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India's Japan-Only Industrial Park Fills To 80%

NEW DELHI (Nikkei)—Six companies, including Daikin Industries Ltd., have said they will establish factories at India's first exclusive industrial park for Japanese firms in the northwestern state of Rajasthan. Seven other companies have also expressed their decisions to move into the industrial park, though they are waiting for the allotment of the land.

The companies have been attracted by the low land prices and convenient location.

The Neemrana industrial park is being developed by Rajasthan State Industrial Development & Investment Corp. Of the initially developed 1.2-million-sq.-meter southwestern area, about 80% has already been sold.

The industrial park is situated just over 100km southwest of Indira Gandhi International Airport in Delhi, along National Highway 8 that connects New Delhi and Mumbai. Between New Delhi and Neemrana, the highway passes through industrial areas in the state of Haryana, such as Gurgaon and Manesar where Suzuki Motor Corp. has factories.

Daikin plans to produce at the industrial park commercial-use air conditioners targeting office buildings, large commercial facilities, airports and other establishments in India. The company will build a factory on a 160,000-sq.-meter site there at a cost of about 3.7 billion yen, and start production in March 2009 with plans to export products to surrounding countries, the Middle East and Africa.

Other Japanese firms that have acquired sites at the industrial park are autoparts makers, including Nissin Kogyo Co., a major brake system maker affiliated with Honda Motor Co., and Mitsui Chemicals Inc., which produces plastic materials used in bumpers and interior parts. The location is convenient for supplying products to Suzuki and Honda factories.

Yoichi Iijima, president of Nissin Kogyo's Indian subsidiary, said the company selected Neemrana after taking into account distances to clients, land prices, available land area and local wage levels.

The company was particularly swayed by the large difference in land prices from elsewhere in the country. The prices of two candidate sites in another state were 6,000 rupees, or about 14,700 yen, per sq. meter, and 3,700 rupees, but the unit price of the Neemrana site was only 970 rupees.

Nissin sought 120,000 sq. meters of land to allow for future expansion, but only 60,000 sq. meters was available at most in the other candidate locations. Around New Delhi, land prices are soaring conspicuously, and, moreover, it has become difficult to secure a sizable factory site there.

It was Japan's Ministry of Economy, Trade and Industry and the Japan External Trade Organization (JETRO) that took the initiative in realizing the Japan-only industrial park, with some tax breaks, through a series of negotiations with the state government.

There remain problems, however. Iijima mentioned the need to develop reliable electric power infrastructure. Power shortage is a common problem afflicting Japanese firms operating in India. "Machining does not tolerate power failure even for an instant, so we will deal with the problem with in-house generation at first," he said. Iijima also said he wants India to improve technical education at schools. Housing is another problem, with the standard of housing around the industrial park much lower than that required by a Japanese firm.

A 1.2-million-sq.-meter northeastern area of the industrial park is still up for sale, which more than 100 Japanese companies have visited. There are also many Japanese manufacturers are looking for factory sites in other areas, according to JETRO's New Delhi office.

Under an arrangement with Japan, the state government will sell vacant lots in Neemrana preferentially to Japanese firms until July.

Interest in India as a possible production base has also grown rapidly among small and midsize Japanese companies. A JETRO-led inspection group that visited New Delhi and other parts of India in February consisted of about 40 member firms and two-thirds of them were small and midsize businesses. Not a few of the tour participants, however, decided that it was too early to invest in the country.

Members of the inspection group asked personnel at Japanese-affiliated companies they visited - including an Indian joint venture between Yakult Honsha Co. and French dairy business Groupe Danone SA and a motorcycle subsidiary of Honda -- about their management situation, such as employee education, wage levels and labor unions.

Their enthusiasm, however, was dampened by the poor infrastructure they witnessed and the mistrust they felt toward the Indian government. Some members of the group said they felt high potential for growth in India, while many said they became cautious because they found it very difficult for small and midsize companies to establish factories there.

Mistrust toward India arises from the fact that high government officials skillfully present optimistic visions of growth and public investment plans but lack specifics about the plans and how to secure necessary funds. Alert corporate executives sense the risk peculiar to India that there are plans but they are not implemented.

It is true that operations in India are driving growth for some firms like Suzuki, but smaller firms with limited management resources still see high hurdles in the country.

- Translated from an article written by Nikkei staff writer Hiroshi Kotani.

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