Easing India’s Export Jam

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

By Eric Bellman

BOMBAY, India

The 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 -- from armored to languid -- are sometimes stuck in five-mile lines for as many as 30 hours before they can unload their cargoes of textiles, iron and tractors to be shipped around the globe.

“If you can get in after waiting only 15 hours, consider yourself lucky,” growles Y. Poddarshah, general manager of Seshadri Marine Services Pvt. Ltd., a container freight carrier packed with acres of containers piled four high. “Traffic volume has been growing 15%, 20% a year, but they have had the same four-lane road to the port since 1988.”

India’s annual economic growth has been racing along at an average of 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 10 weeks, for example, to deliver parts to the U.S. from India, while Chinese experts 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 the commercial beachhead for the opening of China’s economy to the world in the 1990s.

The government, Indian companies and foreign investors are spending billions of dollars to set up such zones across the nation, hoping to lure them in to speed export growth the same way China did. The incentives include lower taxes, free land, and first-class infrastructure, but local and global experts warn they won’t be easy to get right.

The push into SEZs is the latest example of how India is trying to explain its large and well-educated work force to produce more export volume, which New Delhi aims to increase by 50% a year over the next five years. Increasing 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 1% that China attracts. And India’s $10 billion in exports last year amounted to less than 1% of what China shipped to the world.

India’s first private-sector run SEZ is shaping up 620 miles southwest of Bombay near Madras at Mahindra City, a 2,000-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 acquisition and export approvals needed to do business and its own customs office so that companies need just one office to get the major permits.

In the next few months, Infosys will open offices on its 129-acre campus, which is expected to become one of the world’s biggest software-development centers. “We probably will have 25,000 people on our campus there,” says Mohandas Pai, the company’s chief financial officer of Infosys in Bangalore. “There are some-tax benefits to set up a zone, but to us it was the infrastructure that we were interested in.”

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

“The problem is that a few of them have worked more than others. But there’s no question that they’re being built,” says Jayant Dasgupta, minister of Commerce in New Delhi. “It aims to provide an internationally competitive, lean and efficient environment for export units supported by quality infrastructure.”

To test the new SEZs, India appears ready to experiment with some of the most impressive infrastructure projects: One of India’s biggest barriers to foreign investment in the strict labor laws, which make it difficult for large companies to hire employees or to use contract labor. In addition, round-the-clock 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 the zones, allowing foreign companies and facilities to operate outside. The Export Promotion Council is expected to soon allow foreign investors to build real-estate projects.

To be sure, some of the new zones aren’t new in India. The government has a long history of special economic zones, but many qualified exporters and set up so-called export processing zones to offset the high costs. But such policies failed to generate much export growth as there were still many restrictions on how export-only businesses and foreign investment wasn’t welcomed. Now, the export-processing zones mean more--not less--paperwork.

The old concept has clearly not worked,” says Chevirek Ahlu, economist at Morgan Stanley in Bombay. “It’s a way to speed the export processing and to set up a world-class infrastructure and zone. And so keep the government away from interfering in the private sector.”

Harshad Damani, business-development manager at Ponautabad Export, in Bombay, knows that only too well. He has trucksloads of textiles ready at Bombay’s port. He says he can get round-the-clock service from local companies, but his factories in the northwestern state of Gujarat are up to 700 miles away. Mr. Damani says he doesn’t know what it means to tell his customers, which include U.S. retail giant Wal-Mart Stores Inc. “We don’t know what it means to tell my customers they’re facing delays. We don’t know what it means to tell them the goods are delayed. We don’t know what it means to tell them they can’t get the goods.”

Mr. Damani figures Ponautabad and other exporters in India could cut costs by 30% and boost sales by more than a year if it had better roads, ports and airports. He’s not alone. “We’re not alone. We’re not alone,” predicts Mr. Damani. “As soon as some customers come up and start doing business, they don’t have to offer the same equipment or infrastructure. It’s the same equipment or infrastructure as the rest of the world.”

A six-lane highway (left) eases Mahindra City, a new export zone near Madras, on its way to the port.