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India's Infrastructure Story: Singapore's Partnership Role

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The importance of states in India in building its infrastructure has become critical, given the rapid urbanisation of the country and the growing pressure on civic facilities in towns and cities. In this context, the latest and most significant aspect of Singapore's involvement in infrastructure development in India is in the new capital city being built for the reconstituted State of Andhra Pradesh – Amaravati. Being developed as a 'smart city', the project is expected to be an example of modern world-class urban infrastructure.

Background

Emerging markets and developing countries across the world suffer from a variety of infrastructure deficits. These deficits affect their abilities to efficiently supply public goods to their citizens and residents. As one of the world's largest and most populous emerging markets

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developing countries, India's infrastructure deficit is not only large, but also varied and complex in its dimensions.

The Global Competitiveness Report 2014-15 of the World Economic Forum ranks India at 71 among the 144 countries surveyed. A closer look at the various indicators influencing the competitiveness rankings reflects the enormity and complexity of the infrastructure deficit in India. It is remarkable that while India is ranked 3rd among all economies in market size and is among the top fifty in innovation capacity, it is ranked 87 in infrastructure. The wide variation in the indicators points to the hugely untapped potential of the Indian economy, where despite a remarkably large market and proficiency in innovation, sustained economic progress remains unrealised due to lack of adequate infrastructure.

Challenges of Infrastructure Development in India

India's large geographical size and varied geographic conditions are significant challenges in its efforts to expand infrastructure capacities. States in India have a critical role to play in the growth of infrastructure, given the constitutional mandate they have, either exclusively or jointly with the Central Government, in managing various segments of physical infrastructure such as roads, ports, shipping and electricity. The importance of states in building infrastructure in India has become even more critical given the rapid urbanisation of the country and the growing pressure on civic facilities in towns and cities. While the overall country is in urgent need of ramping up transport and electricity infrastructures, several cities and towns have even more urgent needs, given their expanding population densities due to extensive migration from rural areas.

Needless to say, India requires huge investments for addressing its infrastructure deficit. A Working Group of the erstwhile Planning Commission of the Government of India had estimated in 2012 that the country would require investments of around US\$1 trillion in various infrastructure projects by the year 2017. A considerable part of the funding was to be mobilised from the private sector through public-private-partnership (PPP) models. While private investors, including foreign investors, have shown considerable interest in investing in infrastructure projects in India, the PPP models have been rather slow in taking off.

Various factors have acted as constraints, delaying the implementation of projects including the difficulties in acquisition of land as well as cumbersome clearances at the local level that affect clearance of projects. A further problem that has affected some of the infrastructure projects is the shortage of adequate skilled labour in India. India's inadequate capacities for skilling people must also be considered a part of its overall infrastructure deficit, which, in turn, constrains the growth of physical infrastructure.

New Initiatives and Investor Prospects

The new government in India under the Prime Ministership of Mr Narendra Modi assumed office in May 2014. Infrastructure development has been one of the topmost priorities for the government. This was reflected in the last Union Budget that mentioned several measures targeted specifically at reviving infrastructure including the creation of a National Investment in Infrastructure Fund. The fund is expected to invest in the public sector infrastructure finance companies that would access domestic and international debt markets. The measure can draw foreign pension and insurance funds as well as institutional investors in India's infrastructure given its greater assurance of managing risks. However, the volatility in global capital markets, following the developments in Greece and China, has held back debt funds and institutional investors from committing to long-term investments in India. An improvement in India's market fundamentals can lead to greater inflow of funds.

The Modi government has focused on the development and expansion of railways by outlining an elaborate plan for large investments over the next five years and putting in place a series of regulatory and administrative measures for overhauling the railways. An equally emphatic plan of developing urban infrastructure is the announcement about creating 100 'smart cities' with world-class infrastructure. Mention must also be made in this context about the efforts of the new government to focus on skills, a critical factor that India must address with utmost urgency. Notwithstanding the issues connected to 'doing business' – a fact that the Modi government has taken particular note of, and is working on – the opportunities for investors in India's infrastructure remain huge. This is evident from the phenomenal requirement of infrastructure that India has, and the focus of the government on expanding infrastructure capacities. Given the large requirements of infrastructure and the eagerness of the government and agencies to

implement projects involving private stakeholders, the prospects of India's infrastructure yielding sustained long-term returns is indeed bright from the patient investor's perspective.

Construction Industry

Potential investors in India's infrastructure, particularly the construction industry, can take heart from the fact that quite a few states in India have been able to develop qualitative infrastructure capacities. City transport infrastructures, such as the Delhi Metro, are notable examples in this regard, as are the airports in Delhi, Mumbai and Hyderabad. Once signature initiatives like the Delhi Mumbai Industrial Corridor (DMIC) are completed, the infrastructure scenario in India is expected to change significantly.

The construction industry can look forward to considerable prospects for future growth in India, both in terms of projects connected to physical infrastructure, as well as real estate. Valued at more than US\$ 125 billion, the construction industry's prospects are primarily driven by the shortage of urban infrastructure by the efforts by the governments in India to bridge the gap through innovative missions like 'smart cities'. These cities, while creating new civic infrastructure, would also entail large demands for quality residential real estate. The urban development vision of India also includes the growth of new tourist circuits, including religious tourist circuits, which also call for new infrastructure and provide opportunities for private investor.

Major global construction companies, such as Tishman Speyer (US), Emaar Properties (UAE) and GIZ (Germany) are already active in India. The foreign companies on ground include Ascendas and Capitaland from Singapore as well. Singapore's infrastructure investors in India include the Port Authority of Singapore, Singapore Airlines and the Changi Airports. The latest and most significant aspect of Singapore's involvement in infrastructure development in India is in the new capital city being built for the reconstituted state of Andhra Pradesh – Amaravati. Being developed as a 'smart city', the project is expected to be an example of modern world-class urban infrastructure including state-of-art residential and commercial facilities.

Some of the issues raised in this essay form an important part of the research agenda of ISAS. We are pleased to announce that ISAS will be collaborating with the Singapore Business

Federation and International Enterprise (IE) Singapore to organise the "International Business Fellowship (iBF) Executive Programme" for India this December. Supported by the Confederation of Indian Industries (CII), the customised programme allows middle- and senior-management from Singapore companies to gain a first-hand market knowledge and to build business networks. The International Business Fellowship (iBF) Executive Programme will enable participants to appreciate the macroeconomic trends and social norms driving the industry, understand how to deal with the complexities of operating under India's legal and regulatory frameworks, and to assess opportunities by anticipating demand among India's fast growing middle class consumers.

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