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FDI IN INDIAN RAILWAYS: A NEW DIMENSION OF INVESTMENT

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ABSTRACT

In this 21st century globalization and intense competition, foreign direct investment (FDI) is a major source of non-debt financial resource for the economic development of India. This article emphasizes the need and urgency for restructuring rail transport services on commercial lines and suggests some reform measures to improve the productivity, efficiency and global competitiveness. It also will focus on role of FDI in development of Indian Railways and also describe Government of India has taken various initiatives as well as introduced policies to mitigate the strain on the existing infrastructure of the Indian Railways as well as address the issue of under investment and slow pace of modernization of railway sector.

***KEYWORDS**: FDI, Indian Railways, Global Competition, Globalization, Modernization.*

Introduction

Indian Railways network spread more than 66030 kms, making it the world's third largest rail network. India has the fourth largest rail freight carrier in the world railway network and also the largest position in passenger carrier. India's railway network is recognized as one of the largest railway systems in the world under single management system. FDI has always been prohibited in the Indian railway sector, which has traditionally been a state owned and operated infrastructure facility. However, Due to the performance the Government changed position recently when the Government decided to open up the India's largest commercial establishment, for private investments and FDI.

The Department of Industrial Policy and Promotion (DIPP) through it Press Note No. 8 of 2014 dated August 27, 2014 has introduced and permitted FDI in certain sub-sectors of the railways. The year 2014 was witness of many changes in Indian Rail history. Starting from the new Government with an absolute mandate (for the first time in the last three decades), to allowing foreign direct investment (FDI) in the railway sector (for the first time in the last 200 years of Indian rail history).Currently FDI in IR is fully opened up in 17 areas. In high-speed rail projects -informally called bullet trains - a foreign player is now allowed to run a parallel and fully privatized railway company, completely detached from the existing IR network. But FDI continues to remain prohibited in Railway Operations sector.

Objectives

In the year 1991, with liberalization in India, 8 major sectors were left out of from FDI. These were Defense sector, Atomic Energy, Coal, Mineral Oil, Mining of important minerals like coal, iron ore, certain minerals of atomic energy and Rail Transportation. As railways is the most widely used mode of transportation catering the need of about 23 million passengers every day. Since independence, India has added 13,000 km of new railway lines bringing the total size to about 66,060 km. Therefore, there is a need for improvement in the infrastructure and development of this sector which was fully government

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funded, FDI in railways became an essential measure as this sector was impoverished sector as the revenue from railways was very low as compared to expenditure incurred by railways sector leaving a very little surplus. Hence, Government need FDI in Railway sector. As noted by the railway minister in his speech while presenting the railway budget for 2014-2015, the gross traffic receipts for the 2013-2014 was INR 1,395,580 million whereas total working expense of railways for the same year was INR 1,303,210 million, it was highlighted that the surplus was only INR 6,202 million after paying obligatory dividend and lease charges. This surplus amount is inadequate for developments in railways and become the biggest problem for development of Indian railways. Although with the many necessary restrictions, FDI was finally allowed in several areas of the railway industry and the revised FDI policy allows FDI in the construction, operation and maintenance of only the following:

- **Sub-urban corridor projects through PPP model:** FDI allowed in the construction, operation and maintenance of sub-urban rail corridors. Sub-urban corridor projects are the intra-city railway corridors providing transportation between the suburbs and the city.
- **High speed train project:** FDI has now allowed in the construction, operation and maintenance of high speed rail corridors project. Currently there are one high speed train corridors in India from New Delhi to Agra High Speed Rail Corporation of India Limited has also been formed on the directions of the Ministry of Railways, for the development and implementation of high speed rail projects in India.
- **Infrastructure in industrial park:** FDI has now allowed in the construction, operation and maintenance of industrial park infrastructures. The revised FDI policy has also revised the definitions of infrastructure and common facilities in relation to industrial parks to include railway line/ sidings including electrified railway lines and connectivity to the main railway line.
- **Freight lines, rolling stock including train sets, locomotives/coaches, railway electrification, signaling systems, freight terminals, passenger terminals:** Freight lines are the specialized lines only for the movement of freight in order to reduce the burden on passenger lines. Rolling stock are the locomotives, cars, coaches and wagons.
- **Mass rapid transport system ("MRTS"):** MRTS are means of transport for quick travel within the city for a large number of people. The Urban MRTS includes metro projects in cities such as Kolkata, Mumbai, Bangalore, Jaipur and Delhi.

Government of India in August 2014 opened up 100% FDI in the construction, operation, maintenance of:

- Suburban corridor projects through PPP
- High speed train projects
- Dedicated freight lines
- Rolling stocks including train set, and locomotives or coaches manufacturing and maintenance facilities
- Railway Electrification
- Signaling system
- Freight terminals
- Passenger terminals
- Infrastructure in industrial park pertaining torailways line or siding including electrified railway lines and connectivity to main railway lines
- Mass Rapid Transport Systems.

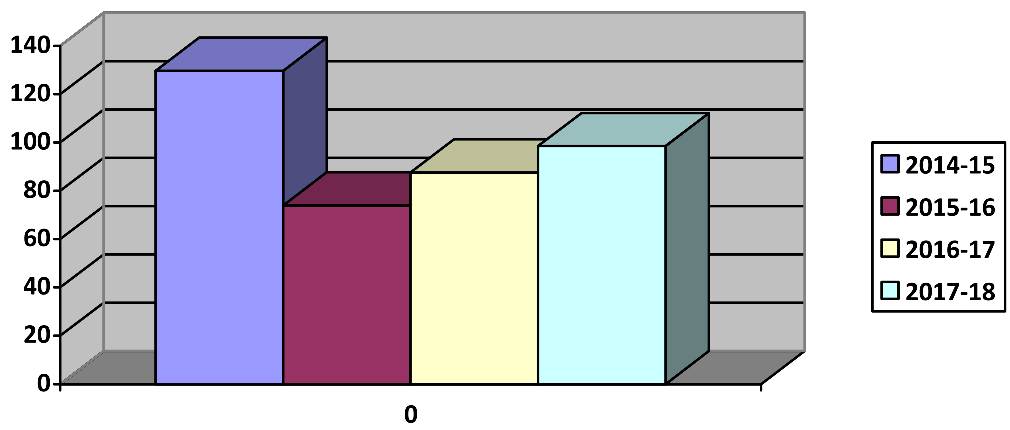
Area of Investments

- Bombardier Transportation, the rail equipment division of the Canadian firm Bombardier Incorporation, plans to participate in the bidding of upcoming Metro rail contracts of Mumbai, Nagpur, Pune, Bengaluru and Chennai, beside the expansion of a line in Delhi, in a bid to increase its revenue from India to US$ 1 billion by 2020.
- The Indian Railways is working on a new types of advertising policy aimed at installing 100,000 big digital screens at 2,175 railway stations across the country, which is expected to generate Rs 11,770 crore (US$ 1.76 billion) revenue by 2022.

- The Government of India plans to invest around Rs 330,000 crore (US$ 49.21 billion) for setting up three new arms of the Dedicated Railway Freight Corridors (DFC), criss-crossing the length and breadth of the country, in the next eight years.
- The Union cabinet has approved investments worth Rs 10,736 crore (US$ 1.6 billion) in five railway projects involving the decongestion of existing network by doubling and tripling of existing lines.
- The Indian Railways plans to deploy the European Train Control System (ETCS), aimed at preventing head-on collisions of trains, on 28 projects across the country in the next five years, thereby strengthening the safety of India’s railway network.
- Toshiba Corporation of Japan plans to set up a facility in Hyderabad by April 2017 to produce railway systems electrical equipment, power conversion systems and train control systems that provide overall operation management, and hire over 100 employees by 2020.
- The Cabinet Committee of Economic Affairs (CCEA) has approved construction of six railway Lines and a railway bridge incurring a total outlay of over Rs 10,700 crore (US$ 1.59 billion) which will help to meet the growing needs for transportation of passengers and freight across several parts of India.
- Indian Railways has issued a Letter of Award (LoA) to US-based General Electric (GE) for a Rs 14,656 crore (US$ 2.19 billion) diesel locomotive factory project at Marhowra, and to French transport major Alstom for Rs 20,000 crore (US$ 2.98 billion) electric locomotive project in Madhepura, both in the state of Bihar.
- The Government of India will be spending Rs 850,000 crore (US$ 126.8 billion) over the next five years to modernize Indian Railways for which they have received a 30 year loan from LIC. The Cabinet also cleared the Rs 82,000 crore (US$ 12.22 billion) dedicated freight corridor for decongesting existing network.

FDI Inflow in Indian Railways

Foreign Direct Investment (FDI) equity inflow from April, 2014 to December, 2017 in Railway sector is US$ million 389.83. The financial year-wise as under:



Source: Press realise by Ministry of Indian Railways

Ministry of Railways has signed Memorandum of Understanding (MoU) with China, France, Spain, South Korea, Japan, United Kingdom, Russia and Germany for cooperation in the area of High Speed Railways. A Memorandum of Cooperation has been signed with Government of Japan for Mumbai-Ahmadabad High Speed Rail (MAHSR) project which includes transfer of technology and Make in India. A large number of Foreign Governments and Railways have shown keen interest in the station redevelopment program. These include French Railway (SNCF), Korean Railway, Governments of Federal Republic of Germany, China and United Kingdom.

Conclusion

The Indian Railway network is growing at a healthy rate. In the next five years, the Indian railway market will be the third largest, accounting for 10 per cent of the global market. FDI in the railway sector aims to generate much-needed funding to the impoverished Indian Railways, and enable it to introduce lot of development work such as a high-speed train system, build and upgrade suburban corridors, and most importantly; augment freight logistic capacity through the speedy development of dedicated freight corridor.

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