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A New Detroit Rises in India's South

Car Makers Are Lured by Chennai's Port, Educated Workers and Limited Hassles

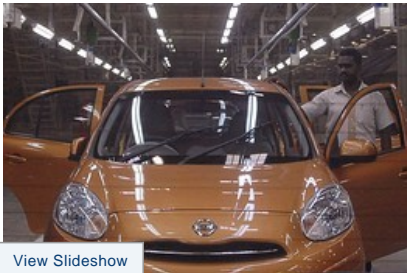
By ERIC BELLMAN

CHENNAI, India—This Indian port city, built around a former British fort, in many ways resembles Detroit circa 1910.

The metropolis of about five million people is booming as scores of international car makers and suppliers have set up shop. [Ford Motor Co.](#), [Hyundai Motor Co.](#), [Nissan Motor Co.](#), [Renault SA](#), [Daimler AG](#) and [BMW AG](#) all have converged here.

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 1.5 million vehicles a year, more than any one U.S. state made last year.

Cars via Chennai



Babu/Reuters

The Micra is being built at a new Renault-Nissan auto plant in Chennai.

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Reuters

Car makers are assembling vehicles in Chennai both for Indian buyers and global markets. Above, the city's port

Car-parts suppliers also are placing big bets on the city, formerly known as Madras. Tire company Michelin SA and window maker Saint-Gobain SA, both of France, are setting up some of their biggest factories globally in Chennai. Germany's Daimler, meantime, is building a multimillion-dollar test track.

All the investment has generated jobs for more than 200,000 people and accounts for 12% 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 work force, which makes up 60% 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% this year and Tamil Nadu has worked to minimize barriers to investment.

Hyundai has invested \$2 billion here, and recently expanded to be able to produce 650,000 cars a year. It is not only cheap factory-floor labor 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 \$1 billion, deploying production-line technology it doesn't even use in the U.S., 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 the educated labor, a consistent industrial policy, access to a port and government financial incentives all played a role in luring the U.S. car maker to the city.

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



Chennai in southern India is rapidly becoming the new Detroit of south Asia as billions of dollars in foreign investment and hundreds of car and car part companies are changing the way this once sleepy port town works and plays.

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 licenses 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 U.S., 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.

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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 neighborhoods are now out of reach of 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 \$1 billion, and it plans to ramp up to more than 400,000 cars a year. Its Indian-made subcompact, the Micra, will hit global roads in October.

—Arlene Chang contributed to this article.

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