

## A mix of the old and the new economy



Second generation reforms have given industry in Tamil Nadu a big fillip

By D. Govardan

Decades before the liberalisation wave hit Indian shores in 1991, Tamil Nadu had established itself on the industrial map of India as a hub for commercial vehicles and auto components, spinning and textile machinery, leather, pumps and motors among others.

The past decade signifying the post-liberalisation era, has seen a manifold jump on several other fronts, including passenger car and two wheeler manufacture, IT development and the emerging BPO wave. This could be achieved because Tamil Nadu responded with pro-business policies, like dismantling of licensing restrictions. More important, the states began to play a crucial role in attracting investments.

Tamil Nadu Chief Minister J Jayalithaa is striving hard to optimize the state's competitiveness in new growth sectors (knowledge industries like IT and Biotech), even as she is determined to ensure the revival of old economy agricultural and industrial sectors. Her government has also been pushing second generation reforms to support the manufacturing sector with a declared vision to make Tamil Nadu a leading player in IT and a regional gateway to Asia by 2006, a top ranking exporter of manufactured goods, and to double state per capita income by 2010.

"Chennai city and Tamil Nadu are moving ahead. We aim to reposition Chennai as a premier city, as the best new metropolitan destination for investment in Asia," Ms Jayalithaa had said an year ago, while inaugurat-

The scenario has changed dramatically for the better now, thanks to the entry of these auto majors. For Ford and Hyundai did not come alone. Along with the first came Visteon, its major component supplier, while

one of the largest exporters of cars and components out of India," Mr BVR Subbu, president, HMIL said.

According to the Centre for Monitoring Indian Economy (CMIE), Tamil Nadu has attracted a total investment of almost \$30 billion in 698 projects. Of this, 271 projects in the manufacturing sector accounted for an investment of \$10 billion. The major flow of investment is into sectors like chemicals, textiles, drugs and pharma, petroleum products, non-metallic mineral products, cement, machinery, automobile and ancillaries and transport equipment.

Mr B Santhanam, managing director, Saint Gobain Glass said, "Unlike a few other states in South India, Tamil Nadu's industrial growth is largely private enterprise driven without much public sector investment. Further, the industrial base is broad and diversified". "As has happened in the case of BPOs, India is sitting on a gold mine of outsourcing opportunities from western countries in manufacturing. The latter think only of two markets - India and China. And Tamil Nadu has all the strengths such as good ports, international airport, communication network, good work culture and a very good educational system," added Suresh Krishna, chairman and managing director, Sundaram Fasteners, suppliers to GM, and the first Indian auto component supplier to set up a manufacturing base in China.

### Even as Tamil Nadu creates history for its IT achievements, its manufacturing sector has risen to new levels as well.

ing the American International School.

A quick recap on what happened over the last eight years on the passenger car sector alone would help understand what the state can achieve. Today, Tamil Nadu has the distinction of being the only state in the country to have attracted three greenfield car projects, that of Ford, Hyundai and Mitsubishi.

Their entry has not only resulted in a massive investment of nearly \$900 million in a short span, but also resurrected the auto component sector. Till then, despite being part of the six-decade old Indian automobile industry and enjoying a strong component base, Tamil Nadu did not have many vehicle manufacturers except Ashok Leyland and to a little extent the then functional Standard Motors, to spur their growth.

Hyundai's entry has seen over a dozen Korean auto component suppliers following it.

"To top all these factors is the thrust given by the state government to support the industrialisation by reducing red tape and bureaucratic processes which were deterring the foreign investors from coming into India," said John Parker, former CEO, Ford India. Today, Ford India has not only sold over 90,000 cars in the domestic market, but also been exporting full cars and components to markets like Mexico, South Africa and China. Further, it has also opened up direct export opportunities for its Indian auto component suppliers.

If Ford has its own success story, Hyundai Motor India's case is a mega-success story. "In a record time of less than six years, we have sold over 600,000 cars. We are set to emerge as

## A Human Development Report Card

Few chief ministers have emphasized and concentrated upon raising the Human Development Index (HDI) as has Chief Minister J Jayalithaa, and it is a record of which she is particularly proud. An initiative of the state government with the United Nations Development Programme (UNDP) and the Union Planning Commission, the HDI value ranges from 0 to 1 and the value for a country shows the distance it must travel to reach the maximum possible of 1.

The HDI was constructed for 174 countries in 2000. Of these 46 fell in the high development category (.800) , 93 in the medium development category (.500 - .790). The UNDP's 8 Millennium Development Goals for 2015 include eradication of extreme poverty and hunger, achieving universal primary education, reduction of child mortality, promotion of gender equality and empowerment of women, combating HIV, malaria and other diseases and ensuring environmental sustainability. Here are some highlights of Tamil Nadu's HDI indices.

Tamil Nadu HDI .657

Overall for India .571

### Gender Development

Value for Tamil Nadu .766

Overall for India .553

### Employment, Income, Poverty

Working pop (2001) 43.86%

Pop Below Poverty Line (combined urban and rural) 1973-74 56.94%

Pop Below Poverty Line (combined urban and rural) now 21.12%

### Health and Nutrition

Decline in Crude Birth Rate (CBR) between 1971 and 2001 nearly 39%

Overall for India 30%

Life expectancy (males) 65.2 years

Life expectancy (females) 67.6 years

Maternal mortality rate from 3.76/1000 in 1992-93 to 1.40/1000 now

Infant mortality rate 125/1000 in 1970 to 44/1000 now

### Literacy and Education

TN spent 19.9% of expenditure on literacy and education

State position on literacy in India No. 3

## Choosing Chennai



"The accelerated development of our passenger car project in Tamil Nadu is largely due to the enthusiastic efforts of the Government of Tamil Nadu. Chennai is the choice due to the efforts of a transparent and pro-active state machinery".

Y.S. Kim  
CEO, Hyundai Motors India

"It is in the infrastructure support such as energy, land ... that Tamil Nadu scores over other states. The good experiences that we had with Tamil Nadu in terms of its people, its government and its bureaucracy, has really been responsible for us to decide on brown field expansion at an investment in excess of US \$100 million over the next three years. Our decision to be here has been a very sound and economically satisfactory one".

B. Santhanam  
CEO, Saint Gobain Glass India, France

"Our initial rapport with Chennai has been so good that we have been able to show it as a long term commitment to the state".

Ravi Bhatia  
Head - World Bank Back Office, Chennai

"When we looked at locations all over India, and we looked at centers for manufacturing in South India, in Tamil Nadu, we looked at Maharashtra, outside Mumbai, we looked at the North, in the Delhi metro area, we looked into a series of factors. Availability of services and infrastructure, power, water, things like that, logistics - very important in this business, road logistics, ports. I think most important is the availability of a well-trained labour force and cost competitiveness. We looked at all these factors and made an evaluation...and Tamil Nadu came out top of the list".

David Friedman  
MD and President,  
Ford India Limited

"An important component of what we have been able to achieve is the city of Chennai itself. We have found it easy to attract people to come and work with us, the infrastructure and facilities have been reliable and efficient, and we have been very gratified at the assistance and cooperation we have obtained from the state government agencies, whenever we have needed it".

Fayezul H Choudhury  
Vice President and Controller,  
World Bank

I abhor the practice of female infanticide and female foeticide. The entire administration has now been geared to put an end to these practices. I have also implemented the innovative Girl Child Protection Scheme with an endowment in the name of the girl child, thus providing the family with security and the feeling that she is never to be regarded as a liability.



## Infrastructure is the face of the future



Infrastructure has changed the face of Chennai, from traditional to modern, bustling urbscape

It's playing a vital part in the economic arena that India shares with rest of the world. The zeal and the vigor that the Tamil Nadu government is exhibiting has led it to the position of being one of the fastest growing state economies in India, making it one of the top three most attractive investment destinations in the country.

What makes Tamil Nadu such a clear favourite? Here are some facts:

**Past performance:** Many independent evaluation studies have shown that the state of Tamil Nadu has been well endowed with better infrastructure facilities than the rest of India. It is on these grounds that the foreign investors choose it as a fertile business destination.

**People - the Human Resources:** It is in manpower that the state ranks first. Number 1 in skilled manpower availability in India with an annual turnout of about 80,000. Graduate engineers from universities and 252 engineering colleges, 56,000 diploma holders from Polytechnics, and about 300,000 science and arts graduates from colleges, Tamil Nadu also produces about 35,000+ software engineers, again the highest in India. Anna University in Tamil Nadu is the World's largest Engineering University ([www.annauniv.edu](http://www.annauniv.edu)). Chennai, the capital city of Tamil Nadu has some of the premier educational institutions of India - Indian Institute of Technology (IIT), Anna University and the Madras Institute of Technology. Combined with a highly-efficient human resources pool are relatively low wage levels. Currently, three days wages in the US are equivalent to about one month salary in a BPO facility in Tamil Nadu. This means a whopping 90% wage costs savings for projects located in Tamil Nadu. Add to it the fact that industrial peace and tranquility and man-days lost due to labour unrest is currently less than 1%, the lowest in India. It's a win-win situation for investors.

**Power:** Tamil Nadu has installed power generating capacity of 9299 MW - the second largest in India. The maximum demand reached so far was 7253 MW with no deficits and outages. Tamil Nadu has the largest wind mill power generation capacity of 1361 MW. ([www.tnecb.org](http://www.tnecb.org)). The Tamil Nadu Electricity Board (TNEB) has evolved improvement schemes in Sub Transmission and

Distribution networks for reducing Transmission and Distribution losses during the Tenth Plan period at an estimated cost of \$900 million through the Accelerated Power Development Reforms Programme.

**Ports:** Geographically too the state of Tamil Nadu stands at an advantage. Tamil Nadu has a long coastal line of 1000 kms, dotted with three major ports and 15 minor ports. Chennai port, ([www.chennaiporttrust.com](http://www.chennaiporttrust.com)). Ennore port ([www.ennoreporttrust.com](http://www.ennoreporttrust.com)), the first to be in corporate format is located 35 kms. north of Chennai Port handles bulk cargo. Tuticorin is the third.

**Airport Connectivity:** There are three International airports at Chennai, Madurai and Coimbatore apart from four domestic airports. Chennai international airport is the third largest in India, currently handling 189 direct international flights every week and about 2.0 million passengers every year. A second International airport at Chennai is also planned.

**Communication:** Tamil Nadu is

endowed with state-of-the-art communication facilities. The urban tele-density in Tamil Nadu is 15.20, one of the highest in India, including all value-added services such as including cellular, radio paging, International Private Leased Circuit (IPLC), Managed Data Network (MDN) Service based on Frame Relay technology, Virtual Private Network Service (IP-VPN), INMARSAT, ISDN, Video conferencing, VSAT, National Long Distance Leased Line (NLD LL) and a world-class Data center for data warehousing and disaster recovery. Chennai has the largest bandwidth in India. VSNL is also currently laying a submarine cable with a bandwidth of 5400 gbps linking Chennai with Singapore, likely to be operational in 2005. This makes the combined bandwidth of Chennai 13800 gbps.

**Industrial Parks:** Tamil Nadu has a wide network of 110 industrial estates and Parks promoted by State Industries Promotion Corporation of Tamil Nadu ([www.sipcot.com](http://www.sipcot.com)). Apart from general purpose industrial parks,

the government is promoting specialized industrial parks for certain products namely, apparel, food, textile processing, chemicals and leather. Besides, there is the rubber park in Kanyakumari - a rubber growing belt, a floriculture park near Hosur and a marine bio park near Chennai ([www.tidco.com](http://www.tidco.com)).

### Tamil Nadu is emerging as the new growth model in India. Good infrastructure has proved attractive and the state is now a major base for about 2100 foreign companies with investments of more than \$6.5 billion.

In the Private-Public-Partnership (PPP) format, TIDCO and Mahindra & Mahindra, a leading industrial house of India, have jointly promoted Mahindra Industrial Park, otherwise called Mahindra City in Maraimalai Nagar. It is a modern industrial park with world class infrastructure in an area of about 1400 acres ([www.mahindracity.com](http://www.mahindracity.com)).

To encourage knowledge-based industries namely software and biotechnology, state government has promoted specialized parks. The TIDEL Park ([www.itparkchennai.com](http://www.itparkchennai.com)) is the largest IT Park of India with world class infrastructure. It houses 37 IT majors. Another one in collaboration with Ascendas of Singapore is promoting the second IT Park with a total built-up area of 1.5 million sq. feet.

**Roads:** Tamil Nadu has the highest road density in India. The road density of Tamil Nadu is 1588 kms. per 1000 sq.km. area as against India's average being 758.

The IT Bay Area on the Old Mahabalipuram road (IT Express Way) will also be improved by TNDRDC as a six lane road ([www.tnrdc.com](http://www.tnrdc.com)).

**Rail connectivity:** Tamil Nadu has a rail route length of 4088 kms. with a high rail route density.