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Billionaires' Rise Aids India, and the Favor Is Returned

By JIM YARDLEY and VIKAS BAJAJ

MUNDRA, India — On a recent wind-whipped morning, a steel-hulled behemoth arrived at a desolate stretch of India's western coast groaning with enough coal to power a city of one million people for more than two weeks.

The ship, the Vanshi, was carrying coal from Indonesia, a two-week trip across the Indian Ocean. India has its own abundant reserves of coal, which raises a question: Why did India need to go so far to get something it already had?

For Gautam Adani, the power mogul, the answer was simple: the easiest and most profitable way to meet India's rising demand for electricity is to avoid the obstacles, divisive political confrontations and practical inefficiencies of India. In the spirit of the workaround ethos typical of India's private sector, Mr. Adani is working around the subcontinent itself.

He owns the Indonesian coal mine, the Korean-made cargo ship (named for his niece Vanshi), the Indian power plant and, most important, the private Mundra port. He owns coal mines and a major port in Australia, and has built his own private railroad spur in India. His business plan is to do as much as possible without relying on the creaky infrastructure of the Indian state.

"He is able to do so well partly because he is very entrepreneurial and has found the right opportunity," said Eswar Prasad, an economic adviser to India's finance minister. "But it's a symptom of a dysfunctional state. He is able to deliver something more effectively than the state."

Today, India is increasingly turning to the private sector to deliver the electricity needed to maintain rapid economic growth into the future. India's economy is growing at more than 8 percent annually, but is badly constrained by an inadequate power supply after years in which the government dominated the power sector and failed to keep up with growing demand.

The rise of Mr. Adani attests to a broader shift, as the private sector is playing a greater role in areas once controlled by the state like telecommunications, ports, airports, banks and infrastructure. At a global level, this contrasts sharply with China, where huge state-owned enterprises dominate strategic industries and lead the country's global expansion. Mr. Adani recently had to outbid the Chinese for his Australian port.

Within India, though, the success of private tycoons has created a paradox: India's moguls are essential to the country's success and admired for their ability to get results. Yet their staggering wealth is made possible in part by their coziness with powerful politicians who help arrange environmental clearances, land use rights and other thorny issues. That raises accusations of crony capitalism.

India in the 21st century is now often compared to the United States during the Gilded Age of the late 19th century, when robber barons dominated the American economy. The country has 55 billionaires whose aggregate wealth of $250 billion is equivalent to almost a sixth of the nation's annual economic output.

"No question, there is an oligarchy developing that has an enormous amount of influence," said Arvind Subramanian, an economic adviser to the Indian government. "That is a matter of great concern. But in India, these are also the guys who are performing. In some cases, they may be gaming the system, but they are also performing despite how bad the system is."

Mr. Adani is now India's sixth-richest person, with a fortune valued at $10 billion. He was an import-export trader during the 1980s when the Indian government tightly controlled trade and industry through high tariffs and an abstruse licensing regime. During the 1990s, after India embarked on economic reforms, Mr. Adani expanded his trading business and befriended influential politicians, including the powerful and controversial chief minister of his home state, Gujarat.

Mr. Adani entered the power business partly because of criticism that traders were just "intermediaries" who did not own anything or contribute to society. He decided to start acquiring things, only to find that India's new business climate would mean shopping around the world.

Going Vertical

It was a singularly Indian dilemma: tigers versus electricity.

In 2009, India's power and coal ministries granted Mr. Adani initial approval to build a power plant in Maharashtra state, a deal that included the right to develop a coal mine. But the coal concession was in a forest near a wildlife reserve for endangered tigers. Protests mounted until India's Ministry of Environment and Forests blocked the mine project.

The dispute underscored how often important national priorities — environmentalism versus expanding electricity — collide. India has the fifth-largest coal reserves in the world and depends on coal-fired power stations for electricity, yet much of India's coal lies beneath forests in areas populated by tribal groups. Rare is the project without protests, controversy or violence.

Mr. Adani's canceled mining lease was only part of his problem. He had plans to become India's biggest private power company by 2020, yet he could not get domestic coal. Two other applications for domestic mining rights were snagged in red tape after India's environment minister declared broad areas of the country to be "no-go" regions for mining.

His advantage was Mundra. He had spent a decade assembling tracts of land into a special economic zone and had transformed Mundra into India's biggest private port. Now the port would become his Indian gateway for a global expansion.

He acquired mining rights in Indonesia. He bought two cargo ships (with two more on order) and began prospecting in Australia, where he bought a mine and, this year, the Abbot Point port. In short order, he became an overseas coal baron even as his Indian mining applications remained tangled in a ministerial turf war.

"He learned that it is difficult to get such clearances," said Devendra Amin, a spokesman for the Adani Group. "The challenges are political, as well as logistical."

Indeed, the logistics of transporting coal in India were another problem.

Indian Railways is a huge government bureaucracy with some of the world's highest freight charges, even though Indian freight trains travel slowly and carry small loads. Mr. Adani found it cheaper, more efficient and sometimes faster to ship coal 4,000 miles by sea than 1,000 miles by train. (Indonesian coal is also of a higher quality than Indian coal.)

In the space of a few years, Mr. Adani had created a vertically integrated global supply chain reminiscent of when Henry Ford once owned Brazilian rubber plantations to supply his car factories in the United States. Outside of India, this model is seldom seen these days, as big companies often specialize in areas where they have expertise and outsource other activities.

"It's quite atypical in the global context," said Rajiv Lall, chief executive of the Infrastructure Development and Finance Corporation, based in Mumbai. But in India, he said, "it's probably the fastest, most likely to succeed approach in the current environment."

In the past two years, India has become Indonesia's largest customer for coal, as other Indian corporations have also bought mining rights to ensure a reliable supply for their private power projects. The Adani Group is currently constructing or planning seven power stations, with the largest at Mundra. When the port needed a 40-mile rail connection to the Indian Railways network, Mr. Adani decided that the fastest solution was simply to build his own line. It is the first such private rail spur in India.

"They took all the risk," said P. N. Shukla, a former senior official at Indian Railways. "Now, the traffic is so high that they are building a second line."

Analysts credit Mr. Adani with a bold vision and a world-class ability to execute projects. But he has also demonstrated talents in another realm: Few Indian billionaires get rich without playing politics, too.

The Billionaires' Club

This year, Narendra Modi invited India's most powerful tycoons to the Vibrant Gujarat Global Summit. The glittering lineup of tycoons was, in essence, a homage to Mr. Modi, the state's chief minister and highest-ranking official.

Mr. Modi is one of India's most polarizing politicians, deplored by critics as a Hindu right-wing extremist and blamed for his role in the bloody 2002 anti-Muslim riots in Gujarat. Yet within corporate India, he is a hero known for business-friendly policies that for much of the past decade have helped make Gujarat the country's hottest state-level economy, with sizzling growth that has averaged 11.2 percent a year.

At the summit meeting, held in a sparkling new convention center, Mukesh and Anil Ambani, the feuding billionaire brothers who dominate several Indian industries, were both in the audience. Ratan Tata, chairman of the sprawling Tata Group, was on hand.

But the seat beside Mr. Modi during the inaugural ceremony was reserved for Mr. Adani, who used the occasion to announce an investment of an additional $17.8 billion in Gujarat. He also heaped praise on Mr. Modi as a brother and "an architect" responsible for building a grander state.

This nexus between tycoons and powerful politicians courses through the public-private relationship in India and forms the crux of a continuing debate on whether the rise of India's billionaires is a sign of dynamism or cronyism.

India's billionaires control a considerably larger share of the national wealth than do the superrich in bigger economies like those of Germany, Britain and Japan. Among the Indian billionaires included on the most recent Forbes rich list, a majority have derived their wealth from land, natural resources or government contracts and licenses, all areas that require support from politicians.

“Both in its rot and heady dynamism, India is beginning to resemble America’s Gilded Age,” Jayant Sinha, the head of an investment and philanthropic organization, and Ashutosh Varshney, a political science professor at Brown University, argued in a column in The Financial Times.

Others are more sanguine. Swaminathan Aiyar of the Cato Institute considers the Indian economy far more open and competitive today, noting that of the 30 largest companies on India’s stock exchange in 1991, at the beginning of India’s market-oriented reform period, only 9 are still on that list today. He argues this turnover suggests fierce competition rather than a hardening oligarchy.

“Crony capitalism hogs the headlines,” he wrote in a recent column. “Yet industrial and financial deregulation since 1991 means that political discretion affects only part of the economy.”

Mr. Adani, 49, represents the new guard among India’s billionaires. A stocky man with a no-nonsense demeanor, he dropped out of college to enter the Mumbai diamond trade but returned home to do business in Gujarat, where he first ran a plastics factory before becoming a trader and industrialist. His career has not lacked drama: he was kidnapped and held for ransom in 1997 and was inside the Taj Mahal Palace & Tower Hotel when it was attacked during the November 2008 terrorist attacks in Mumbai.

In an interview at his corporate headquarters in Ahmedabad, Mr. Adani defended India’s style of capitalism, noting that the economy has grown far faster in the past decade than in the previous five decades. He described his career as propelled by circumstances: his trading in the 1980s led to his interest in the Mundra port, while having a port and a special economic zone led him into power generation. India’s coal predicament and poor domestic transport infrastructure led him overseas.

Throughout the years, Mr. Adani has benefited from various governmental approvals and also bought coastal land from the Gujarat government at very low prices — in one instance paying as little as $540 an acre. Once he completed infrastructure, Mr. Adani sold land at a handsome profit to corporations locating inside the economic zone, including one parcel to Indian Oil Corporation, a state-owned firm, for $54,000 an acre.

“Who made him so rich?” asked Babu Meghji Shah, an opposition state legislator and a vocal critic of Mr. Adani’s. “The Gujarat government had made him rich.”

Mr. Adani dismissed any suggestion of wrongdoing but said that no business leader could afford to alienate a chief minister. “You cannot put up infrastructure or a larger project without the blessing and active support of the state government,” he said. “You have to work along with the government, whoever the chief minister is, from whichever party he is.”

Winners and Losers

For generations, the barren, low-lying coastline near Mundra has provided a livelihood for 10,000 people who depend on the sea. Fishermen live at the water’s edge in shanties framed with driftwood. Not far away, the port is fast becoming an economic powerhouse, employing several thousand people.

The fishermen blame the Mundra development for dwindling populations of shrimp and plankton and the disappearance of huge areas of mangroves, a threat to the estuary that has drawn scrutiny from national environmental officials. Fishermen are fighting in court but say they cannot match Mr. Adani’s political clout. They say Adani officials have offered jobs to some people, though only menial work paying $2 per day.

“We don’t trust them,” said Hashim Haji, 55, an uneducated fisherman who supports a family of 18. “They just talk. They promised us schools, hospitals, job training. But they have not done anything.”

The anger of the fishermen could be said to represent the collateral damage caused by India’s work-around private economy in which the state often takes a back seat and does not do enough to bring along people displaced by development. This summer, India’s Parliament is expected to consider a national law establishing clear guidelines for development projects when land is acquired or residents are displaced. Yet legislative action is hardly certain: the land bill has already been under discussion for several years.

Mr. Adani acknowledged the fishermen’s concerns and said his company was working to address them, but he insisted that Mundra’s expansion would continue. “We are working together with the community in such a manner that their livelihoods should not be disturbed,” he said, but added, “At the same time, development also should not be stopped.”

In fact, Mr. Adani is trying to replicate the Mundra model as he pursues other Indian ports as hubs for importing coal and building new power stations. Inside Mundra, he is building his own world: There are housing developments for employees, including a gated community of gardens and modernist bungalows for top executives. Private schools serve the children, while a private health chain has opened a hospital. There is a private airstrip for jets.

And even though Mundra is a remote place, far from any major city, thousands of employees are willing to move here because they believe working for a company like the Adani Group represents the future.

"Everything was done by us," said Javed Sindhi, a public relations manager for the company in Mundra. "That was the achievement. If you do it the government way, it would take years."

Hari Kumar contributed reporting from Mundra, and Nikhila Gill from New Delhi.

This article has been revised to reflect the following correction:

Correction: August 1, 2011

An article on Wednesday about India's dependence on its billionaire entrepreneurs for economic development misspelled the given name of the head of an investment and philanthropic organization who was the co-author of a column in The Financial Times that compared India's current combination of corruption and growth to America's Gilded Age. He is Jayant Sinha, not Jayanth.