Infrastructure and Finance

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Slowdown in the global economy, high policy rates to cater inflation and investment bottlenecks resulted in a growth rate of 5% in 2012-13, lowest in the past decade.

As growth slowed and government revenues could not keep pace with spending, fiscal deficit threatened to breach the target and touched 5.7% in 2011-2012 and 5.1% in 2012-2013.

With government savings falling and private savings also shrinking, the CAD widened and touched 4.2% in 2011-12 and reached a historically high level of 5.4% in Q2 of 2012-13; it stood at 4.6% for the period April-September 2012.
**Savings and Investments**

**Gross Domestic Capital Formation as a % of GDP**

- Private Corporate Investments have registered a decline since 2011-12 due to: a) tight monetary policy, b) lower export demand and c) policy bottlenecks as environmental issues.

**Gross Domestic Savings as a % of GDP**

- Saving rate reached an eight year low in 2011-12.
- Lower savings rate takes resources away from investment and deepens the current account deficit.
- Household savings need to be raised by promoting reliable financial saving opportunities such as inflation indexed bonds.

*Source for Charts: Economic Survey*
FDI Inflows remained strong in 2011-12, however there was a 23% decline in total FDI inflows in April-Dec 2012 period as compared to the same period last year.

- Decline in inflows is partly due to uncertainties in the global economy.
- Foreign investments are important for India, which needs around $1 trillion in the next five years to support its infrastructure.
- Decline in foreign investments will put pressure on the country’s balance of payments and could also impact the value of rupee.

Source: DIPP

Note: * Includes computer hardware and software.
Growth in bank credit moderated from an average of 21.7% in Q1 of 2011-12 to 16.5% in Q3 of 2012-13 on the back of slow deposit growth and poor asset quality.

NPAs of the banking sector increased from 2.7% of total credit advanced in March 2011 to 3.6% in September 2012, mainly due to sharp rise in NPA of the industry and infrastructure sectors.

Equity markets on the other hand have performed well and the BSE Sensex crossed the 20,000 mark during 2012 on the back of recent reforms (such as the diesel price hike, cap on subsidised LPG, permission for FDI in retail and aviation ) hopes of a cut in the policy rates and sustained FII inflows.

However the Indian corporate bond market continues to lag behind the active and well developed equity market and the banking sector; the proportion of corporate debt to GDP at only 5% as compared to 52% for SCB loans to GDP.
India has the fifth largest generation capacity in the world with an installed capacity of 211.8 GW as of January 2013; however its per capita consumption at 818 kwh is very low as compared to worldwide per capita annual average of 2600 kwh and 6200 kwh in the European Union during the year 2010–11.
Figure 32: Promising Countries/Regions for Overseas Business over the Medium-term (next 3 yrs. or so): Percentage Shares

(Reference) The Number of Companies Which Have One or More Overseas Affiliates of Production in China

<table>
<thead>
<tr>
<th>Year of survey</th>
<th>No. of respondent companies</th>
<th>Proportion</th>
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<tbody>
<tr>
<td>FY2000</td>
<td>268</td>
<td>57.5%</td>
</tr>
<tr>
<td>FY2003</td>
<td>408</td>
<td>71.8%</td>
</tr>
<tr>
<td>FY2005</td>
<td>487</td>
<td>82.5%</td>
</tr>
<tr>
<td>FY2010</td>
<td>481</td>
<td>80.3%</td>
</tr>
<tr>
<td>FY2012</td>
<td>490</td>
<td>81.3%</td>
</tr>
</tbody>
</table>

Note: The ratio in the table shows the ratio of the number of companies which have one or more overseas affiliates of production in China to the number of responding companies to the question regarding the number of overseas affiliates.

- **Percentage share of China shown in a repetition of ups and downs.**
  - Figure 32 illustrates trend of percentage shares since the survey of promising countries with the present form was started in 1992. While the top ranked China increased the percentage share as a result of the southern tour lecture by Deng Xiaoping who advocated acceleration of reform/opening, it later declined but turned upward again after the Asian currency crisis. Following entry into the WTO, the percentage share peaked out, declining afterward by SARS and Anti-Japanese protests. After the Lehman Brothers Shock, it came to be highlighted as a market as well.

- **India, which has had trouble growing.**
  - India is a promising country ranked at 2nd over the medium-term, and 1st over the long-term perspectives. However, under present situation, degree of satisfaction with profitability remains low. It is considered that such a situation exists highlighting the background of a percentage share of India which has resisted to grow.
No.1: China

**Reasons**

- **Total No. of respondent companies:** 312)  
  1. Future growth potential of local market: 229 (73.4%)  
  2. Current size of local market: 146 (46.8%)  
  3. Supply base for assemblers: 87 (27.9%)  
  4. Inexpensive source of labor: 83 (26.6%)  
  5. Concentration of industry: 69 (22.1%)  

**Issues**

- **Total No. of respondent companies:** 300)  
  1. Rising labor costs: 229 (76.3%)  
  2. Execution of legal system unclear (frequent changes): 172 (57.3%)  
  3. Intense competition with other companies: 157 (52.3%)  
  4. Insufficient protection for intellectual property rights: 127 (42.3%)  
  5. Restrictions on foreign currency/transfers of money overseas: 107 (35.7%)  

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While there was no change in the order from last year both for reasons as promising and issues, the ratio of companies that cited “Future growth potential of local market” has continued to fall with FY2010 as the peak. On the other hand, the ratio of companies that cited “Current size of local market” increased slightly, indicating that it is continuing to be viewed as an attractive market.

While the ratio of companies that pointed out “Inexpensive source of labor” as the reason for being promising continued to decline, the ratio of companies that pointed out “Rising labor cost” increased also in this survey. It shows that while Japanese manufacturing companies continue their production in China, rising personnel expenses have become a major issue.

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Note 1: The “No. of companies” here refers to the number of companies that responded to questions concerning “reasons for being a promising country” and “issues” out of the number of companies that listed the country/region in Figure 31. For this reason, the number of companies here may not be the same as in Figure 31.

Note 2: “Ratio” refers to the number of companies that cited “reasons for being a promising country” or “issues” divided by the total number of respondent companies.
The order from the 1st to 3rd of the reasons for being promising remained unchanged from the last result. The number of companies citing "Future growth potential of local market" was reduced slightly reflecting recent slowdown of growth of the Indian economy, but most of the companies hold expectation for growth potential of the Indian market. Further, the number of companies citing "Supply base for local assemblers" increased in line with the increased number of local affiliates.

Also with respect to the issues, the order was unchanged except for the 4th "Labor issues", and responses wishing for development of infrastructure continued to reach close to half of the companies. In the back of sudden emergence of labor issues in this survey, it is assumed that there was influence regarding the violence against a Japanese company that occurred in July, this year.
A recent IMF study (dated Dec 2012) pointed out India’s poor infrastructure as one of the important reasons for the slowdown in the Indian economy.

12th plan therefore envisages increased investment in infrastructure from an average of 7% of GDP in 11th plan to 9.14% of GDP during the 12th plan.

Estimated investment in the infrastructure sector during the 12th stands at 56.3 lakh crore (approx. US$1 trillion), nearly double of investment made during the Eleventh Five Year Plan.

The share of private investment to total investment in infrastructure projected at 47% cent during the 12th Plan as compared to 38 per cent in 11th Plan.
## Key Challenges faced by the Indian Power Sector

<table>
<thead>
<tr>
<th>Key issues</th>
<th>Drivers</th>
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<tbody>
<tr>
<td><strong>Inadequate Fuel Supply</strong></td>
<td>Coal India unable to meet growing demand, captive coal blocks underutilized, increasing regulatory and price risks around coal imports, sub-60% PLF for gas fired given the inadequate availability of fuel</td>
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<td><strong>Regulatory Bottlenecks</strong></td>
<td>Land acquisition issues, environmental clearances and permit delays</td>
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<td><strong>Financing Hurdles</strong></td>
<td>Financing large project like UMPP is a critical constraint for developers, delays in financial closure, disbursements and high interest rates create pressure on developers</td>
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<td><strong>Technical losses</strong></td>
<td>High network losses (32% as compared to global average of 15%) driven by far-reaching networks with low-voltage lines, transformer loss, heavy loads in the system</td>
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<tr>
<td><strong>Theft and corruption</strong></td>
<td>Electricity theft of ~1.5% of GDP driven by poor law enforcement; high rates of bribery and political interference</td>
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