



MANAGING LOCAL POLITICAL RISK: PARKING THE TATA NANO (A)

INTRODUCTION

In 2006, Indian car maker Tata Motors was embarking on a new venture—building the world’s cheapest car, the \$2,000 Nano. Tata Motors would be making a fixed investment of over \$300 million in a manufacturing plant to build the four-door, rear engine car, and the company was weighing its options about where in India to locate the facility. Mass production of the Nano was targeted for 2008. The company prided itself on its presence “across the length and breadth of India,”¹ and was looking at cities throughout the country.

Tata Motors, with 2005-2006 revenues of about \$4.8 billion, estimated the new plant would create over 12,000 new jobs (2,000 directly and 10,000 indirectly).² Attracted by this prospect and other benefits a new plant would bring, several Indian states were trying to top each other in offering the company incentives to move in. The states could acquire the necessary land for the plant using *eminent domain*, which required landowners to sell their property if it was to be used for a “public purpose.” Though market prices were to be paid at the time of acquisition, local landowners were given no choice but to sell. Locations Tata Motors could consider included Sanand in the western state of Gujarat, Pantnagar in the northern state of Uttarakhand and two locations, Singur and Kharagpur, in the northeastern state of West Bengal.

¹ www.tatamotors.com/know-us/company-profile.php.

² Tata Motors had a workforce of about 27,000.

Debra Schiffrin and Professor Saumitra Jha prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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CITY FEATURES

The decision of which location to choose was not an obvious one. All four cities had attractive features. Singur was very close to the large city of Calcutta and the national highway. Kharagpur had one of the largest railway workshops in India and was home to the first campus of the prestigious Indian Institutes of Technology (ITT). In addition, Kharagpur already had two Tata plants—the Tata Bearings plant and Tata Metaliks pig iron plant. Sanand was emerging as an industrial hub close to Ahmadabad city, the fifth-largest city in India. Also, Sanand's national representative was L.K. Advani, president and head of the prominent Bharatiya Janata Party (BJP). Pantnagar was located in a rural and underdeveloped area, but Tata had already announced that it would set up a plant in Pantnagar to build the Ace, the company's popular new mini-truck.

It should be noted that the relative price of relevant input commodities in major markets, as well as the shipping costs of the Nano to its outlets, depended chiefly on access to transportation infrastructure. For example, in September 2006, the price of 10 mm steel plates in Calcutta, near a seaport, was 32,000 Rs per tonne. In contrast, in Delhi, a well-connected major market away from ports, the price was 3.34 percent higher.³ (See **Exhibit 1** for a map of four potential locations and their related transport infrastructure and **Exhibits 2** and **3** for a comparison of other relevant features.)

INCENTIVES FOR TATA MOTORS

The states wooing Tata Motors offered the company significant incentives. The Indian central government also helped with development efforts in some underdeveloped states, including Uttarakhand, by offering potential investors a generous package of benefits and subsidies. (See **Exhibit 4** for incentives offered by some states to Tata Motors.)

POLITICAL LANDSCAPE

The political landscape also differed substantially across the states and potential locations. In common with the United States, Britain, Kenya and other “Westminster-style democracies,” India had a First Past The Post (FPTP) voting system where candidates vied in geographically delimited constituencies for the majority of the constituency's votes.⁴ In the national legislature, the Lok Sabha, India had two broad national parties: the Indian National Congress (INC) (“the party of independence”) and the Bharatiya Janata Party (BJP), often perceived to have a Hindu nationalist platform. Both of these parties regularly ruled in coalition with smaller regional parties. The BJP commanded a majority in the Gujarat Legislative Assembly, and in Uttarakhand the INC and BJP were the most important parties. In the West Bengal Legislative Assembly, the Communist Party of India (Marxist), also known as CPI(M), had a majority, having ruled since 1977. In recent years it had adopted pro-market reforms to such an extent that it had been compared by satirists to Delhi's notorious public buses “which signal left, but then turn right.” The support of the communist government also reduced the threat of union protest. The chief opposition, its support concentrated in urban areas like Calcutta, was an independent offshoot of

³ These data are courtesy of Steel Prices India.

⁴ This contrasts to the proportional representation system used in much of continental Europe and Latin America, where multiple members were elected in proportion to the votes each party receives.

the INC called the Trinamool Congress. In addition, each of the cities in question had distinct electoral conditions. (See **Exhibit 5** for election results for Singur, Kharagpur, Sanand and Pantnagar.)

RELIGIOUS AND SEPARATIST VIOLENCE

Though the law and order situation in India was often very tranquil, this had been punctuated by moments of significant political upheaval. Gujarat state in particular had a history of religious violence, which flared up in 2002, when 60 Hindu pilgrims were killed in a train fire. Muslims were blamed for the fire, which sparked a riot and led to 790 Muslims and 254 Hindus being killed and 223 reported missing. In addition, 17,901 Hindus and 7,651 Muslims were arrested, while 61,000 Muslims and 10,000 Hindus fled their homes. There were accusations that the state government was complicit in the killing of Muslims, or at least turned a blind eye. The chief minister of Gujarat at the time, Narendra Modi, denied any wrongdoing, but gained in the subsequent elections.⁵ The Himalayan state of Uttarakhand split from the state of Uttar Pradesh in 2000 for reasons related to differences in its caste composition and thus preferences towards affirmative action for historically disadvantaged castes. In the years leading up to the separation, particularly between 1994 and 1997, the state had witnessed mass protests, police shootings and curfews. West Bengal had, in contrast, enjoyed relative peace during its more than 30 years under communist rule.

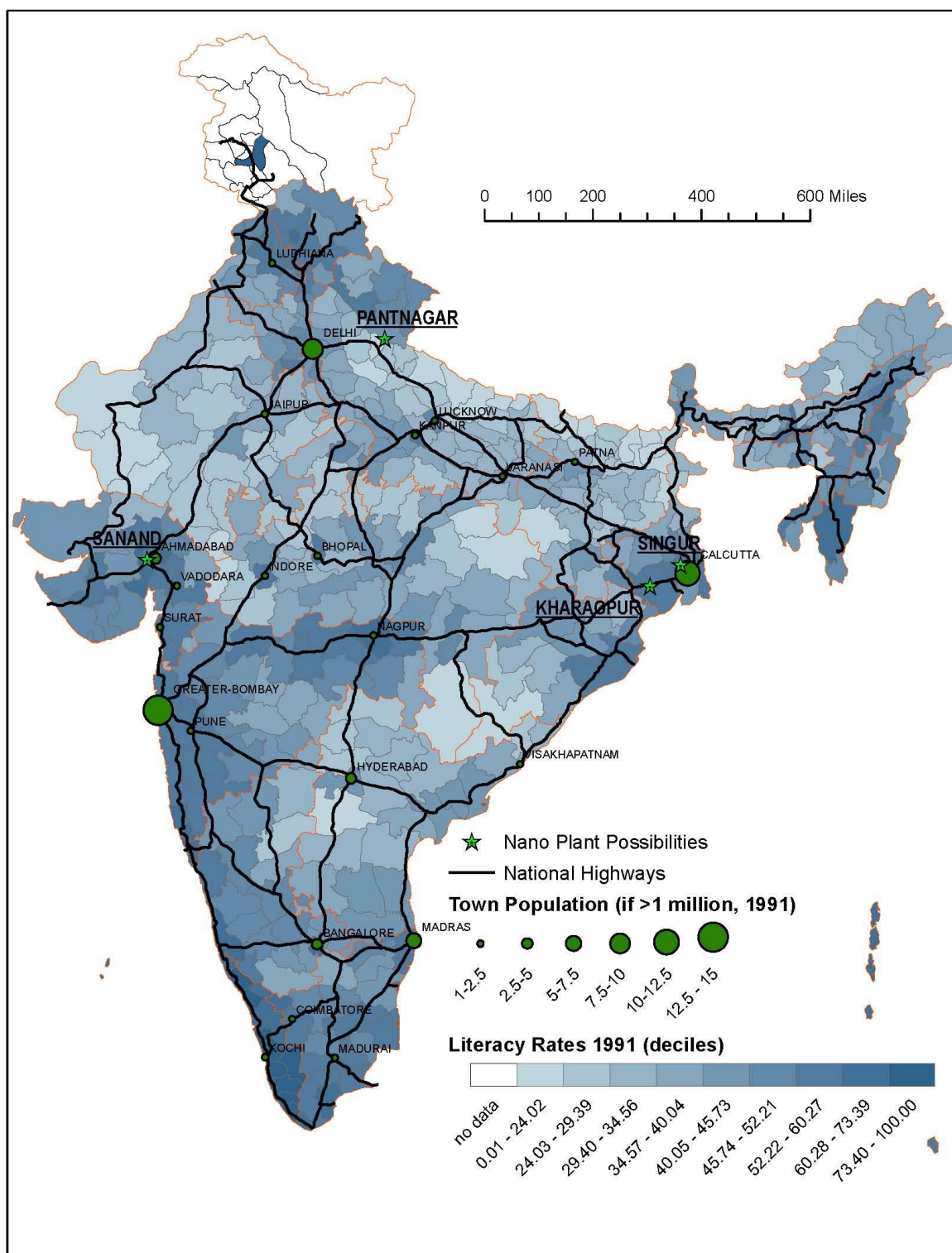
Tata Motors' leadership had to weigh all these factors, along with their strategy to maintain a national geographical presence, in deciding where to locate their prestige Nano project. More than \$300 million dollars was at stake.

Discussion Questions

1. Why might Tata be aiming for—and want to advertise—a national geographical presence in manufacturing?
2. Using the information in the case and the exhibits, prepare a brief for Tata's board on where to locate the Nano plant. What factors weigh more or less heavily in your decision? Be prepared to defend your choice.

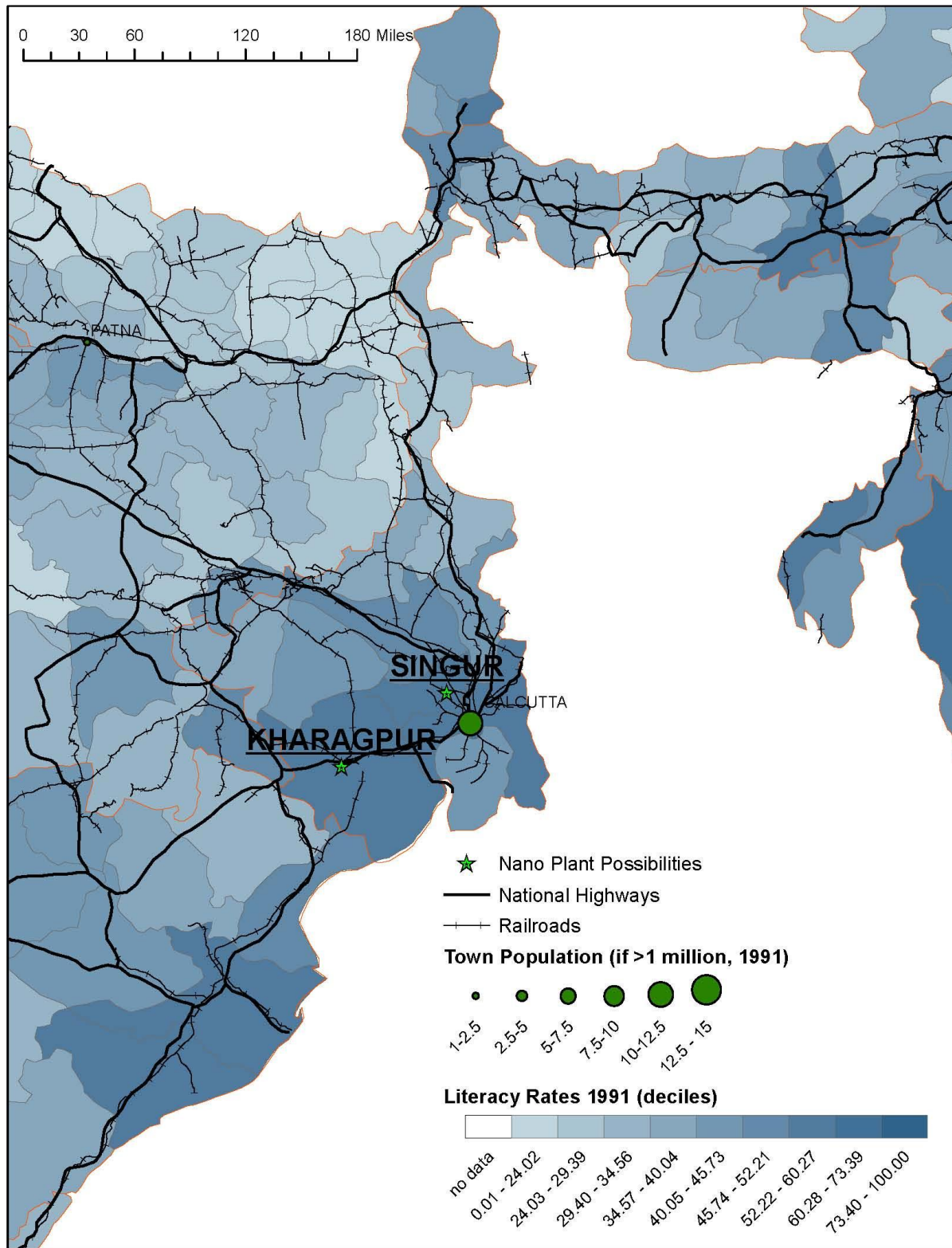
⁵“Gujarat Minister Modi Questioned at Riots Inquiry,” BBC News, March 27, 2010.

Exhibit 1
Map of Possible Tata Nano Plant Locations



Source: Created by case authors.

Exhibit 1 (continued)
Map of Possible Tata Nano Plant Locations in West Bengal



Source: Created by case authors.

Exhibit 2
Statistical Comparison of India and Select States

State (Location)	India	West Bengal (Kharagpur and Singur)	Gujarat (Sanand)	Uttarakhand (Pantnagar)
Population (1000s) (2006)	1,121,914	85216	54,979	9,219
Hindu %	80.5	72	88	72
Muslim %	13.4	25	9.1	10
Urban population %	30	28	40	26
GSDP per capita (2006 prices)	\$725.12	\$687.93	\$978.67	\$694.39
Population growth rate % (2005-06)	1.6	1.2	1.6	1.6
GSDP growth rate % (2005-06)	13.83	13.17	16.37	13.23

GSDP: Gross State Domestic Product.

Source: Compiled by case authors based on data from India's Ministry of Statistics and Programme Implementation (MOSPI) and the 2001 and 2011 Censuses.

Exhibit 3 Statistical Comparison of Select Cities

Name	Kharagpur	Pantnagar-Rudrapur*	Sanand	Singur
Civic Status	Municipality	Municipal Board	Urban Panchayat	Non-Municipal
Class of Town	I	II	III	IV
Rain (mm)	1,184	1,295	620	1,650
Max. Temperature ©	42	18	47	34
Min. Temperature ©	6	7.6	16	24
Closest Major City (km)	Calcutta	Rampur	Ahmadabad	Calcutta
Distance to Closest Major City	120	45	27	35
Population of Closest Major City	4.5 million	282,000	3.5 million	4.5 million
Closest Railway Station	Kharagpur	Kichha (15km)	Sanand	Singur
Area	90.65	12.43	40.42	8.18
Population	177,989	61,280	25,674	19,726
Females per 1000 Males	899	877	901	908
Illiteracy Rate	22.74	45.92	23.26	24.18
Number in Work Force	42,850	18,390	7,760	6,096
% Scheduled Caste	10.94	17.66	13.22	16.15
% Scheduled Tribe	3.06	0.06	0.09	1.95
Overhead Water Capacity (litres)	884,520	500,000	910,000	125,000
# Electricity Connections:				
Domestic Use	10,141	0	3,397	2,926
Industrial	374	200	213	43
Commercial	1,137	0	1,070	1,275
Road Lighting	2,500	1,078	969	65
Surfaced Roads (km)	86	60	8	7
Unsurfaced Roads (km)	165	0	0	15
Distance to Nearest Fire Station (km)	0	0	27	24
Total Hospital Beds	394	50	132	60

*Pantnagar is rural, so figures provided are from the nearest town, Rudrapur.
Source: Census of India Town Directories: the best available prior to 2006.

Exhibit 3 (continued)
Statistical Comparison of Select Cities

Name	Kharagpur	Pantnagar-Rudrapur*	Sanand	Singur
Primary Schools	116	7	12	12
Middle Schools	26	4	0	0
Secondary Schools	5	0	4	3
Senior Secondary Schools	7	4	7	3
Vocational Training Institutes	7	1	6	0
Adult Literacy Centers	1	0	2	0
Cinemas	2	2	1	1
Public Libraries	3	1	1	4
Banks	20	10	5	4
Agricultural Credit Societies	0	2	1	4
Other Credit Societies	0	0	6	4
Total municipal receipts	10,469,300	10,083,600	3,026,800	-
Total municipal expenditures	14,218,000	9,091,200	2,982,200	-
Chief Imports	Cereals	Iron	Edible oil	Rice
Chief Exports	Rolling shutters	Rice	Tobacco products	Indian cigarettes (bidis)
Chief Manufactures	Rolling shutters	Agricultural implements	Tobacco products	Cloth

*Pantnagar is rural, so figures provided are from the nearest town, Rudrapur.

Source: Census of India Town Directories: the best available prior to 2006.

Exhibit 4
Incentives Select States Offered Tata Motors

	West Bengal	Uttarakhand (Offered by central government)	Gujarat
Land acquisition	Eminent Domain	Eminent Domain	Eminent Domain
Lease	• 90-year lease on 646 acres of land for Nano plant - o Rs 1 crore per year for first 5 years - o Increasing 25% every 5 years until 30 years • 90-year lease on 290 acres of land for vendors - o Rs 8,000 an acre for first 45 years - o Rs 16,000 thereafter (62 acres used for needy families affected and for construction of a substation)	negotiable	negotiable
Loan	\$40 million at 1% interest per year	N/A	negotiable
Other benefits	Reduced electricity costs: Rs 3 per KWH, compared to the going rate of Rs 4.15	Zero excise duty for the first 10 years	negotiable
	• West Bengal returns VAT and CST on sales of the Nano to Tata in the form of 0.1% interest loan until West Bengal matches Uttarakhand's incentives in net present value. The loan with interest will be repayable in annual installments starting from the 31st year of sales from the plant.	• Zero income tax for first 5 years of production at a new industrial unit, and 30 percent rate for the next 5 years. • Subsidy of capital investment of 15 percent, with a cap of Rs 20 lakh • Concession central sales tax at 1% (versus 4%) • Exemption from entry tax on plants and machinery • Stamp duty concession on Specialized Commodity Park • Free IT bandwidth (2 mbsp) for one year	

Source: West Bengal Industrial Development Corporation.

Exhibit 5
Select Constituency Assembly Election Results

Singur Assembly Constituency 1996-2006

	Winner	% of votes	Party	Runner-up	% of votes	Party
2006	Rabindranath Bhattacharjee	47.92	All India Trinamool Congress	Srikanta Chattopadhyay	46.68	Communist Party of India (Marxist)
2001	Rabindranath Bhattacharjee	49.45	All India Trinamool Congress	Bidyut Kumar Das	46.04	Communist Party of India (Marxist)
1996	Bidyut Kumar Das	50.69	Communist Party of India (Marxist)	Dwijaprasad Bhattacharya	44.81	Indian National Congress

Source: Election Commission of India, <http://eci.nic.in/archive/ElectionAnalysis/AE/S25/Partycomp183.htm>

Kharagpur Rural Assembly Constituency 1996-2006

	Winner	% of votes	Party	Runner-up	% of votes	Party
2006	Nazmul Haque	53.96	Communist Party of India (Marxist)	Ajit Maity	30.61	All India Trinamool Congress
2001	Nazmul Haque	52.51	Communist Party of India (Marxist)	Ajit Maity	35.22	All India Trinamool Congress
1996	Nazmul Haque	57.22	Communist Party of India (Marxist)	Ranjit Basu	34.35	Indian National Congress

Source: Election Commission of India, <http://eci.nic.in/archive/ElectionAnalysis/AE/S25/Partycomp225.htm>

Gandhinagar Assembly Constituency (Sanand's constituency) 1995-2002

	Winner	% of votes	Party	Runner up	% of votes	Party
2002	C.J. Chavda	51.63	Indian National Congress	Vadibhai Bhaichanddas Patel	39.19	Bharatiya Janata Party
1998	Vadibhai Bhaichanddas Patel	40.4	Bharatiya Janata Party	Kesharisinh Gobarji Vaghela	31.07	All India Rashtriya Janata Party
1995	Vadibhai Bhaichanddas Patel	44.24	Bharatiya Janata Party	Kasam Bapu	42.55	Indian National Congress

Source: Election Commission of India, http://eci.nic.in/eci_main/electionanalysis/AE/S06/partycomp79.htm

Exhibit 5 (continued)
Select Constituency Assembly Election Results

Pantnagar-Gardarpur Constituency 2002

	Winner	% of votes	Party	Runner-up	% of votes	Party
2002	Premchand Mahajan	31.89	Bahujan Samaj Party	Shyam Lal	18.96	Independent

Source: Election Commission of India.