Role of FDI in Rural Infrastructure Development

The Relation with Their Education & Occupation.

AUTHORS

Dr. Kavita Saxena
Lecturer in Economic
D. N. College, Meerut

Dr. P. K. Saxena
Reader in Commerce,
D. N. College, Meerut

S. N. Ghosh
FCS (India)
ACIS (UK)
Research Fellow.

ABSTRACT

Infrastructure is critical to economic development. Infrastructure can deliver major benefits in economic growth, poverty alleviation and environment sustainability. A number of studies have argued that generalized access to infrastructure services plays a key role in helping to reduce income inequality. Infrastructure helps poorer people to get connected to core economic activities. Income inequality declines not only with larger investment in infrastructure stocks but also with improved quality of infrastructure services. It helps to raise the income of the poor more than proportionately. Good infrastructure raises productivity and thereby boosts trade; lowers production costs and reduce poverty. The effectiveness of ports, transport and telecommunications networks, the electricity grid and water and drainage systems all impact on commercial activity. Poor infrastructure also contributes to high logistics costs and high inventory levels. This is critical especially when competitiveness is a function of supply chain efficiency. The World Bank's World Development Report (WDR) of 1994 discussed links, which exist between infrastructure investment and economic growth. It points out that on an average a percentage point increase in infrastructure stock results in proportionate increase in GDP. Infrastructure is also critical in attracting foreign investment and in facilitating projects once the investment has been made. In a 2004 article by the Mckinsey Global Institute. "The truth about foreign direct investment in emerging markets," executives of multinational companies surveyed cited infrastructure as a primary consideration in making investment decisions abroad.

1. INDIAN PERSPECTIVE

India faces what the Government of India has called the "infrastructure challenge". India has serious inadequacies in physical infrastructure, which limit its prospects of rapid growth, Irrigation, water supply, housing, roads, telephony, health and electrification, all pose serious hurdles for sustaining levels of growth necessary for eradicating poverty. There is a positive relationship between human development, infrastructure development, rural-urban equity, and economic growth. We know that improvements in "human capital," such as better education and health care are important contributors to infrastructure creation. So are the familiar "bricks and mortar" industries like roads, ports, airports, water and sewage systems, transportation facilities, crop collection, cold storage and distribution for farm produce, telecommunications. If they are non-existent or substandard, future growth will be hampered. Job creation will lag, services will suffer, poverty reduction will falter as population growth proceeds – and in general, public dissatisfaction with infrastructure will rise.

Unarguably, India has successfully implemented a first generation of economics reforms – the Watershed being 1991. The results are there for everyone to see. One hundred million people lifted out of poverty since 1991. In the euphoria of liberalisation and globalisation of the Indian economy, to talk of agricultural or rural development became infra dig. The

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1990s was a lost decade for agriculture and rural development generally. The shrinkage of the flow of resources to the rural sector, a misconceived interest rate policy which discriminated against agriculture, a moribund rural credit delivery system, the emergence of a new banking culture, nurtured by reforms, which is far from friendly to agriculture and rural development, and a serious setback to rural employment expansion – all these form part of the debris. No wonder that agricultural growth decelerated sharply: the average annual growth of agricultural GDP in value added terms declined from 3.5 per cent in the 1980s to 2.8 per cent in the 1990s.

Rural infrastructure development challenges cannot wait; it holds the key to overall development of the economy, food security and improvement in the quality of life. New perceptions of development economics have resulted in the evolution of the multi-functional concept of rural development – a concept which should form the core of any meaningful development strategy and not merely an appendage of an independently worked out strategy. Direct and indirect subsidies drain away resources from priority investments in education, health and infrastructure. India therefore was required to invigorate, as a matter of priority, private sources to finance long-term project development, which inter alia meant that federal and state regulations and attitudes that inhibit private investment in infrastructure must be changed.

To deepen economic reform process, there is a need to focus on spreading the benefits of reform to all Indians and this cannot happen unless the divide in infrastructure between our rural and urban areas is quickly bridged. Bharat Nirman as an overarching six-pronged four-year time-bound programme for rural infrastructure creation by 2009 has been launched to build infrastructure in rural India. Conceived as a business model to be implemented over four years, Bharat Nirman has six components, namely, irrigation, rural roads, drinking water supply, housing, rural electrification and rural telecom connectivity.

2. PPP - A PARADIGM SHIFT IN POLICY MAKING

According to the Tenth Five Year Plan, the cumulative investment requirement during 2001-02 to 2005-06 has been estimated at US$ 156 billion. Of this, 40 per cent is required in the power sector, 11 per cent in telecom and around 14 per cent in roads and railways. With US$ 38 billion already invested between 2001-02 and 2002-03, there still exists a target of US$ 118 billion to be met over the next three years. There is an "enormous scope for attracting foreign direct investment" as part of the strategy for meeting the challenge of sustainable economic development.

Recognizing the importance of infrastructure development, the Central Government has given this area high priority. This calls for massive investment in these sectors in the remaining years of the Tenth Plan and also in the Eleventh Plan. The resources needed for capacity expansion on this scale are simply not available in the public sector. Hence, the need for public-private partnership. The limited public sector resources must be leveraged by resorting to private investment and public private partnership to the maximum extent possible. This approach is relevant for both the Centre and the States.

Given the deterioration in the quality of government organisations that invests in and manages such public goods, liberalizing gateways for private investment provided only plausible answer. This called for a decent pragmatic approach and major shift in governmental policies towards public welfare goods and service. The police framework must provide incentive for private investment while enhancing consumer welfare through competition.

The GOI in the tenth five year plan envisaged the during the first two years of the Plan, the burden of industrial revival will have to be carried by public investment, with private investment taking the lead role in the latter years. Lest it should "crowd in" private investments.

On the legal and regulatory front, there was correspondingly urgent need to simplify the rules, regulations and procedures, which unnecessarily hamper private investment activity in the country. They have been suitable amended to facilitate private initiative to play its-required role in due course.

Special emphasis has also been placed on the creation of critical infrastructure in rural areas. The government is committed to the objective of inclusive growth. Various programmes including Bharat Nirman and Sarva Siksha Abhiyan have been started. Bharat Nirman as an overarching six-pronged four-year time-bound programme for rural infrastructure creation by 2009 has been launched to build infrastructure in rural India. Conceived as a business model to be implemented over four years, Bharat Nirman has six components, namely, irrigation, rural roads, drinking water supply, housing, rural electrification and rural telecom connectivity.

Bharat Nirman : Tasks

* Every village to be provided electricity: remaining 1,25,000 villages to be covered by 2009 as well as connect 2.3 crore households

* Every habitation over 1000 population and above (500 in hilly and tribal areas) to be provided an all-weather road: remaining 66,802 habitations to be covered by 2009

* Every habitation to have a safe source of drinking water: 55,067 uncovered habitations to be covered by 2009. In addition all habitations which have slipped back from full coverage to partial coverage due to failure of source and habitations which have water quality problems to be addressed a every village to be connected by telephone: remaining 66,822 villages to be covered by November 2007.

* 10 million hectares (100 lakhs) of additional irrigation capacity to be created by 2009 a 60 lakh house to be constructed for the rural poor by 2009 While the agenda is not new, the effort here is to impart a sense of urgency to these goals, make the programme time-bound, transparent and accountable, These investments in rural infrastructure will unlock the growth potential of rural India.

National Rural Health Mission

A community health activist called ASHA has been placed in every village. Rural sanitation programme makes effective use of this person as change agent for creating hygiene consciousness.

Swaranjayanti Gram Swarojgar Yojana

A self employment programme for creating self employment groups.

National Rural Employment Guarantee pragramme

Community level water security is proposed to be created. It also provides a safety net to the poorest.

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3. FUNDS FOR INFRASTRUCTURE DEVELOPMENT

Infrastructure, or any other, investment obviously requires real resources. Massive amounts of investment that are needed for infra structure development in the country is undeniable.

The Rakesh Mohan Committee in 2001 estimated that investment in the core sector would have to go up to 8 per cent of GDP by 2005 to keep pace with growth; in the 1990s public and private investment in infrastructure hovered between 5 and 5.5 per cent. However, whether using a part of the country's foreign exchange reserves, which were around US $ 120 billion in the fiscal year 2001-02, is the best way to accomplish this task is questionable. The idea floated by the Planning Commission envisaged the use of between US $ 5 and 10 billion of reserves over the next two to three years to fund public investment in the core sector, by routing the money through the relevant financing bodies such as the National Highway Authority of India or Indian Railway Finance Corporation, and foster public-private partnership.

The presence of 'excess' reserves, debates around the appropriate level of foreign exchange holdings with RBI. Such a proposal has two obvious flaws: using short-term finance, which mainly accounts for the accumulated reserves, for long-term investment. Moreover, it also amounts to using loans repayable in foreign exchange for investing in projects, which are not foreign exchange earners themselves.

These two together constitute a potent brew for precipitating a future liquidity crisis for the country. This is exactly what happened in the east and Southeast Asian countries. They borrowed short to invest long and borrowed in foreign exchange to invest in non-foreign exchange earning projects. It follows then that the financing of infrastructure investment is best done through government borrowing pure and simple without such borrowing being linked in anyway to the existence of foreign exchange reserves. Thus, the proposal from Planning Commission did not find favour with RBI.

The creation of SPY to generate fresh investment programmes for infrastructure, with in-built conditionalities to cover tariff reform and ensure bankable revenue streams was mooted. With this objective, during fiscal year 2002, the inter-institutional group (IIG) of banks and financial institutions pooled in resources to the tune of ' 40,000 crore for the development of airports, seaports and tourism.

Now that to catapult private investment for social economic development of integrated India institutional reforms of public infrastructure monopolies, like state electricity boards, irrigation departments public works departments (for state highways and village roads) were initiated and on a time bound scale completed. This required an independent professional approach to regulation. Sincere efforts have been envisaged to reduce overall risk below the threshold necessary for normal private investment. It has been argued that there is no dearth of private (domestic and international) finance once this is done. Clearly, infrastructure is a sector with colossal potential. According to the Economic Survey 2005-2006, India has the potential to absorb US$ 150 billion of foreign direct investment in the next five years in the infrastructure sector alone.

4. INDIAN INITIATIVES TO ATTRACT FDI

The growth in the infrastructure sector is being driven by a host of factors, which includel:

Political will

The Government of India (GOI) has set in motion an ambitious reform programme, involving a shift from a controlled to an open market economy. Supportive regulatory environment is being created in recognition of the need for private investment in infrastructure.

Funding from multi-lateral agencies

Multilateral agencies such as the World Bank and the Asian Development Bank (ADB) are funding various infrastructure projects on a large scale in India. Other agencies include the Japan International Bank for Cooperation (JIBC) that funded the Delhi Metro (Underground Railway) Project. Various State Government are mobilising funds from these agencies to support rural roads and sanitation projects.

Increased private participation

To encourage private sector participation in the sector, the Government has announced several tax breaks for investments. It is also devising return schemes that are attractive for the private participants, such as annuity payments and capital grants for road projects. Laws are being enacted to improve finances of utilities and make their management more transparent, so as to improve returns on these facilities.

Innovative modes of funding

The Government is tapping alternative sources of funds for infrastructure development. One of these is the cess on petrol and diesel, which is being used to fund road projects such as the Golden Quadrilateral and the North-South East-West corridor. It is also contemplating levying a tonnage tax on ships (to fund development of ports), and special taxes on air travel (for airports).

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5. ROLE OF FDI-SOCIAL DEVELOPMENT DIASPORA

The basic rationale for FDI by firms in a global market economy is to increase or protect their profitability and/or capital value. One of the ways in which transnational corporations (NTCs) are achieving this goal is by engaging in FDI, either to better exploit their existing competitive advantages or to safeguard, increase or add to these advantages. These drivers are likely to vary, depending, generally on the following –

a) Market size/local customer base
b) Home-country business presence
c) Host government policies
d) Local customer base
e) Cultural distance
f) Competitive advantages
g) Tradability of services
h) Industry concentration
i) Growth of the firm size

The perception of the role FDI plays in the development process has evolved over time. At the first UNCTAD Conference in 1964, member States generally acknowledged the role that FDI can play in economic development and underlined the need to remove obstacles to the flow of FDI from industrialized to developing countries. Essentially, countries use FDI to upgrade the competitiveness of their indigenous resources and capabilities to facilitate structural change, thereby promoting dynamic comparative advantage. Various studies have reported that foreign firms are more productive, bring management skills, invest more heavily in infrastructure and in the training and health of their workers, and are more

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connected to global markets. At the same time, foreign firms do not appear to succeed by grabbing market share and crowding out local industry. These results suggest that many of the common objections to foreign investment are exaggerated or false.

6. INDIA - A PREFERRED DESTINATION FOR FDI

The idea of India is changing. This is best proved by the increasing number of countries showing interest to invest in India. Another encouraging factor is that India is considered a stable country for investing in by corporates overseas. This is evident from the fact that not a single corporate has approached the World Bank Group's Multilateral Investment Guarantee Agency (Miga) for non-commercial risk cover for making investment into the country. India has displaced US as the second-most favoured destination for foreign direct investment (FDI) in the world after China according to an AT Kearney's FDI Confidence Index that tracked investor confidence among global executives to determine their order of preferences.

The United Nations Conference on Trade and Development (Unctad) has said that India is among the "dominant host countries" for FDI in Asia and the Pacific (APAC). UNCTADs in its Inward FDI Performance Index 2001-2003, a measure of the attractiveness of a country shows India at 114th. One of the major cause of concern listed has been India is having a sustainable average growth rate of 5-6% (against China having consistently been able to achieve average rate of 9% since 1978).

7. CONCLUDING OBSERVATIONS

The problem of the rural economic development of India's 600 million strong rural population presents formidable challenges and also great opportunities that require innovative social engineering solutions. In an age of increasing specialization, there is a critical need for integration to supplement the specialization. In conclusion, we proposed that sustained rural economic development might be achieved through following measure.

Enhancing usage of renewable energy in rural India

More than half of rural households in India do not have access to electricity even though some 90 per cent of villages are "electrified". The power supply is erratic and unreliable. In rural areas decentralised energy sources such as mini-hydels, wind energy, solar photovoltaics, biomass based power generation sources are of vital importance for livelihood and human development.

Empowering villagers through knowledge management

People in villages know their needs best, and have a vast fund of traditional knowledge and wisdom, they need help in managing irrigation canals, devising systems for distribution of water, ensuring periodic maintenance of infrastructure, assessing the learning achievements of children in primary schools, preventing avoidable illness, and din coping with far-reaching changes in the physical and the macro-economic environment.

Encouraging rural tourism

Generally, developed countries around the globe encourage 'rural tourism'. It creates economic wealth from rural opportunities. In Britain, farmhouse and bed-and-breakfast accommodation, create upto 23 jobs per 100,000 pounds of tourism revenue. In general, rural attractions of all types, create 5-6 jobs per 100,000 pounds revenue in China, with tourism development in Guizhou Province, 300,000 individuals in 648 villages rose above poverty line.

In the Indian context, any form of tourism that showcases the rural life, either real or recreated, and that which involves rural folk (as artists, guides, etc.) at such locations, thereby benefiting the local community, economically and socially, as well as enabling interaction between the tourists and locals for a more enriching tourism experience would bring in sustainable economic development. Following factors are the drivers to this proposed thrust area:–

- > Increasing education level
- > Growing interest in heritage & culture
- > Improved means of transport & communication
- > Environmental consciousness
- > Growing interest in one's roots
- > Increasing trend of active retired people

Improving ict in rural areas

The access to Information and Communication Technology (ICT) in rural India in terms of access to telephony, Internet and other electronic media is poor and would require huge investment to cover large parts of rural India, which have no access to communications facilities. Rural areas with significant economic activity would have to be treated differently from remote and economically backward regions. A proactive policy is needed which encourages investment in infrastructure for rural areas. IIM Ahmadabad has presented from a case study from the context of co-operative dairy movement, which illustrates how rural communities can benefit from ICT (Computing and Internet access). Such communities are willing to invest in ICT, provided that real value is delivered. Lessons are drawn from the case study to understand how the information culture can be successfully spread to rural areas.

Corporate social responsibility - spy for rural transformation

Corporates in India have been playing a pivotal role in building infrastructure in India. During the initial periods of industrialization, one of the essential conditions of grant licence was social and economic upliftment of adjoining villages. In this direction to pay back to the society by the corporates, Companies Act 1956 now inter alia provides that a company may be voluntarily wound up where the activities of the company are against public order. 'Many Indian corporates have taken up this onerous responsibility of its recognition of the positive contribution that business has to make to a more prosperous and sustainable Indian Rural economy as Corporate citizen. E-choupal and Women empowerment, integrated watershed development programmes from ITC Ltd, Shakti vani programme and Shakti (launched in Andhra Pradesh) from Hindustan Lever Ltd for rural women are benchmark pioneering initiatives from India Inc.

To conclude, it may be stated that India's rural transformation cannot be brought about by the government alone nor can the efforts of a few enterprises make a decisive difference only an inspired public-private partnership can transform lives and landscapes in rural India.

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