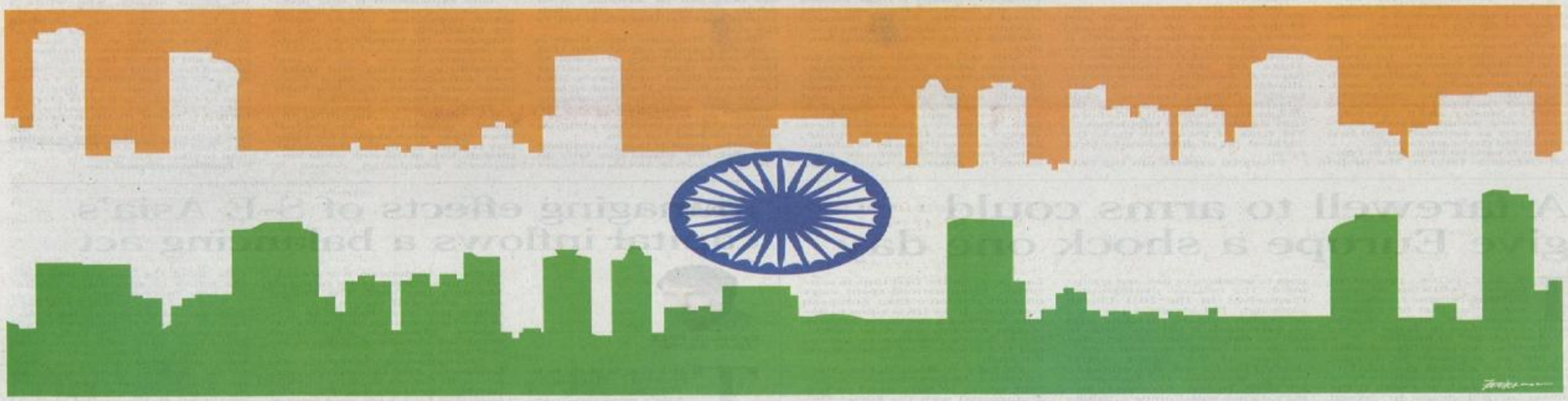
India's emerging cities beckon investors



BY INVITATION

By TARUN DAS
FOR THE STRAITS TIMES

INDIA, initially, was seen as "one place" for investment. For many not familiar with the country, it is still seen as a whole, rather than in parts.

Those more conversant with the country have gone to the next stage of analysis, looking at the strengths of different states. The third level of analysis and assessment relates to cities, especially the different states' capitals.

This is because of India's enormous diversity. It is even more complex than the European Union. Languages, customs, cultures, food habits, climate and infrastructure all vary, so investors have to weigh the pros and cons of states and cities in evaluating the investment opportunity and their strategy.

Traditionally, the four cities of focus were Delhi, Mumbai, Chennai and Kolkata, which form a quadrangle in the country: north, west, south and east.

The earliest investors were primarily in and around Kolkata, the capital of India till 1912. After independence in 1947, significant growth occurred in and around the other three cities, taking investment to the north, west and south and, with it, development.

Mumbai and Chennai were the central players, drawing massive investment in past decades.

In the last 20 years since the beginning of the opening up and deregulation process in 1991, and with the onset of new technology, especially information technology, new cities emerged as attractive targets for investment, for example, Bangalore, Hyderabad, Pune and Gurgaon. And a little behind were Coimbatore, Kochi, Ahmedabad, Vadodara and Chandigarh, among others.

There are several attributes that investors look for: physical infrastructure, including city traffic and transport; social infrastructure such as educational institutions and health care; availability of white and/or blue collar workforce, depending on the sector; operating costs such as office and housing rents; culture and nature of the people; the extent and type of trade unionism; availability of executives and managers; banking and finance infrastructure; strength of the services sector; city size and regional market; and, very importantly, the availability of land.

In particular, investors are keen to assess the efficiency of governance and safety and security, as provided by the state government and local authorities, including the police.

This is now a major issue for all investors concerned about, in particular, the safety of women executives and employees. Because of recent events, Delhi's image has been dented on this account. Going forward, women's safety will get significant attention.

A recent new phenomenon is the emergence of Tier-2 and Tier-3 towns and cities – as the urban migration has created new centres for investment and growth. There are at least 20 to 30 such places which have shown rapid growth over the past decade. These are some of the newer markets, representing business opportunity for the investor.

Another new, key factor for the investor is land availability, especially for setting up industrial parks, infrastructure projects and manufacturing facilities. India, with a population of more than one billion, has limited land availability.

Acquisition of land from the farming community can be very challenging since the community is fragmented and numerous farmers have to be persuaded to sell. Therefore, a state government which has acquired land and made it available to investors who require it is clearly seen positively as a facilitator. Gujarat, for example, has been able to attract major investments through rapid allotment of land for investors.

The Tata Nano manufacturing plant in Gujarat is a well-known example. Gujarat's policy has led to the rapid development of its cities.

Another key factor for investors is the nature of trade unionism and the availability of the workforce, especially for the manufacturing sector.

For example, in West Bengal, around Kolkata, the blue-collar workforce comes essentially from other states. West Bengal, as well as Kerala, have become known for activist trade unions. While investors have no issues about dealing with trade unions, activism can be a disadvantage to the state.

Hence, Kolkata has not received much manufacturing investment. However, its strength has been in services, especially information technology, for which its white-collar, educated workforce is readily available. Kerala has a similar experience. Both states are also into agribusiness.

Apart from the blue-collar workforce, a major attraction for the investor is the availability of educational institutions and a supply of engineers. This has led to Bangalore's growth explosion, especially in the sectors of IT, research and development and life sciences.

The last 20 years have witnessed a whole new set of cities drawing investors, thanks to the supply chain of technical talent. Hyderabad, Coimbatore, Pune, and Gurgaon are cities reflecting this dimension of development.

Some cities cut across sectors. Chennai, Mumbai, Bangalore, Pune, Gurgaon, and Coimbatore have shown investment strength in manufacturing and technology business. Cities of Gujarat – Ahmedabad, Vadodara and Surat – are joining this group with their investor appeal across the board because of the rapid decision-making capability of the state.

Another key factor is transparency in a climate of scams and corruption allegations. States and cities that offer "clean" decision-making are especially favoured by investors.

Currently, Gujarat is the front-runner for transparency in decisions relating to investors, thus making it very attractive. This is a state where "single-window" clearance actually operates. Bihar state, which is emerging from backwardness, also enjoys this reputation.

It is necessary to link the state and the city because state policies apply to the city. The investor has to assess the state and the city concurrently when evaluating strengths or otherwise.

What is important is that the choices have broadened, thanks to the emergence of new states and cities becoming interesting and attractive for investment. And within a state, new towns and cities have been added to the list.

So, an investor must not see and assess only the "India" story.

Of course, India itself has to be of interest. With its growth rate having exceeded 9 per cent per annum for three years, India has become the centre of investor attention after China.

Today, with growth below 6 per cent, plus other challenges regarding land, infrastructure and inflation, the India story may seem less attractive. But this is transitory. Investor sentiment has steadily improved over the last six months with US$24 billion (S$30 billion) flowing into India.

The next year is likely to witness a steady revival of the growth rate to 7 per cent which will be a globally high figure.

Investors, therefore, have a market of one billion plus, growing consumer demand and a wide variety of choices for participation. The traditional states and cities will continue to be strong but the newly emerging states of Gujarat, Bihar, Orissa, Madhya Pradesh and Rajasthan, and their cities and towns, will offer avenues for investment.

The important issue is a realistic and careful assessment in determining locations and operations. It will depend on the nature of the business and the relevance of different cities and states.

The writer headed the Confederation of Indian Industry (CII) for more than 30 years, stepping down as chief mentor in 2009. The CII has international offices in several countries, including Singapore, China and the United States.

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