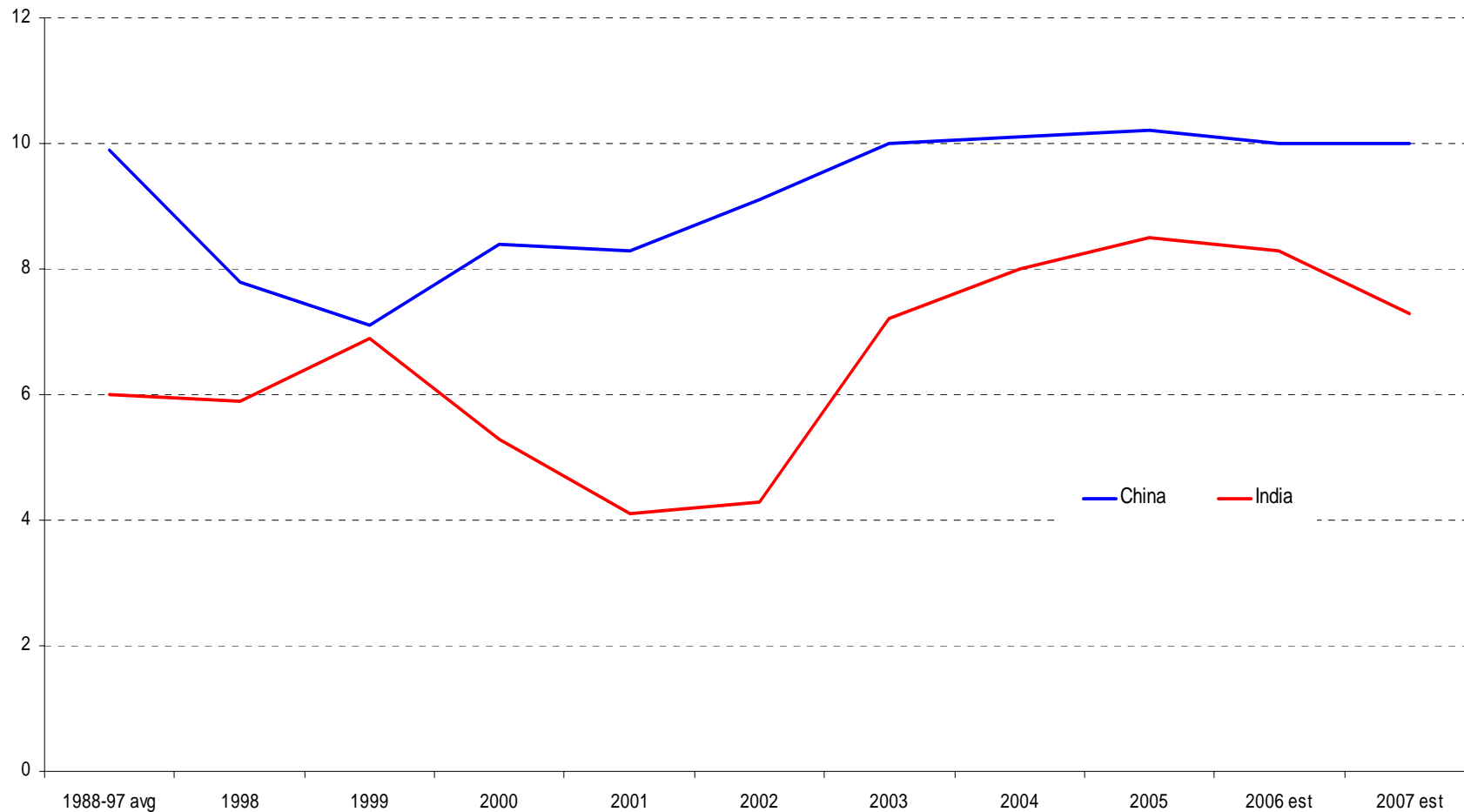


SACRED COWS ON THE ROAD TO DEVELOPMENT: REFORMING INDIA'S INFRASTRUCTURE SECTORS

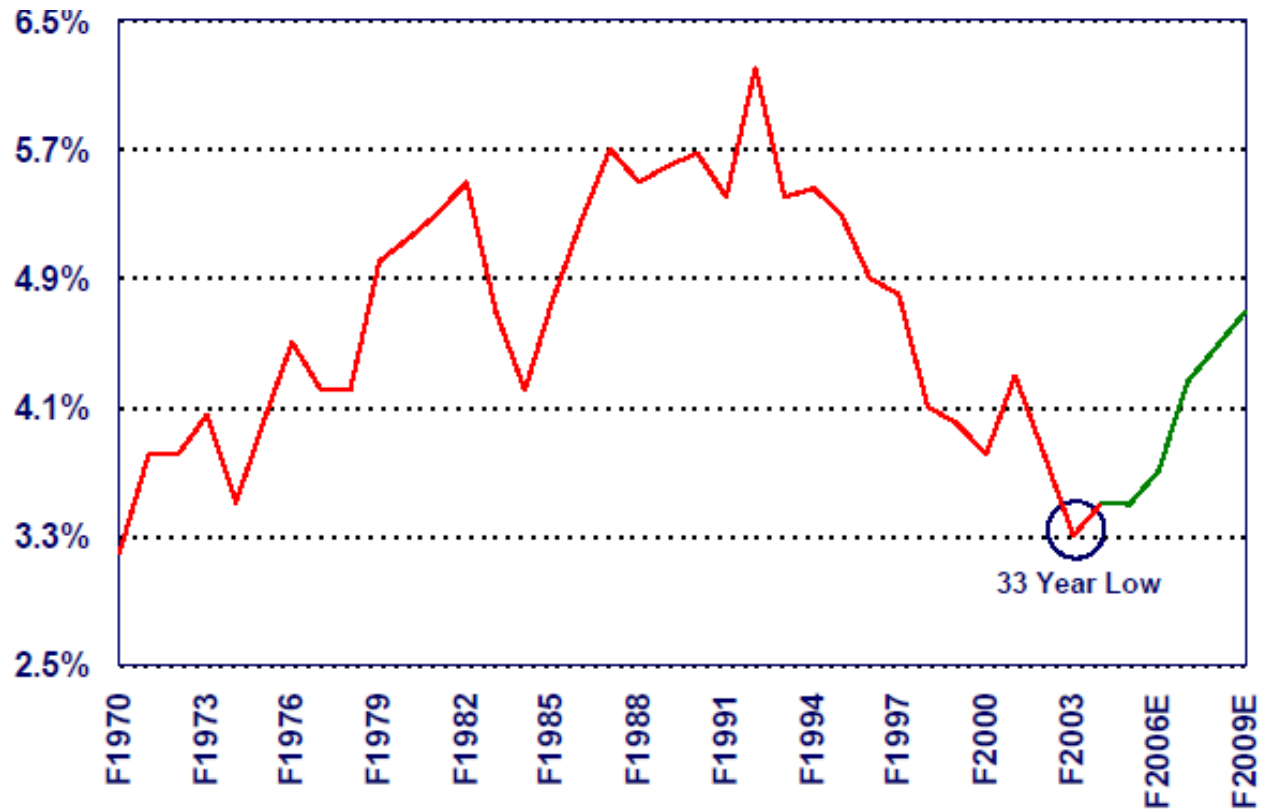
STEPHEN THOMSEN
ASSOCIATE FELLOW, CHATHAM HOUSE

FIGURE 1. REAL GDP GROWTH, INDIA & CHINA, 1988-2007



Source: IMF

FIGURE 2. INFRASTRUCTURE SPENDING AS A SHARE OF GDP



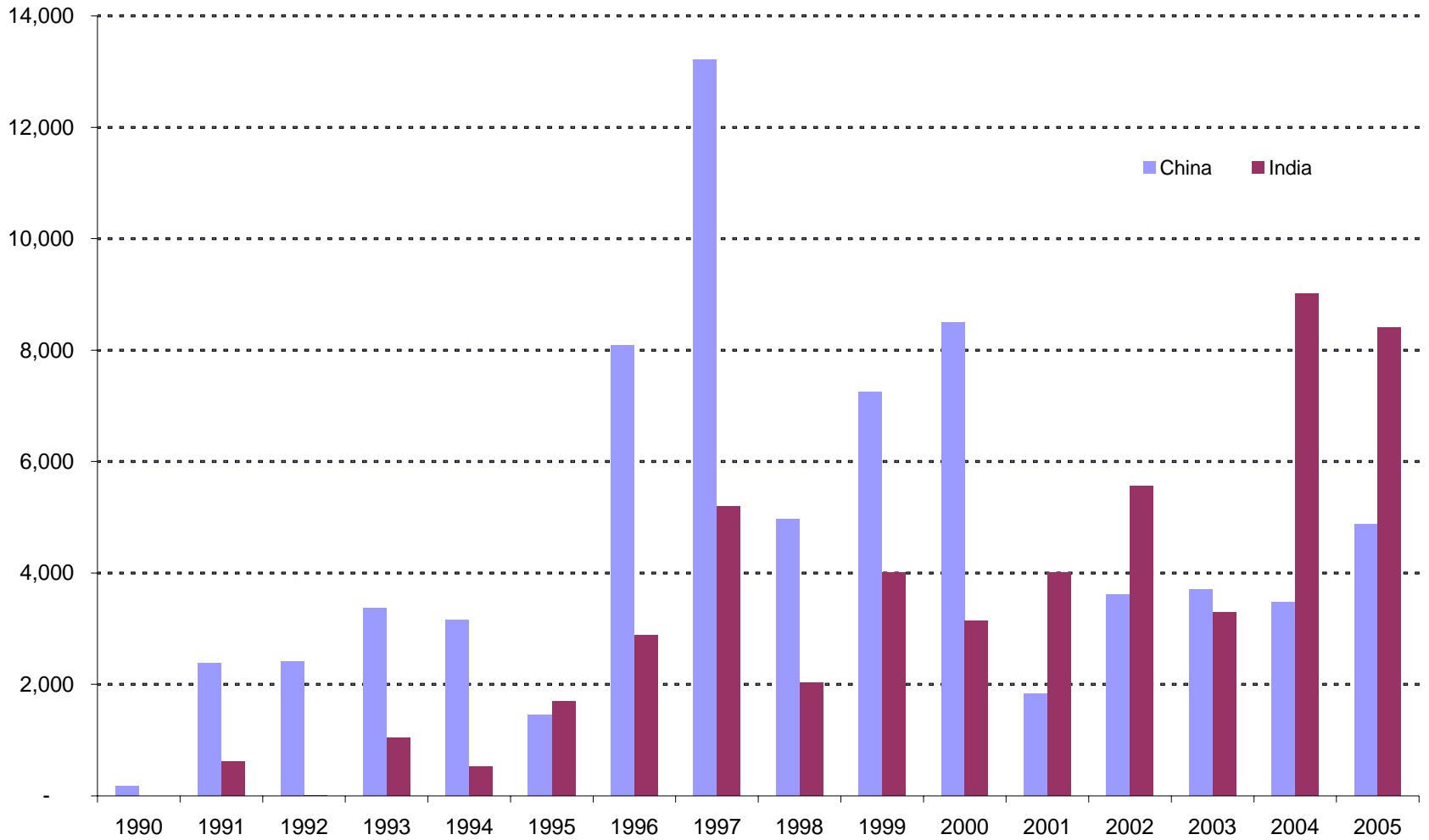
Source: Chatterjee (2006), based on estimates from Morgan Stanley.

TABLE 1. PPPs BY COUNTRY AND BY VALUE, CUMULATIVE TOTAL 1990-2005

	<i>\$ billion</i>	<i>% GDP</i>
Brazil	174	32 %
Argentina	73	51 %
China	72	4 %
Mexico	70	10 %
India	51	8 %
Malaysia	48	41 %
Philippines	36	37 %
Indonesia	32	13 %
Russia	32	7 %
Turkey	30	11 %
Thailand	29	18 %
Poland	28	12 %
Czech Republic	22	27 %
Hungary	21	23 %
Colombia	20	22 %

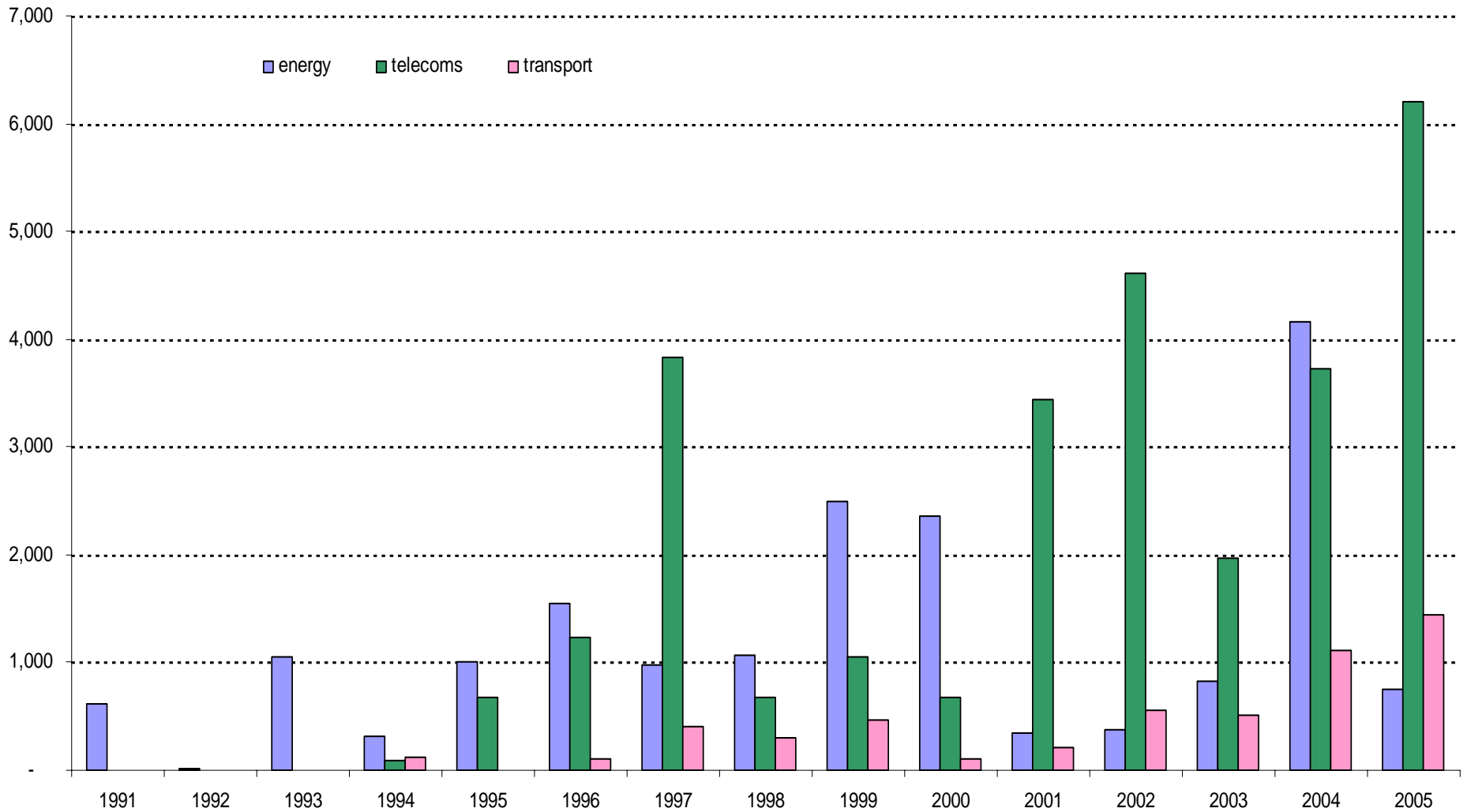
Source: World Bank PPI database

FIGURE 3. PPPs IN INDIA & CHINA (VALUE 1990-2005)



Source: World Bank PPI

FIGURE 4. PPPs BY SECTOR, 1991-2005



Source: World Bank PPI database

TABLE 2. TOP 10 PRIVATE SPONSORS OF PPPs IN INDIA (BY VALUE)

	Sponsor	Total investment (\$ m.)	share of total value
1	Reliance ADA Group	10,756	15.5%
2	Tata Enterprises	7,969	11.5%
3	Bharti Enterprises	5,703	8.2%
4	Singapore Telecom	5,419	7.8%
5	Essar Group	3,313	4.8%
6	Hutchison Whampoa Ltd	2,479	3.6%
7	Aditya Birla Group	2,422	3.5%
8	GVK Group	1,278	1.8%
9	GMR Group	1,236	1.8%
10	Jaiprakash Associates Limited	845	1.2%

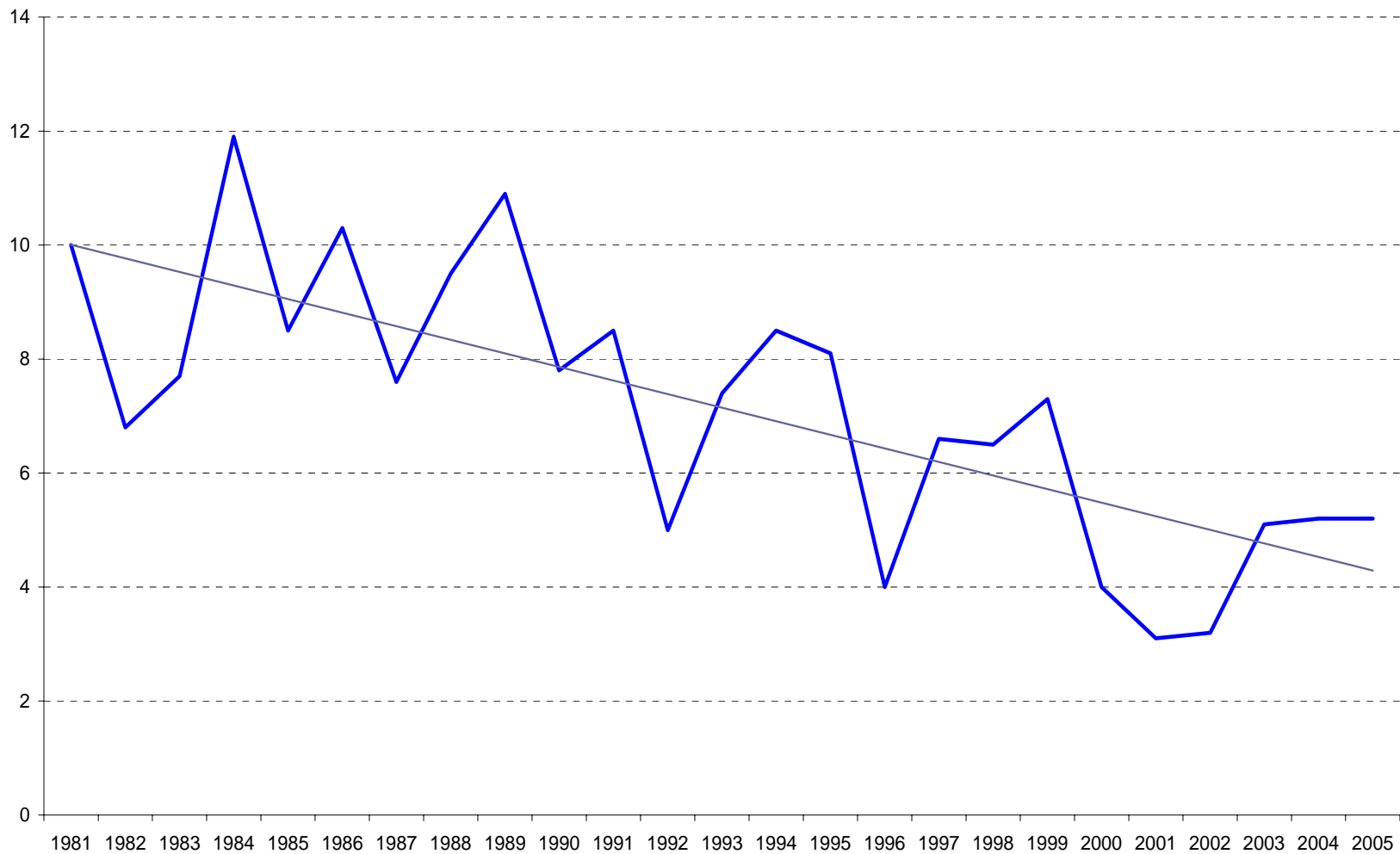
Source: World Bank PPI database

- INDIA HAS RECEIVED \$50 BILLION IN PPPs SINCE 1990, MORE THAN ALMOST ANY OTHER COUNTRY, BUT MUCH LESS THAN OTHER EMERGING ECONOMIES AS A SHARE OF GDP
- INVESTMENT IN PPPs IN INDIA IS GROWING QUICKLY, PARTICULARLY IN TELECOMS BUT ALSO IN ENERGY. ALMOST NO PRIVATE PARTICIPATION IN THE WATER SECTOR
- MOST PRIVATE INVESTMENT HAS INVOLVED GREENFIELD PROJECTS RATHER THAN TAKEOVERS OF STATE ASSETS
- MOST PRIVATE INVESTORS ARE INDIAN FIRMS, NOTABLY LARGE CONGLOMERATES
- FOREIGN INVESTORS HAVE PLAYED ONLY A MINOR ROLE

ENERGY SECTOR: MAIN CHARACTERISTICS

- SIGNIFICANT UNDERPRICING OF ELECTRICITY
- HIGH SUBSIDIES TO AGRICULTURE AND HOUSEHOLDS, HIGH PRICES TO INDUSTRY AND RAILWAYS
- GROWING DE FACTO PRIVATISATION THROUGH CAPTIVE GENERATION
- INADEQUATE ACCESS TO POWER FOR RURAL AREAS

FIGURE 5. ANNUAL GROWTH IN ELECTRICITY GENERATION, 1981-2005



Source: Reserve Bank of India

RECORD OF REFORM IN THE POWER SECTOR: *BETTER ON PAPER THAN IN PRACTICE*

- POWER SECTOR REFORM ON THE AGENDA SINCE EARLY 1990s
- SOME CORPORATISATION, UNBUNDLING AND TWO CASES OF PRIVATISATION OF DISTRIBUTION
- THE PROBLEM LIES IN IMPLEMENTATION, PARTICULARLY AT THE STATE LEVEL
- THE CENTRAL GOVERNMENT AND PRIVATE OPERATORS AND CUSTOMERS ARE FINDING WAYS TO CIRCUMVENT THE SEBs

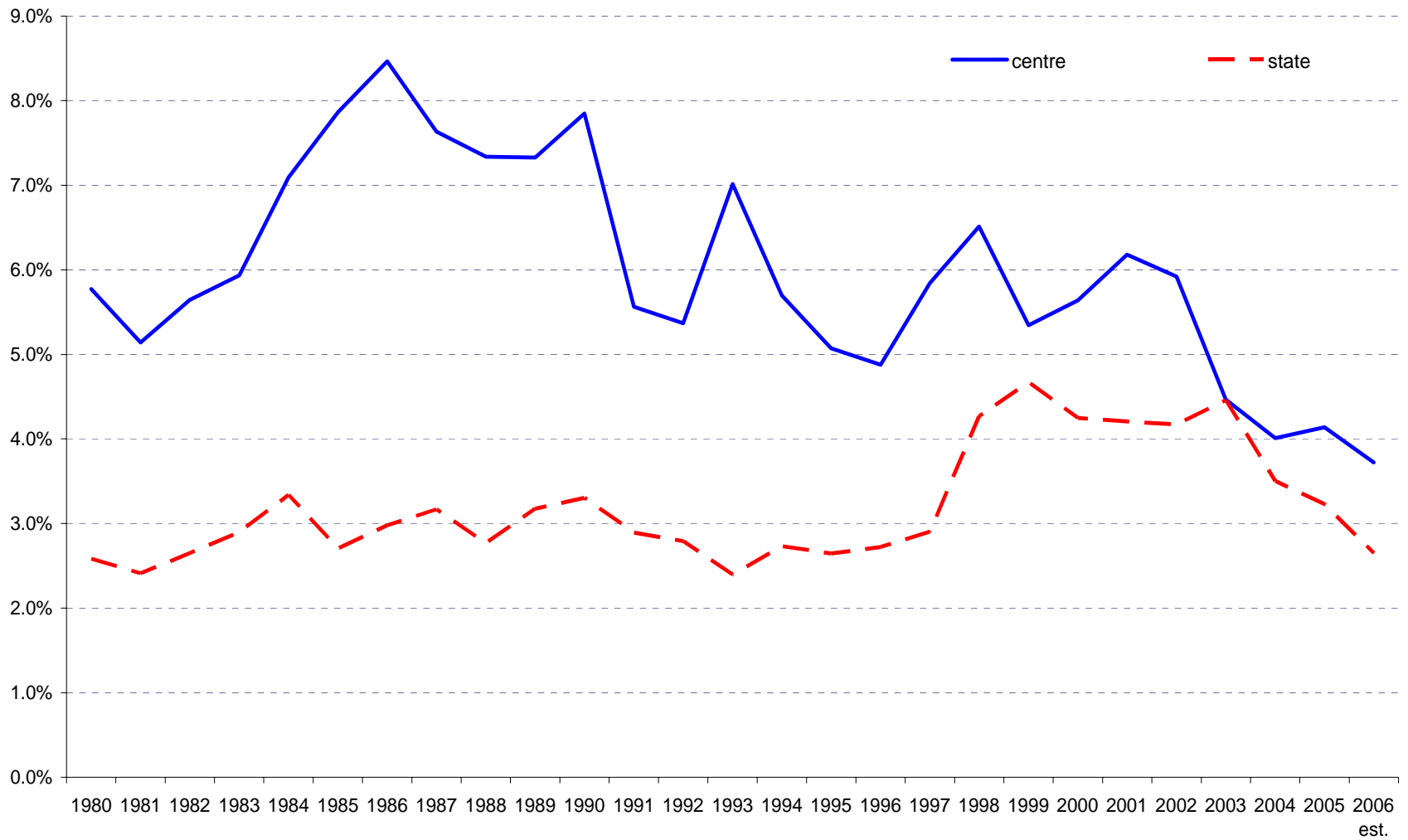
PRIVATE PARTICIPATION IN POWER: *ONCE BURNT, TWICE SHY*

- PRIVATE OPERATORS ARE PERMITTED, PARTICULARLY IN GENERATION, WITH DISAPPOINTING RESULTS
- LACK OF COST-RECOVERY PRICING IS A BIG OBSTACLE
- POLICY INCONSISTENCY AT STATE AND CENTRAL LEVEL
- LACK OF SOLVENCY OF THE SEBs HAS LED TO PAYMENT DEFAULTS
- SOME MAJOR FOREIGN INVESTORS HAVE WITHDRAWN; MANY MORE HAVE STAYED AWAY

THE EXPERIENCE IN TELECOMS: *A PARALLEL UNIVERSE*

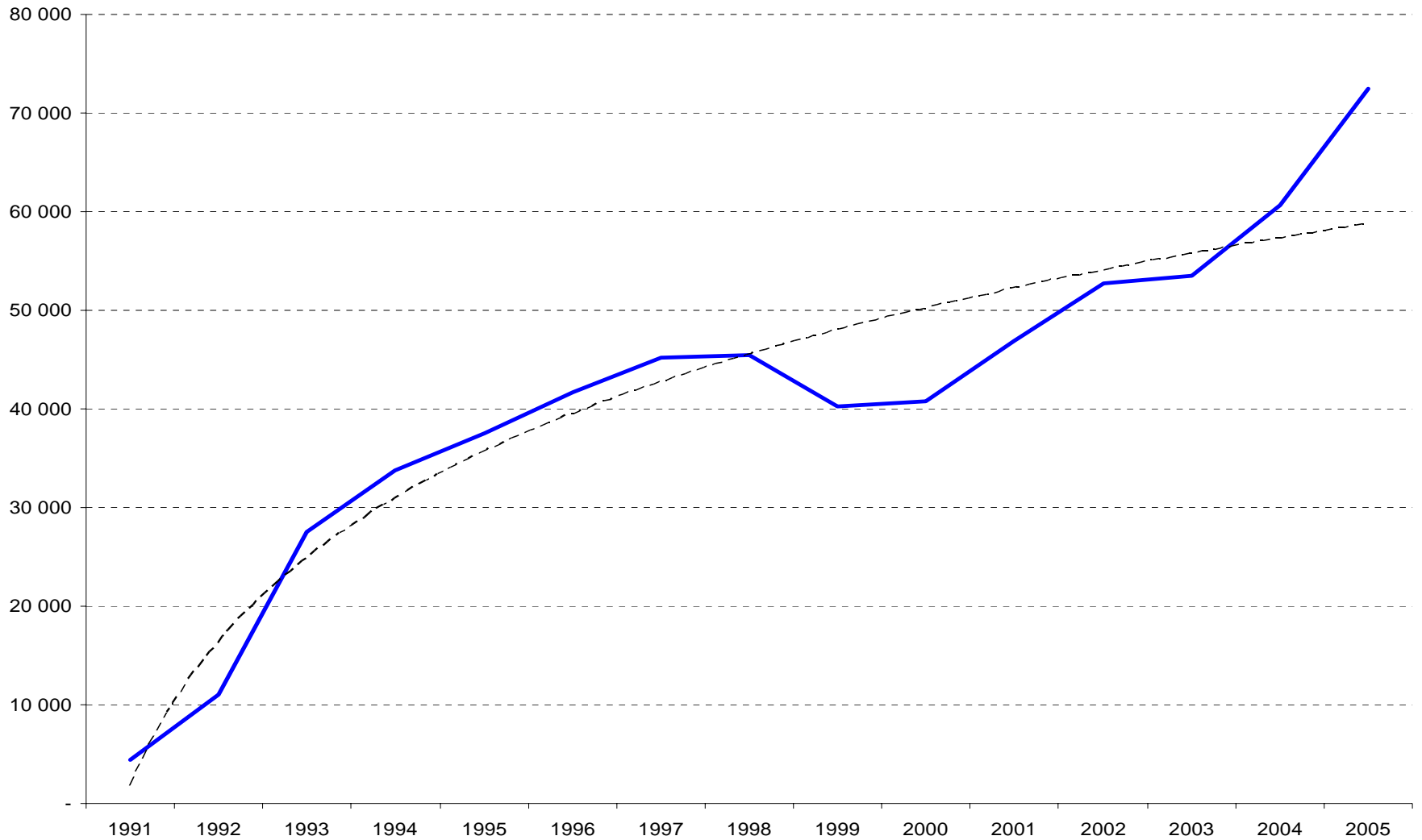
- INDIA HAS ONE OF THE FASTEST GROWING AND MOST COMPETITIVE TELECOMS MARKETS IN THE WORLD
- NOTHING ABOUT THIS SITUATION WAS PRE-ORDAINED: IT IS THE RESULT OF GOVERNMENT REFORMS AND SERENDIPITOUS TECHNOLOGICAL CHANGE
- FOREIGN PRIVATE OPERATORS HAVE BEEN KEEN TO PARTICIPATE IN THIS SECTOR

FIGURE 6. FISCAL DEFICITS OF THE CENTRAL & STATE GOVERNMENTS, 1980-2006



Source: Reserve Bank of India

FIGURE 7. FDI INTO CHINA, 1991-2005

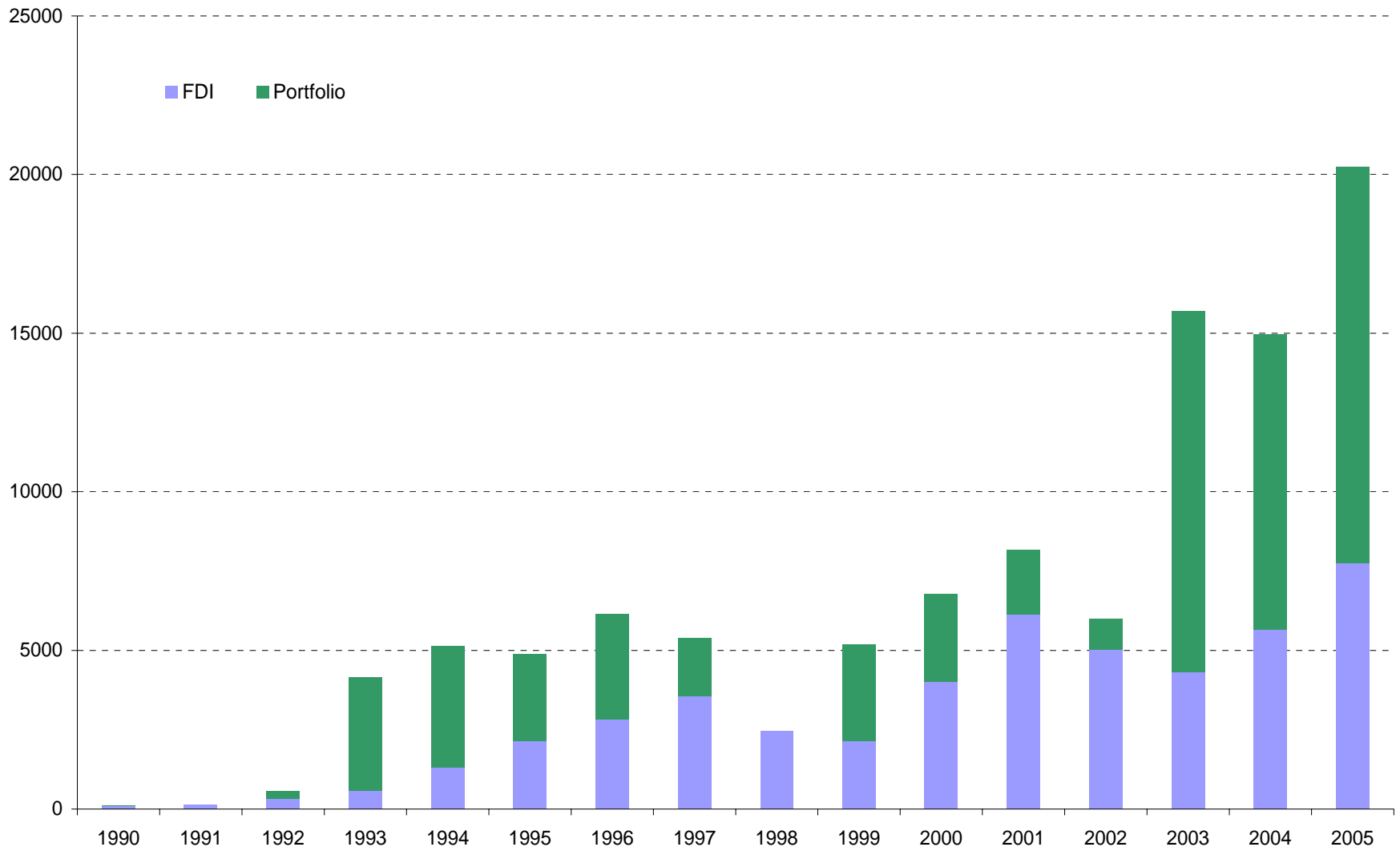


Source: FDI data from UNCTAD

REASONS TO EXPECT GREATER FDI INTO INDIA IN THE FUTURE

- ONE HALF OF INVESTORS IN A RECENT WORLDWIDE SURVEY LISTED INDIA AS ONE OF THEIR THREE TOP DESTINATIONS FOR FDI IN THE NEXT FOUR YEARS – SECOND ONLY TO CHINA
- FDI APPROVALS IN INDIA ARE MUCH HIGHER THAN ACTUAL INVESTMENTS
- PORTFOLIO FLOWS TO INDIA REPRESENT ONE QUARTER OF ALL THOSE TO EMERGING MARKETS

FIGURE 8. FDI & PORTFOLIO FLOWS TO INDIA, 1990-2005



Source: Reserve Bank of India

INSTITUTIONAL REFORMS: *FIXING THE INSTITUTIONS THAT FIX THE PIPES*

- NO WELL-CONCEIVED RATIONALE FOR PROMOTING PPPs OTHER THAN OPPORTUNISTIC NEED FOR CAPITAL
- CONFLICTS BETWEEN NEWLY-APPOINTED REGULATORS AND LINE MINISTRIES
- FREQUENT CHANGES IN THE RULES
- LITTLE ATTEMPT TO MAXIMISE SCARCE ADMINISTRATIVE RESOURCES, SUCH AS THROUGH CROSS-SECTORAL PPP AGENCIES
- SOME PROGRESS IN SOME SECTORS & STATES, BUT IT TAKES TIME TO DEVELOP REGULATORY JURISPRUDENCE

THE POLITICS OF INFRASTRUCTURE IN INDIA: *ELECTORAL RATHER THAN ELECTRIC POWER*

- POOR SELECTION OF PROJECTS, OFTEN WITH INADEQUATE RETURNS
- POOR CONSTRUCTION QUALITY AND LITTLE MAINTENANCE
- OVERSTAFFING IN STATE-OWNED ENTERPRISES
- SUBSIDIES FOR INFRASTRUCTURE SERVICES USED MORE AS A MEANS TO BUY VOTES THAN TO ALLEVIATE POVERTY

CONCLUSION

GOOD NEWS

- CONSISTENT TRACK RECORD OF REFORM
- CREATION OF REGULATORY AGENCIES
- DECLINING FISCAL DEFICITS
- FEWER PROJECTS DELAYS
- INCREASED INFRASTRUCTURE SPENDING
- HIGHLY COMPETITIVE TELECOMS SECTOR

BAD NEWS

- POOR IMPLEMENTATION
- CONFLICTS WITH LINE MINISTRIES & SOEs
- STATE DEFICITS REMAIN HIGH
- FOREIGN INVESTORS STILL CAUTIOUS IN MOST SECTORS
- SPENDING PLANS STILL FALL SHORT OF WHAT IS NEEDED
- HIGH COSTS FOR INDUSTRIAL USERS IN ALL OTHER SECTORS