Weak infrastructure base in India hindering national economic reform

by Ramtanu Maitra

The two-year economic reform policy of India's Narasimha Rao government now stands at the crossroads, quite lost. While it is impossible for Delhi to turn back to an overregulated regime, licensed to death and protected by high tariffs, given the inroads that the International Monetary Fund-World Bank have made into India's policymaking apparatus, there is little likelihood that the promised fruits of economic reforms will fall into India's lap simply through deregulation, or easing licensing, or lowering tariff rates.

There are a number of reasons why India finds itself in this predicament. To begin with, India's government has a slender majority in Parliament. For the last eight months or so, the government has been expending most of its energy fighting dissidents within the ruling party, and resisting an opposition which has only one goal in mind—to topple the government. In addition, politically tinged law-and-order problems and outright secessionist movements have kept New Delhi preoccupied.

While such a weak government cannot effectively impose harsh economic measures, such as closing down the loss-making public sector units, with the inevitable unemployment, it can also do little to stall the demands made by the IMF-World Bank to hasten the reform of the financial sector and amendment of labor laws. Moreover, the worldwide recession and India's poor technology level have put a damper on India's hopes of enhancing exports quickly. The unstable government, law-and-order problems, and a general lack of enthusiasm among domestic investors, among other causes, have also kept the finicky foreign investors hesitant about moving heavily into India. There is yet another reason why India's economic woes are going to be prolonged: the inadequate and dilapidated infrastructure which the mandarins in the Finance Ministry tend to ignore. Instead, the virtues of monetary reforms and deregulation are paraded before the people, with the promise that these measures will ameliorate India's economic situation. Needless to say, the IMF cares little about infrastructure, and is busy pushing a speed-up of the reforms.

However, whether the IMF or the Finance Ministry acknowledges it or not, there is no getting away from the fact that no competent industry or agricultural activity can be built upon a tottering infrastructure, the kind India has built over the decades. It is this state of infrastructure which is largely responsible for the halting state of the Indian economy, and it continues to be a major hindrance to an overall improvement of industry, agriculture, and investment. With such a weak infrastructure, the concept of economic reforms is putting the cart before the horse. However, the consequences of the failure of economic reforms will be less comical and may endanger and distort the economy further.

Blatant neglect

That is not to say that this reality has not dawned upon the economic reformers, and probably in coming days this will be used as an excuse to explain why the reform promises could not be kept. However, the more pertinent question is, what is being done to improve infrastructure rapidly? Investors, domestic and foreign, are interested to know how India's perpetual power shortages will be overcome. The same questions are asked about the decrepit railroads and highly incompetent telecommunications system. Unless these questions are answered satisfactorily, it is a foregone conclusion that various other reforms may entice a foreign banker or an insurance company or even a soft drink peddler, but will not be able to bring in the quality of investment which will enhance India's technology and make the industrial and agricultural sectors more productive.

It is evident from the available statistics of the first quarter of fiscal 1993 (April-June) that infrastructure not only did not pick up at an enhanced rate, but it actually functioned *below* the expected level. Crude oil and fertilizer production fell sharply compared to even the corresponding period of last year. Of the nine infrastructure industries, power, cement, cargo handling at ports, and telecommunications met the unambitious target. Steel production was way below target. The railways, too, registered a shortfall of 5.1% in lifting revenue-earning traffic. The shortfall is likely to result in a revenue loss of around 1 billion rupees.

However, these capsulated statistics pale when one considers the reality of power shortages in India. Most of the states have to make do with power shortfalls, causing production cuts and damage to equipment. Certain industries have to run at less than 50% capacity when power is required for the agricultural sector. Areas in the capital city of Delhi go through hours of power cuts every day throughout the summer.

Long on promises, short on delivery

On the other hand, if one listens to the planners, one gets the impression that the country is going on a war-footing in order to build more power plants to meet the assessed demand; aside from the fact that the "assessed demand" has no correlation with any rigorous analysis, the most disturbing feature of India's five-year plan is that it has no connection with the amount of revenue that can be generated and can be made available for the actual implementation of power projects.

One such recent ruse was the planners' decision to allow the private sector to participate in the power sector. The decision was cheered on by all the pro-private sector analysts. According to the planners, India would install 80,000 MW of additional electrical power generation capacity by the end of the Ninth Plan, which is the end of this century. However, according to Power Ministry sources, reported in a newspaper, there are proposals to put up only about 8,000 MW capacity of power generation by the end of this century that are pending before the ministry. The 2,000 MW Ib Valley project in Orissa, which was earlier announced to great fanfare by the state government is now no longer talked about, because the Southern Power Corp., of the United States, has chosen to back out. It is another matter how much of the 8,000 MW capacity proposed by the private sector will actually come through. Even if it does, it will be a drop in the bucket.

At the same time, the grand pronouncements that the private sector will now be allowed to participate in this crucial sector means that the resource mobilization by the public sector will be for less, with the hope that the shortfall will be made up by the private sector. Considering the fact that thermal power plants take about five to six years to come online, the projected addition of 80,000 MW, based on an unscientifically determined assessed demand, is a myth, and the country will pay dearly for the growing shortfall.

A case in point is the nuclear power sector. Since India has achieved technological independence in nuclear power, it was expected that the sector would pick up the slack. From the mid-1980s on, the government of India gave detailed consideration to the Department of Atomic Energy's proposal to add 10,000 MW of additional nuclear power by the year 2000.

Nuclear Power Corp. of India (NPCI) was set up to carry out the task. The figure 10,000 MW additional nuclear power by the year 2000 was displayed prominently in the Eighth Plan document. But then the government did not allocate the necessary budget to the NPCI, and the NPCI went to buy high-interest bonds to complete the projects at hand. It has become clear to the NPCI soon enough that what is promised in the five-year plans is not necessarily meant to be implemented. By 1991, the nuclear target for the year 2000 was cut in half. And that is hardly the end of the shenanigans. The financial crunch on the NPCI has further intensified, and at the rate at which the nuclear power plant construction is going on, the Indian people will be lucky if another 3,000 MW of additional nuclear power are actually implemented by the year 2000. As former NPCI chairman M.R. Srinivasan stated in a recent newspaper article, unless timely new initiatives are taken as India approaches the year 2000, nuclear power may remain as no more than a promise, delivering little.

Water shortages

If there is a power shortfall, one should visit large southern cities such as Madras, Vishakhapatnam, Hyderabad, among others: Despite huge amounts of rainwater made available every year during the monsoon months, hundreds of millions of Indians go about without potable water, because the rainwater is allowed to flow into the sea. A number of proposals have been made to bring the surplus water from large northern rivers and their tributaries to the south, where the lack of water persists almost throughout the year. Many committees have been set up, many investigations have been done, and some of the proposals are now decades old. Yet, there is no sign that the peninsular water grid to bring surplus water from Godavari and Mahanadi to the water-starved southern rivers will actually be undertaken. There is no indication of the feasibility study being completed, and southern Indians may find that another 20 years will pass before this "potential" is finally exploited.

The state of infrastructure and the continued disinterest in Delhi about enhancing these capabilities, which is instead touting monetary measures and structural adjustments as a panacea, has even dismayed the World Bank—which is far better known for its eagerness to force structural adjustment and promote free trade, than for its concern for any country's infrastructure development. Recently the bank criticized India for the relatively low priority accorded to the development of the instrastructure sector. Although the World Bank report has concentrated more on the "high cost" added as a result of the infrastructure shortcomings and overemployment in these sectors, it also criticized the qualitative deterioration of India's railroads.

Another sign of India's continuing neglect of this vital sector is the growing non-utilization of project loans from the World Bank and the Asian Development Bank. Having procured the loan following a great deal of bureaucratic activities, and then having maintained the loan by paying a low interest rate, the required loan has remained unutilized since. The World Bank and the ADB have both warned India that if the project-tied loan is not used up by the targeted period, it would be cancelled. The unutilized aid for the power sector itself stood at over $8 billion, accounting for nearly 50% of unutilized aid of the central sector.