Northeast India can get private companies to invest in roads with the promise of spillover effects

India is considering a new approach to attract private companies to invest in road development in the country's isolated northeast. The government's current 5-year plan from 2012 to 2017 provides for large investments in infrastructure.

In transport and communications, the government wants to improve connections not only within India—especially the northeast—but also with neighboring countries.

Northeast India comprises eight states linked to the rest of the country by a narrow corridor between Bangladesh and Nepal. The region of 40 million people also borders Bhutan and the People's Republic of China in the north, and Myanmar in the east.

India's partition in 1947 cut the region's access to the port of Chittagong in East Bengal, which became the eastern part of Pakistan until 1971, when it seceded as the new nation of Bangladesh. Today, the region's closest port is in distant Kolkata in the Indian state of West Bengal.

The partition of India also cut traditional transport routes between the four states that border present-day Bangladesh—Assam, Meghalaya, Mizoram, and Tripura. The Northeastern Council—a regional body under the central government—has identified 11 shorter land routes between three of these states through Bangladesh. Transit through Bangladesh also offers shorter routes from Meghalaya and Tripura to Mizoram bordering Myanmar, the gateway to the rest of Southeast Asia.

In its Vision for 2020, the Northeast Council says the region should be India's arrowhead to Southeast Asia. For Indians, it's in northeast India that Southeast Asia begins. The council says projects such as roads require large investments by both central and state governments.

But it also sees an essential role for the private sector with investment through private-public partnerships or PPPs.

Naoyuki Yoshino, dean of the Asian Development Bank Institute in Tokyo, is not so sure that PPPs are effective.

> **In the past, private–public partnerships failed in many countries because private finance could not receive enough return from infrastructure investment.**

The Japanese economist points out that most returns from public infrastructure are from user charges such as highway tolls. These charges are usually regulated by governments—and are typically not high enough to offer private investors attractive returns.

> **That is one of the failures, why PPP was not so successful in Asia. And my idea to increase the rate of return is to utilize spillover tax revenues along highways and infrastructure.**

Spillovers, in this case, are the additional economic activities created by new infrastructure. A new highway will often attract new businesses and create jobs. As a result, governments will receive more revenue from property taxes, corporate taxes, income taxes, and sales taxes. So, to attract private companies with higher returns, governments need to share those future tax revenues with investors.

Dean Yoshino says India is interested in using such an approach for road development in northeast India, including access to the port in Bangladesh, which would benefit through increased tax revenues.

> **Northeastern India is very much isolated from other parts of India and the road has to go through Bangladesh. And they're interested in utilizing my idea and bringing extra tax revenue to Bangladesh. If the road can be completed through Bangladesh, then northeastern India can be connected to the port and access exports and import much more easily.**

That was Naoyuki Yoshino, dean of the Asian Development Bank Institute in Tokyo, talking about how to attract private companies to invest in road development in northeast India.

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