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India's creaking infrastructure

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The world's biggest passenger plane ever built, the Airbus A380, has rolled out of the Airbus Industries factory in Toulose, France. The plane will transform the aviation business, just the way the B-747 did some 35 years ago. With a range of over 14,000-16,000 kilometers, operating non-stop, the 73-meter long, 24-meter high, twin-deck, four-aisle 555-seater will have 49% more space and 35% more seats than the 747. The new plane will also pose a significant impact on airport infrastructure: it will need new flexible aerobridges and services such as nose-in guidance systems. Just the kind of things from which India's airports are light years away.

The story of India's ports and ancillary infrastructure is no different. World shipping has witnessed a technological and structural transformation. Containerized shipping on major trade routes and the formation of global alliances between liner groups have resulted in the consolidation of hub ports. While post-Panamax 6,600 teu (twenty-foot equivalent unit) vessels have been sailing for the past few years, several shipping companies have already ordered over 100 8,000 teu vessels for delivery from Korean and Japanese shipyards. These 340-meter long and 43-meter wide vessels will necessitate ports to upgrade their facilities, ensuring their harbors are deep enough, docks long enough and cranes tall enough to cope with the monsters. As post-Panamax ships get bigger, so, too, the chunks of cargo they offload. But India's sea terminals are poorly equipped. Cargo that takes a mere six days or less to arrive from Singapore may languish at the Nhava Sheva port in Mumbai for a month.

Of a total 3.3-million kilometer road network, India's national highways account for about 58,000 km and state highways another 137,000 km. It's only recently that a $24-billion project for the development of national and state highways has been initiated. A 6,000-km road network is currently being constructed for the Golden Quadrilateral joining the four metros, covering over 14,000 km of national highways. Still, there are miles to go. To sustain growth, India also needs a dynamic and vibrant rail network. But the less said about the Indian Railways, the better. With horrendous safety records, Indian Railways has hardly been a picture of operational success. And even as it confronts these stupendous challenges, all it can think of is irrelevant populist measures.

On the other hand, China's extraordinary emphasis on investment in infrastructure has translated into a $1.4 trillion gross domestic product (GDP), almost thrice that of India. Among the world's top 30 ports, as many as six are Chinese, apart from Hong Kong. One in every five containers handled globally is moved through a Chinese port. China's national rail network expanded from 22,900 km in 1952 to 70,100 km in 2001. With an additional annual average of 30,000 km of highways in country and township levels, its road network has expanded from 260,000 km in 1978 to 956,000 km in 2001.

China has also emerged as the world's fastest-growing air-freight market. Beijing has just completed a new $1.9 billion air terminal. Its capacity is set to increase from 27 million to 48 million passengers a year. During 1996-2000, China invested $8 billion in airport construction. In 2000 alone, airport investment aggregated $2.4 billion for Shanghai, Beijing and Guangzhou.

A chain, as they say, is only as strong as its weakest link, and India's physical infrastructure has many weak links that threaten to hobble its economic growth. Take urban India for example. Indian cities are clearly the growth engines as they contribute as much as 70% of the GDP. However, they are saddled with a creaking infrastructure bursting at the seams. Over 500 million people are expected to live in urban India by 2020. India's 35 cities are also likely to increase to 70 by then. In the Indian "Silicon Valley", Bangalore, such is the state of infrastructure that two of the city's jewels - information technology giants Infosys and Wipro - have actually threatened to move out if things do not improve.

The Rakesh Mohan Committee Report on Indian infrastructure estimated that as much as Rs2500 billion (US$56 billion) would be needed over the next decade for urban infrastructure. But the available funding for the current economic plan is a mere Rs250 billion, meaning that only one-tenth will be available via budgets. So where will be the rest come from? While developed countries invest 4-7% of their GDP on infrastructure, India spends hardly 0.6%. While this is an improvement over the less than 0.5% spent five years ago, it still makes for a major gap.

With the government failing to bring in the requisite amount of capital to ramp up India's infrastructure, there is a clear need to encourage private investment in this sector. This, naturally, calls for a much more proactive and investor-friendly policy. Other options include raising loans from international or domestic financing institutions. But such investors would, typically, insist on cost recovery in full (via user pay instruments), transparent, targeted and measurable subsidies and enough autonomy for local bodies to fix tariffs - which is anathema to India's political establishment.

Potential private participants in urban infrastructure are also risk-averse. This calls for security mechanisms that can make projects look feasible. Also, while foreign direct investment in infrastructure is now permitted via financial collaborations and joint ventures, the minimum land requirement (100 acres, or 40 hectares) is a major deterrent.

India's prime minister is talking of investment in infrastructure to the tune of $150 billion. But does India have a critical mass of bankable products to attract that kind of money? Infrastructure projects - particularly those that fall in the domain of public utilities - do not come with "built-in" viabilities. Rather, they have to be made viable through interventions, which could involve lands at concession rates, subsidized loans, capital grants and other steps that would help narrow the "viability-gap". Clearly, the new players cannot expect that they will be the ones who will have the final say on utility levels. Nor will they be able to structure favorable deals for themselves. It has to be taken up by the state that will lay down the ground rules. A World Bank study found out that on an average, it takes 11 procedures and 89 days to start a business in India. If there's to be a revolution in India's infrastructure, first there has to be one in the way India does business.

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