to grow as expected, it would imply a tripling of the domestic demand for components from a level of US $ 7.3 bill today to a level of US $ 18-20 billion by 2015.

Exports also touched a record high of US $ 1.4 billion – a 40% growth over the previous year. The export trend from April 05 to May 05 indicates that we may see about 35% export growth during 2005-06. Even if we sustain a more modest long-term growth rate of 25%, we would grow 3 times in 5 years. The addressable opportunity of US $ 20-25 billion by 2015, – though still a stretch looks definitely more “achievable”. This can make us the 3rd largest manufacturing sector in the country.

The conditions are right…

The world we live in is a mixture of paradoxes. The last decade saw the better part of the globe chasing China, help build its brand and then proceeded to adjust itself to anything Chinese – while we in India were busy adjusting to the globe …. There are now indications that the India is beginning to get noticed and get recognized as a global strategic necessity.

This is evident in the auto world and thus the last one-year has seen a distinct shift of focus towards India. The global OEMs and Tier 1 companies are increasingly appreciating the advantages of India’s open market economy, transparent and liberal policies, our engineering and manufacturing skills as well as our ability to conduct global business.

As President of ACMA, having traveled extensively during the year from Detroit to Shanghai, I have been continuously getting the signals of this profound shift. My various interactions around the globe demonstrated that the world is now clearly noticing India as a country that has a stable business environment and is impatient to integrate with the global supply chain.

In fact, a recent phenomenon highlighting this was the VDA seminar in June 05 in Frankfurt which saw a much greater attendance than the Chinese Seminar. The VDA President Dr Gottschalk also acknowledged the growing importance of India.

Though this growing interest is a reality we are competing with other LCCs in this space. The discontinuity, which I spoke of earlier, is creating a window of opportunities which shall not be perpetually open. The die would be cast in the next two to three years to then impact our reality which we shall not be able to undo for a long period of time.

We are just starting this challenging journey and to close in to this opportunity requires enablement by the government and concerted action at the firm level. The investment alone required to make this dream a reality needs a capital infusion of about USD 1 to 1.5 billion annually year on year.

Converting Vision into Reality

I am sure that today we all believe in our potential. Most of us are also quite aware of the “what” that needs to be done at the firm level – the “how” is what often presents the apparently insurmountable challenge. It is a hard truth of business that it is individual firms that compete and not countries. So while there is need for re-adjusting the macro-environment at the “country level”, the real difference would be made at the firm level. There is however a lot also to be done by way of making a uniform playing field available to Indian companies with respect to international companies – an enabling initiative which only the government can do.

We need to contemplate some Firm Level Actions

1. Companies need to be open to “new investments”. Look at the perspective of meeting the global demand and not just the local demand. There are companies in our membership which have started doing this. Companies like Bharat Forge, TVS group, TACO, Amtek, Motherson and many others have made overseas acquisitions which have given them the benefit of access to new customers and technology.
2. Invest in R&D –This would be your most valuable asset in the future.
3. Acquisition and deployment of the most appropriate technology suitable for Indian conditions, primarily to maintain our competitive advantage.
4. First aim to be a dominant player in the domestic market before having global aspirations. For its necessary to assess the ones risk profile before getting to Export with just a “me-too” attitude.

I am not even mentioning quality/delivery/logistics/ supply systems and as these are mere hygiene factors. In fact, ACMA has supported the industry’s quest for quality & productivity thru intensive learning and sharing of experiences under its Cluster Programmes over the last 5 years.

In fact we are, today, quite competitive at the firm level:

ACMA over the last 2-3 years has conducted a number of competitiveness studies vis-à-vis countries like China, Thailand etc. All these studies point to the fact that the Indian auto-component manufacturers are intrinsically as much or even more competitive than their counterparts in other low-cost countries. However, the external disadvantages which I would call the "India Footprint" cost puts us down by almost 18%-20%. While the industry has risen to the challenge by “putting its house in order”, we are losing valuable time on the external front. I feel that now it is time that we started taking note of the external disadvantages much more seriously and try to look for solutions in partnership with Government with a sense of urgency.

Very often we are told that changes on the external front would take place at their own pace. That our democratic and transparent system requires discussion, debate and finally a consensus. However, if we have to maintain the litheness of an economic Tiger, our process of building consensus and implementing crucial decisions in terms of economic policies would need to undergo radical changes.

There are countries in our neighbourhood that have understood this principle quite well. These countries also recognise that the Auto industry is the “engine of growth” for the economy as a whole. If we too recognize that the auto industry is a key driver for the economy then we need to take definitive steps. We need to employ specific policies to build on our natural strengths. It is not enough for us to say that we are different and therefore cannot emulate these countries. We need to learn the rules of the game and then play the game as per the prevalent rules.

Let me illustrate through two specific examples.

On the one hand - China has announced a very comprehensive Auto-Policy last year prescribing strict localisation norms where the local content is calculated from the raw material stage. Further on my most recent visit to China I learnt that the Chinese Govt. is investing billions of dollars in building global scales in 3 to 5 players in the OE segment and 10 to 15 players in the component segment in China.

On the other hand - Thailand also offers clear incentives for attracting automotive investments into their SEZs with a shared Vision of making them the “Detroit of the East”. The special incentives given by the Thai government a decade ago has nurtured the Pick Up truck industry to make it quite deep rooted. After the FTA with India Thailand is now planning to give a similar thrust to the compact car – a clear challenge to the Indian dominance in this field.

Therefore, our agility in terms of evolving Government support policies would play a highly critical role in converting the Vision into Reality. Let me therefore lay down the future agenda in two distinct categories. First the minimum level of equalization in the playing field that the industry requires and secondly the support systems that we should consider for making the industry a global success.

Provide Level Playing fields …

Benchmark ASEAN Tariff Rates
Should we reduce our MFN rates of duties on auto industry any further? The ASEAN tariffs on automotive industry are much higher than the Indian Tariff rates – ranging from 80%-100% in the case of vehicles to 30%-80% in the case of auto-components. But the Duty rates on raw material are only 0-5%. This large duty differential provides a huge encouragement for value addition within the ASEAN countries. When we are competing with such Duty structures and also negotiating FTAs and RTAs, any further reduction in our MFN rates may actually encourage diversion of investments from India to Thailand. I would therefore propose that the ASEAN rates of Customs Duty on the automotive sector should be taken as a comparative benchmark for our own industry.

Ban Import of Second Hand / Remanufactured Products

The second suggestion I have is that import of second hand or re-manufactured vehicles and components should be completely banned. We have to appreciate that "re-manufactured" products will always fall in the category of second-hand products. Such a ban exists in China and in many other countries. If we do not ban such products, there will be clear that other countries would use India as a dumping ground for their rejected vehicles and also re-conditioned spare parts.

Support…

Create a Common Indian Market
As a country we should be seriously looking at calibrating our liberalisation pace with the internal reform process. Where is the Indian Common Market? Do we not need an FTA amongst our States first? Would it be prudent to pursue FTAs with other countries before having free flow of goods within the country itself?

India has certain unique advantages, which can be leveraged very effectively.

Leverage the Human Skills Advantage
Mr. Rick Wagoner, CEO of GM publicly stated in Apr 05 during the SAE Show in Detroit that the US is losing ground to countries like India in terms of creating engineering graduates. This huge advantage that Indian industry enjoys can be fully leveraged by the country Industry would be happy to fulfil its responsibility and partner with Government in creating such human resource development infrastructure. But such an initiative cannot succeed without the explicit support and encouragement of the Government.

Support Intellectual Property Development

Another area where we need re-invention is in the area of the support mechanism for developing IPR which I believe would become the single most important competitive tool in global business. Some countries follow persuasion to bring in technology into their country by linking it with permissions granted for market access. Such hardball pressure tactics have been faced by a well known global CV manufacturer recently. India can achieve the same or even better results differently, by making India the most attractive destination for R&D thru a set of policy measures. Government policies for encouraging R&D need to expand its focus to include "in-house R&D" as well as “development of IPR”. The incentives should be available to technology that has been developed in-house or externally, within the country or abroad as long as the company owning the IPR is registered in India.

Similarly, the Excise Duty concession for ”Made in India” products could be extended to vehicles and components designed and developed in the country, which is a WTO compatible measure.

Attracting investments – the prime task

Our Prime Minister Dr. Manmohan Singh, in his recent speech, said that 7-8% economic growth is necessary to sustain social development programmes and to achieve that growth rate, investment to the tune of 28-30% GDP is essential. “I know that large amount of capital are waiting to come to India but for that, right climate has to be created”.

The automotive sector is not only ripe for investment, but the global timing is also right. Many large global automotive investors are also currently assessing the FDI climate in the country. All that is required is a little bit of policy push to set the FDI ball rolling. This can enable the sector to absorb upto 2.55 million manufacturing jobs at the semi urban and rural level.

Sustained high growth is an Indian reality of relative new vintage which means that both the management and the first line associates need to be in synchronism. For this, the Govt. also needs to signal reform in labour laws and its procedures to take into cognizance the logic of the current situation.

Auto component industry, if I may say so, is at the forefront of the TQM practices and total employee involvement which makes it a highly progressive and forward looking sector in adjusting and capturing the opportunities which are available on a global scale.

We do hope that the unfortunate happening of Manesar/ Haryana is a ‘one off’ event and not a part of a myopic and vested motive to marginalize India as a manufacturing destination.

I am sure that all of would agree with the compliment given by our Prime Minister to Mr Buddhadeb Bhattacharjee – Chief Minister West Bengal on his recent statement. I quote “We can’t speak any more about old dogmas. We must learn truth from facts and not from books. We have to formulate new policies. We have to reform our old policies. Otherwise we will not be able to survive. Issues like productivity and quality of production are not the headaches of management alone. You have to share them. Otherwise, industries will collapse and jobs will be lost.” A very powerful statement coming at a very relevant time.

National Consensus…

Friends, the Indian auto-component industry has dared to have a Vision and a Dream.

If India has to turn this Vision into Reality, we need to become an enabled environment for manufacturing and attract substantial investments. We quickly need to arrive at a National Consensus. All stakeholders in society – industry, Ministries, Institutions, will have to share this Dream and work towards a time-bound action plan.

Should we not, collectively, find answers to some specific questions?

a) How do we overcome the handicaps of our deficient infrastructure?
b) How do we tune up our SEZ bill to capture the large relocation of capacities taking place from the high cost countries to LCCs in the face of competition from other competing low cost nations who are providing a better investment environment?
c) How do we convert the challenges of FTAs and PTA into an advantage for our industry?
d) How do we encourage the huge investment that of the order of 1.5 billion USD year on year for the next decade?

Friends, let us make a serious attempt at addressing these questions.

I wish you all the very best!

****