

# Easing India's Export Jam

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## INTERNATIONAL

### Easing India's Export Jam

New Delhi, Seeking to Boost Trade, Tries Special Economic Zones

By ERIC BELLMAN

**T**HE TRAFFIC IS SO BAD on the road to India's busiest port here that local truckers measure speed in hours per mile instead of miles per hour. With container traffic surging as India's economy booms, hundreds of trucks—10 abreast in places—are sometimes stuck in five-mile lines for as many as 30 hours before they can unload their cargoes of towels, tea and tractors to be shipped around the globe.

"If you can get in after waiting only 15 hours, consider yourself lucky," grouses V. Padmanabhan, general manager of Seabird Marine Services Pvt. Ltd., a container freight station packed with acres of containers piled four high. "Traffic volume has been growing 20%, 25% a year but they have had the same four-lane road to the port since 1989."

India's annual economic growth has been racing along at an average 6% for the past five years, but investment in key infrastructure projects—roads and ports, power and water—to support the expansion hasn't kept pace. It can take six to 12 weeks, for example, to deliver products to the U.S. from India, while Chinese exports can move from the factory floor to U.S. stores in as little as three weeks.

Now, all that is changing as India starts to build its own version of the sprawling special economic zones, or SEZs, that served as the commercial beachheads for the opening of China's economy to the world in the 1980s.

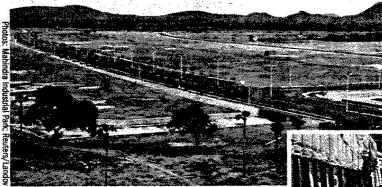
The government, Indian companies and foreign investors are spending billions of dollars to set up such zones across the country, hoping to use them to spur export growth the same way China did. The zones promise investors—foreign and local—first-class infrastructure, big tax breaks and less government red tape.

The push into SEZs is the latest example of how India is trying to capitalize on its inexpensive and well-educated work force to produce more export earnings, which New Delhi aims to increase by 20% a year over the next five years. Revving up exports is crucial if India wants to provide more and better jobs for its population of one billion. India receives about \$1 in foreign investment for every \$4 that China attracts. And India's \$63 billion in exports last year amounted to less than 15% of what China shipped to the world.

India's first private sector-run SEZ is shaping up 620 miles southeast of Bombay near Madras at Mahindra City, a \$2 billion, 1,400-acre commercial area with a new six-lane highway to ensure trade moves swiftly in and out of the zone. While blackouts and water shortages are a problem in downtown Madras, Mahindra City has two stable and independent sources of power and enough water for a city. It will have one-stop processing for all state and federal approvals needed to do business and its own customs office so that the computer hard drives, auto parts and shirts that leave the complex won't face delays at Madras's port.

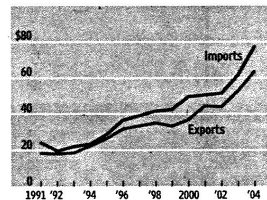
India's second-largest software and outsourcing company, Infosys Technologies Ltd., is Mahindra City's first tenant. In the next few months, Infosys will open offices on its 129-acre campus, which is earmarked to become one of the world's biggest software-development centers. "Ultimately we plan to have 25,000 people on our campus there," says Mohandas Pai, chief financial officer of Infosys in Bangalore. "There are some tax benefits to being in a zone, but to us it was the infrastructure that was most important."

Bombay, India



Trade Flows

As India's trade mushrooms, infrastructure struggles to keep up. Below, foreign trade, in billions



Note: Fiscal years end March 31

Source: India's Ministry of Commerce and Industry

Developed by Mahindra Industrial Park Ltd., the construction arm of tractor and car maker Mahindra & Mahindra Ltd., the SEZ is a sprawling complex with roads, power, water, sewage and phone lines awaiting an influx of factories. The zone is expected to have 10 new tenants—including electronics, auto-parts and textile exporters—next year and 50 more over the next five years. The zone also will provide housing, schools, hospitals, malls and a golf course.

Mahindra says there is a labor pool of more than one million workers in Tamil Nadu state, with about 300,000 new graduates entering the job market every year.

#### The special economic zones promise first-class infrastructure and tax breaks.

"We booked that area because it has many engineering colleges around," says Arun Nanda, executive director at Mahindra & Mahindra in Bombay. "It is in the heart of the education belt around Tamil Nadu."

During the past year, India has approved more than 25 SEZs—some of them government-run, but most led by private-sector investors. In addition to the one in Madras, there are other private-sector-led zones planned near Bombay and Calcutta. New Delhi expects to complete a package of tax and tariff breaks and to lower regulatory barriers for the zones by the end of the year.

"The government intends to enact legislation shortly for SEZs to give stability to the policy regime," says Jayant Dasgupta, joint secretary of the Department of Commerce in New Delhi. "It aims to provide an internationally competitive, duty-free and hassle-free environment for exports."

A six-lane highway (left) graces Mahindra City, a new export zone near Madras, even as congestion and truckers' strikes (below) clog traffic into Bombay's main port.



ported by quality infrastructure."

To make the new SEZs work, New Delhi appears ready to experiment with some politically unpopular policies. For example, one of India's biggest barriers to foreign investment is its stringent labor laws, which make it difficult for large companies to fire employees or to use contract laborers. In addition, regular strikes by factory workers, dockworkers and truckers frequently slow shipments. Exporters hope that employer-friendly labor laws in the zones could reduce these delays.

Exporters also expect New Delhi to allow full foreign ownership of the companies that build and control SEZ buildings, facilities and real estate. Outside the zones, foreigners aren't allowed to invest in real-estate development.

To be sure, export-promotion drives aren't new in India. The government has in the past offered special tax status for qualified exporters and set up so-called export-processing zones. But such policies failed to generate much export growth as there were still many restrictions on how exporters did business and foreign investment wasn't welcomed. Often, using the export-processing zones meant more—not less—paperwork.

"The old concept has clearly not worked," says Chetan Aha, economist at Morgan Stanley in Bombay. "For it to succeed you need pockets of state-of-the-art infrastructure and you need to keep the government away from intervening with the companies."

Harshad Daswani, business-development manager at Fountainhead Exports in Bombay, knows that only too well. He has truckloads of towels stuck at Bombay's port. He says he can get thread from Japan delivered to his company's factory in China in three days, while it takes his drivers eight days to move linen from his factory in the northwestern state of Gujarat to a ship in Bombay. Mr. Daswani says he doesn't know what to tell his customers, which include U.S. retail giant Wal-Mart Stores Inc. "Bombay docks are a nightmare," he says. "But if you try to give your customers these excuses they just don't buy from you—they go to China."

Mr. Daswani figures Fountainhead and other exporters in India could cut costs by 20% and boost sales by 30% a year if India had better roads, ports and airports. Privately run SEZs could help. "They will be more concerned with client satisfaction, there will be less down time, they will keep labor in check to make sure they are profitable," predicts Mr. Daswani. "As soon as something comes up in or around Bombay, there's no doubt we will be among the first to be a part of it."