

Telecommunication Sector and Foreign Direct Investment : An Indian Perspective

Dr. Dinesh Mahajan

Assistant Professor in Commerce and Head of Department, Mayur College, Kapurthala, Punjab, India.

Abstract

A paradigm shift has occurred in the telecommunication sector after 1991. After the liberalisation measures taken in 1991, this sector has brought revolution in the history of India. In this study an attempt has been made to assess the existing scenario of FDI in the telecommunication sector and to analyse the FDI inflows in this sector. The study reveals that FDI inflows have increased from Rs. 685.54 crores in 2000 to Rs. 1,770 crores in 2013. This sector is mainly dominated by Mauritius and followed by Singapore, Russia, Japan and U.S.A. The major share in FDI inflows in this sector is attracted by New Delhi region. No doubt much progress has been made in urban areas and metros in the telecommunication sector but still there exists a lot of scope for this sector in semi urban and rural areas.

Keywords: *Telecom, Growth, Foreign Direct Investment, TRAI, Regions.*

1. INTRODUCTION

Foreign Direct Investment (FDI) has widely been appreciated as a growth-enhancing factor in the developing countries. Falki (2009) discussed the effects and advantages of FDI to the host economy. He noted that the effects of FDI on the host economy are increase in employment and productivity, boost in exports and amplified pace of transfer of technology (Chia and Ogbaji, 2013). FDI has an important impact on trade balance, increasing labour standards and skills, innovative ideas, skills and the general business climate of the country (Preetha, 2011). With the help of FDI, the foreign direct investors can acquire the voting power or right of an enterprise by making FDI there. Investors invest there to avail a lot of benefits such as to take advantage of cheaper wages, benefits in taxation and some others privileges offered by the host country (Goyal and Jain, 2014). Therefore, FDI is becoming an important tool of economic development in the hands of developing countries to grow at a rapid rate.

Telecommunication sector is one of the core sectors of an economy. This sector plays a dual role as a facilitator of trade in other products and services.

This sector serves the basic needs like transportation, transformation of information etc. for any developing country for boosting the growth and development process. FDI has been one of the most important driving forces in the exploration of natural resources and improvement of economic conditions in underdeveloped and developing countries for centuries (Acharya and Patel, 2012). Among FDI, telecommunications is one of the most strategic industries of national economic control. Telecommunications have a substantial and important influence on national security, social stability and economic development, as well as many industrial sectors. Due to its particular character, telecommunication sector is often state-operated and monopolised in many countries (Lin, 2008).

Multinational companies (MNCs) in telecommunications and other sectors do not have unlimited resources for FDI, and so they pick and choose where to establish their new operations. Economists have studied these decisions and identified a series of criteria which largely determine where multinationals locate their FDI. Many of these criteria

are traditional economic matters such as the size of the domestic market, its access to other neighbouring markets, the skills, quality and wage costs of the domestic labour force, the quality and extent of the country's basic infrastructure, especially for export and import activities, the extent of tariffs or quotas, and local tax burdens (Shapiro, 2011). Thus MNCs take into consideration many factors before making investment in an economy so that prudent results may be achieved afterwards.

After mid 1990 the political disturbances along with other economic problems gave rise to severe financial crisis in the Indian economy. As a result the economic liberalization process was introduced under Structural Adjustment Programme (SAP) with the support of International Monetary Fund (IMF) and the World Bank (Akhtar, 2013). The crucial sectors of the economy were opened for foreign investors and telecom sector was among one of those sectors. Since then the progress of telecom sector has improved a lot and a revolution in this sector has changed the lives of Indians.

2. OBJECTIVES OF THE STUDY

The present study makes a humble effort to achieve the following objectives:

1. To have a review of the Telecommunication sector in India.
2. To analyse the inflows of FDI in Telecommunication sector in India.

3. DATABASE AND METHODOLOGY

To attain the objectives of the study secondary data has been used. The time period covered in present study ranges from 2000 to 2013. The sources of data are various issues of Secretariat of Industrial Assistance (SIA) Newsletter, journals, newspapers and websites. The various statistical tools used in this study are tables and percentages.

4. A REVIEW OF TELE-COMMUNICATION SECTOR IN INDIA

Telecommunication sector is among one of the crucial sectors of India. Telecommunication services are globally recognised as one of the driving forces for

overall economic development in a nation. They are also one of the prime support services needed for rapid growth and modernisation of various sectors of the economy. The Government of India recognises this fact and hence, has taken several major initiatives to provide a business friendly environment for companies in this sector. The rapid strides in the telecom sector have been facilitated by liberal policies of the Government of India that provide easy market access for telecom equipment and a fair regulatory framework for offering telecom services at affordable prices (www.ibef.org). In the early periods of independence, Govt. of India has cautious promotion strategy and restrictive nature and was geared up towards import substitution measures and in 100 percent export promotion measures, where the major emphasis was placed on technology transfer and not on investment (Raju, 2010). This approach was highly responsible for the backwardness of Indian telecommunication sector. It totally neglected the participation of FDI in the development of this core sector.

The process of liberalisation in the country began in the right earnest with the announcement of the New Economic Policy in July 1991. In 1994, the Government announced the National Telecom Policy which defined certain important objectives, including availability of telephone on demand, provision of world class services at reasonable prices, improving India's competitiveness in global market and promoting exports, attracting FDI and stimulating domestic investment, ensuring India's emergence as major manufacturing/export base of telecom equipment and universal availability of basic telecom services to all villages. The entry of private service providers brought with it the inevitable need for independent regulation. The Telecom Regulatory Authority of India (TRAI) was, thus, established with effect from 20th February 1997 by an Act of Parliament, called the Telecom Regulatory Authority of India Act, 1997, to regulate telecom services, including fixation/ revision of tariffs for telecom services which were earlier vested in the Central Government.

One of the main objectives of TRAI is to provide a fair and transparent policy environment, which promotes a level playing field and facilitates fair

competition. The TRAI Act was amended by an ordinance, effective from 24 January 2000, establishing a Telecommunications Dispute Settlement and Appellate Tribunal (TDSAT) to take over the adjudicatory and disputes functions from TRAI. The New Telecom Policy, 1999 laid down a clear roadmap for future reforms, contemplating the opening up of all the segments of the telecom sector for private sector participation. The Government has announced Broadband Policy in October 2004. The main emphasis is on the creation of infrastructure through various technologies that can contribute to the growth of broadband services.

FDI upto 100% (49% under automatic route and beyond 49% through Foreign Investment Promotion Board route) is also permitted (www.dot.gov.in).

Telecommunication is a highly capital intensive sector. Through the invitation of FDI in this sector the companies can access foreign capital markets to serve the hinterland and bringing affordable telecom services. Telecom sector has shown high growth rates and the funds that will come in will facilitate the process of network expansion. The FDI, as defined, shall be subject to the laws of India and not only of other country (Gopika, 2014). FDI in this sector will help in bringing rapid growth of telecom services in the remote rural areas of India where majority of the people have been deprived of these services even after so many decades of independence.

The Indian telecom sector is largely dominated by private operators that control a share of more than 85% share of the entire sector. Among the top players in the telecom sector, Bharti Airtel owns the largest share, followed by Reliance, Vodafone, state-owned BSNL, Tata and Idea. Other key players are Mahanagar Telephone Nigam Limited (MTNL), Aircel and Tata Teleservices. For wireline segment, Public sector undertakings BSNL and MTNL have a major share of the wire line market covering more than 80% of the entire market. Although private players such as Tata Teleservices, Bharti Airtel and Reliance have registered significant growth, BSNL continues to dominate the segment in terms of wire line subscriber

base. The wireless segment includes GSM and CDMA services and is much larger than the wire line segment in India. Private players such as Bharti Airtel Limited, Reliance Communication, Vodafone, Tata, BSNL, Idea Cellular and Aircel cumulatively hold a major share of the wireless market. For broadband and internet sub-sector, high growth in broadband outreach is expected to drive the next phase of growth in the telecom industry. Key players in the segment are BSNL, MTNL, Bharti, Tata Communication, Reliance Communication, Sify Technologies, YOU Telecom, Data Infosys and Hathway Cables.

Rising demand for a wide range of telecom equipment, particularly in the area of mobile telecommunication, has provided excellent opportunities to domestic and foreign investors in the manufacturing sector. Ericsson has set up GSM radio Base Station Manufacturing facility in Jaipur. A large number of companies like Alcatel, Cisco have shown interest in setting up their R&D centers in India (www.investindia.gov.in). This will further facilitate the absorption of Indian skilled force of technocrats in this sector. Thus 'Make in India' mission of the BJP government will also be accomplished in the coming times.

The department of telecommunications (DoT) has agreed to the defence ministry's demands for a defence band and a so-called defence interest zone (DIZ). This move will free up 3G telecom spectrum for at least three new carriers. DoT has planned to frame a separate exit policy for the country's telecom sector that will allow companies to leave the business without losing out on the value of the assets. The move is being seen as part of Government of India's endeavour to make the country's telecom sector investor-friendly and enhance the ease of doing business in the country. India will emerge as a leading player in the virtual world by having 700 million internet users of the 4.7 billion global users by 2025, as per a Microsoft report (www.ibef.org). The bright prospects of investment in this sector have much hidden for investors. The extensive awareness campaign has to be carried out by the Government of India to again rebuild the faith of foreign investors in the vibrant Indian economy so that the slowdown prevailing in the FDI

inflows may be eliminated. It will further accelerate the growth rate of the economy.

5. FDI INFLOWS IN TELECOMMUNICATION SECTOR IN INDIA

India has the second largest population in the world. This huge population provides ample scope for the companies in the telecommunication sector. The telecom network of India is the second largest in the world after China. The major portion of India's population lives in villages. In urban areas telecom services are satisfactory but there is poor connectivity in rural areas. This urges for betterment of telecommunication services in rural areas so that they may also have the benefit of revolution in this sector. For accomplishing this task there is dearth need for huge investment in this sector. India as a developing country doesn't have the required resources to undertake such huge investments. To cope up with this situation FDI becomes inevitable.

Table 1
FDI inflows into Telecommunication Sector (2000-2013)
(Amount in Rs. Crores)

Year	FDI equity inflows in Telecommunication Sector	Percentage share in total FDI equity inflows
2000	685.54	6.79
2001	4,267.15	26.94
2002	909.07	5.64
2003	727.26	7.60
2004	608.78	4.11
2005	706.19	3.66
2006	4,170.21	8.28
2007	4,354.15	6.65
2008	11,595.48	8.30
2009	12,372.97	9.45
2010	6,914.46	7.20
2011	10,492.62	6.56
2012	429.31	0.35
2013	1,770.00	1.37
Cumulative Total	60,003.19	6.13

Source: Compiled from Various issues of SIA, Newsletter.

Table 1. depicts FDI equity Inflows into Telecommunication Sector in India during the time period 2000 to 2013 and their percentage share in total FDI equity inflows. FDI inflows have increased from Rs. 685.54 crores in the year 2000 to 1,770 crores in the year 2013. It is apparent from the table that telecom sector has been attracting a significant percentage of total FDI inflows upto 2011. Due to the impact of global recession there has been steep decrease in the inflows of FDI and its percentage share in the total FDI inflows in this sector during 2012 and 2013. This sector assumes more significance as it is concerned with national security also. Therefore, Government has to follow a cautious approach while allowing FDI in this sector. Still, India needs tremendous FDI in this sector to reach to the rural people and provide them the connectivity so that they may use modern technology to excel in their life and raise their standard of living.

Table 2
Share of Top Five Countries in FDI Inflows into Telecommunication Sector (2000-2013)
(Amount in Rs. Crores)

Rank	Country	Amount of FDI inflows	% age with FDI Inflows for Telecommunication Sector
1	Mauritius	41,441.38	69.07
2	Singapore	7,137.01	11.89
3	Russia	1,902.39	3.17
4	Japan	1,568.26	2.61
5	U.S.A	1,285.42	2.14
Total of Above		53,334.46	88.89

Source: Compiled from SIA, Newsletter, Annual Issue, 2013.

The share of major investing countries in telecommunication sector has been exhibited in Table 2. This sector is mainly dominated by Mauritius and followed by Singapore, Russia, Japan and U.S.A. The respective shares of these countries in total FDI inflows in this sector during the period of study are 69.07%, 11.89%, 3.17%, 2.61% and 2.14% respectively.

About 88.89% FDI in this sector came from these five countries. The Government should encourage other countries for investing in this sector by offering

various incentives so that revenue of the Government may also be increased in the form of service tax collected from telecom users.

Table 3
Share of Top Five RBI's Region-wise (with states covered) in FDI Inflows for Telecommunication Sector (2000-2013)

(Amount in Rs. Crores)

Rank	RBI's Regional Office	States Covered	Amount of FDI inflows	% age with FDI Inflows for Telecommunication Sector
1.	New Delhi	Delhi, part of U.P. and Haryana	22,737.22	37.89
2.	Mumbai	Maharashtra, Dadra & Nagar Haveli, Daman & Diu	12,862.00	21.44
3.	Ahmedabad	Gujarat	7,445.41	12.41
4.	Chennai	Tamil Nadu, Pondicherry	2,112.16	3.52
5.	Bangalore	Karnataka	1,693.79	2.82
Total of Above			46,850.58	78.08

Source : SIA, Newsletter, Annual Issue, 2013.

The regions which have attracted maximum FDI equity inflows in telecommunication Sector are shown in Table 3. The major share in FDI inflows is attracted by New Delhi region i.e. 37.89% during the time period 2000 to 2013. It was followed by Mumbai, Ahmedabad, Chennai and Bangalore. The respective shares of these sectors in the total FDI equity inflows in this sector are 21.44%, 12.41%, 3.52% and 2.82% respectively. These five regions attracted 78.08% of the total FDI equity inflows in this sector. The preference of the investors for these regions is due to the availability of excellent infrastructure, availability of skilled workforce, various incentives offered by the Government and large market size. On the pattern of these regions, efforts should be made to develop other regions also so that a balanced growth of all the regions may be carried out.

6. CONCLUSION

The telecommunication sector is the core sector of an economy. This sector is the indicator of the progress of a nation. India has witnessed a paradigm shift in telecommunication sector but still it

has to go a long way in this sector to provide its advantage to all the Indians. An attempt has been made to analyse the FDI inflows in the telecom sector and to examine various factors which led to the growth of this sector. The present study relates to the time period 2000-2013. It has been disclosed by the study that FDI equity Inflows into telecommunication sector in India have increased from Rs. 685.54 crores in the year 2000 to 1,770 crores in the year 2013. This sector is mainly dominated by Mauritius and followed by Singapore, Russia, Japan and U.S.A. The major share in FDI inflows in this sector is attracted by New Delhi region. No doubt much progress has been made in urban areas and metros in the telecommunication sector but still there exists a lot of scope for this sector in semi urban and rural areas where still people are deprived of the benefits of revolution in this sector. The Governments are making popular announcements in this regard but on the ground level much has not been done. The investors should be properly guided so that they may invest in the right area to reap the benefits of their investment and also help the Indian people to raise their standard of living.

REFERENCES

1. Acharya, Rekha and Patel, Ranjana (2012), "Technology Transfer, FDI and Economic Growth in Telecomm Sector: A Review", *Shiv Shakti International Journal in Multidisciplinary and Academic Research*, 1:4, 1-11.
2. Akhtar, Gulshan (2013), "Inflows of FDI in India: Pre and Post Reform Period", *International Journal of Humanities and Social Science Invention*, 2:2, 1-11.
3. Chia, Solomon Hembraor and Ogbaji, Eka Oche (2013), "Impact of Foreign Direct Investment on Telecommunication Sector on Nigerian Economy", *International Journal of Modern Social Sciences*, 2:3, 195-215.
4. Falki, Nuzhat (2009), "Impact of Foreign Direct Investment on Economic Growth in Pakistan", *International Review of Business Research Papers*, 5:5, 110-120.
5. Gopika, G. G. (2014), "Foreign Direct Investment Policies in the Liberalised Telecom Sector of India- A Review", *International Journal of Business and Management Invention*, 3:3, 1-8.
6. Government of India (2013), Secretariat of Industrial Assistance (SIA) *Newsletter*, Annual Issue, New Delhi.
7. Government of India, Secretariat of Industrial Assistance (SIA) *Newsletter*, Various Issues, New Delhi.
8. Goyal, Dimple and Jain, Ritu (2014), "Impact of FDI on Indian Economy", *Abhinav International Monthly Refereed Journal of Research in Management & Technology*, 3:1, 88-94.
9. Lin, Chun Hung (2008), "Role of Foreign Direct Investment in Telecommunication Industries: A Developing Countries' Perspective", *Contemporary Management Research*, 4:1, 29-42.
10. Preetha, G. (2011), "Foreign Direct Investment in the Indian Telecommunication Sector- An Overview", *Zenith International Journal of Multidisciplinary Research*, 1:8, 107-116.
11. Raju, K.S.S. Rama (2010), "Why the Global Meltdown not affected FDI segment in India", *Journal of Contemporary Research in Management*, 5:4, 113-126.
12. Shapiro, Robert J. (2011), "Foreign Direct Investments in Developing Nations: Issues in Telecommunications and the Modernization of Poland", retrieved from http://www.sonecon.com/docs/studies/Poland_Report-Final.pdf.

Websites :

1. <http://www.ibef.org/industry/telecommunications.aspx>
2. <http://www.investindia.gov.in/telecommunications-sector>
3. <http://www.dot.gov.in/about-us/telecom-glance>.