India’s ambitious $1.4 trillion infra investment plan

Can the new mega infrastructure investment plan be the fillip the Indian economy needed after a protracted period of sluggish growth? India Inc. Founder and CEO, Manoj Ladwa, writes that much will depend on the Indian government’s ability to execute well, and foreign investors having the confidence to muscle in.

Highlights:

- India’s ambitious $1.4 trillion National Infrastructure Pipeline (NIP) is a critical step towards realising the Modi government’s ambition of making India a $5-trillion economy.
- NIP opens up huge investment opportunities across sectors such as urban development, agricultural infrastructure, education, healthcare, and digital services.
- The Centre and the States will each meet 39 per cent of the proposed outlay, while the private sector is expected to fund the balance of 22 per cent.
- NIP could also help resuscitate the steel and cement sectors, which are suffering from weak demand at present.

In line with its election promise, the Narendra Modi government unveiled the $1.4-trillion National Infrastructure Pipeline (NIP) that envisages an unprecedented building programme in sectors such as roads, energy, railways, urban development, agricultural infrastructure, education, healthcare and digital services. The proposed time period is five years and the projects are spread across 18 states and Union Territories. The NIP will be expanded when proposals from all of India’s 28 states and nine UTs come in over the next few weeks.
Indian Finance Minister Nirmala Sitharaman made this announcement on New Year’s Eve. The Centre and the States will each meet 39 per cent of the proposed outlay, while the private sector is expected to fund the balance 22 per cent. This investment programme is a critical step in India’s journey towards the Modi government’s ambition of India becoming a $5-trillion economy over the next five-to-six years.

Key sectors

This massive outlay will also be crucial for pulling India out of its current economic slowdown as it will drive both investment and consumption. Let me draw your attention to the sectoral allocation of investments – energy (24 per cent), roads (19 per cent), urban development (16 per cent) and railways (13 per cent). These four sectors alone will account for about 72 per cent of the projected expenditure.

All these sectors are guzzlers of steel and cement. These two sectors are suffering from weak demand at present and the investment programme could be just the spark that resuscitates their fortunes.

Employment and consumption to get a push

Roads and urban development are two very employment-intensive sectors. The proposed expenditure in these two sectors as well as others such as agriculture, healthcare, education and digital services can add millions of jobs in the Indian economy. This, in turn, will push consumption and help revive demand growth in the economy.

Massive opportunities for foreign firms

Frankly, India lacks the capacity to produce the quantities of capital goods and other assets needed to undertake an investment programme on such a humungous scale. It will, thus, have to turn to companies in Europe, the US, Japan, South Korea and possibly even China for help. Some of these needs will have to be met by setting up new plants in India but some of the inputs will also have to be imported from factories in these countries. India's significant leaps in the World Bank's annual Ease of Doing Business Index in the past few years will be one of the confidence boosters that foreign companies otherwise shy of a big play in India would have been looking for. I would also expect to see some work on much-needed legal reforms to keep in step with the business reforms.

Finding the money won't be easy

India spent about $1.1 trillion in the 10 years between 2007 and 2017 on infrastructure. Since then, it has spent about $145 billion in each of the next two years. The NIP now calls for an annual investment of $280 billion or double the amount it has spent in the last couple of years.

Finding this additional money will not be easy for the government, especially given the sluggish pace of revenue collection. Private investment also remains tepid in India and the banking sector has still not recovered from the bad loan crisis.

London, New York, Singapore hold the key to success

The Indian bond market remains weak. So, I see a tremendous scope for the City of London as well as the financial centres of New York and Singapore to play a stellar role in packaging and financing this investment programme. With Modi enjoying a big majority in the Indian parliament, the political risk of coalition politics at the Centre, which over the past few decades has been a drag factor for investors, is also now out of the equation

Details still awaited

The Indian government has still not unveiled a financial roadmap for the NIP, but I expect it will have to depend to a large extent on foreign sources – such as the $100-billion commitments from Saudi Arabia and Abu Dhabi and the big investment banks in London and New York – for the money. Expect some high-profile marketing roadshows by Indian ministers and financiers in the coming months.

Indian government's ability to execute

In terms of scale, the NIP is arguably the most ambitious infrastructure programme in the world after China's awkwardly named Belt and Road Initiative (BRI). My expectation is that it will lift the Indian economy, the fortunes of millions of Indians – and the bottom lines of many Indian and foreign companies – quite significantly by the time it draws to a close. Investments, jobs, consumption, demand… the NIP will almost certainly be a gamechanger. Success will, however, rest in the Indian government's ability to execute well, and seeing how much confidence foreign investors have to muscle in.

Manoj Ladwa is the Founder and CEO of India Inc. publishers of India Global Business magazine.