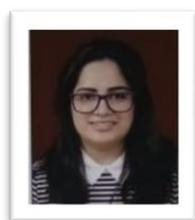


Infrastructural Growth: Backbone of Indian Economy



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Abstract

Indian economy is growing at an impressive rate of 8.2% (2018-2019 Q1) which is highest in the past two years. Infrastructure has shown growth concurrent to the overall growth with electricity, water and gas supply, and construction registering growth over 7%. Despite these delightful statistics, growth in numbers is not in lieu with the overall development of Infrastructure sector. The sector is contributing to the growth of nation quantitatively but is lagging behind quality wise. The ground reports are far from statistics as the state of infrastructure is not improving at a pace similar to growth rate. To mark a change in infrastructure's current status, India needs to focus on the quality apart from capacity generation.

Keywords: Infrastructure, Growth Rate, Roadways, Railways, Ports, Civil Aviation, Power, Budget, GST, Development.

Introduction

India has been leading the world economy by being the fastest growing economy surpassing huge economies as USA and China. The tag, 'Indian Economy is big and getting bigger', is accredited by the fact that it is home to 1.21 billion people. Taking the lead in manufacturing and services has rocketed its GDP to as high as 8.2 in Q1 of 2018-2019. The rapidly increasing impetus for Infrastructural Development in the country has paved way for investments from across the globe. Some economists believe that improving the physical along with soft infrastructure can help meet the rising demand of the growing population. Infrastructure sector including roads, ports, power and telecommunication are responsible for the overall growth of the economy and hence, failing to provide a quality infrastructure may hamper the growth rate. As a famous economist said, "A man in a particular region is poor because he has low income. He has low income because there is low economic activity. The reason for low economic activity is low potential capability for Income generating activity. There is low potential capability because of low infrastructural development. And the reason for infrastructural development is that flow of investments (both public and private) is concentrated in limited regions given total funds for the nation as a whole.", India needs a conclusive path of development where the quality of growth matters more than statistics of growth.

Objective of the Study

India is a developing country whose growth is determined by a pivotal factor – Infrastructure. This study, tends to analyze the existing trends in Indian Infrastructural market and how the market's dominance plays a vital role in shaping India's growth trajectory. The focus is to highlight the sectoral contribution to Infrastructure along with their role as growth drivers. Indian economy is booming at laudable pace as it has surpassed giant economies like China. The article is set to describe the current and future status of Indian infrastructural sector. Currently, India ranks 63rd according to WEF's Global Competitiveness Report for 2017-2018 out of 140 countries for its infrastructure. In order to improve its position significantly, it is estimated that around US\$ 4.5 trillion worth investment will be required till 2040 for infrastructural development. Thus, this research provides a deeper insight into India's infrastructural market concluding what all needs to be done to provide a conclusive growth.

Advantages for India

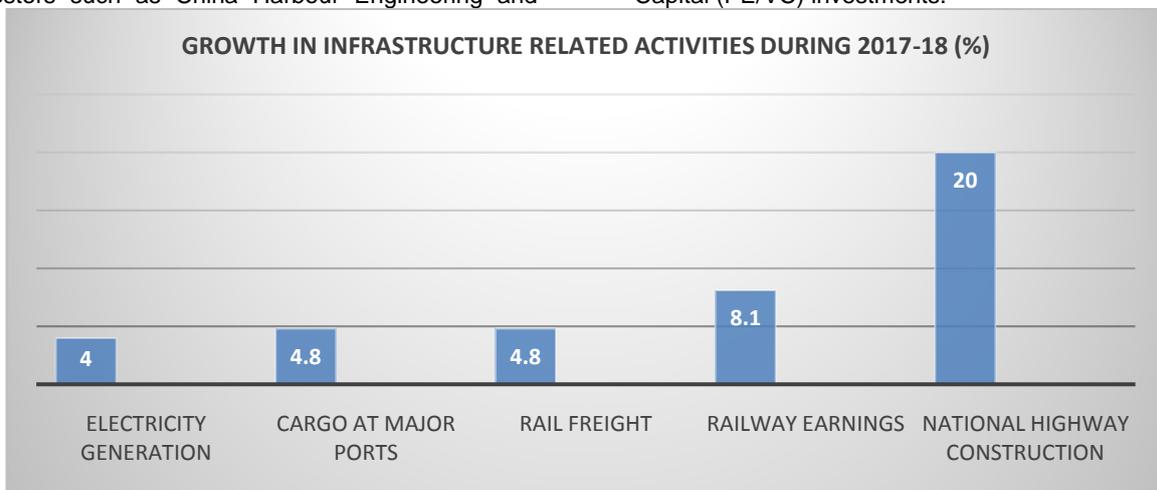
The plan to target infrastructure development was brought up towards the end of 1992 during the Eight Five Year Plan. Prior to that the primary focus of the policies remained establishing a stable macroeconomic scenario as a counter to the worsening fiscal deficit, and a series of reforms dealing deregulation, trade policies, exchange rates and

Remarking An Analisation

agricultural sector. The advancement of Private sector into Infrastructure paved way for heavy Investments.

India enjoys the advantage of being a developing nation making Infrastructure the soul pillar to lay the foundation of growth. According to a recent Economic Survey tabled in the Parliament by the current Finance Minister, Arun Jaitley, "Around \$4.5 trillion worth of investments are required by India till 2040 to develop infrastructure to improve economic growth and community well-being", making it clear that India holds magnanimous potential and robust demand for Infrastructural Development. Being the largest receiver of FDI inflow into the country, Construction and Infrastructure Development sector witnessed aggregate FDI worth \$37.91 billion between April 2000 and June 2018. International Investors such as China Harbour Engineering and

Mizuho Financial Group have shown interest in the growing market for development of Infrastructure. Global investors are attracted by the perfect blend of valuation and returns in this sector. The Policies aimed at relaxing business and improving transparency for investors in addition to the recent decision by cabinet in January, 2018 to allow 100 per cent FDI via automatic route in Infrastructure are incentives for the investors. The multiplier effect of Infrastructure sector on growth rate makes it the backbone of the economy. Infrastructure sector received several key investments during FY18. Asian Infrastructure Investment Bank (AIIB) announced to invest US\$ 200 million in the National Investment & Infrastructure Fund (NIIF). The sector thus, witnessed US\$ 3.9 billion worth Private Equity and Venture Capital (PE/VC) investments.

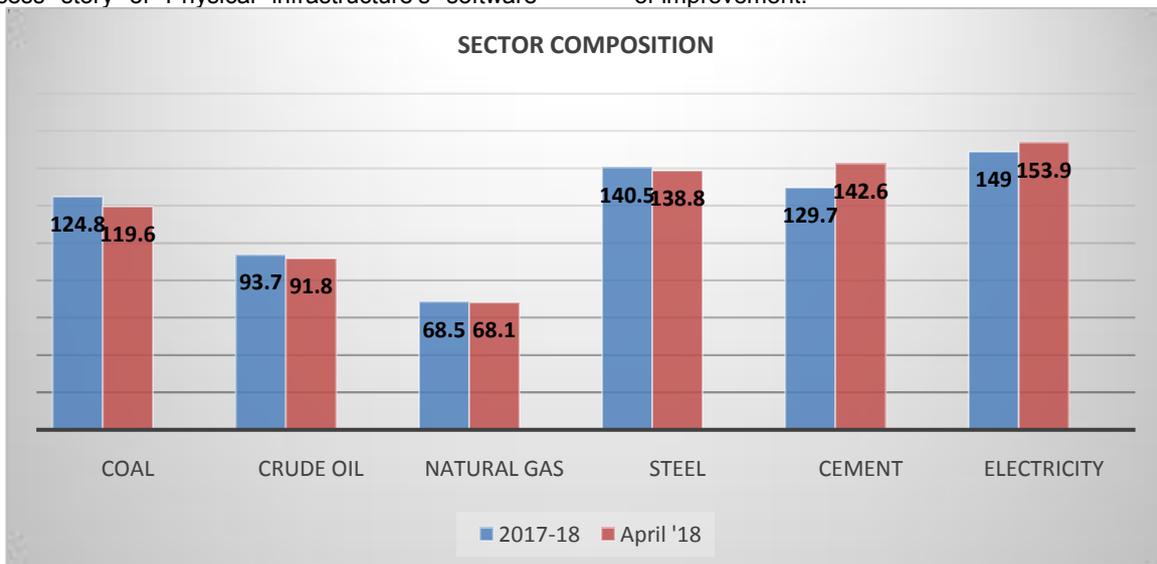


Source: ibef.org

Market Overview and Trends

The two major components of the Physical Infrastructure are— Hard Infrastructure and Soft Infrastructure. Both components receive equal significance, however, over the years hard Infrastructure has lacked in performance. The success story of Physical infrastructure's software

component like air and port services, and telecommunication can be attributed to the fact that it has not just led the country to a rapid growth but also integrated the economy to a pace equivalent to world economy. Roadways, Railways, Power etc. have partially performed well but still hold a greater scope of improvement.

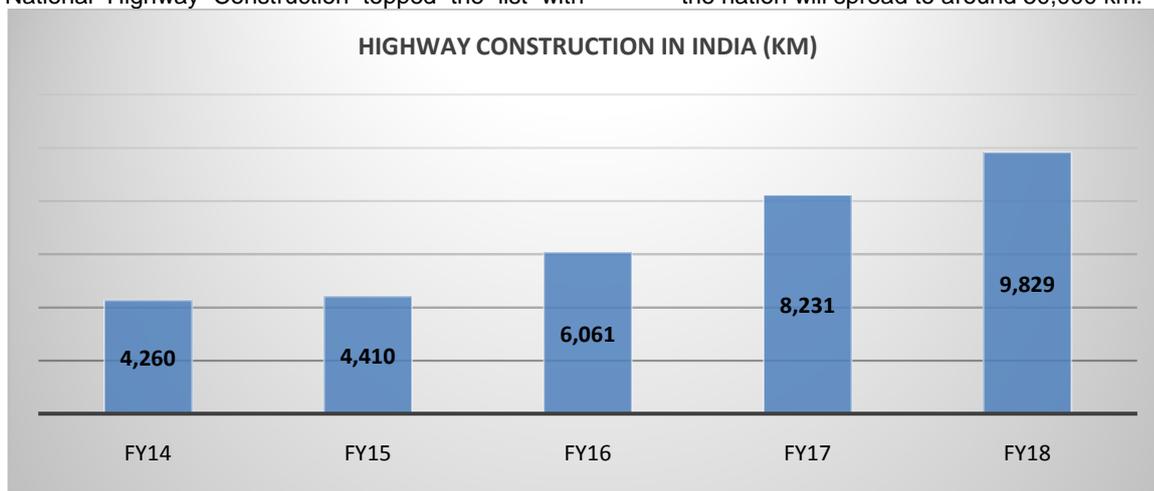


Roadways: Gaining Momentum

Despite having the world’s second largest road network spanning over 5.5 million km, the development of road Infrastructure witnessed negligence until recent years. The reason lies in the idea of focusing more on rural connectivity than game changing highways.

Overall, during 2017-18, Infrastructure related activities witnessed dramatic growth as National Highway Construction topped the list with

increase of 20 per cent growth. This growth targeted improving the fact that out of total National Highway network only 24 per cent are operational with four lanes. 9,829 km construction of highways was done in FY18 with around total length of 47,447 km roads constructed under Prime Minister’s Gram Sadak Yojna (PMGSY). The mission of the scheme aims at connecting all the villages by road network. It is estimated that by 2019, the highway network across the nation will spread to around 50,000 km.

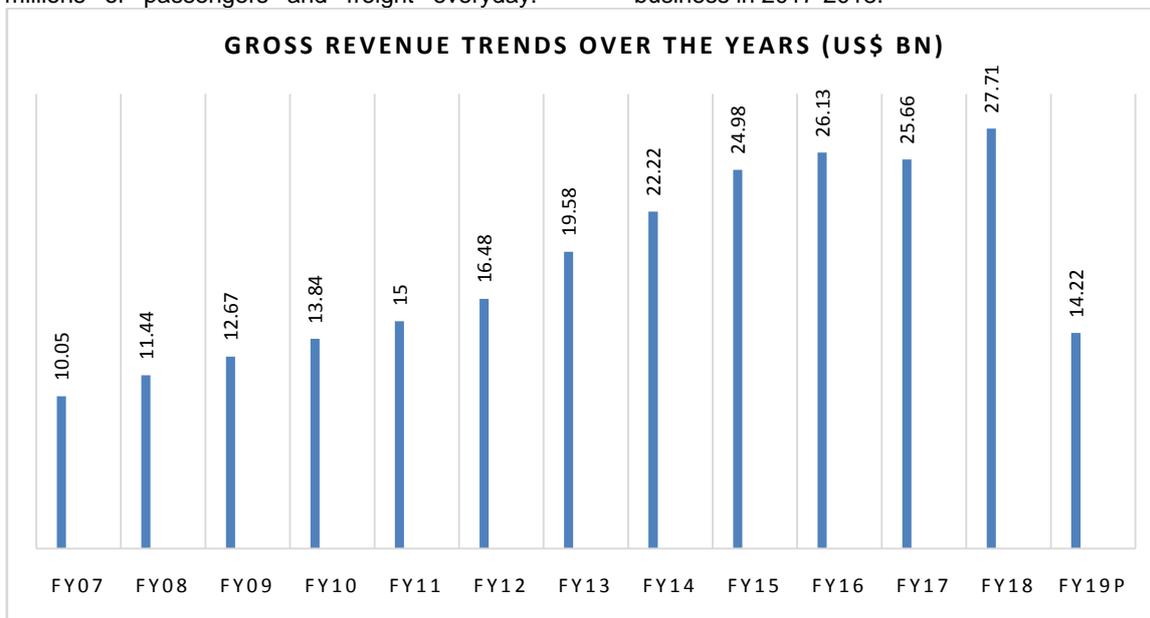


Source: ibef.org

Railways: Steaming Ahead

Under single management, India’s 150 years old railway system is one the world’s largest system operating spreading over 115,000 km with 2,617 passenger trains and 7,421 freight trains (accounting for two third of revenues) making communication easy for millions of passengers and freight everyday.

Growth in Railways Infrastructure has shown substantial improvement in recent decade, with credit going to better rational and affordable pricing policies. FDI inflows worth 920.21 million were received by this sector earning revenues worth US\$ 7.55 billion from passenger business and US\$18.16 billion via freight business in 2017-2018.



Source: ibef.org

In Union budget 2018-2019, the Indian Railways received highest budgetary allocation of US\$ 22.86 billion with target of around 98 per cent allocation to capacity creation and reconstruction of 600 existing stations.

Ports: Dangling Growth

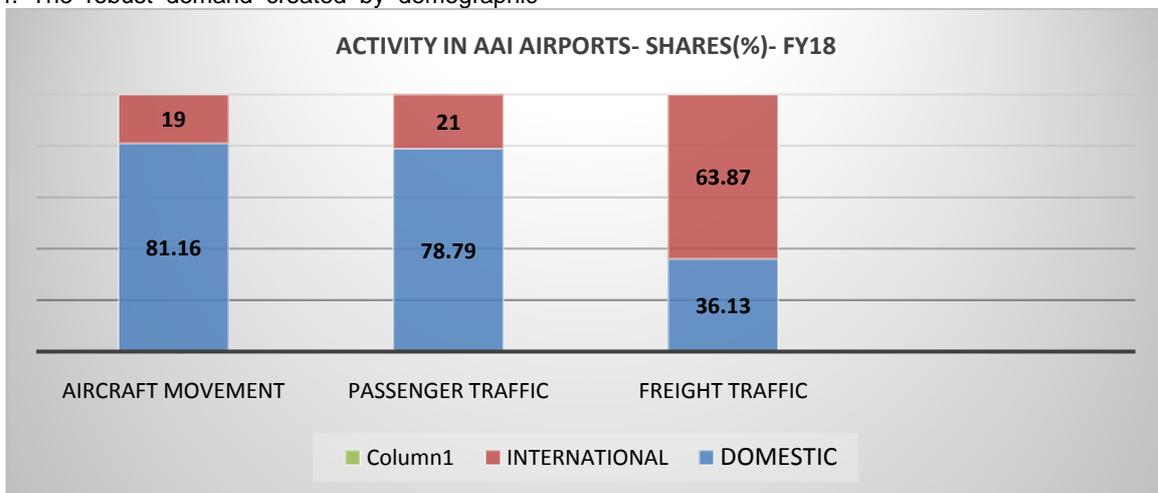
India ports play a crucial role in International trade across the world as around 97 per cent of trading by volume and 70 per cent by volume is executed via marine transport (according to the

Ministry of Shipping) and hence, improving its infrastructure is one of the primary concern of economic policy makers. With a coastline about 7,517 km long, India stands 16th among the largest maritime countries of the world. There are 12 major ports and 200 non-major ports which carry millions of traffic. This sector has changed its Investment policies for ports maintenance and development as now upto 100 per cent FDI is allowed via the automatic route. According to recent market trends for FY18, traffic at ports increased to 288.38 million tonnes from April to August 2018 by 5.13 per cent with total cargo traffic of 679.36 million tonnes.

Civil Aviation: Soaring High

India currently ranked ninth is set to become the third largest aviation market surpassing UK by 2024. The robust demand created by demographic

changes with rising income levels and preferences will be a boost for Aviation Infrastructure. Recently under the Public Private Partnership scheme, five International airports have been constructed taking the total number of existing airports and airstrips to 446. This sector is expected to receive investments worth US\$25 billion by 2047. Due to changes in market and growth of economy, during FY18 India’s passenger traffic reached 308.75 million growing at 16.52 per cent (year on year) whereas total Freight traffic reached 3357.03 million tonnes. It is believed that as exports and imports will grow, the Freight traffic will further rise. In Asia Pacific region, India showed highest growth at 13.3 percent in passenger traffic for May,2018.

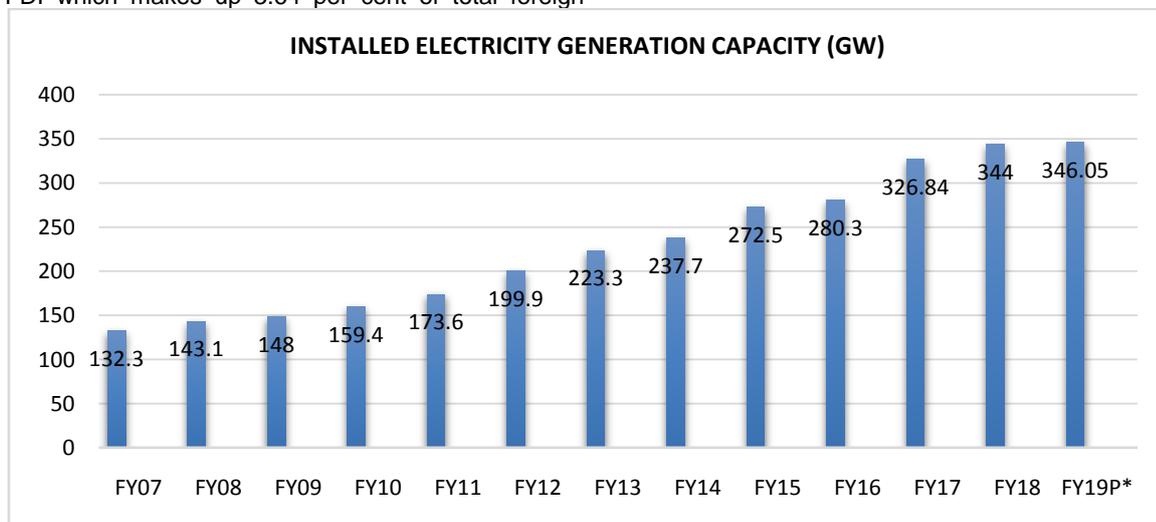


Source: ibef.org

Power: Increasing Demand for Capacity Addition

The Power sector is divided into four major components –Thermal, Hydro, Renewable (solar and wind energy) and Nuclear. With the growing Electricity demand, India must improve the infrastructure of this sector. In 2018’s index that measures overall power, India ranked fourth amongst the 25 nations of the Asia Pacific region. Power sector received US\$14.18 billion FDI which makes up 3.64 per cent of total foreign

direct investment invested in the country between April 2000 and June 2018. It is the sustained economic growth which acts as driving demand factor of electricity. Indian power station’s total installed capacity was 344.69 Gigawatt in August 2018 and hence, with the Government of India’s scheme ‘Power for All’, further capacity addition is required.



Source: ibef.org

Strategies and Policies Adopted

With the constantly growing population and overall growth, there is additional pressure on Infrastructure sector in India to perform well. In lieu to that, there are wider opportunities for Investments. Hence, there are three major growth drivers for Infrastructure- Government initiatives, Public Private Partnerships and Private Investment.

Government is one of the most important drivers of growth. Initiatives taken by Government are aimed at boosting the growth of the economy. Recently, Government took several measures, to help infrastructural sector grow.

1. Under the Gram Sadak Yojana programme aimed at improving rural connectivity, Government of India signed a deal worth US\$ 210 million with World Bank.
2. The Lok Sabha passed the Central Road Fund (Amendment) Bill to improve the national highways of the country with a spending amounting to US\$ 358.7 million.
3. GST was reduced to 28 per cent from 18 per cent on construction equipments.
4. Under the Bharatmal project phase-1, Government of India allocated 6320 km long projects worth US\$ 21.48 billion.
5. The Indian and Japan Governments signed an agreement where Japan will assist with 81% of total Project's cost for the Mumbai-Ahmedabad Bullet train corridor.
6. Improving the connectivity between Bangladesh and India, the respective Governments signed several projects like the Kolkata-Khulna passenger train project.
7. In order to improve Digital connectivity and transparency, the research wing of Indian Railways, RDSO (Research Designs & Standards Organization) introduced a "New Online Vendor Registration System".
8. The Model Concession Agreement (MCA) meant to attract foreign investors and improve infrastructure development of ports was revised and given green signal in March, 2018.
9. 89 out of 116 initiatives have been implemented which were taken under Project UNNATI in order to improve mechanism of major ports.
10. Construction of several major airports began in 2018 like the Navi Mumbai airport which is expected to be complete by 2019. Pakyong Airport in Sikkim is AAI's first greenfield construction. Under the PPP model, Andhra government also undertook the construction of six airports under Greenfield construction.
11. With the aim to decrease the losses of Aggregate Technical & commercial (AT&C), Ujwal Discoms Assurance Yojna was launched.
12. The National Policy of Biofuels was approved to increase Investment in Rural Infrastructure.

The Union Budget 2018-2019

Infrastructure received US\$ 92.22 billion in the Union Budget 2018-2019. US\$ 22.86 billion was the highest budgetary allocation given to the Railways sector. US\$ 10.97 billion has been decided for the national highways construction while US\$ 18.69 for

the road sector. The Telecom sector was allocated US\$ 1.55 billion whereas US\$ 648.75 billion for the solar and wind energy projects.

Public Private Partnership (PPP) In Infrastructure

Today the Government has been actively participating in undertaking PPP for infrastructural development as various schemes have been agreed upon for sectors like Ports, Power, Airports and Telecom monitored by Ministries under PPP. The success of PPP can be seen from the fact that the telecom sector witnessed massive investments which led to improvement in the quality of its infrastructure so much so that today cost of service is lower than any other country. Roads and airports have attained significant efficiency due to the PPP projects undertaken.

US\$200 million are set to be invested into National Investment & Infrastructure Fund by the Asian Infrastructure Investment Bank (AIIB). In order to increase growth in manufacturing and infrastructure sectors, Japan has decided to invest US\$ 35 billion between 2014-2019.

Over the years Foreign Investment has increased rapidly in Indian Infrastructure especially due to changes in rules related to FDI. However, according to recent trends and in a report by CRISIL, Private investment in Infrastructure hit a record low of ten years in FY18 to 25% as compared to 37% in FY08. The paused projects and poor management of stressed assets are being cited as the main reasons for such downfall in investment. Such a situation demands reframing of PPP framework and a solution to the stressed assets bubble.

Infrastructure Growth of Two Asian Giants': India-China Comparative Study

China and India both considered as the giants of the Asian economies started their development career of economic liberalization nearly around same time in 1970s and early 1980s. Despite that for years, China stood taller than India with its higher growth rate attained primarily by focusing on manufacturing and infrastructural development. India stood at 7.2% growth rate in Q3 of FY18, which is higher than that of China. Although this growth can't be considered as reason for major celebration as we still lag in major development determining factors.

According to International LPI by World Bank, China ranks 26th whereas India still lags behind at 44th. India continues to lack in providing improved quality roads, railways and sanitation facilities. In comparison, China has drastically focused on its Infrastructural Sector over the years. Considering Electricity and Power Generation, India generated just 1.15 trillion units in comparison to China generating 6.14 trillion units of electricity in 2016, according to CIA's World Factbook and Indian Government. Land Transport shows significant improvement and a sign of relief for the Indians. Indian Railways network was comparable to China's rail network of 124,000 kms at 121,000 kms in 2017. The point of difference lies in terms of 22,000 km long tracks for high speed trains in China as currently India has none with just a project signed for Mumbai and Ahmedabad connectivity. India

is ahead of China in terms of road network by 0.1 million kms at 4.7 million kms.

“The link between infrastructure and economic development is not a once and for all affair. It is a continuous process; and progress in development has to be preceded, accompanied, and followed by progress in infrastructure, if we are to fulfill our declared objectives of generating a self-accelerating process of economic development.” These words by Dr. V. K. R. V. Rao, an eminent Economist, clearly state that India needs to pace its growth of Infrastructure in order to attain recognition in global arena.

Conclusion

Infrastructure development in India has been critical not just for economic growth but for social growth as well since Independence and thus, continues to pose as matter of concern for policy makers and economists. India is in the phase of development; however, this development lacks substantial quality improvement due to presence of minimum capacity expansion in major infrastructural sectors. Telecommunication sector has emerged superior due to successful implementation of PPP. The constraint lies in limited Public Investment and failure to attract global investors in time. The future of Infrastructure development relies in hands of reforms

in Public and Private sectors. No nation is developed until and unless the basic necessities are provided to each and every individual without any disparity. Apart from quality access, India needs to provide equal access to infrastructure as well. India has traversed a long way on growth path but yet, requires to change its velocity by accelerating the growth rate and working in the right direction.

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