

Autopian Vision

By Simon Robinson / New Dehli

If you want to get a sense of the potential of India's car industry, count the country's motorbikes. Buzzing along Mumbai's crowded highways, standing outside modest homes in rural villages or packed into the parking lots of Bangalore software firms, motorbikes and scooters currently outsell passenger cars more than 6 to 1. As the country's booming economy pulls millions of people into the middle class, the first vehicle most people buy has two wheels, not four.

That may be about to change. Around the middle of next year, Indian automobile manufacturer Tata Motors intends to launch a new model that will be so inexpensive, the company hopes it will trigger a revolution in car ownership, not just in India but throughout the developing world. The planned vehicle is called the "One-Lakh Car" because, Tata says, the rear-engine, 600-cc, four-door sedan will cost a lakh, or 100,000 rupees. At current exchange rates, the sticker price would be the equivalent of about \$2,500. That's \$3,000 less than India's current cheapest new car and on a par with the costliest motorbikes.

When Tata first suggested an ultra-cheap car a few years ago, other manufacturers scoffed, saying the project was a pipe dream. But if Tata lures away even 10% of the 6.5 million Indians who buy motorbikes every year, not only will it have a hit on its hands, it also will have expanded India's car market by more than half. Competitors aren't willing to cede that kind of market share without a fight. Carlos Ghosn, head of Renault-Nissan, recently announced that his company was looking at building a \$3,000 car in India. Fiat, General Motors, Honda, Hyundai, Maruti Udyog (the Indian division of Japanese manufacturer Suzuki), Toyota and Volkswagen are also working on low-cost cars, though none of them have promised anything quite as cheap as \$3,000.

Carmakers aren't just targeting India. Tata Motors has plans to export its econobox to Southeast Asia and Africa. Ratan Tata, chairman of Tata Motors' parent company, Tata Group, believes his company can eventually sell as many as 1 million cheap cars a year worldwide. That may be a realistic assessment. Globally, up to 3.7 million such vehicles could be sold annually within the next few years, mostly in fast-growing markets like Brazil, China, India and Russia, says Abdul Majeed, a partner at PricewaterhouseCoopers in Chennai (formerly Madras). "It's all about affordability and fuel efficiency," says Majeed. "The very cheap car is a trend big manufacturers can't miss out on."

This trend is spreading to some surprising places. When French carmaker Renault introduced the midsize Logan in 2004, it expected to sell the bulk of the basic sedans in Eastern Europe. But the Logan, which Renault builds in Romania and Russia and costs as little as \$7,200--about 40% less than rival sedans--quickly took off in wealthier Western Europe as well. The car now sells in more than 50 countries, and Renault is struggling to meet demand. "Our aim is to produce the most affordable car in its segment, and because we're doing that well, we're starting to see more affluent buyers and families buying Logans as their second and third

cars," says Sylvain Bilaine, managing director of Renault India, where the model launched earlier this year.

Building ultra-cheap cars is possible in large part because of low manufacturing costs in developing countries. Tata and other Indian automakers estimate that their engineering costs alone are about half what they would be in Europe or the U.S. At the same time, Tata has tapped the skills of Italy's Fiat, with which it has a joint venture in India, and of engine designers from Britain's West Midlands region, some of whom had been jobless after closures in Britain's auto industry over the past few years. Indian producers are relentless cost cutters. Many, including Tata, buy parts through Internet auctions to get the best price. Industry analysts speculate that the One-Lakh Car may revolutionize assembly, with some parts glued together rather than welded or bolted. Even so, Tata officials acknowledge that profit margins will be slim. The company is counting on high sales volume to generate significant earnings and create brand loyalty among customers, who will probably trade up to more profitable models in the future.

The company has yet to release a name for the car. "We should remove this perception of something that's going to be a dinky car," says Ravi Kant, managing director of Tata Motors. "It's a regular, wholesome car that will be a joy to drive, and of course it will have very good fuel efficiency." Will that be enough to convince India's aspiring classes? Tata expects at the outset to sell 20,000 of these cars a month in India, in part because consumers will see them as safer than motorbikes on the country's chaotic roads. Ved Pal, 38, who works at a New Delhi finance company and who currently rides a bike, says he is tempted. "I have five people in my family," he says. "Only two people can sit on a bike. [A car] will be much better. On Sunday, when we're on a day out, it's more convenient and more secure."

There may be a high environmental price to pay as poor nations convert from two wheels to four. John Rogers, a consultant for the Asian Development Bank, estimates that the number of cars in India will increase from 6.2 million in 2005 to 41.6 million by 2025. Putting millions of new vehicles on roads will increase pollution and further strain overtaxed transportation networks. "We cannot afford this type of congestion," says Anumita Roychowdhury, associate director of the New Delhi-based nongovernmental group Center for Science and Environment. "It's defeating the reason people buy cars: for mobility." Roychowdhury and other environmentalists argue that developing countries should avoid the mistakes made by Europe and the U.S. by concentrating on building public transportation networks rather than new roads. "We don't have to go that full circle," she says. "We know we have alternatives."

Still, car ownership is likely to continue to rise in countries such as India for the same reasons that Western cities with great mass transit are bumper to bumper anyway: people buy cars for convenience and status. Kant of Tata Motors says he's sick of going to parties in India and in the West and listening to "these rich people ask about congestion and pollution and global warming. I ask them, 'Sir, will you stop using your car and start taking the bus?' People should be thanking us. Our cars are small. Let all those SUVs in America be replaced by the One-Lakh Car, if people are so worried." Today, India. Tomorrow, the world?

