

"Of Elephants and Tigers": Infrastructure and Manufacturing, India's Future Growth Drivers

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The Swiss-Indian Chamber of Commerce (SICC) hosted H. E. Kamal Nath, Minister for Commerce & Industry of India and Paul Hugentobler, Member of the Executive Committee of Holcim Ltd on October 2, 2006 at Zunfthaus zur Meisen, Zurich. These two distinguished speakers addressed the topic of infrastructure in India, an "insurmountable challenge or promising business opportunity?" in a thought-provoking panel moderated by Franz Probst, SICC President and generously sponsored by Holcim Ltd, Zürcher Kantonalbank (ZKB) and Rieter.

Moving Rapidly from Past to Future

Paul Hugentobler launched proceedings with a critical question, "Will infrastructure be a show-stopper?" Setting the tone of discussion, he noted that India has become a global player, "moving away from the old by connecting the new." Indian companies are creating value through the dynamic entrepreneurship of groups such as Tata, Mittal and Infosys who are rapidly investing outside India and becoming growth and innovation drivers worldwide.

The Key to Boosting GDP

India's macro-economic indicators are on the up and up. The saving rate at 30% of GDP will improve further, considering that 50% of the population is below 25 years old. Domestic savings and increasing FDI flows are providing liquid capital markets. The Indian manufacturing sector is also increasing exports rapidly as products become more competitive in quality and price. According to Hugentobler, this growth could accelerate further through investments in infrastructure and manufacturing which will provide the foundations for a future export-driven expansion cycle. It is up to the government to optimize policy in all relevant sectors, i.e. liberalize more rapidly, in order to allow bankable projects and broader private sector participation. He concluded that "if such conditions are created faster, India has the potential to boost its GDP growth rate beyond the 8% mark."

Infrastructure Creates Momentum for Manufacturing

To date, China spends 9%, while India spends only 3.6% of its GDP on infrastructure. The evidence of this difference is clear when one notes that roads, ports and rail facilities in India are inefficient and costly. The government plans to increase infrastructure spending to 225 billion in the next 5 years, and to ensure that it is approximately 6% of GDP by 2010.

Indeed, major reforms are already underway. The length of national highways (the Golden Quadrilateral and north-south-east-west corridors) doubled from 1990 to 2004. In terms of railway development, a 9,260 km Golden Quadrilateral freight corridor is planned. The Sagarma project involves modernizing existing ports and developing 50 minor ports. Airport projects are also on the fast track, with Delhi and Mumbai expecting new international airports before 2010.

Infrastructure connectivity and improved logistical efficiency will transform the manufacturing sector as the pillar of future economic growth. The manufacturing sector, in turn, will be the catalyst for the upward social mobility of large swathes of people who will enter the middle class due to increased employment opportunities, new skills and better wages. For this potential to be realized, Hugentobler concluded that infrastructure creation must take place even faster, and the government should integrate the private sector fully in its efforts.

Staying Credible While Ensuring Change

Minister Nath emphasized the government's commitment to drive both infrastructure development and its concomitant manufacturing growth through inclusion of the private sector within the framework of public-private partnerships, for example. He echoed the vision that manufacturing is a tremendous GDP-driver, and said that it will, in turn, have a knock-on effect in the service sector, noting that "one job in manufacturing creates three jobs in services." Indeed, the mission and challenge of the Indian government is to ensure "all-inclusive growth, touching the lives of people across India [by] substantially increasing manufacturing's share of the overall GDP through improved infrastructure." Minister Nath observed that while the economic fundamentals are there, the government faces the challenge of ensuring that "the intangibles" are not violated in the process of change. In other words,

India must stay "credible" in its adherence to democratic process and rule of law as it implements policies that entail broad economic restructuring.

In response to questions about the pitfalls for foreign companies, such as bureaucracy and administrative red-tape, Minister Nath said that while such obstacles remain, there is an ongoing change in attitudes and the emergence of a new generation of bureaucrats that is in tune with and committed to the business needs of companies. Furthermore, in terms of corruption he said that the government is enforcing greater transparency, for example, through the Right to Information Act (RTI), making business-related information accessible to everybody.

Creating Jobs and Enabling Know-How Transfer

Minister Nath stressed that there is opportunity in India not only for large companies, but also for Swiss small and medium-size enterprises (SMEs). Swiss SMEs play a particularly valuable role in creating jobs, and providing know-how transfer. As Hugentobler noted, "in your FDI dollar be sure to include a training component."

Furthermore, Switzerland has a long tradition of vocational training, which it can bring to India as well. It is this kind of vocational training that ensures production quality on the shop-floor, and is an impetus for manufacturing. The Indian government is itself trying to build up effective vocational training by linking India's international training universities (ITIs) with industrial representatives such as the Confederation of Indian Industries (CII) and the Federation of Indian Chambers of Commerce and Industries (FICCI), according to Minister Nath.

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Wrapping up the session, Minister Nath said that while it is easier to get into China than India, it is easier to stay in India than China. This is no small measure due to a government that tries to play an enabling role for business, both local and foreign. In the final analysis, whether one describes India as "an elephant turning into a tiger," in Paul Hugentobler's words, or "an awaking elephant that makes the whole jungle shake," as portrayed by Minister Nath, it is clear that India is poised for decades of tremendous growth in infrastructure and manufacturing, with a wealth of opportunities for foreign companies to leverage!