Cumulative FDI Inflows in the Construction Development sector – A Study

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Abstract

This paper attempts to study significance of **infrastructure sector** crucial for **India's economic growth**, and for foreign investors to invest in the country's **infrastructure development(FDI).** It is worthwhile to mention that the private sector is emerging as a key player across various infrastructure segments, ranging from roads and communications to power and airport. The FDI received in townships, housing, built up infrastructure and construction development projects from April 2000 to September 2017 stood at US$ 24.66 billion; and in construction activities stood at US$ 10.70 billion. The strong advantages of infrastructure development in India is governed by the huge demand as it has a requirement of investment worth Rs 50 trillion (US$ 777.73 billion) in infrastructure by 2022 to have sustainable development in the country. Sectors like power transmission, roads and highways, and renewable energy will drive the investments in the coming years. There are attractive opportunities in India such as favourable valuation and earnings, the Regional Connectivity Scheme and immense scope for improvement as only 24 per cent of the National Highways are those with four lanes. The competitive advantages include attracting major global players like China Harbour Engineering and Mizuho Financial Group and also the fact that the sector received huge FDI inflows in 2017. Interestingly, with strong policy support like 'Housing for All' and 'Smart Cities Mission' the Government of India is working on reducing bottlenecks by pushing growth in the infras-tructure sector.

Key words: infrastructure sector, India, power transmission, roads and highways, FDI

Introduction

The long-awaited measures in infrastructure development, labour policy reforms, digitization of business, technological advancement in project execution, privatization of assets and utility services and more resilient business models can now be implemented. Despite the Q1 traction, India is taking swift remedial actions and international financial organisations are positive about India's growth prospects in coming times. A rapid and sustained economic growth with about 8% of GDP expansion annually, fuelled by heightened productivity and critical reforms, will enable the nation to achieve the ambitious target of becoming an economic power in the world order. McKinsey Global Institute has suggested that manufacturing and construction are the two sectors that would need to amplify the most, adding 9.6% and 8.5% annual GDP growth while creating 11 million and 24 million jobs, respectively, from 2023 to 2030.

In the current scenario when almost all the sectors are on a decline, initiatives for water infrastructure development schemes, including the ambitious Jal Jeevan Mission, and an exclusive budgetary allocation of ₹3.6 lakh crores, are going to be the growth drivers of the construction sector during the next few years. With the UDAY Scheme, that will help in a financial turnaround and revival of the electricity distribution companies of India, the power sector has been registering strong growth. Also 100 per cent FDI is permitted under the various infrastructure sectors. Cumulative FDI inflows in the Construction Development sector, which includes townships, built-up infrastructure and construction development projects, reached US$ 24.66 billion between April 2000 and September 2017. The UAE-based firm, DP World, having previously invested US$ 1 billion in India, is planning to invest another US$ 1 billion in India's infrastructure sector along with logistics and container terminals. Squared Capital, a global infrastructure investment company, plans to raise up to US$ 4 billion through its second infrastructure fund, which will be invested in infrastructure assets in India and across the globe. There is increasing FDI inflows into the sector. There is a strong momentum in the expansion of roadways, strong revenue growth for the Indian Railways, whereas the power generation capacity has increased at a healthy pace.

Objective:

This paper intends to explore and analyze how India's population growth and economic development requires improved **social infrastructure.** The sector is highly responsible for propelling **India's overall development and driver catalyst**

Infrastructure Growth Driver of Construction Sector

A strong momentum is overserved in the expansion of roadways. The value of total roads and bridges infrastructure in India is estimated to have expanded at a CAGR of 13.6 per cent over FY09-17 to US$ 19.2 billion.

The revenue growth for the Indian Railways has been strong over the years; during FY07-17, revenues increased at a CAGR of 11 per cent to US$ 24.60 billion in FY17. All Indian Railways trains will become electric by 2022, resulting in annual an savings of Rs 11,500 crores (US$ 1.79 billion).

The installed capacity has increased steadily over the years, posting a CAGR of 10.57 per cent in FY09-17 and stood at 326.84 (GW) by the end of FY17. The power generation capacity has increased at a healthy pace. The Indian energy sector is expected to offer investment opportunities worth US$ 300 billion over the next 10 years. The eight core infrastructure industries include coal, crude oil, natural gas, refinery products, fertilisers, steel, cement and electricity. The overall index grew by 4.8 per cent during FY 2016-17. The growth in the index was led by electricity (10 per cent), steel (9 per cent), refinery products (8.9 per cent), cement (5.8 per cent) and fertilisers (3.3 per cent). The cumulative growth of the index between April-October 2017 was 3.5 per cent. The growth-drivers for infrastructure in India are government Initiatives, Infrastructure Need, Housing Development, International Investment, Public Private Partnerships. The total allocation for infrastructure in the Budget of 2017-18 stands at US$ 61.48 billion and the major sectors covered are Railways and Metro Rail, Construction, Telecom and Energy, Roads and Airport. A special attention is given to the infrastructure development in the North-Eastern region of India since the North-East is deprived of infrastructural development compared to other regions of India for a longer period of time. In December 2017, the North-East Special Infrastructure Development Scheme (NESIDS) was approved by the Government of India with 100 per cent funding from the Central Government for infrastructure projects in the region. In October 2017, the Government of India announced that highway projects worth Rs 1.45 trillion (US$ 22.6 billion) would be undertaken in the North-East region of the country in the coming two to three years. In August 2017, the India-Japan Coordination Forum for Development of the North-East was formed to focus on major projects such as road and network development, disaster management, connectivity, and electricity provision. With an eye on China, India is working on a slew of road and bridge projects to improve connectivity with Bangladesh, Nepal and Myanmar. India is also pulling out all stops to expedite the South Asian Sub-Regional Economic Cooperation (SASEC) road connectivity programme in the backdrop of China's ambitious One Belt One Road (Obor). The government announced plans to invest US$ 6.98 billion in the North-East States. The North-East-Agra transmission line, which is the biggest power transmission line to be built in the country in terms of capacity. This means that cheap power from the hydro-rich North-East can now reach the central part of North India. The whole region is to be developed to give impetus to tourism. Arunachal Pradesh was brought on to the railway map of India with India's longest rail-cum-road bridge—the 4.94-km long Bogibeel bridge over the Brahmaputra. The government has also announced plans to convert all meter gauge tracks in the North-Eastern States to broad gauge tracks. In May 2017, Narendra Modi, Prime Minister of India, inaugurated India's longest river bridge—the 9.15-kilometre-long Dhola-Sadiya bridge over the Brahmaputra river in Assam. The bridge will provide easy access to the people of Assam and Arunachal Pradesh and will improve its defence requirements along the Sino-Indian border.

The opportunities in the infrastructure sector are broadly coming through government initia-tives, international associations and urban Indian real estate. The government is making an attempt to revive and give boost to Public Private Partnerships. For creating an eco-system to make India a global hub for electronics manufacturing a provision of US$115.62 million has been made in 2017-18 in incentive schemes like M-SIPS and EDF. The total allocation for infrastructure in the Budget of 2017-18 stands at US$ 61.48 billion. Japanese investment has played significant role in India's growth story. Japan has pledged investments of around US$35 billion for the period of 2014-19 to boost India's manufacturing and infrastructure sectors. The Japanese Government is constantly looking for investment opportunities in India. The Asian Development Bank will provide US$ 275 million loan for a piped water supply project for rapidly urbanising small towns, covering three lakh households, in Madhya Pradesh. India will need to construct 43,000 houses every day until 2022 to achieve the vision of Housing for All by 2022. Hundreds of new cities need to be developed over the next decade under the smart city programme. This has the potential for catapulting India to the third largest construction market globally. The sector is expected to contribute 15 per cent to the Indian economy by 2030. The recent policy reforms such as the Real Estate Act, GST, REITs, steps to reduce approval delays etc. are only going to strengthen the real estate and construction sector.

In the light of the above the status of infrastructure in India and the wish list in the Union Budget 2017 including infrastructure are to increase in income slabs, higher spending in agriculture and infrastructure, greater efforts towards skilling, more public investment to drive growth and government hospitals to deliver better health care to the needy. The topmost priority has been given in the wish list to increase allocation in infrastructure, agriculture and rural development, health care and education by the forty global economists from India, Singapore and India in the Reuter's survey and The Local Circles Citizens Budget 2017 Survey. Tax incentives to the homebuyers is in the priority list of the people. In the Local Survey, 32 per cent of the respondents were female, 68 per cent of the respondents were male and it was carried out in three weeks' time just before the Union Budget 2017.

This Budget is the last full Budget before the Lok Sabha elections. Affordable housing has to generate demand for steel, cement, construction and boost economic growth. The Budget is not justified if it does not improve the life of the rural poor. The Budget has lot to do with things to alleviate rural distress.

This is the first Budget of independent India that brought the social sector infrastructure into the centre-stage. The social sector is important for ensuring a productive workforce. Job creation will also happen in education and health other than agriculture and industry. In a big new initiative, the government said it would introduce health insurance for 500 million Indians under the National Health Protection Scheme. Under the scheme, 100 million vulnerable families will be provided health insurance cover up to Rs 500,000 a year. Finance Minister Arun Jaitley said it would be the world's largest health care programme and it is a progress towards universal health coverage, a campaign promise of the BJP in 2014.

The Budget is a game-changer for health care especially alongside institutional changes such as the National Medical Commission Bill. With the launch of the National Health Protection Scheme, it provides up to Rs 5 lakhs in coverage for secondary and tertiary health care to about 50 crore poor and vulnerable beneficiaries. Besides the cost of the existing Rashtriya Swasthya Bima Yojana (RSBY), the scheme could cost Rs 30,000 crores, though some independent experts peg the annual bill much higher at Rs 1 lakh crores. Thus, the mega health care scheme for the poor will give the sector a big boost but could cost about Rs 30,000 crores a year and will require the creation of a healthcare infrastructure in vast areas of the country that lack adequate medical facilities. This will be the largest healthcare scheme in the world, signalling India's commitment to affordable quality health services, according to NITI Aayog CEO Amitabh Kant.

The Budget has allocated Rs 1 lakh crore toward the higher education infrastructure under the Revitalising Infrastructure and Systems in Education (RISE) scheme. Jaitley said that in 2017-19, Rs 14,340 billion would be spent on rural infrastructure, in order to "connect farmers to markets". The allocation to food processing was doubled to Rs 14 billion. An "Operation Green" for horticulture on the lines of "Operation Flood" was announced and the Finance Minister hinted at a policy allowing more farmers to access minimum support prices (MSPs) for their output than at present. He also promised the implementation of a campaign commitment by Prime Minister Narendra Modi that farmers would receive MSP of 50 per cent over their cost. The government has set aside Rs 21,000 crores for building 5.1 million rural houses in FY 2017-19 apart from the 5.1 million being constructed this year under the Prime Minister Awas Yojana (PMAY). Sectors including cement, steel, paints, sanitary ware and electricals could benefit from the government's decision to step up its affordable housing drive. The government will create a dedicated Affordable Housing Fund in the National Housing Bank. An interest subsidy will be provided to rural households that are not covered under the PMAY.

India will invest as much as Rs 5.95 lakh crores creating and upgrading infrastructure in the next financial year, said Finance Minister Arun Jaitley. "Our country needs massive investments estimated to be in excess of Rs 50 lakhs crore in infrastructure to increase growth of GDP, connect and integrate nation with a network of roads, airports, railways, ports and inland water ways to provide good quality services to our people." To raise resources, state-owned firms would access the equity and bond markets. The Budget also levied a Rs 8 per litre road and infrastructure cess on imported petrol and diesel. The government and market regulators also have taken necessary measures for development of monetising vehicles like infrastructure Investment Trust (InvIT) and Real Investment Trust (ReITS). The government would initiate monetising select Central Public Sector Enterprises (CPSE) assets using InvITs from next year.

As a part of the new integrated infrastructure planning model the NDA Government unveiled the largest ever rail and road Budget of Rs 1.48 lakh crores and 1.21 lakh crores, respectively in 2017-19. India needs to fund for ambitious plans such as Sagarmala (ports) and Bharatmala to improve its transport infrastructure by raising equity from the market. To raise equity from the market for its mature road assets, NHAI will consider organising its road assets in to Special Purpose Vehicle (SPV) and innovating monetising structure like Toll Operate and Transfer (TOT) and InvIT. The total investment estimated for Bharatmala is Rs 10 lakh crores—the largest outlay for a government road construction scheme. An additional Rs 8 lakh crores will be needed for Sagarmala until 2035. The government is confident of completing National Highways exceeding 9000 km length during 2017-18, Jaitley said. The country has a road network of 3.3 million km, the second largest globally.

The Plan outlay for the Indian Railways in next fiscal has been pegged at 1.48 lakh crores, the highest ever outlay for a national transporter. Track renewal of 3999 km, procurement of 12,000 wagons, safety fund of Rs 20,000 crores, and electrification of 6000 km has been planned. The national transporter will raise Rs 28,500 crores from extra-budgetary support from extra-budgetary resources such as IRFC bond and Rs 26,440 crores through other borrowings. Vinayak Chatterjee, the Chairman of Feedback Infra, an integrated infrastructure company, said that the Railways' capital expenditure plan lays focus on electrification, safety and modernisation. "This is a very pragmatic plan and the good thing is that railways are not solely relying on GBS, but raising fund through off-budgetary mechanism." Railway Minister Piyush Goyal said. He announced that he "wanted Railways to be the first choice of transportation". Passenger safety and amenities are the prime focus as also raising non-fare revenue to boost efficiency.

Conclusion

Infrastructure development can provide a boost to the economy, the primary step is to identify the issues associated with weak infrastructure in India. Rural road network provide insufficient access to rural areas. Increased road connectivity should promote economic growth while reducing poverty. Land acquisition also proves to be a hindrance in infrastructure development.

Large infrastructure projects in India have also often been stalled on account of environmental concerns. In order to address key issues and attract foreign and private capital into infrastructure, in recent years, the government plans to resort to innovative financing strategies including credit enhancement fund for infrastructure projects, strengthening the corporate bond market in India, asset monetization, innovative financing of smart cities and other infrastructure projects, etc.The main criticism of this Budget is that riding on announcements the Finance Minister has doled out liberal sums of money on health care, agricultural support and education schemes for farmers and the poor in general, but the outlays and detail financing of these schemes do not match the announcements. It is said that the detail financing and formalities of of these mega health care and agricultural support schemes will be worked out soon involving three stakeholders of the government's think-tank NITI Aayog, State Government and Central Government. Moreover, additional cesses leave taxes in the Centre's hands without sharing the proceeds with the States. Fiscal prudence and discipline will be judged once these detail financing plans are implemented.

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