

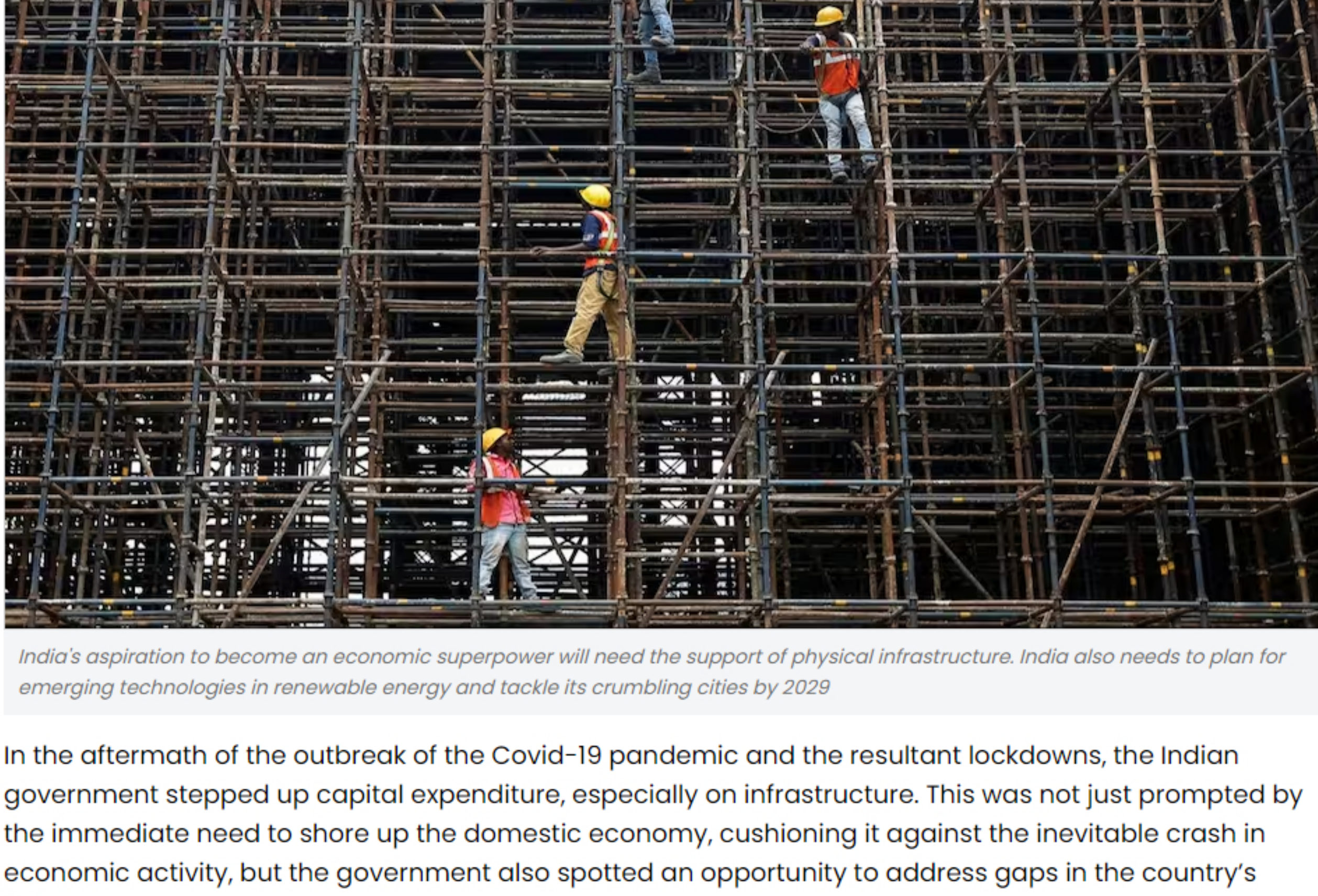
Why India needs a robust infrastructure plan to fuel its \$5 trillion economy dream

India's aspiration to become an economic superpower will need the support of physical infrastructure. India also needs to plan for emerging technologies in renewable energy and tackle its crumbling cities by 2029



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Print Edition: Feb 18, 2024





India's aspiration to become an economic superpower will need the support of physical infrastructure. India also needs to plan for emerging technologies in renewable energy and tackle its crumbling cities by 2029


In the aftermath of the outbreak of the Covid-19 pandemic and the resultant lockdowns, the Indian government stepped up capital expenditure, especially on infrastructure. This was not just prompted by the immediate need to shore up the domestic economy, cushioning it against the inevitable crash in economic activity, but the government also spotted an opportunity to address gaps in the country's infrastructure.

This increase in government spending is apparent in the gross domestic product (GDP) data for the second quarter of FY24 (Q2FY24). Growth in the bellwether of investments, gross fixed capital formation (GFCF), was at a five-quarter high of 11% year-on-year. Meanwhile, government spending rose by a 10-quarter high of 12.4%, thanks to the focus on capital expenditure. Besides, the investment rate, measured as the nominal GFCF-to-GDP, rose to 30% in Q2 from 29.1% a year ago.

The central government is estimated to spend about ₹23.3 lakh crore as capital expenditure between FY22 and FY24, including the outlay of ₹10 lakh crore this fiscal. Thanks to this increase in outlay, India rose by six places to rank 38 out of 139 countries in the seventh edition of the World Bank's Logistics Performance Index 2023. The index takes into account factors like physical infrastructure, customs clearance, tracking, and timeliness. The government aims to move to rank 25 by 2030.


As India aims to become a \$5-trillion economy in the next few years and a \$30-trillion economy by 2047, such spending on infrastructure will play a key role. What's more, with countries looking at a China+1 diversification strategy, it becomes even more imperative for India to expand and modernise its physical infrastructure over the next few years to become a viable alternative to foreign investors.

A recent report by consulting services firm RSM India highlighted many of these concerns. "When we compare India's logistics footprint against the world's three other large economies, the US, China, and Japan, it is evident that India has far more distance to cover in terms of logistics infrastructure, equipment, processes, and mindset. Road transportation constitutes a whopping 60% in India, in comparison to Japan (10%), China (30%) and the US (37%)," it pointed out in its report 'The Logistics Navigator'.




CORE SUPPORT


WITH AN AIM TO BECOME A \$5-TRILLION ECONOMY IN THE NEXT FEW YEARS, INFRA REMAINS A KEY PRIORITY FOR INDIA



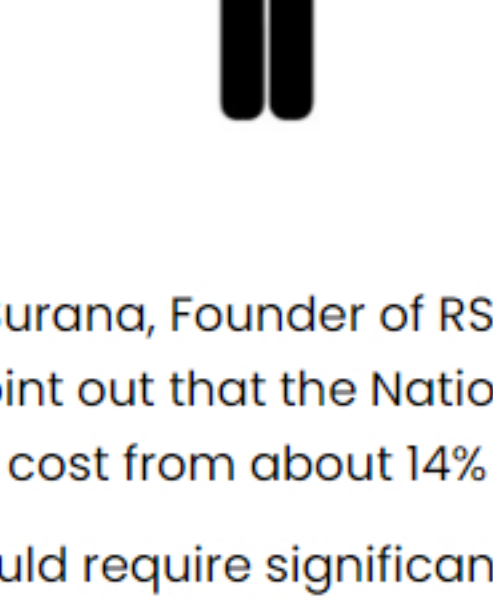
PACE OF INFRA CONSTRUCTION IS GOOD NOW BUT MUCH MORE IS NEEDED



RENEWABLE ENERGY, URBAN INFRASTRUCTURE NEW FOCUS AREAS



MORE MEASURES FOR INFRA INVESTING ALSO NEEDED



LAST-MILE CONNECTIVITY REQUIRED FOR BETTER LOGISTICS

Suresh Surana, Founder of RSM India, and Samir Kolte, Executive Director-Operations Consulting at RSM India, point out that the National Logistics Policy unveiled in September 2022 targets bringing down the logistics cost from about 14% of GDP to 10% of GDP in the next five years.

"This would require significant infrastructural investment in the development of ports, multi-modal logistics parks, rail terminals, dedicated freight corridors, inland waterways, and continued development of the highway network," they say, adding that enhancing logistics and mobility through investments in rural infrastructure, green initiatives, renewable energy integration, electric vehicle (EV) charging infrastructure, and smart city development are also important.

Current capacity


Investing, expanding, and modernising infrastructure has been a key focus area for some time. India has about 6.67 million km of road network, which is the second largest in the world at present. The country currently has the fourth-largest railway network in the world, with about 127,000 km of track length. But with a burgeoning population and a growing economy, these are clearly not enough. (See chart Current Capacity)

According to estimates, India invested about \$1.1 trillion or ₹57 lakh crore on infrastructure between fiscals 2013 and 2017.

The government set up the National Infrastructure Pipeline in 2019 for the five years from 2020 to 2025, with an estimated outlay of ₹102 lakh crore. The initiative aims to help build world-class infrastructure across the country.

"The National Infrastructure Pipeline is implementing various projects to improve surface connectivity to ports, which account for 95% of international trade by volume," says Kiran Chonkar, Partner-Corporate Finance and Investment Banking at BDO India.

CURRENT CAPACITY




ROAD NETWORK IN THE COUNTRY (in KM)

National highways

146,145

State highways

179,535




RAILWAY NETWORK

Total track length (in km)

127,000

Total number of stations

7,335



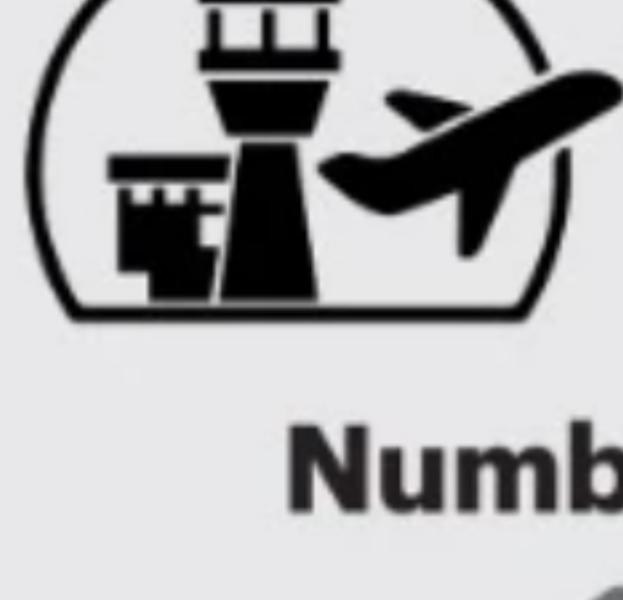
PORTS *

Cargo handled

500.82 million tonnes

Output per ship per day on berth

18,457 tonnes



AIRPORTS *

Number of airports

149

Passenger traffic

152 million in 2023

* DATA FOR APRIL-NOVEMBER 2023
SOURCE GOVERNMENT MINISTRIES

Way Forward

Leading the way in this endeavour are the nodal ministries. For instance, the railways is looking to launch at least 3,000 trains over the next five years and add 50,000 km of new tracks in the next decade as it tries to decongest the rail network and improve transport for both passenger and freight traffic.

Highway construction, too, is expected to gather more pace, and the focus will be on the high-speed movement of goods. The National Highways Authority of India is looking to increase the total length of high-speed corridors to 50,000 km by 2047 from about 3,913 km in 2023. Meanwhile, total port capacity is expected to increase from the existing 2,600 million tonnes per annum (MTPA) to over 10,000 MTPA by 2047. The government also plans to increase the number of airports in the country to about 220 from the current 149 in the next five to seven years.