

Chapter 10

Foreign Direct Investment Opportunities in Infrastructure Development: A Study on India

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ABSTRACT

India's rising growth trajectory requires rapidly expanding infrastructure facilities to support it. The availability of efficient infrastructure services is an important determinant of the pace of market development and output growth. Access to affordable infrastructure services for consumption purposes serves to improve household welfare, particularly among the poor. The potential contribution of infrastructure to economic growth and poverty reduction has not been fully realized, and existing infrastructure stock and services fall far short of the requirements. The Government recognises the fact that domestic resources alone may not be adequate to sustain the required expansion in infrastructure, and hence it has followed a strategy to create incentives for Foreign Direct Investment in infrastructure sector. This study examines the current state of infrastructure in emerging India, use of FDI in infrastructure sector and policy measures to be taken up to speed up infrastructure growth in India.

INTRODUCTION

Infrastructure sector is a one of the key drivers of Indian economy. The sector is highly responsible for propelling India's overall development. A country's economic development is directly related to its infrastructural development. Infrastructure of a country can be divided into two parts- primarily as physical and social infrastructure. Social infrastructure consists of better education facility, better health services availability etc. The Reserve Bank of India has defined infrastructure sector as power, telecommunications, railways, roads including bridges, sea port and airport, industrial parks, urban infrastructure

DOI: 10.4018/978-1-7998-2448-0.ch010

Foreign Direct Investment Opportunities in Infrastructure Development

(water supply, sanitation and sewage projects), mining, exploration and refining, cold storage and cold room facility, including for farm level pre-cooling for preservation or storage of agricultural and allied produce, marine products and meat. The physical infrastructure facilities in India are not adequate to meet the increased demand at present. In most cases, India's infrastructure is of poor quality, by world standards. Traditionally, infrastructure was the exclusive province of the public sector, with large, state-owned enterprises (SOEs) being responsible for investment and service delivery. These entities were costly and inefficient providers of infrastructure services. International organisations such as World Bank, has encouraged privatization which has been a major component of the economic reform programmes pursued by many developing countries over the past two decades. Privatization is perceived to provide better use of resources, more efficient operations, reduced financial burden on government and increase in the level of foreign and domestic private investment (World Bank, 1995). Private sector has become increasingly involved in the financing and delivery of infrastructure services. A large number of developing countries have introduced private participation into their infrastructure industries. Of the total quantum of FDI flows across the globe, a large fraction has gone into infrastructure projects. Growing pressures on Government budgets and a general concern about the quality of service provision by incumbent entities saw an explosion of private sector FDI into infrastructure, particularly in the developing countries. Between 1990 and 1998, infrastructure projects in the developing countries attracted about US\$ 63 billion through the following routes: Privatisation sales, Concessions, Leases and other contractual agreements, new capacity creation through build-operate-transfer (BOT) Agreements. The bulk of infrastructure FDI in terms of quantum of investment has flowed into the telecom and power sectors. There are two routes available for foreign direct investment in India: (i) Automatic route under which companies receiving Foreign Direct Investment need to inform the Reserve Bank of India within 30 days of receipt of funds and issuance of shares to the foreign investor (ii) For sectors that are not covered under the automatic route, prior approval is needed from the Foreign Investment Promotion Board (FIPB). The Table below lists the FDI ceiling under automatic route in India.

Government of India promoted FDI in infrastructure through increase in proposed investment limit in FDI sector to US\$1000 billion in coming years. More than 70% of it is expected from private and foreign players. For infrastructure sector, India is relying mainly on private sector investment through Public Private Partnership. The PPP is planning to invest more than US\$ 400 billion in infrastructure sector in the next 5 years. The Government of India is also planning to set up a dedicated panel to enhance the approval process of infrastructure projects. As per the research reports, an investment inflow of more than US\$1 trillion will be required in different projects such as harbour, highways and power plants and more than 1.8 trillion US\$ will be required to be invested in infrastructure projects in India.

Table 1. FDI Ceiling under automatic route

	Sector	Percent
1	Telecom	49
2	Electricity generation, transmission and distribution (except nuclear power)	100
3	Roads and Highways	100
5	ports and harbours	100
6	Civil Aviation	100

Source: Department of Industrial Policy and Promotion, Government of India. www.dipp.nic.in

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