

# Finding the Right Location in India

By *Noguchi Naoyoshi*

COMPARED to just a few years ago, information on the business environment in India can now be found in all sorts of media. I am often surprised to find that an entire issue of an economics magazine sent from Japan has been devoted to a special feature on India. The number of visitors to our Japan External Trade Organization (JETRO) office in India has also doubled. In the past many Japanese companies have turned up their noses at the idea of operating in India, solely based on stereotypical images of the country. However, now they are reading about India ahead of time, before actually visiting a prospective location, and checking out the on-site situation for themselves. This makes those of us stationed here very happy.

The information being sought from JETRO has also become more detailed and specialized. Although most questions in the past were limited to issues surrounding the living conditions, now there are quite a few inquiries that require some time to research, including those concerning taxes, distribution net-

works, consumer trends, and market trends for particular products. While Japanese companies used to just go on sightseeing excursions, now the majority of clients request specific details concerning living conditions, with the idea of sending personnel to be stationed in India. The interest of Japanese companies in India is more than mere curiosity; it can be seen as proof that Japanese firms are making concrete plans to invest in this country.

The Indian youth segment represents a huge consumer market. This is the biggest attraction of India. In fact, 54% of India's 1.1 billion people are under 25. This massive youth segment can also be viewed as an abundant workforce. These points make India unique and attractive in the world.

Such positive factors outweigh the more visible negative aspects such as underdeveloped infrastructure and poverty, which soon become apparent to visitors from Japan. According to India's Ministry of Commerce and Industry, the middle-class segment, which has the most purchasing power, is increasing by a vigorous 15 – 20 million persons per year. This means that segment has now exceeded 200 million consumers, which is more than the entire population of Japan.

Because India is included in the BRIC nations (Brazil, Russia, India and China), some people make detailed comparisons between India and China. However, this is beside the point. The true allure of India lies in its domestic market. According to the wisdom of manufacturing industry, goods should be manufactured where the market is. It is as simple as that.

## Lack of Manufacturing Sites Becoming Obvious

However, for companies looking to participate in the Indian market, an incredible obstacle has become obvious

recently, namely a complete lack of industrial sites. Many companies with Japanese or other foreign capital have production bases in economic zones around major cities. The National Capital Region (NCR) near Delhi is comprised of part of the states of Haryana and Uttar Pradesh. However, all the industrial sites in this region have already been sold, and it will take some time for new development to take place. A certain company is looking to set up operations in India in order to supply parts to a major automaker in the NCR. However, this parts company is at quite a loss, because the automaker in the NCR requested it to quickly supply parts for new vehicle models. However, since the parts in question require large-scale press processing, a plant needed to be set up close to the NCR, but no sites could be found.

While 60% of Japanese investment in India comes from the automobile industry, almost all of the production sites are concentrated in the NCR. Since the vendor companies naturally want to set up near the assembly manufacturers, this concentration has intensified the shortage of industrial sites. Furthermore, a rush of plant construction by local Indian firms has also had a big impact. According to the Haryana Investment Promotion Center, as many as 4,000 companies are waiting to obtain industrial sites in certain parts of the state. While the agency ranks the applicants based on the amount of investment and the job creation potential, it cannot keep up with the demand.

The Indian government is backing an initiative by private enterprise to establish a Special Economic Zone (SEZ) that would provide tax benefits to those operating in the zone. However, there appears to be no immediate solution for this pressing issue. Furthermore, real estate prices have soared over the last six months. It is predicted that the cost of expropriating the land for the industrial

Photo: INDO BUSINESSCENTRE



India continues to grow with its huge consumer market and abundant workforce

photo: JETRO

parks developed by private capital will be exceedingly high, and the price of land parcels will be much higher than those of existing industrial parks.

There is currently no short-term solution to the shortage of industrial sites. The only choice is to form tie-ups with local companies that have existing production facilities. However, most foreign companies are not interested in this option in India, where 100% foreign ownership is allowed in manufacturing industry. On the other hand, what is expected in the future is that the over-concentration of assembly manufacturers in one area will be corrected, and operations will be spread out to other parts of the country. Already the State of Rajasthan, adjacent to Haryana State, is seeing an influx of industrial park construction close to its border near Delhi, and major companies have decided to build plants there. In a large country like India there is certainly no shortage of potential locations for companies to set up their plants.

The important issue is how this potential is to be developed. Some of the state governments are now actively getting involved in investment promotion activities. In the future, an important determination standard for companies looking to invest in India will be whether they can make full use of support from the state government concerned. One of India's drawbacks is that the distribution network is still underdeveloped. However, a new trunk line system known as "the Golden Quadrangle," which spans the subcontinent lengthwise and crosswise, is more or less complete, and it handles close to 70% of India's distribution needs. In addition, India's 10th Five-Year Plan (2002-07) calls for the construction of special routes for large-volume transportation, the introduction of high-speed freight cars, and the improvement of connections to port facilities. A plan is also being promoted for the construction of new freight lines to connect Calcutta, Delhi and Mumbai. A distribution network spanning different regions is steadily taking shape.



Calcutta is attracting IT companies ranging from IBM to India's Wipro (above) thanks to its intellectual talent and low costs

### Choosing Conditions that Meet Your Company's Needs

One criterion for deciding where to locate in India is the geographical characteristics of each state. Recently India's largest conglomerate, Tata Enterprises, has been building large manufacturing bases for automobiles and construction machinery in the State of West Bengal. This state, which has long been a stronghold of the Communist Party, has had frequent incidents of labor unrest, and there is still a strong impression that urban development is lagging seriously behind. There certainly have not been many examples of Japanese companies investing in this state.

However, the Communist Party itself is a ruling party, supporting the Manmohan Singh Administration from outside the Cabinet. In particular, West Bengal is recognized as a state that is actively working to attract investment even from local industry. An IT park called Salt Lake City has been created in the capital, Calcutta. It is being transformed into a very attractive state where it is easy to secure outstanding workers, due to a high level of education and a literacy rate that is among the highest in India. The advantageous location of Calcutta, as the major Indian city closest to the ASEAN countries, cannot be overlooked. A representative of a Japanese chemical manufacturer that

located in this state in 1997 stated that they have had no labor problems to date. The state's support system was also an important reason behind the company's decision to set up operations there.

As economic development progresses in India, the attractiveness of each state continues to change. Therefore, it is important not to make judgments based on outdated stereotypes. It is essential to choose the best circumstances for your own company based on a wide range of information. In order to provide support for small and medium-sized Japanese companies, JETRO opened a new Business Support Center in New Delhi in July 2006. The Center provides Japanese companies with rental office space for a certain period of time, giving them a base from which to gather the information needed before making an official investment decision, and also serving as a business location during the period required for corporate registration procedures. The Center also offers consulting services from in-house advisors. At the Center, JETRO is also working hard to show the distinct advantages that each Indian state has to offer. **J S**

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