

The Australian

Chennai on the road to become small-car factory hub for the world

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- From: The Wall Street Journal
- July 09, 2010 3:38PM

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Ford has invested \$US1 billion in its Chennai plant and deployed robot technology it does not use in the US.

Source: Bloomberg

THE world's top carmakers are racing to Chennai, which will soon produce more vehicles than any US state made last year.

Chennai, the south Indian port city, was built around a former British fort, and in many ways resembles Detroit circa 1910.

The metropolis of about 5 million people is booming as scores of international car-makers and suppliers have set up shop. Ford Motor, Hyundai Motor, Nissan Motor, Renault, Daimler and BMW have all converged in Chennai.

They are spending billions of dollars to make Chennai one of the world's biggest hubs of small cars for export, as well as for increasingly affluent Indians. Soon, the city will turn out close to 1.5m vehicles a year, more than any one US state made last year.

Car-parts suppliers also are placing big bets on the city, formerly known as Madras.

Tyre company Michelin and window-maker Saint-Gobain, both of France, are setting up some of their biggest factories in Chennai, while Germany's Daimler is building a multi-million-dollar test track.

All the investment has generated jobs for more than 200,000 people and accounts for 12 per cent of the economic output of the state of Tamil Nadu.

The kind of manufacturing being done in Chennai is what India needs to bridge the gap between its agricultural workforce, which makes up 60 per cent of its population, and high-end services industries, such as outsourcing, that employ relatively few.

Unlike China, India hasn't been able to attract as many foreign investors to set up factories because of bureaucratic barriers and volatile politics. But Chennai's boom is a sign that India can create a productive environment when economic circumstances are right and demand is there. India's economy is expected to grow 9 per cent this year and Tamil Nadu has worked to minimise barriers to investment.

Hyundai has invested \$US2 billion (\$2.3bn) here, and recently expanded to be able to produce 650,000 cars a year. It is not only cheap factory-floor labour that attracted the South Korean company, but also an abundance of low-wage engineers to program the robots that help churn out vehicles.

On the other side of town, Ford has invested close to \$US1bn, deploying production-line technology it doesn't even use in the US, including car-painting robots and a deep-water testing pool, to ensure cars won't leak during monsoon floods.

Michael Boneham, the Chennai-based managing director of Ford's India operations, said educated labour, which is a consistent industrial policy, access to a port and government financial incentives all played a role in luring the US carmaker to the city.

"India is now on the radar as one of the two most important markets for Ford strategically worldwide," Mr Boneham said, the other being China.

Ford, among the first foreign firms here, recently announced its best ever quarter in India: Sales more than tripled in the second quarter compared to a year earlier to 22,858 vehicles thanks to its recently expanded Chennai facilities.

The state of Tamil Nadu has been better than most Indian jurisdictions at providing the land, roads and electricity that the car industry needs. It also set up a single office for them to obtain the dozens of government approvals and licences required to start or expand a business.

Big projects in India too often run into problems when local governments change parties. But when the state government was taken over by the DMK from the AIADMK in 2006, auto executives said they noticed no change in how they were treated.

The influx of foreigners and foreign money is altering this historic city. In the largely vegetarian region there is little meat for sale. But the Seoul Restaurant is packed with Korean families grilling beef at their tables.

The student population at the Chennai American School has quadrupled to close to 800 as new pupils have arrived from the US, Japan, Europe and Korea. A sprawling amusement park across the street from the Hyundai factory, a French bakery, evangelical Korean churches and Japanese grocery stores have popped up in recent years.

"The city has really changed," said R. Sethuraman, the Chennai-based senior vice-president of finance and corporate affairs at Hyundai's India unit. "We used to only have South Indian food."

New malls and apartments are being built to serve the growing middle class of auto workers. The state's technical institutes, known for producing computer programmers and engineers, are switching focus to skills useful at car companies.

The growth of the car industry hasn't been without problems. Hyundai unions have staged several strikes to demand better treatment of workers, traffic has become more congested and rents in some of the best neighbourhoods are now out of reach for the average Indian.

But Chennai's production capacity is set to rise even further. Japan's Nissan just started making cars here in May after investing close to \$US1bb, and it plans to ramp up to more than 400,000 cars a year. Its Indian-made sub-compact, the Micra, will hit global roads in October.

Additional reporting by Arlene Chang

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