



CHINA INFRASTRUCTURE: PLAYING THE BOOM

INDIA INFRASTRUCTURE: PLAYING CATCH-UP

Two new reports examining the **China and India infrastructure** booms and highlighting the best opportunities for both direct and portfolio investors

June 2008



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CHINA INFRASTRUCTURE: PLAYING THE BOOM

The development of China's infrastructure remains in high gear as strong economic growth continues the expansion of the last three decades. Investment will be driven by the Chinese state but will offer excellent prospects for portfolio investment in well-positioned local firms and foreign companies occupying niche positions.

INDIA INFRASTRUCTURE: PLAYING CATCH-UP

With the backwardness of India's infrastructure constraining rapid growth, the authorities are trying to catch up by pushing regulatory reforms at the federal and state level to attract more private capital and expertise into relevant sectors. India's infrastructure poses unique risks, but potential rewards for portfolio and direct investors are high.

These reports bring together the expertise of two firms that are at the top of their respective fields: **Trusted Sources** and **Urandaline Investments**. They were written by a team of economists, political analysts and sectoral specialists on the basis of extensive contacts with key players in the relevant sectors of the two countries, including policymakers, local companies and potential or actual foreign investors.

The combination of on-the-ground research, accumulated expertise and political and economic analysis allows these reports to distinguish projects with real prospects from those that are likely to remain white elephants or pipe dreams.



TRUSTED
SOURCES

Trusted Sources is an independent emerging markets research firm focused on top-down analysis of politics and government policy and their impact on investment and markets. The firm was founded in 2006 by a group of analysts, including Christopher Granville, Larry Brainard and Jonathan Fenby, who have decades-long experience in emerging markets. Trusted Sources covers the BRIC countries – Brazil, Russia, India and China – as well as Africa and the Caspian/Black Sea region. Trusted Sources research combines the views of its in-house team with the best thinking of external experts whose insights are validated and put into context.



Urandaline Investments is an independent consultancy specializing in capital-intensive and commodity businesses. Urandaline focuses on China, where its founder, Michael Komesaroff, has been doing business for 30 years. With the assistance of a network of local experts, it tracks industries such as electricity, petrochemicals, mining and metallurgy. Urandaline publishes the highly regarded newsletter *China's Industries*, which has more than 500 subscribers. Its series of multi-client sectoral reports, including *The Dragon Constrained*, a 2005 study of Chinese infrastructure, has proved indispensable for companies working in China.

Strong economic growth in China and India is putting a strain on basic infrastructure, creating a need for massive new investment through ambitious programmes for ports, railways, power and other core sectors.

Although China has comprehensively modernized its infrastructure since the 1980s, enormous investment is still required to allow the country to achieve its full potential for growth. The state has been the main source of infrastructure investment, with state-owned companies taking the lead. But there is a significant and growing direct role for the private sector as well as numerous secondary and tertiary opportunities for Chinese firms and some foreign niche players.

India cannot match China's capabilities to drive large-scale infrastructure investment on its own, but the government has been reluctant (or unable) to engage the private sector to the necessary extent. Owing to the resulting backwardness, India now has to play catch-up, giving rise to ambitious plans for infrastructure development. There is a sense of urgency in the way that politicians at the federal and state level are trying to remove regulatory barriers and pave the way for private investment and expertise to play a major role. However, the investment environment remains opaque, so participating in India's boom will not be without risk.

The clouds currently hanging over the global financial system have generated increased uncertainty for both economies. The changing external environment and consequent policy responses will create new openings and new risks. But the fundamental factors driving infrastructure investment in China and India have not changed.

The China and India infrastructure reports by **Trusted Sources** and **Urandaline** are the only research products that combine a comprehensive assessment of infrastructure trends in China and India with a focus on how investors can best capitalize on the opportunities ahead.

Yangpu Bridge, Shanghai



CHINA INFRASTRUCTURE: PLAYING THE BOOM

China Infrastructure: Playing the Boom is a 240-page report that addresses the needs of two types of investor:

- Those seeking exposure to infrastructure projects, either through direct investment or indirectly via participation in dedicated infrastructure funds or other financing vehicles;
- Portfolio investors looking to take equity positions in Chinese or foreign companies that are major participants in China's infrastructure.

China has the world's busiest container ports and the longest and most crowded railways. Its power grid is second in size only to that of the United States. As railways and roads struggle to meet transport needs, the government is developing inland waterways. Meanwhile, growth has exacerbated China's long-standing problem of insufficient water resources, while the country faces a mammoth task in installing systems to clean up water supply.

Each sector is critical to sustaining rapid economic growth and will continue to be the target of major state investment programmes. Crucially for those considering investing in infrastructure projects in a country where both the central and provincial administrations play key decision-making roles, our report examines each sector in its political and regional context.



China Infrastructure: Playing the Boom is a comprehensive analysis of developments and investment opportunities in five key sectors: electric power, railways, coastal ports and harbours, inland river transport and water supply.

Yangshan Port, Shanghai

Under the current five-year plan, the government is to invest more than US\$350 billion in transport up to 2010 and US\$140 billion in water treatment and supply. Vast sums are also lined up for investment in the power grid, ports and inland waterways. The Yangshan deepwater port near Shanghai is expected to absorb US\$16 billion in investment by completion in 2020.

Although China's infrastructure is less open than India's to private sector involvement, opportunities for direct participation are emerging in some sectors. Private sector investors can ride China's boom by focusing on secondary and tertiary opportunities identified in our analysis, particularly in areas such as sea ports, railways and water supply.

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China Infrastructure: Playing the Boom is available in hard-copy format only at a cost of GBP 9,500, plus VAT if applicable: each additional copy costs GBP 500. The price of the India and China infrastructure reports purchased together is GBP 16,000.

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INDIA INFRASTRUCTURE: PLAYING CATCH-UP

India Infrastructure: Playing Catch-up is a 200-page report addressing the needs of two types of investor:

- Those seeking exposure to infrastructure projects, either through direct investment or indirectly via participation in dedicated infrastructure funds or other financing vehicles;
- Portfolio investors looking to take equity positions in Indian or foreign companies that are major participants in India's infrastructure.

In each sector, India's push to overcome its infrastructure backwardness is creating opportunities for private capital and expertise. India's current five-year plan incorporates an ambitious US\$495 billion investment target for infrastructure development. This implies that infrastructure investment as a percentage of GDP will rise to 9% by 2012 from approximately 5% today. It is projected that 30% of this total will come from the private sector; indeed, the investment target cannot be met without major inflows of private money.

The impending boom will test the limits of political flexibility, as well as the agility and perseverance of potential private sector investors. Official projections should be viewed as hoped-for outcomes, rather than hard targets.



India Infrastructure: Playing Catch-up provides a comprehensive analysis of the current state of play and identifies likely developments in five key infrastructure sectors: electric power, roads, ports and harbours, airports and civil aviation and railways. As well as detailing the key goals in each sector, the report offers an in-depth assessment of the political and policy context.

Bridge construction, Mumbai

Our analysis shows how investors can position themselves to take advantage of infrastructure opportunities while managing the inevitable risks posed by India's multi-layer political structure. For portfolio investors, the priority is to identify firms best positioned to benefit from demand spin-offs of the infrastructure investment boom.

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