

FOREWORD

The path of economic reforms in India, particularly since 1991, has been characterised by a well-defined policy and direction. Several path-breaking reform measures have been successfully undertaken during this period. The investing community would perhaps have liked it to be quicker. However, as we look back over our decade-long experience, the one aspect that is clearly discernible is that the reforms have been doggedly and persistently moving in the same direction. Challenging as it has been, to shape the consensus around key reform initiatives, it is also clear that there has been no hint in favour of reversing, or even stopping, the process. The continuity of commitment to reforms over the period is, in itself, a significant contribution to the development of a stable, long-run investment climate in the country.

Long-term investors, like those in infrastructure sectors, would evaluate the attractiveness of investment on the basis of three kinds of risk – policy risk, regulatory risk and business risk. One of the key focus areas of our reforms is the redefinition of the respective roles of the public and private sectors in infrastructure and, within the private sector, the contribution of foreign investment. Going beyond general principles, there are, inevitably, debates around the optimal strategy for each sector. However, the prevalence of divergent views should not detract from the entrenchment of the general principles themselves. There is recognition that the private sector, including foreign investors, has a significant role to play in raising the standards of infrastructure services in the country. This virtually eliminates the risk of there being reversals and ‘flip-flops’ on basic policy principles.

The recognition of the private sector's role brings with it the need to set up efficient regulatory structures, which are capable of balancing the interests of consumers and providers, within the overall context of stated policy objectives. As with the larger reforms process, this too has been an arduous journey, with several twists, turns and dead ends. But, there are also substantial achievements to show for the effort. In many sectors, regulators have been established, with their scope and powers protected by legislation. They, along with the Government and other stakeholders, are rapidly learning how to go about doing their business with maximum effectiveness. In the process, several barriers are being encountered, but there is a determination to clear these as quickly as possible. The emergence of an independent, predictable regulatory framework will ease concerns about regulatory risk.

This leaves us with business risks. The question is - even with the right policies and regulatory framework in place, is doing business in India, particularly with the long-term commitments that infrastructure sectors demand, still too risky? The undeniable fact is that the large percentage of young people in India's population guarantees that demand for many products, including that for infrastructure services, will continue to grow for a long time to come. Let alone future generations, India's commitments to its current citizens to offer better standards of living, through expanded opportunities for employment and productivity growth, will ensure the emergence of the right mix of policy and regulation sooner, rather than later. A market of this size and potential growth, which is steadily and systematically being de-risked, simply cannot be ignored or passed by.

This paper has been prepared as a ‘Background Paper’ for the OECD-India Investment Roundtable on “Opportunities and Policy Challenges for Investment in India” focusing in particular on the infrastructure sectors. Although, all possible care has been taken, particularly with regard to the policy regime in the economy, in general, and infrastructure sectors in particular, this should not be taken as a pronouncement of policies. The objective behind putting together this paper is to provide the conceptual background for facilitating discussions at the OECD-India Investment Roundtable.

CONTENTS

EXECUTIVE SUMMARY	5
CHAPTER 1: THE INDIAN ECONOMY: AN OVERVIEW	7
Macro-economic Performance	7
The Fiscal Scenario and Policy Initiatives	8
Demographic Transition - Opportunities and Challenges	10
Indian Industry - Sunrise Sectors and Opportunities	10
Infrastructure: Bottlenecks and Solutions	12
The Investment Scenario	17
CHAPTER 2: THE GOVERNMENT-INVESTMENT NEXUS	21
Introduction	21
Industrial Policy Reforms and Investment	21
Fiscal Incentives - Centre & States	21
Foreign Investment Policy	22
The Role of the Government	23
CHAPTER 3: THE INFRASTRUCTURE CHALLENGE	30
Introduction	30
Power	30
Telecommunications and Information Technology	33
Civil Aviation	35
Roads	37
Railways	39
Ports and Shipping	41
CHAPTER 4: FDI AND INFRASTRUCTURE	44
Foreign Direct Investment: An International Perspective	44
The Role of FDI	44
FDI in Infrastructure: Alternative Modes of Investment	45
Modes of FDI in India	45
The Infrastructure Focus of India's FDI Policy	45
FDI Norms in Infrastructure Sectors	46
Other Determinants of FDI in Infrastructure	46
The Indian Government's Policy Initiatives	47
The Role of Multilateral Agencies	47
Synergies and areas of Collaboration with the OECD	49
Conclusion	49
CHAPTER 5: INVESTING IN INDIA: THE ROAD AHEAD	50
The Growing Investment Opportunities	50
Explaining the Investment Opportunity	50
The Resource Factor	52
The Link with Infrastructure	54
Critical Challenges and Emerging Opportunities in Infrastructure	54
REFERENCES	57