ISAS Brief

No. 3 – Date: 16 September 2005

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The Privatisation of Delhi Airport: The Changi Airport Pullout

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There have been several developments during the course of this week that would have an impact on business interests between India and Singapore. In Chennai, Ascendas completed a project with the Tamil Nadu Industrial Development Corporation and it was inaugurated on 14 September 2005 in the presence of Tamil Nadu's Chief Minister and the Singapore Minister for Education. Ascendas has promised to scale up investment in India to over S$750 million within the next two years. Other real estate initiatives in Chennai by Singapore companies are doing well. The Chief Minister referred in her speech specifically to the Comprehensive Economic Cooperation Agreement (CECA) and to the opportunities that she expects this agreement to bring to Tamil Nadu in particular.

These events were however overshadowed by the news, two days earlier, of Changi Airport pulling out of the bid process for the privatisation of Delhi airport and its local partners, Bharti and DLF, announcing their intention to pull out as well. A day later, another consortium, backed by Hochtief, also pulled out of the Mumbai airport project for the same reasons. Changi Airport reportedly felt that some of the conditions of the bid were too onerous, in particular, the penalty condition for certain aspects of non-performance, which at US$80 million was felt too be too steep. The bids were opened on 14 September 2005, with the Ministry of Civil Aviation defiantly claiming that it was satisfied with the level of competition and that the entire process would be completed by year end.

These set of events need to be understood in context, and there are several important issues. The withdrawal of Changi Airport from the tender is likely to have some far reaching consequences. In 2002, when the CECA was still under discussion, there was an offer from the Indian government to the Singapore government to entrust the modernisation of either of the two airports to Changi Airport on a bilateral basis. At that time, it was felt in India that such a major economic gesture was warranted in view of Singapore's support to India on several ASEAN related issues as well as due to earlier precedence of this kind. An opportunity for price discovery, so that a single bilateral offer could not be faulted, was also discussed. The Singapore side was unable to accept the offer and preferred to wait for the bidding process, citing that it would stand by any transparent tender process. In the present case, the performance guarantees however onerous were always part of the requirements and the withdrawal of Changi Airport at the last stage in such a dramatic manner is unlikely to go

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down well with the authorities in India. The civil aviation ministry would also recall that Singapore Airlines had backed out some years back from an offer, when the privatisation of Air India was under discussion.

It is possible to argue, on the part of Changi Airport that the conditions had progressively become harsher during the tender process. No doubt this is due to the political pressures from the left parties, fanned by entrenched interests in organisations that wanted the status quo to continue. Yet, it is equally true that there were six offers for the airport project when the tender closed on 14 September 2005. It is difficult to imagine that all of them were unhappy with the conditions in the tender. If it is the view of these bidders that the conditions represented an extreme situation which is unlikely to occur or that they would look at ways out of such a situation when it does occur, then the same argument could have applied to Changi Airport.

The recently published IFC report, ‘Doing Business 2006’, released worldwide on 14 September 2005, ranked India 116th out of 155 countries, indicating that it is a difficult place to do business. Undoubtedly, there is considerable truth in this but it is equally true that all foreign firms that have adapted to the way business is done in India have had considerable profits to take home year after year. A large number of private firms from Singapore have succeeded in India and several more experienced ones take the view that the large number of penalty situations is only defensive contracting measures, whose enforcement is not rigid. Perhaps it is in this context that a transparent, contract bound and disciplined organisation like Changi Airport (or even Singapore Airlines) suffers a disadvantage. It is important, given these experiences, that there is a rethink in Singapore about the approaches to doing business in India. Investing companies of the government (such as Temasek Holdings) are doing very well, since the financial markets in India are comparable to global standards.

Finally, it is important to understand the role of the states. It is no longer enough to look at policies and strategies at the national level. A recent study in the Institute of South Asian Studies has analysed the interdependence of governance, development and business climate in different states, and has identified states that are conducive to business. This study needs to be taken further to examine, in depth, opportunities and obstacles to assist Singapore businesses in moving forward in India.

As of today, there are over 10,000 public and private projects, big and small, under execution, with a total investment of over S$77 million. The question to ask is that are Singapore companies getting a share of this and, if not, how to go about being a part of it. Management theory teaches us that it is not always a change of strategy that is warranted, but often, a re-examination of tactics. India is the most important happening place at the moment and it is imperative to be there and not to miss the opportunities it presents.

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