

Module - 3

Infrastructure: Importance and Application



Brief Outline

- Importance of Infrastructure
- Applications of Infrastructure Economics
- Infrastructure and Public Policy



Importance of Infrastructure

- ❑ According to World Bank (2015), infrastructure helps determine the success of manufacturing and agricultural activities
 - ❑ Investments in water, sanitation, energy, housing, and transport improve lives and help reduce poverty.
 - ❑ New information and communication technologies promote growth, improve delivery of health and other services, expand the reach of education, and support social and cultural advances.
 - ❑ Thus, infrastructure is not the end result of economic activities; rather it is the framework that makes economic activity possible.
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Benefits of the Study of Infrastructure Economics

- ❑ Link between economic growth and development
 - ❑ Understanding the role of Infrastructure in Production of goods and services
 - ❑ Getting the idea of how cost-efficient services is being produced with the help of Infrastructure
 - ❑ Helps in evaluating the benefits of growth through infra projects
 - ❑ Exploring the promotional role of Infrastructure in trade and commerce
 - ❑ Attracting foreign capital (FDI and FII)
 - ❑ Regional economic integration
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Growth and Development through Infrastructure

- ❑ Infrastructure economics attempts to study the infrastructure is supporting certain principles of economics
 - ❑ Rodan Model: Big Push-large minimum investments are needed in industrial and infrastructure sector to overcome the obstacles to development and attains the high growth path
 - ❑ **Social Overhead Capital** - examples of social overhead capital include railways, roads, sanitation, schools, hospitals, and public parks
 - ❑ Underdeveloped transportation infrastructure results in slow and uncertain delivery of goods and services, hinders economic growth and distribution
 - ❑ The economic growth and success of US, Singapore, South Korea, Taiwan can be attributed to investments in social infrastructure such as education and health
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Production and Infrastructure

- ❑ Infrastructure supports the production of goods and services by providing basic structures and facilities
 - ❑ The well developed transport networks reduces the cost of bringing the raw materials and other critical inputs to the manufacturing units
 - ❑ The power or electricity is crucial for production units and augments to the production of goods and services
 - ❑ Investment in education and health creates human capital that provides labor for the industry
 - ❑ Telecommunications augment in marketing and provides information about the markets
 - ❑ Cost-efficient - producing a good or service at the lowest cost
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Foreign capital and Infrastructure

- ❑ Infrastructure is critical in attracting foreign capital
- ❑ USD 8 trillion of infrastructure investments are required in Asia between 2010-2020
- ❑ The infrastructure investment –gap is huge in Asia, Sub-Saharan Africa and Latin America
- ❑ Countries having better infrastructure attracts more foreign investments



Trade Commerce and Infrastructure

- ❑ Trade is regarded as engine of growth. Sound and adequate infrastructure is, however, needed for sustained growth of exports
 - ❑ Well developed and adequate infrastructure is essential for promotion and facilitation of production, bring down the cost of production, limit the transaction costs and make exports competitive globally
 - ❑ According to the 2013 Mercer's Cost of Living Index and Savills' Live-Work Report, Singapore continues to be cost competitive compared with other major financial centres because of well developed infrastructure facilities
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Infrastructure and Regional Economic Integration

- ❑ There are forward and backward linkages of infrastructure development and regional economic integration
- ❑ Regional integration can take the form of either free trade area, customs union, common market, economic union or monetary union- the institutional framework is provided by the adequate and proper infrastructure
- ❑ By encouraging regional integration countries are better-off in trade, share resources and build mutually beneficial infrastructure
- ❑ Integrated markets with regional integration and efficient infrastructure helps in attracting investments, and provides quality goods and services at competitive prices
- ❑ For instance: Japan will provide USD 35 billions to India for Infrastructure development in next 5 years

Applications of Infrastructure Economics

- Urban Finance
 - Business Economics
 - Civil Engineering
 - Local Bodies
 - Public Policy
 - Urban and Rural Management
 - Community Development etc.
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Infrastructure and Public Policy

- ❑ Public policy plays critical role in Infrastructure development
 - ❑ **Public Policy-** The policies proclaimed by the government such as regulatory measures, funding priorities and other course of action. For instance: government might take the decision to build highways or canals or open a new university
 - ❑ **Public Choice-** Economic analysis of the government decision making
 - ❑ **Collective action-** The government may work under the influence of special interest groups that serve their own interest
 - ❑ **Rent seeking** -when government approves a program that benefits only a small group within society but whole society pays the cost
 - ❑ **Welfare State-** found particularly in more prosperous and democratic societies, distributes resources extensively to provide for the health, education, employment, housing, and income support of its citizens
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THANK YOU
