Recreating a tiger: making Indian infrastructure work

September 2015

India is renowned for its assortment of wild and wonderful wildlife. The national animal is the majestic Royal Bengal Tiger but the country is also known for its eponymous elephant. The two animals are apt metaphors for the state of the country's economy and politics over the last thirty years.

India has often shown its tiger-like qualities, for example, when it liberalised the economy in 1991 and more recently, following the election of Prime Minister Narendra Modi. At these times, the government proved it could enact wide-scale structural reforms to boost growth. In between, there have been periods of political inaction, corruption and economic stagnation, which have given the country the reputation of a lumbering elephant and perennial underachiever.

Modi's triumph in last May's election signalled that the country's vast populace wanted a new start for India. Over a year on, Modi's government has made a surprising amount of progress, passing 47 bills into law. In particular, it aims to pass through amendments to the country's 19th century Land Acquisition Bill, which outlines how the government acquires private land for industrialisation, infrastructure development and urbanisation. This is a cornerstone of Modi's programme of reforms to set India back on the right path. Recent developments suggest the amended Bill will be passed, but in a slightly watered-down version.

Infrastructure is a key driver of increased productivity and growth. For India, the need for greater investment in infrastructure is great. In the World Economic Forum's 2014-15 Global Competitiveness Report, India is ranked 71 out of 144, behind countries like Hungary, Rwanda and Colombia. And in terms of infrastructure, it ranked even worse at 87. In the World Bank's 2015 Ease of Doing Business report, India fared even worse, ranked 142 out of 189. The road, rail and other transportation networks are very poor, restricting the flow of goods and services.

Due to a poor rail service, around 65% of freight is transported on the country's log-jammed roads. The power supply is unreliable, making companies reliant on expensive generators that can cost 2 to 3 times more. Access to clean water and proper sanitation is a problem for large parts of the population. And in agriculture, a lack of proper irrigation leaves farmers reliant on unpredictable and sometimes volatile rainfall, a lack of which can impact rural incomes and drive acute food inflation.

Population growth has outstripped construction putting a severe strain on public transport and on electricity and water networks. Past governments have not helped, often being guilty of bureaucratic delays in approving projects, corruption and enactment of unpredictable regulations. These are significant challenges for a vast country like India – the World Bank estimates that India requires infrastructure investment of up to $1.7 trillion by the end of the decade. Yet the potential opportunities for expansion and improvement of roads, railways, ports and power plants are enormous.

India's large cities including Mumbai, New Delhi, Kolkata and Bangalore stand to gain the most from infrastructure investment. India's urban population is projected to reach 500 million by 2017. Large-scale investment will be required to meet this increase in demand from upgrading metro systems to ensuring clean water supplies and affordable housing. India's ailing transport network is, however where most opportunities for improvement lie.

The country's railway system requires significant additional capacity. The Indian railway network is spread over 40,000 miles, with 12,000 passenger and 7,000 freight trains carrying around 23 million travellers. Images of adults and even children clinging desperately onto train carriages tell the story better than any words can. Investment is required urgently for business needs aswell – the average speed of freight trains in India is 40mph, impeding the efficient delivery of goods around the country.

The government also needs to speed up its building of new roads. Around four million new vehicles and 11 million new two-wheelers hit India's roads each year, but the roads are not currently expanding fast enough. Evidence of the potential rewards of new investment comes from the Golden Quadrilateral Program – a major highway project, which has significantly improved the quality of highways connecting the four largest cities in India. This Program boosted productivity by reducing company's inventory and transportation costs and allowing them to switch to cheaper suppliers.

India's ports are also in need of an overhaul. The average time for clearance for ships is several days, much longer than the few hours it takes in other countries.

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The good news is that the Indian government has already started to address the elephant in the room. It has targeted $1 trillion in infrastructure spending by 2017. A National Infrastructure and Investment Fund has been proposed to support new projects and boost investment. The Fund has an initial budget of Rs200 billion (just over $3bn) and the government could raise 3-4 times of this from the markets and use the funds to get cash-strapped projects moving, alongside planning new investments.

But the government will also need to engage private enterprises as government spending alone will not be enough to meet India's diverse infrastructure challenges. One way this may be done is to restructure PPPs (public-private partnerships) to allow the private sector to invest in the growth story of the country.

But getting the private sector on board has its own challenges. In addition to the challenges facing the public sector, high debt levels and weak balance sheets hamper many private companies. The public banking system is hampered by Rs3 trillion of non-performing[A] loans, limiting the capacity of banks to provide much needed credit to companies. Furthermore, cash flows from infrastructure are long-term in nature (often 20 years or more), while long-term bank lending to corporates is not the norm in India. A high return on projects is often required and banks can have strict lending standards. All this may explain why private sector investment has fallen somewhat recently and underlines the importance of banking sector reform in supporting infrastructure. The National Infrastructure and Investment Fund will be vital if the private sector loses some of its appetite for infrastructure.

Like China, India will need to seek significant foreign investment and borrow from abroad to support infrastructure. Some of India's industries have already done this and are highly competitive, for example information technology and some auto companies. The government will have to ensure its other industries follow their lead.

India is a country where the pace of change can often appear slow. Political opponents are renowned for regularly thwarting reforms. If India is to fulfil its vast potential, it will have to put infrastructure reform and its full implementation at the heart of national economic policy. Perhaps then, we will see the country regain its reputation as a strong, agile tiger rather than the plodding, meandering elephant of old.

Kenneth Akintewe
Senior Investment Manager, Asian Fixed Income

[A] A loan in which the borrower is no longer making interest or principal payments to the lender

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121021330 09/15