The Nano Story: Government's Cuddly Embrace

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How one of India's biggest companies played state governments off against each other

After a few fits and starts, on March 2 Tata Motors launched its much publicized Nano, the world's cheapest car, in Mumbai with the first buyers expected to receive their cars in June, priced in Mumbai showrooms at Rs135,000-185,000 (US$2,700-3,600). They won't go cheaply, intensive publicity campaign aside. Those without air conditioning to combat New Delhi's 40 degree C temperatures will make up only 20 percent of the market.

Tata followed a time-honored international strategy in deciding where to site its factories – play off regional governments eager for factory jobs and prestige and seek the highest bidder. It is a strategy that General Motors used in Brazil in the 1980s and BMW and a variety of Japanese automakers used to play states off against each other, which had the corollary effect of breaking the power of the Detroit-based auto labor unions.

In May 2006, when Tata announced its decision to open the Singur plant in West Bengal to roll out the car, it taught us how well Tata had learned its lesson -- how a large corporate house could use to its advantage the unhealthy competition among different states to attract large capital and effectively use parliamentary politics as a business strategy to convert an internal crisis into an advantage. Politics has played an equally important role, if not more than business economics, in shaping Nano's future.

In India, the Tatas in earlier decades did not rely much on the state. They constructed their own power plants to supply electricity, managed schools, research centers, municipalities etc. To ensure a steady supply of management staff, the conglomerate created Tata Administrative Service (TAS) in line with the Indian Administrative Service. The government was considered only a regulator. One of the major changes that Ratan Tata brought about in the Tata House after he succeeded the patriarch JRD Tata as chairman in the mid 1980s, was the group's attitude towards government, basically involving the state as a business partner.

The group's involvement in the failed Karnal refinery project with Indian Oil Corporation, Ratan Tata's acceptance of the chairmanship of Air India and his close advisory relationship with Rajiv Gandhi are indications of change in attitude towards the government. The relationship between the state and the group improved over the years and during last two decades with the Tata empire extracting substantial benefits.

Various state governments have attempted to allocate vast agricultural lands to the Tata companies, say for shrimp cultivation at Chilka (1991); steel plants at Gopalpur on Sea (1995) and Kalinga Nagar (2004); automobile plants at Singur (2006) and Sanand (2008). They all ran up against feverish protest which resulted in the deaths of many protesters. All of the projects have been stopped. But except in Chilka, the Tatas have not returned a single hectare to the government or the cultivators. As time has passed and the protests have dwindled, the Tatas have increased their grip on the land.

Singur, where the Nano project was stopped by protesters, is no exception. Although Tata Motors abandoned the project in October of 2008, it has not returned the land to the farmers. Instead, recently it said it would seek to renew the lease agreement for another year. The Chief Minister Buddhadeb Bhattacherjee's reported comment in an election rally on 11 April, expressing his desire to return to Singur to build the Nano factory adds to the speculation that the Tatas' decision to abandon the project midway was nothing but a well planned strategic retreat. .

The decision to abandon the Singur project has benefited both Tata Motors and the ruling Left Front government of West Bengal. In a two-party game, no one recognizes the third or fourth parties and they remain beyond the fence as silent spectators. However, in Singur, the third and the fourth parties, the local peasants and civil society organizations have not remained quiet. They have made their voices heard across the country.

Gains for Tata Motors:

Nonetheless, Tata gained a seven crucial months from November 2008, when the launch was initially scheduled, and March 2009, when the car was actually launched. This additional seven months have benefited the company in two ways, one of them as a result of dramatically falling commodity prices. Cold rolled steel and rubber prices have fallen by 28 percent and 19 percent respectively. In addition, the government has slashed the excise duty from 16 percent to 8 percent. Crude prices have fallen as well, by over 51 percent, substantially decreasing not only petrol prices but factory energy inputs as well.

Second, Tata gained the opportunity to mobilize funds at a negligible cost by asking prospective Nano buyers to place deposits in advance. This has been made possible at a time when the company has been facing a severe financial crisis. Customers are expected to place deposits worth up to $1 billion with Tata at the time of placing orders. On May 4, Tata reported that the company in its first phase of booking had actually garnered nearly US$5 billion from 203,000 fully paid orders for the car.

The company will retain that amount without interest for at least three months before the first phase allocation of limited numbers of cars are complete. Those considered for the second batch will be paid interest below the market rate after a year.

Had Tata launched the car as scheduled, they would have been unable to mobilize such a huge sum of money at such a negligible cost. By July-August last year, Tata management would have known that the impact of the global recession would be severe at the same time crude was topping out at US$147/bbl in July 2008. Certainly that was not a conducive situation to launch a motor car targeting price-sensitive middle-class clients. The warring peasants at the Singur gates bought them time to delay the project, live on the float and blame the protesters.

Other factors, including the vastly inflated purchase of Corus Steel and the Jaguar-Land Rover auto company, have put the company into a severe crisis, sending their credit rating down by March to B3 from B1. Tata Motors lost US$54 million in the quarter ended December 2008 and reportedly faces a funding gap of at least $3.4 billion. Of this, $2 billion has to be repaid by June. During such a financial crisis, Nano has emerged as a savior.

Third, the decision to abandon the Singur project has helped Tata extract substantial concessions from the Gujarat government as well. The political situation of the country was in turmoil. The official left had withdrawn support from the ruling UPA government at the center and with the global recession growing every day, the economic crisis was looming large. The Left Front government in West Bengal, the main sponsor of the project, was also under severe political pressure. Civil society organizations were on the street seeking justice against atrocities of the ruling party.

Tata managers turned a threat into a big advantage. They realized that Gujarat would be the only other state which could be made to compete against West Bengal. The Gujarat chief minister Narendra Modi was contacted secretly and he fell victim. The Tatas succeeded in extracting substantial concessions from the Gujarat government. Probably the benefits were much higher than the prohibitively large concessions, details of which are yet to be revealed, they had obtained from the West Bengal government.

The Tatas understood accurately the political interests and compulsions of the state governments. They simply exploited such weakness to their advantage. In 2006 they successfully implemented the same strategy before selecting the Singur site. At that time, they projected Uttaranchal as another likely contender for the Nano project. The West Bengal government out of desperation walked into that trap and ended up offering economic concessions to get the plant.

More than 55,000 small and medium firms have been closed in West Bengal over the last three decades. Contrary to the general expectation that the LF government would extend all kind of support to the small and medium entrepreneurs, they did the reverse. The political logic is obvious. Financially strong local entrepreneurs would aspire for political power which the ruling parties in West Bengal are not willing to share. As entrepreneurs from other states and multinationals would largely remain focused on business activities, political risk is much lower in such cases.

The low price of the car and its unique production strategy that was based on 'simple and flexible manufacturing plants; outsourci parts and rapid introduction of new models' have compelled the management to follow an innovative promotional strategy to establish the Nano brand within a very short time across the country and on a limited budget. The delay in the launch of the car and the associated controversy the project has generated due to the abandonment of the Singur plant, has helped Tata Motors achieve that objective.

During the last year, the attention Nano has received from the press and political parties as been overpowering. The car has emerged as a major election issue in Gujarat and West Bengal-- more in case of the latter.

The Left Front has made Nano one of its main election issues. It is in use in election speeches, slogans, posters and graffiti. All of the government's major failures during the last three decades--health care; education; industrialization or agriculture- have become secondary. The leader of the opposition, Mamata Banerjee, has been made the scapegoat for all the failures of the government and identified as the culprit for the non fulfillment of the chief minister's dream project.

To exploit the general weakness of Bengali middle class towards the losers, Buddhadeb Bhattacharjee is being projected as a 'tragic hero' and victim of grand conspiracy . How far this strategy would be successful is not known but Nano and Singur, rather abandonment of Singur by Nano, has given some talking points for the ruling parties to speak in the election rallies.

Future of Singur Plant

Most probably, Tata Motors will be back to Singur. It was abandoned only to be back again. If the Left Front emerges politically stronger after the election, it can be expected to insist on granting special economic zone status to the project. If Mamata Banerjee comes to power in the next assembly election, which must be scheduled within a year, Tata Motors will probably agree to restrict the plant size to 600 acres. The remaining 400 will be returned to the farmers.

It should be remembered that Nano's next destination is Europe and then to Southeast Asia via Thailand. Singur has an important role to play in that strategy. While Ratan Tata is banking on his dream car to bail out Tata Motors from the financial crisis, The West Bengal chief minister is relying heavily on his unfulfilled 'dream project' at Singur to sail through the political challenges his government is facing at present. It seems that the small Nano is overloaded with large responsibilities.

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