

# The Future for the Fast Growing Indian Economy and Industry: Roles that Foreign Corporations Should Play.

Corresponding to changes in global politics and the economy, the role of Asia, and especially India, would play in the world has become more important. As such, Hitachi considers India very important as a business base in the company's global corporate strategy and also as a market. Our guests on this issue are Mr. Naresh Chandra, who held important positions in the Indian government and Mr. R.C. Bhargava, who is the current Chairman of Maruti Suzuki India. I asked them about the future prospects of politics, economy and industry in India as well as for any advice they could offer to Japanese companies that are going to India.

Note: The interviews were conducted on different days using the same questions. The following summary was made by combining the two interviews.



**R.C. Bhargava**

Appointed to the Indian Administrative Service in 1956, after serving as the Director of the Commerce Department for Bharat Heavy Electricals Ltd., Mr. Bhargava served as the Managing Director for Maruti Suzuki India Limited from 1981 to 1997. He is currently utilizing his wide experience with industry and the economy in India as the Chairman of Maruti Suzuki India Limited, Adviser for British Aerospace and serving as a board director for other multinational corporations.

## The key economic drivers for the future economy of India

**Minoru Tsukada:** First of all, I'd like to show my appreciation for your contribution as a member of the India Advisory Board to Hitachi. Since India gets so much attention from all over the world as an enormous market, it is crucial for us to hear your insights and views, and I believe that your interview will give us a very intelligent perspective on India today.

In the past we managed the global business based on the "four-poles operation". Four-poles mean United States, Europe, China and Asia, but now we call it six-poles operation; six means those four plus India and Japan. Japan is one of those.

India is said to surpass the United States and EU economy in the next 30 to 40 years. What are the key economic drivers that will fuel growth for the future economy of India in the coming 30 to 40 years?

**Naresh Chandra:** Our current experience shows that the internal demand – the country's own demand – the people are demanding more of everything, housing and better and more food, better quality of service, and living standards, and the primary driver for the economic growth in India is the local demand. Coupled with that is the growing number of young people in the services sector. Now, more than 50% of our GDP comes from the service sector and IT, and these people with their higher incomes exert pressure on the market. I think our growth should continue at the present rate of 8% to 9%.

**R. C. Bhargava:** This domestic demand arises because of the population composition of India. There's a much larger percentage of younger people in this country today than in

almost any other country in the world. People's attitudes and thinking have changed and there is much greater awareness today amongst the young people that they can have a good life. They don't have to be living like their fathers and grandfathers lived. That has been driving this demand for – more and more people education, more and more people want a better life, and so this domestic demand has become very strong.

When you're looking at the future, we believe that the services sector cannot by itself sustain high rates of growth in the future and provide employment to all people who are entering the workforce. The manufacturing has now become a much more dominant leader in the growth process than it has been in the past. Government has also recognized that.

It is the reason why now they've come up with a new manufacturing policy which says that by 2025, that means in 14 years, the share of manufacturing in the GDP should move up from the present 16% to 25%, which really means that every year the rate of growth of manufacturing has to be 3% to 4% higher than the growth rate of GDP. GDP is growing at 8% to 9%, manufacturing should grow around 12% to 14%. That's the kind of – and in the past manufacturing growth average had not been much different from 6% to 7%, so it's almost a doubling of manufacturing, and the question is how do we achieve that. That problem is today something which government is working on, the Planning Commission has set up working groups and things on how to accelerate manufacturing.

Agriculture is another area, which is totally unexploited today in terms of its potential for providing manufacturing. We still have about over 65% people living in villages, and so something has to be done to improve agricultural productivity. The food processing industry is virtually not there. I think the agriculture-related manufacturing including cold storages, food processing and everything will be far bigger than the IT industry.

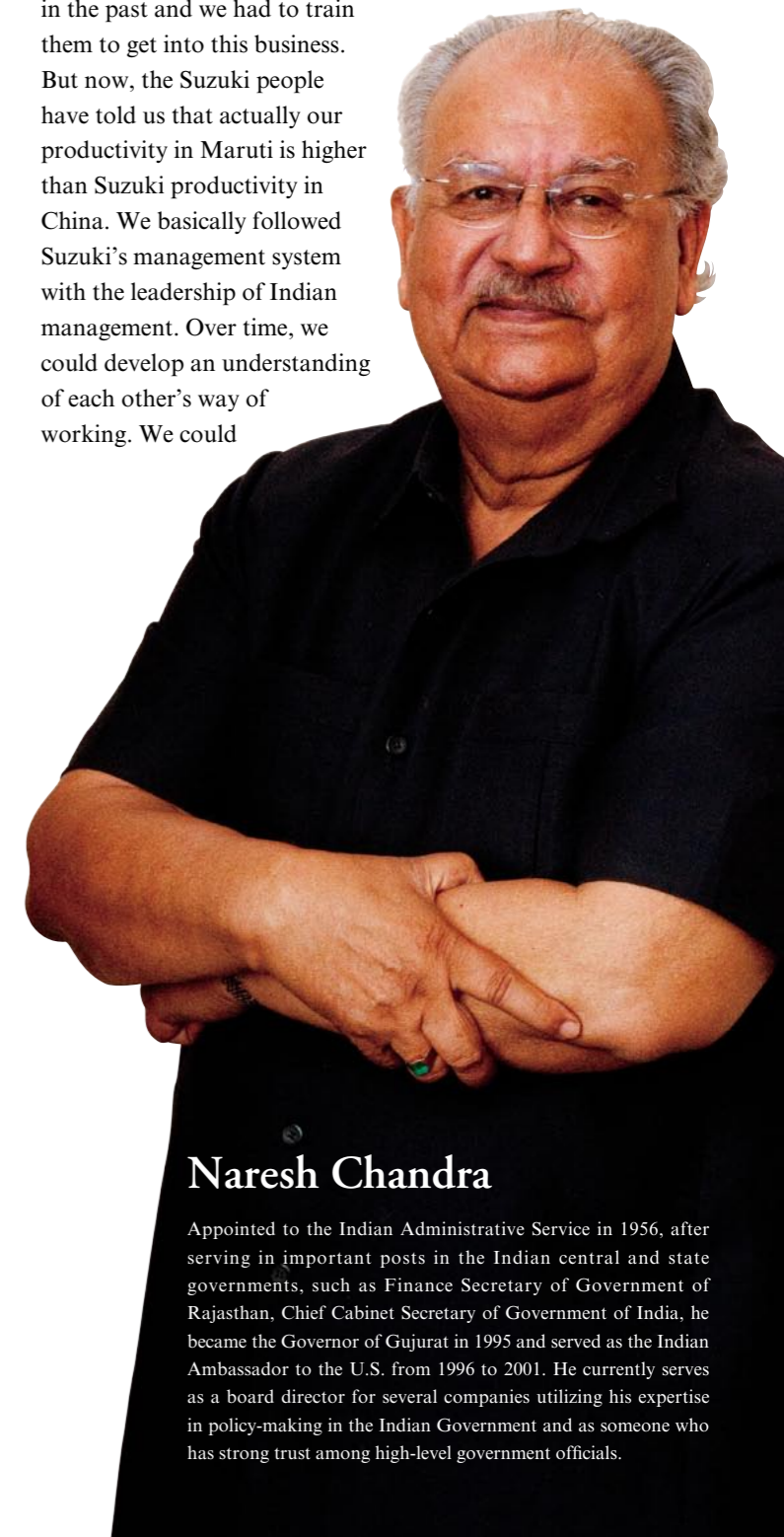
## Maruti Suzuki's Operation in India

**Minoru Tsukada:** About manufacturing, Mr. Bhargava, you served as President of Maruti Suzuki\*1 for the long time,

and now you are Chairman. Maruti Suzuki is so successful in India. Could you talk about some key elements of success?

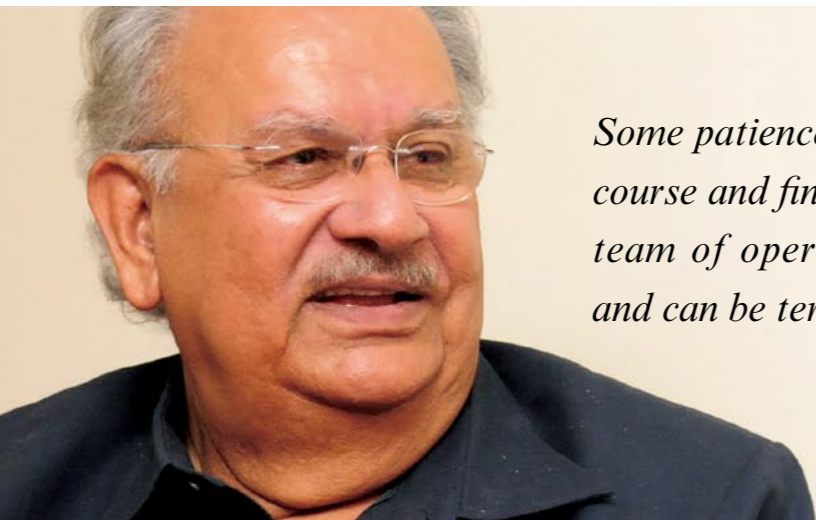
\*1. Maruti Suzuki India Limited: A manufacturing and marketing subsidiary in India of Japanese automaker Suzuki

**R. C. Bhargava:** We've been in the manufacturing business now for more than 25 years. We've seen that our workers who were basically or originally from the villages with no experience of any manufacturing in the past and we had to train them to get into this business. But now, the Suzuki people have told us that actually our productivity in Maruti is higher than Suzuki productivity in China. We basically followed Suzuki's management system with the leadership of Indian management. Over time, we could develop an understanding of each other's way of working. We could



**Naresh Chandra**

Appointed to the Indian Administrative Service in 1956, after serving in important posts in the Indian central and state governments, such as Finance Secretary of Government of Rajasthan, Chief Cabinet Secretary of Government of India, he became the Governor of Gujarat in 1995 and served as the Indian Ambassador to the U.S. from 1996 to 2001. He currently serves as a board director for several companies utilizing his expertise in policy-making in the Indian Government and as someone who has strong trust among high-level government officials.



*Some patience is required in India. If you stay the course and find out, you can really develop a good team of operators, and they are good learners, and can be terribly cost effective.*

therefore bring in the Japanese work culture into India including in the whole area of human resource management, worker management.

We spent a lot of money and that Suzuki spent a lot of resources in training Indian managers; virtually everybody went to Japan. Hundreds of workers went to Japan, worked for 6 months in Japanese factories. One of the factors which led to the successful mix of Indian and Japanese managers and cultures was the training effort. The labor productivity of Maruti today is quite comparable to labor productivity in Japan.

**Naresh Chandra:** About the Maruti thing, I was in the ministry of industry, Maruti and Suzuki sort of came together

and I and Mr. Barghava were colleagues. This I'm talking of 1981. I was in the ministry with the industry dealing with automobiles.

### Economic Liberalization in 1991

**Minoru Tsukada:** Mr. Chandra, I heard that you were in the position of Cabinet Secretary when India implemented economic liberalization policy in 1991.

**Naresh Chandra:** Mr. Manmohan Singh\*<sup>2</sup> and the then Prime Minister Narasimha Rao\*<sup>3</sup> said we should send these senior civil servants attract foreign investment and say that we



*The balance of price and value is important to succeed in India. That means you really need to consider "value for money".*



*Foreign companies have to look at the real local demand of India, the Indian consumers- what they are looking for.*

welcome foreign investors. Naturally, there was a high-powered team, so I was to lead that delegation. I told, look we are not the type of people who would attract foreign investment. You send people like Ratan Tata\*<sup>4</sup> and Ambani\*<sup>5</sup> and so on. The companies would like to talk to them and not to bureaucrats who had been blocking them all their life, so I won't go.

One month later, they said, "No, you have to go. The guys who blocked them have to explain the changes." So, I went there – to USA and Singapore – but the thing I have to say. We came to the conclusion that while you may be very clever while selling goods, but you have to be totally honest and transparent with an investor, and I told them. Finally foreign investors believed us.

\*2. Manmohan Singh: The 13th Prime Minister of India and an economist. As Finance Minister under Prime Minister Rao, he began work on India's recovery from economic crisis and introduced a market

\*3. Narasimha Rao: The 12th Prime Minister of India. He made progress in economic reform by bringing in foreign investment and technologies and helped transform India into one of the world's top IT countries. economy to India.

\*4. Ratan Tata: An Indian businessman. The chairman of Tata Group, the largest group company in India.

\*5. Mukesh Ambani: Chairman of Reliance Industries, the largest corporation in the private sector of India.

### Indian Ocean Economic Zone

**Minoru Tsukada:** Indian Ocean economic zone is gaining an increasing amount of attention. It includes the Middle East and Africa, the Gulf countries, and Asia. What do you think

about the economic prospects of this huge economic zone?

**Naresh Chandra:** I agree. Still 5 to 6 million Indian workers are there, in that part of the world, so, it's very important to us. That's where the energy comes from, petroleum and so on, but we have to watch carefully the stability. Africa is very important. As far as Indian Ocean is concerned, it is not only of economic importance but greater strategic importance, because our trade, overseas trade, is all across the waters. Our international trade is all 80% to 90% over the seas. Our energy import is all across the water.

**R. C. Bhargava:** Middle East have oil wealth, but they are somewhat restricted in their growth potential because of their own population, and the education system. Those are constraints to growth and, you know, many of these countries rely on expatriates to come and help develop those countries. I think African countries offer good prospects for investments and exports, anybody who's thinking of going there has to carefully evaluate the political risks particularly before they make any long – term investments there.

### New business models like BOP or low cost engineering

**Minoru Tsukada:** The next question is about new business models, like BOP or low cost engineering. What do you think is important to succeed in these markets?

**Naresh Chandra:** Here, you know, the thing is that we

have given lot of encouragement to small scale and medium industries, and these are basically to meet local demand in a very cost-effective way. These are things which people find very strange, but that is what is going on. We had a very good chap ,Dr.Prahlad\*6, who talked about the bottom of the pyramid. He used to say that where there is demand, you have to grab it.

Now, if large bottles of shampoo were sold by, say very good companies, what he discovered was who will buy them. People who have a nice bathroom can keep it and have some notion of the economies of scale and no cash-flow problem. But in the case of the daily wage worker, where will he keep them? He is moving. So he came out with one – rupee small packet sachets. The worker will go to a municipal bathroom. He pays a rupee, takes it, uses it, and throws it away. He has no storage problem.

He said, if you reduce the size instead of increasing it, you will be able to address a whole lot of people. Lot of companies went for this, how to cater to the poorer section, and their turnover went up like anything. There are ways



available. The point I was trying to make was there are a lot of people who are coming from below average income levels to the middle class and exerting that new purchasing power. Even those who are below have enough purchasing power to buy goods in small quantities. If you sell them in small, you can have a big turnover. You remain with the big packets, you don't access them.

\*6. Dr.Prahlad :Economist originally from India and former professor at the University of Michigan Ross School of Business.He introduced BOP business in his book,"The Fortune at the Bottom of the Pyramid".

**R. C. Bhargava:** It is one of the biggest innovations. That is the case of Unilever. The Tata's idea of a Nano of course has not succeeded so well because of other reasons, but the concept was so hugely accepted by the Indian people. I think the value for money is what I think is necessary if products in India are going to get volume sales.

About the market access I think Suzuki also realized that it was necessary to do development in India where people were more familiar with the requirement of the Indian consumer and where there will be a better interaction with the market, to understand actually what needed to be done, and I think that would be a major factor in the future success of Suzuki in India. They are today the only company which would be able to design and develop products in India, taking into account, therefore in a much more sympathetic manner, the local feedback. I think that's important. Anybody who's coming to India should look at having an engineering segment.

Modify the products to meet Indian requirements, develop products for the Indian market; I think the advantage they have is that we have the availability of engineering talent and IT talent. I have seen many Japanese companies in India, not growing as well as they could have because they have not been willing to modify any of the parameters of their products.

**Minoru Tsukada:** It means the the foreign companies have to look at the real local demand of India, the Indian consumers – what they are looking for, and develop products in India to meet local requirements.

**R. C. Bhargava:** Yes. You have to see value for money, the purchasing capacity of a big middle class. They will not buy very expensive products but they will not change products frequently.

I've seen now, for example electronic companies, including Panasonic and Sony, that they have changed their approach to products in India, compared to what it was 10 years ago.

## Foreign Direct Investment and Hitachi in India

**Minoru Tsukada:** Could you also touch on FDI or MNC's operation in India?

**Naresh Chandra:** Hitachi has supplied products of high value, hydroelectric generators for Narmada\*7.

I was then the chairman of Narmada Control Authority. For years, I think the units were lying in Japan, but they have finally come in and are working, and same with locomotives. There is plenty of scope for Japanese companies.

Now, the other areas where the companies seem to be coming is that the cost of using scientists and research personnel in R&D is much less here than in countries like USA, Japan, and Europe. The problem is of controlling leakage of sensitive technological information that has to be attended to. We, for instance, have advised Hitachi not to enter into joint ventures where you don't have control and where your information of systems, high-tech, confidential items get leaked out and so on. Having taken care of that, there are number of areas where investment is very productive. Railway system requires a lot of overall modernization. The other is on water, because we have a problem of water management.

\*7. Narmada: The Narmada project is a project to develop dams in the Narmada Valley. The project was first envisioned by President Jawaharlal Nehru in 1940.

**R. C. Bhargava:** Historically, foreign companies couldn't come and invest in India without having an Indian partner because the FDI was limited. But I see a change happening and more and more foreign companies today are looking to ensure that at least they have control, if not full ownership. Fortunately, recently, there's been a further relaxation in the rules.

Earlier, it said that if you had an Indian JV or a license here, you could not start another company of your own without getting a no-objection from the Indian partner. They've changed that rule, and now it's I think in most areas, possible to start your own company. And I think people are

beginning to see the potential of it, but it's quite recent.

## How to address to the BOP market

**Minoru Tsukada:** Although the economy of India is growing rapidly, quite a few people suffer from poverty. The lack of food, water and energy are also important problems to be solved. What is your view on these issues and how do you approach to these issues.

**Naresh Chandra:** Since growth has taken place, it should not only benefit the upper segments, but the fruits of development should also be available to poorer sections in the areas. The scene is changing. The problem is that the numbers are very large. In India you see the middle class is more than 300 million, but then people afflicted with poverty is also 200 million. What the government is attempting is to improve the infrastructure. Employment guarantee scheme or subsidies are not a permanent solution. You have to create jobs. You have to reduce dependence on agriculture.





**R. C. Bhargava:** What is now happening ultimately is this scheme of a UID, Unique Identity Number which Mr. Nilekani's\* organization is developing. Every citizen in India will have this unique number. One of the major advantages of this system is going to be that all these people who will be identified as being below poverty line and therefore need of support will have this UID, and what government is planning is that instead of distributing subsidized commodities, the amount of subsidy will be transferred directly to the beneficiary who will open a bank account with the help of this UID and the money will get transferred directly into the bank account. This takes away the leakage factor to a large extent, partly because you can target the benefit to only those who are identified for the benefit.

\*8. Nandan Nilekani: One of the founding member of Infosys, one of the top IT company in India. He was appointed as the Chairman of the new Unique Identification Authority of India (UIDAI) in 2009.

### Expectation for the role of Hitachi as an infrastructure company

**Minoru Tsukada:** What is your expectation for the role that Hitachi can play as an infrastructure company?

**Naresh Chandra:** Of course, the power sector has to expand like anything. The growth has to be in double digits. The same applies to transportation. Railway system requires a lot of

overall modernization. These are the areas we were thinking – already locomotives have been supplied by Hitachi and I think monorail is one area where Hitachi could have a look.

**R. C. Bhargava:** If you look at most Indian towns, forget Delhi today, Delhi is not really a typical Indian city. Transportation is really a serious, serious issue. I believe that monorails offer a very good solution, but the existing monorail systems are extremely costly. They are costly because the volume of production is low. But if we will promote monorails everywhere and start local production, and then adapt technology to meet the Indian market, I think it could become a huge business in India, and then it would apply to most of the developing countries.

**Naresh Chandra:** The other is in water, because we have a problem with water management. The technology – related services and equipment here would be very useful, both in terms of treatment of waste water and sewage disposal, and also providing clean drinking water. The only problem is that we will be having to deal with public utilities and municipalities, and they are very complex customers, but the stakes are very high and there is World Bank aid. Also, Japanese aid is coming through for sanitation, urban improvement, and so on.

That is also one area, but what I would suggest is that you must, when a Japanese company comes here, be very careful and select a very good team of people. That's very important for local people, because a mistake there can create problems. The party has to be good even if it is a bit costly, and the same applies to personnel. They have to be selected with care, because in the beginning, the team which is set up to build up, if they are good people, then the task becomes very easy.

### View from India and other free comment

**Minoru Tsukada:** The economies of developed countries are sluggish. On the other hand, developing countries are experiencing remarkable economic growth. I'm interested in how the world is viewed from India. Could you tell me about your view of the world in the future or any other comment if you may have?

**Naresh Chandra:** I would say to them that the name of



Hitachi has very high regard in India as a company which supplies very high quality products, and products which are very sturdy and last very long. I have a Hitachi television, which I bought in 1998, still going on strong. In India, people know that with Hitachi, you can't go wrong. So that's one thing we have something going for us.

The second is that there is some patience required. The work culture and especially on the shop floor, I'm quite sure your engineers and other people must be finding it very strange. What's going on and how can they produce anything, but if you stay the course and find out, you can really develop a good team of operators, and they are good learners, and can be terribly cost effective. Here, the thing is of staying the course and not expecting too much in the beginning. Once that hurdle is crossed, then the business can be quite booming here and the way the demand is going up for white goods, refrigerators, television sets.

**R. C. Bhargava:** And I think you'll get many answers to the question depending on each person's own... But I think that partly if you go into history, all civilizations had a cyclical nature, and it almost seems inevitable that what goes up must come down.

We've had some very high periods of civilization, and then we've had very low periods, so we've gone through it all. I think too much wealth creates its own problems. I think

the Americans and some of the Western countries are today suffering from the adverse effects of too much wealth.

You know people lose the hunger to achieve, and I think human beings need some fire inside them, something to drive them to – but people want to work less and less, they want to work in as comfortable an environment as possible. Nobody wants to work if it's only uncomfortable; let's get somebody else to do this work for us.

**Minoru Tsukada:** Thank you very much for spending the time with us today and I'd like to say thank you again on behalf of Hitachi you serving as a member of the Advisory Committee, and Hitachi would like to enlarge our business in India, that your continuous support to Hitachi's activities is very precious. Thank you very much. We're looking forward to seeing you again many more times.

### Final Notes



Our guests this time were two of the "hottest" members of the Advisory Board of Hitachi of India. Since they've been so busy, pulled in different directions, we could not all meet together so the interviews were conducted separately. We talked for four hours in all. The

discussions based on their rich experience were filled with inspiration and insight. It was not easy to edit these down, but I think we were able to capture the essence of the interviews.

India is deep country. I had a talk with an Indian American the other day. He told me that this year was the 150-year anniversary of Tagore, an Indian poet and philosopher who won the Nobel Prize for Literature. It was the first time the prize was given to someone from Asia. He also told me about a conversation between Tagore and Einstein, a philosophical debate about Eastern and Western philosophies. I enjoyed that a lot. I am hoping to grow business in India through the united efforts of the Hitachi Group.