

A largesse for whom? - The bullet train project in India: a story of white elephant and public debt

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We are a happy nation waiting to ride the bullet train...

The Mumbai-Ahmedabad High Speed Rail (MAHSR), connecting these major metropolis in western India, is soon to be built with Japanese finance and assistance. The Japanese PM Shinzo Abe and his Indian counterpart Narendra Modi jointly laid the foundation stone on September 14. With ₹1080 billion investment, this is projected to be a blockbuster affair for the Indian railways. “The MAHSR debt structuring is also very attractive: a ₹88,000-crore (880 million) loan at a notional rate of interest of 0.1 per cent to be repaid over 50 years, with a principal payment moratorium of 15 years.” [1] No wonder that the visibly elated Indian PM has described this project as “for free, in a way”. [2]

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The project funded by Japan International Cooperative Agency (JICA) is certainly going to be a new ‘feather’ in the cap for “India Inc”. It is estimated to open up ‘huge’ employment and learning opportunities, apart from boosting economies all along its route. “New production bases and townships will eventually expand along the MAHSR. The trickle-down effects of opening avenues for cheaper housing, logistics hubs, and industrial units along the route will benefit smaller towns and cities.” [3] And, for a growing nation that has seen private investments collapsing since the last few years there can be no better news than a spurt of economic activities, primarily in construction, boosting allied industries, notably steel, cement and infrastructure. With “(...) additional logistics and warehousing demand. It is estimated that an additional annual cement demand of two million tonnes and steel demand of five lakh (five hundred thousand) tonnes will be generated over four years by the MAHSR project.” [4] It gives us enough reasons to smile as we get set to ride the bullet train while achieving “near-term economic growth which has been sluggish in the last few quarters.” [5]

And also, this flurry of economic activities is sure to generate additional employment. Estimates indicate 20,000 during the construction phase and 4,000 for the maintenance and operation once the project is completed in 2023. An additional 16,000 indirect employment opportunities are also anticipated.

A viable project?

Brushing aside all criticisms about the economic viability of the project and the potential drain of the exchequer, both government and non-government sources are quick to point out that the “Bullet train project shall not only ensure speed, safety and efficiency for passengers but also help Indian Railways build international standards of engineering and service.” [6] The government’s move to introduce bullet train “(...) is a step in the right direction because it is sending out the right signals that India is at the forefront of technology.” [7] Shyam Saran, the former Indian foreign secretary was forthright in describing the project as “(...) a very sharp learning curve but its impact will not just be on railways but in India’s industrial economy as a whole. With proper planning, it may help create an entire new ecosystem of high performance in the country. Let this not become yet another island of excellence insulated from the continuing underperformance of most sectors of our economy.” [8]

The primary debate is not around this “giant technological advancement”, albeit borrowed at a high price. Even if we temporarily leave aside the argument about cheaper interest rate, the mute question is about the current social desirability of such a project. Also, is it individually viable? The official sources claim that there was, apparently, a feasibility report prepared for the project. However, the details of the report have never been made public even, in response to applications made under the Right to Information (RTI) Act, 2005 by the Asian Age newspaper. The National High Speed Rail Corporation (NHSRC), a special purpose vehicle (SPV) created to execute the project flatly refused any response saying “The information asked cannot be shared under 8 (1) d of RTI Act as showing of information is likely to affect the competition position of the agencies working on it.” [9] NHSRC cited the above section of the RTI act which exempts the disclosure of information citing “information including commercial confidence, trade secrets or intellectual property, the disclosure of which would harm the competitive position of a third party, unless the competent authority is satisfied that larger public interest warrants the disclosure of such information”. [10]

It is abysmally shocking that the authorities care the least about the larger public interest of such a gigantic project that is built with public money and “for the public”. Not only is this a blatant violation of the preamble of the act which claims “(...) to provide for setting out the practical regime of right to information for citizens to secure access to information under the control of public authorities, in order to promote transparency and accountability in the working of every public authority,” and “democracy requires an informed citizenry and transparency of information which are vital to its functioning and also to contain corruption and to hold Governments and their instrumentalities accountable to the governed”, the refusal indicates absolute disregard for democratic rights and reveals the hollow nature of the tall claims that the government makes about ending corruption and instituting transparency. Aren’t the authorities keen to hide something about the deal which might not go well with the public?

In the absence of credible governmental projections about the number of commuters that this train might attract to ensure self-sustainability we are forced to turn our attention to some other ones. According to one estimate “the UPA government had rejected the Bullet Train project as being completely unviable. In fact, the then Finance Secretary Rakesh Mohan had said that he would not approve the project even if Japan gave a grant instead of a loan. That’s probably because projections show that the Mumbai-Ahmedabad train service will need to carry nearly one lakh (one hundred thousand) passengers a day to keep fares at a reasonable level. The current traffic is only about 18,000 per day, which means that either fares will have to be raised well above air fares, or that the system will have to be subsidised in perpetuity.” [11]

A paper authored by Prof G Raghuram and Prashanth D Udayakumar, Research Associate at the

Indian Institute of Management, Ahmedabad, India calculates that “an average fare of ₹5.00 per km for the route with intermediate stops and for a scenario of 0.4 operating ratio, we arrive at a daily required ridership of 118,000 passengers (which translates to 43 million passengers annually). At an average of 1000 passengers per train, over 100 services per day (50 per direction) would be required.” [12] This is a far cry from the current passenger level between the two cities even if we take into account the air passengers. Various other estimates pegs the number of commuters at an even higher level. A commentator in one of the leading dailies noted “The project may also bleed India’s coffers as its rate of return is projected to be only around 3-4 per cent. Railways considers a project economically viable if it has a rate of return of at least 14 per cent.” [13] The Indian Railways in an attempt to cover up this unviable financial return has invented a category “economic rate of return” which estimates the returns to be more than 11 per cent on account of mysterious non-financial fictions. The government might be well heading to create another white elephant.

The fiction of a low rate of interest

There has been a deliberate attempt to confuse Japanese rate of interest with the Indian ones, to make the project look attractive. After a period of profound economic stagnation, in order to stimulate the economy, Japan adopted a negative interest-rate policy since January 2016. This implied that banks were penalised for hoarding too much money. They turned the rules of borrowing upside down. Like ordinary depositors, the banks keep in deposit their unused cash with the central bank of the country and earn a small amount of interest in return. However, with the introduction of the negative rates, the Bank of Japan charge an interest instead. This was done with an intention to induce Japanese commercial banks to lend more money to households and businesses to boost consumption and investment in order to encourage economic growth. Countries with ultra-low inflation or deflation – a nightmare for economists – resort to such methods to boost economic activities in order to achieve economic growth. The European Central Bank as well as countries like Switzerland, Sweden & Denmark, which are not part of Eurozone resorted to negative rates.

Since January 2016, the Bank of Japan decided to charge commercial banks a fee of 0.1 percent on a portion of their reserves that they keep with it. While this economic measures might not have met the anticipated goals or the declared objectives in Japan, borrowing money which was already cheaper in Japan has become dirt cheap.



The interest rate there has, been 0% since 2011 and currently it is at -0.1% Therefore the Japanese are charging a premium as compared to their domestic market. Secondly, since the given loan has sovereign guarantee by the Government of India, which means that the government guarantees the loan and promises to discharge the liability of the borrower in case of a default the lender faces no commercial risk in recovering the amount as faced by other commercial banks, normally. Under these circumstances, interest rate of 0.1% doesn’t become a huge advantage.

Rather, this long-term low-interest loan might lead us to a trap. Their money is just sitting doing nothing and now it will earn some interest even if very low and they will likely benefit more if the value of rupee falls over a period of time and if project delays happen, which is normally the norm.

India would take the loan in Yen (JPY) and repay in the same currency and hence, the exchange rate

risk is on India. A careful observation of the JPY-INR exchange rate for last 25 years reveals that the INR has depreciated at CAGR of 4.5%. This implies that on average we would be paying 4.5-5.0% more every year on account of exchange rate fluctuations. On a loan of ₹ 900 billion, this amounts to ₹ 40-45 billion every year. Note that current repo [14] rate in India too is at 6% and hence this loan is not very cheap for us. It might be better but nothing earth shattering to justify the hyperbole made by the Indian authorities and the media. This exaggerative propaganda about free loans is nothing but a carefully constructed lie and patently absurd. The banks in the US and Japan are laden with cash. US banks give 0.01% interest to saving account holders. Similar is the case with Japan.

If we borrow a leaf out of the Greek sovereign debt crisis it would not be difficult to understand how borrowing huge amounts at lower interest rate than the country's rate of inflation led to its debt crisis. It's time we learn lesson from them. A habit of long term huge borrowing just because the borrowing rate is simply less than inflation, will over a time lead to an increase of our debt to GDP ratio. This single project itself cost 0.75% of GDP, and in spite of the recent hype and fanfare about Moody's upgrade of India's credit ratings such instances will surely affect our country ratings and we may end up paying much more risk premium on other foreign borrowings, further affecting our economy negatively.

It is also pertinent to interrogate the governmental priority of such projects. Looking at a host of social indicators, such projects rank low in terms of social desirability. Leaving apart the fundamental questions about the low budgetary priority to health, education, housing and other basic sectors we often hear that there is no money to waive-off farmer's debt that has created a catastrophe, there is no money to clean our rivers, to build enough toilets, to provide adequately clean drinking water and the worst part of all to spend on railway safety when regular train accidents are no more a mishap but a regular incident. According to The Guardian "a 2012 government report referred to the annual death toll from the country railway's system as a "massacre". More than 33,700 people died in train-related accidents in 2015, the most recent year for which data is available, the majority by falling from overcrowded trains or being hit as they tried to cross tracks. Modi replaced the country's railway minister in August after a horror 12 months that included an accident last November that killed 150 people." [15]

Nothing can be more crazy than to embark on such projects when the prehistoric railway safety urgently needs revamping. A former top bureaucrat at the Prime Minister's Office, Jawed Usmani, part of the initial negotiations between Japan and India decried it as "not good value for money. It is a very expensive toy, a complete misallocation of scarce resources, representing absolutely wrong prioritization of objectives." [16] He further adds "Japan has been pursuing the Mumbai-Ahmedabad bullet train project for a long time as it gives them an opportunity to market their over-priced technology and utilise their idle high speed train manufacturing capacity." [17] It is also known that Japan's government and its rail companies lobbied the US for years to sell its overpriced technology and found little success. Finally, they have success in finding an international buyer in India.

Moreover, there are also reports that the track record of the Japanese bullet train outside its own country is dismal. It actually flopped miserably in Taiwan. "A consortium of private Taiwanese companies started the project in early nineties. In 2007, it ran the bullet train which was based on the Japanese Shinkansen technology, the same that India will use. The project cost \$14.3 billion. Seven years later, in 2014, the government hinted that the rail operator could go bankrupt. Cumulative losses stood at 46.6 billion New Taiwan dollars or roughly \$1.5 billion. Since it was an important piece of public infrastructure which had to be rescued, the Taiwanese government bailed it out next year by injecting nearly \$1 billion of public money which reduced the operator's share by 60 per cent." [18]

The Chinese GDP and their per capita income is nearly five times that of India's. Even there, high-

speed trains are too expensive for the common people. They serve businessman and not the hundreds of millions of daily commuters who still suffer from the lack of efficient and secure public transport.

A largesse for whom?

It's through a conscious decision that the Government of India has got into a trap showcased as "development assistance". While this tied loan force India to buy over-priced technology for a project covering only 500 out of the total 63, 000 km of the railway network the Indian Railways has many more infrastructural needs of much higher priority than this bullet train project, that is destined to become a white elephant at the cost of public exchequer vastly contributing to public debt. This project is just a political trophy. A gimmick, both to hide and provide temporary respite to the problematic state of affairs of the Indian economy. "The bellwether indicator for non-agricultural production, investment and consumption in the economy does not present a pretty picture. News on the industrial output is bad. The growth rate weakened to 2.5%; it was 5.8% a year ago. On the manufacturing front, the news gets worse. The growth rate was 1.9%, pale when compared to 6.1% a year ago. It's the same story with infrastructure and construction: the growth rate, 2%, is feeble compared to 4.9% in the first half of last year." [19] Also, "consumer and investor sentiments haven't got any better. Capital goods and consumer durables output was lower in the first half of the year than that in the same period last year, as production contracted. The only source of comfort have been consumer non-durables, the output of which grew to 7.4%, although at a slower pace than the 10-plus% growth a year ago." [20]

Therefore, not only is this a rich gift awarded to Japan and their railway industry it's also an endowment for the Indian bourgeoisie struggling under descending private investments and also, falling private consumption, of late. The government's decision to obstinately go forward and showcase this project as an "exemplary technological advancement" is nothing more than a farce especially, in the face of severe opposition to the project on valid grounds. When all indicators of well-being are proving otherwise this is a new dream that is being peddled to the poor that they can hardly access in their lifetime. "95% people are those that travel in unreserved compartments, and not Rajdhani or Shatabdi. To them this day counts for nothing, said Dr Debroy, who is a member of the NITI Aayog, the government's main policy think-tank." [21] It's even going to be worse than the flurry of flyover-building in the 1990s and later, promoted by the politicians as a 'liberation from traffic jams' in which contractors and suppliers of cement, steel, etc. made huge money in the name of nation-building at the expense of public money.

Finally, with all the chest thumping around our technological prowess and the rhetoric of "Make in India" why does the country needs to import such an overpriced technology even if we temporarily pretend not to consider the issue of public debt and the construction of a white-elephant?

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Footnotes

[1]
<http://www.thehindubusinessline.com/opinion/mumbai-to-ahmedabad-on-the-bullet-train/article9856326.ece>

[2]
<http://indianexpress.com/article/india/bullet-train-loan-rate-0-1-free-in-a-way-pm-narendra-modi-shinzo-abe-japan-india-4844198/>

- [3] <http://www.thehindubusinessline.com/opinion/mumbai-to-ahmedabad-on-the-bullet-train/article9856326.ece>
- [4] Ibid.
- [5] Ibid.
- [6] <https://blogs.economictimes.indiatimes.com/et-commentary/time-for-india-to-bite-the-bullet/>
- [7] <http://www.livemint.com/Technology/66aAY3f4tt6nf0KW0WybJM/Making-sense-of-the-bullet-train.html>
- [8] <http://www.hindustantimes.com/analysis/shinzo-abe-visit-india-japan-ties-have-transformed-in-the-past-three-years/story-kGmnwYhUu69huzjdnk9JFO.html>
- [9] Bullet Train Is An Expensive Toy Of No Use: Hard hitting FB Post by Top Official
- [10] <http://indianexpress.com/article/opinion/columns/shooting-in-the-dark-bullet-train-japan-india-4856672/>
- [11] <http://indianexpress.com/article/opinion/columns/shooting-in-the-dark-bullet-train-japan-india-4856672/>
- [12] <http://www.iimapr.com/article/view-article/dedicated-high-speed-rail-network-in-india-issues-in-development>
- [13] <http://indianexpress.com/article/india/india-others/bullet-train-project-to-cost-rs-1-lakh-cr/>
- [14] Repo or repurchase option is a means of short-term borrowing, wherein banks sell approved government securities to Reserve Bank of India and get funds in exchange.
- [15] <https://www.theguardian.com/world/2017/sep/14/india-starts-work-on-its-first-bullet-train-line>
- [16] Bullet Train Is An Expensive Toy Of No Use: Hard hitting FB Post by Top Official
- [17] Ibid.
- [18] https://economictimes.indiatimes.com/industry/transportation/railways/when-japanese-bullet-train-flipped-in-taiwan-lessons-for-india/articleshow/60731283.cms?utm_source=facebook.com&utm_medium=Social&utm_campaign=ETFBMain
- [19] <http://www.thehindu.com/opinion/op-ed/its-the-real-economy/article20604315.ece>
- [20] Ibid.
- [21]

<https://www.ndtv.com/india-news/for-95-commuters-bullet-train-means-nothing-bibek-debroy-to-ndtv-1750461>

P.S.

* CADTM, 27 November 2017:

<http://www.cadtm.org/The-bullet-train-project-in-India>