

India's Urbanization: A Trade and Investment Opportunity



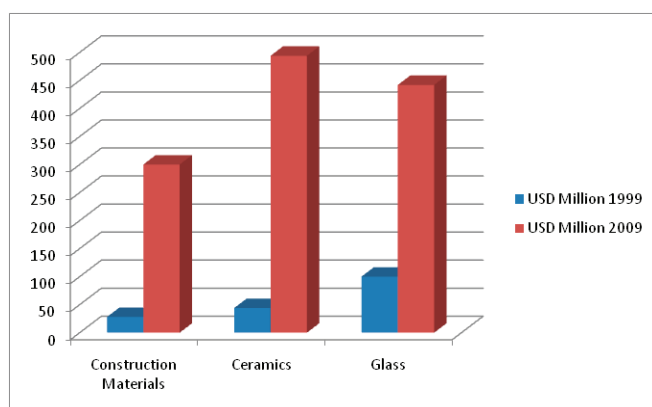
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As India's economy continues to grow, and as services and manufacturing employs an increasingly larger share of India's workforce, rapid urbanization has begun to take place. This move from villages to India's cities has not received the focused attention of the international trade and business community in terms of the opportunity it presents to global businesses. Consider the scale of transformation; it is estimated that India's urban population will increase from the current 300 million to about 520 million by 2020. This essentially means that India will add 220 million new urban residents in the next ten years which is more than the entire population of a large country like Brazil. India's current urban infrastructure needs to expand several times to just meet current requirements in terms of providing services, housing and transport to its urban citizens. If one adds the demands that would be made to develop the additional capacity to absorb new urban citizens in the next ten years one can start seeing the scale of investment, services, and materials required to address India's urbanization needs.

The four key areas where international participation, whether through the movement of materials and goods, services, or investment would be critical to meet India's needs are mass rapid urban transport, housing, waste management, and environmental services. India's federal ministry for urban development as well as the state level urban development authorities has already ear-marked large sums of money for investment in these areas. The Jawaharlal Nehru National Urban Renewal Mission (JNURRM) have a budget USD 20 billion for addressing various issues related to urban transport and sustainable waste management. The Rail India Technical and Engineering Services (RITES), a leading Indian public sector transport specialist has estimated that developing mass rapid urban transport in India would require an investment of approximately USD 50 billion by 2020. Development of new townships and of better housing would involve investments of over 100 billion USD. According to some forecasts 31 million new homes will be required in India by 2015. This only represents the tip of the iceberg as experts point out that the housing loans and mortgages market is still from fully developed and it is yet reach out effectively to India's 124 million lower-middle income households and develop a market for low-cost housing finance.

So what does this mean in terms of trade and investment opportunities for businesses across the world? In short, even if we assume that only 20% of the demand for goods and services required for India's urban development in the next decade will be sourced from outside it represents a 40 billion USD market. It would be useful to look at:

Table 1. Imports of construction materials (HS 68), ceramics (HS 69), and glass (HS 70) in 2009 compared to 1999



Source: Ministry of Commerce, India

Housing

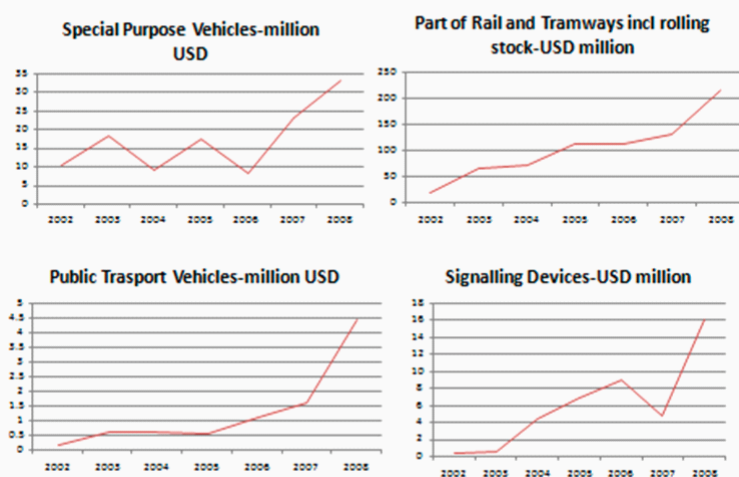
The scale of growth in terms of imports related to housing and construction in India in the last ten years have been phenomenal. Table 1 presents the imports of construction materials (HS 68), ceramics (HS 69), and glass (HS 70) in 2009 compared to 1999.

India's annual imports for construction materials and ceramics have grown by over ten-times, and given the nature of India's urban development is likely to increase several times more in the coming decade. But it is not just imports of materials that present an opportunity; there will demand for new types of hybrid construction material, new building techniques and engineering services, and advanced architectural services the domestic capacity for all of which is currently very low in India and the country would look outwards to source such technologies and services.

Mass rapid urban transport

Given the already problematic state of traffic jams and growing urban sprawl, urban mass rapid transport has become a necessity. This is especially true for some of the larger metropolitan centres. Table 2 below shows the rising trends in demand for various components of transport machinery relevant to urban transport. While the base remains low, for example imports of special purpose vehicles in 2008 was just over USD 30 million, the increasing sophistication of India urban transport needs would mean that a lot of the machinery and materials would not have a domestic supplier and would thus be entirely imported. It would also give rise to FDI as MNC manufacturers look to build capacity in India to serve a rapidly expanding foreign market. A good example is Volvo, whose buses are becoming an increasingly common sight on Indian roads.

Table 2. Imports of Machinery and Stock related to Urban and Mass rapid transport



Source: UNCTAD (intracen.org)

Waste management

The demand for better and more efficient waste management technologies, plant and machinery would be led by two factors, the growing population in urban areas and the increasing need felt for a better quality of life in terms of cleanliness and environmental outcomes in cities. Traditional systems in operation in most Indian cities will be phased out. Modern waste management systems that also recycles waste will become the norm and this will have to involve the importation of machinery that sorts waste, identifies hazardous materials, provides recycling processes etc.

Environmental technology

Since India has set itself voluntary emission standards for compliance and is increasingly more committed to sustainable development, Indian entrepreneurs will have to start investing in various technologies that reduces emissions, decreases waste, and recycles resources. One big area of development especially in the context of industrial-urban complexes is the management of waste water, which is also intimately linked to other critical issues in India, keeping its rivers clean and ensuring the water security of a billion plus people in the years to come. Cutting edge technologies in industrial waste water management is available in Europe and other industrial economies and as such India represents a very big business opportunity for them.

Professional services

While machinery and technology are one aspect of the demand from India, services in the form of management of complex systems and technology implementation represents the other part of the

picture. Given India's relative lack of experience in dealing with highly sophisticated urban systems, a core group of professionals will find employment opportunities in India as managers and technicians, especially in the next ten to fifteen years, ie. the time it will take India to scale up its own professional base in these niche areas. Thus foreign firms in environmental, waste management, and transport services will find good business opportunities in the coming years.

It is a rare case where a large sophisticated economy like India lacks domestic capacity across a large spectrum of goods and services, and such goods and services are an absolute necessity for its own sustainable growth. The goods and services connected to the urbanization challenge represent such a rare case and is therefore such a great opportunity for external suppliers. The firms that will do their market research earliest and move in with a first mover advantage will find their investment more than worthwhile. ■