

## FOREIGN DIRECT INVESTMENT IN THE INDIAN TELECOMMUNICATION SECTOR: AN APPRAISAL IN THE LIBERAL SCENARIO

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### **ABSTRACT**

FDI Foreign Direct Investment (FDI) means “investment into the business of a country by a company in another country”. The telecommunication sector of India which was under huge debt of more than Rs250, 000 crores, has got relief as Telecom Commission has approved to raise the Foreign Direct Investment (FDI) cap from 74 percent to 100 percent. The Ministry of Commerce & Industry has taken this important decision in order to encourage foreign investors to invest in the India telecom sector. The telecom sector of India has received FDI of US\$ 12,500 million in last 13 years which contributes 7% of overall FDI inflow.

In this backdrop, the present paper is an attempt to know the Government initiatives, opportunities available for FDI, investment scenario of FDI and its relationship with economic development in India as a developing country. The growth of FDI in telecommunications is significant enough as compared to the other sectors, especially it can also be said the cellular mobile and basic telephone service have significant contribution in the total FD inflows in telecommunication sector. In this context, Mauritius plays a prominent role towards contributing FDI in Indian telecommunication sector. Provision of telecom services to the rural areas in India has been recognized as another thrust area by the Government which also helps for the enormous opportunities in this sector. Therefore, telecom sector in India is one of the fastest growing sectors in the country and has been zooming up the growth curve at a feverish pace in the past few years. Although, FDI brings huge economic benefits but India as a developing country have still fear that by opening up markets to competition and foreign investment without any

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restrictions, they will lose control of their strategic industries. However, a stable, transparent and non-discriminatory regulatory system is the best way to attract more foreign investment.

**Key Words: FDI, US\$, Telecommunication Sector.**

## THE BACKGROUND

The Indian telecommunications industry is one of the fastest growing in the world. Government policies and regulatory framework implemented by Telecom Regulatory Authority of India (TRAI) have provided a conducive environment for service providers. This has made the sector more competitive, while enhancing the accessibility of telecommunication services at affordable tariffs to the consumers. The Indian telecom sector has witnessed tremendous growth over the past decade. Today, the Indian telecom network is the second largest in the world after China. A liberal policy regime and involvement of the private sector have played an important role in transforming this sector.

Foreign Direct Investment (FDI) means “investment into the business of a country by a company in another country”. Mostly, the investment is into production by either buying a company in the target country or by expanding operations of an existing business in that country”. Such investments can take place for many reasons, including taking advantage of cheaper wages, special investment privileges offered by the country.

The telecommunication sector of India which was under huge debt of more than Rs. 250, 000 crores, has got relief as Telecom Commission has approved to raise the Foreign Direct Investment (FDI) cap from 74 percent to 100 percent. The Ministry of Commerce & Industry has taken this important decision in order to encourage foreign investors to invest in the Indian telecom sector. The telecom sector of India has received FDI of US\$ 12,500 million in the last 13 years which contributes 7% of overall FDI inflow. However, FDI in segments like radio paging, telephone and cellular mobile services has declined by more than 80% because of strict regulatory environment and economic slowdown in the country.

## REVIEW OF LITERATURE

Some of the notable studies that are available in this sector are briefly outlined as follows:

1. Chennappa. D (2005), in his research paper discussed about FDI in Telecom sector in India. The researcher opined that among the listed countries, most of them allowed FDI after the tele-density and the per-capita incomes had gone up to certain levels. When compared to them, India lagged behind on both tele-density and per- capita income levels. Therefore, India needed to strengthen the domestic manufacturing units and niche market.
2. Chennappa D (2005), in his article on “FDI in India” stated that the higher FDI had led to the increase of urban tele-density. He suggested that liberal entry policy of FDI could go long way in encouraging foreign investment in infrastructure but not hacking the FDI cap from 74 per cent to 100 percent. He was also of the opinion that liberalization with foreign equity (FDI) had led to the reduction of tariff significantly in mobile and long distance services.
3. Preetha (2011), in his study paper on “FDI in Telecom Sector” presented an overview of FDI in Indian Telecom sector. The paper examined the current status of FDI in the Indian telecommunication sector and the issues facing foreign companies, seeking to invest in the Indian telecommunication sector. The study concluded with a brief economic examination of the factors influencing the level of FDI.

## OBJECTIVE OF STUDY

The principal objective of the study is to assess the foreign direct investment in Indian telecommunication in the liberal scenario. To attain this principal objective, the following sub-objectives are sought to be achieved:

1. To examine the Government initiatives for encouraging FDI in Indian telecom sector.
2. To examine the opportunities available for foreign investors to invest in Indian telecom sector.
3. To examine the investment scenario of FDI in Indian telecommunication sector.
4. To understand the relationship between FDI in telecommunication and economic development of India as a developing country.

## RESEARCH METHODOLOGY

To attain the above stated objectives, secondary data have been used. Different international agreements and various Government reports are analyzed. Rural and Urban performance in telecom sector are studied. FDI Guidelines in this sector has been analyzed in order to find out the implications on the growth of this industry. The methodology of the study also includes compilation of research article of the experts in this field and reflections of the various books on FDI. The production of telecom equipment and export has been studied for a span of twelve years from 2000 to 2012.

## GOVERNMENT INITIATIVES TO ENCOURAGE FOREIGN DIRECT INVESTMENT IN INDIAN TELECOM SECTOR

1. 100 percent FDI will be allowed in telecom sector, out of which 49 percent can be done through automatic route and in order to raise further stake, permission from Foreign Investment Promotion Board (FIPB) will be required. The key objective behind increasing FDI cap in telecom industry is to help the sector to get fresh investment inflow in order to lower its financial burden.
2. In order to provide a transparent policy framework and clear roadmap in telecom sector, the Indian Government has reviewed all telecom policies through consultative process and released the Network Time Protocol (NTP) in the year 2012.
3. NTP endeavors to produce an investor friendly environment for attracting foreign investment in telecom sector and offers clear guidelines to address all the regulatory and policy issues for the betterment of the sector.
4. A separate policy named Preferential Market Access (PMA) is also being revised. The policy will make it obligatory for telecom companies in India to utilize all the equipments which are made indigenously.
5. The Government of India has offered better growth opportunity to foreign telecom companies by permitting them to do business in India without any domestic partner and this decision will tempt the foreign players to invest in India.
6. In order to perform consolidation and attract new foreign players in the telecom sector, the Indian Government has delivered a comprehensive framework which offers clarity on key regulatory issues.

7. Earlier, there was no pricing policy and lack of clarity in terms of the allotment of ratio bandwidth among telecom companies. But, since the ratio bandwidth and pricing issues are already being resolved, there will be major impetus for fresh foreign investment.
8. Recently, strict measures have been followed by the Indian Government to cope with privacy concerns which may arise in the telecom sector if foreign players are allowed 100% equity participation.

### **OPPORTUNITIES AVAILABLE FOR FOREIGN INVESTORS TO INVEST IN INDIAN TELECOM SECTOR**

1. As of now, foreign companies are allowed to take part in spectrum auctions organized by Department of Telecommunications (DOT), but they can start services only if they obtain 26 percent equity in an Indian entity.
2. An increase in FDI limit will not only facilitate the foreign inflow but also encourage foreign players to access lower cost financing options available in the sector. Foreign players will get flexibility to infuse equity on the basis of their needs rather than following the standard debt route in order to fund their growth. This will also lower the overall burden on foreign companies and help them to increase their long-term profitability. The 100% FDI in Indian telecom sector will also help to enhance the overall valuation of company stakeholders.
3. The foreign telecom majors who are running their business in India while having dispute with their Indian partners will be able to buy out Indian companies and they can easily start their new operations in India in a healthier mode. Some global giants like Sistema, Maxis, Telnor and domestic companies like Reliance Communication have welcomed this reform.
4. The regulatory clarity in the telecom sector will also offer the industry a very clear investment direction. According to the recently conducted analysis, Indian telecom sector would need more than \$10 billion in next 5-10 years in order to restore sufficient growth and this will help foreign investors to tap the hidden potential in the telecom industry.

### **FDI IN TELECOMMUNICATION SECTOR IN INDIA**

Cumulative FDI equity inflows received during January 2000 to December 2012 were Rs. 568,246.20 crores (US\$ 127.00 billion). Out of this, the amount of FDI inflows in the

telecommunication sector during January 2000 to December 2012 is Rs. 46,553.00 crores (US\$ 10.22 billion) which is 8.05% of the total FDI inflows. (Table - 1).

**Table - 1: SUB-SECTORS OF FDI EQUITY INFLOWS IN INDIAN TELECOMMUNICATION SECTOR (from 2000 to 2012)**

Sub-Sectors	Amount of FDI Inflows		%age with total FDI Inflows
	Rupees in Crores	US \$ in Million	
Telecommunications ( Basic )	15,371.08	3,440.91	2.71
Radio Paging	27.30	5.93	0.00
Cellular Mobile / Basic Telephone Services	29,124.38	6,341.13	4.99
Others (Telecom)	2,030.25	431.55	0.34
Total of above	46,553.00	10,219.52	8.05

Source: Department of Industrial Policy and Promotion, Govt. of India

**Chart-1**

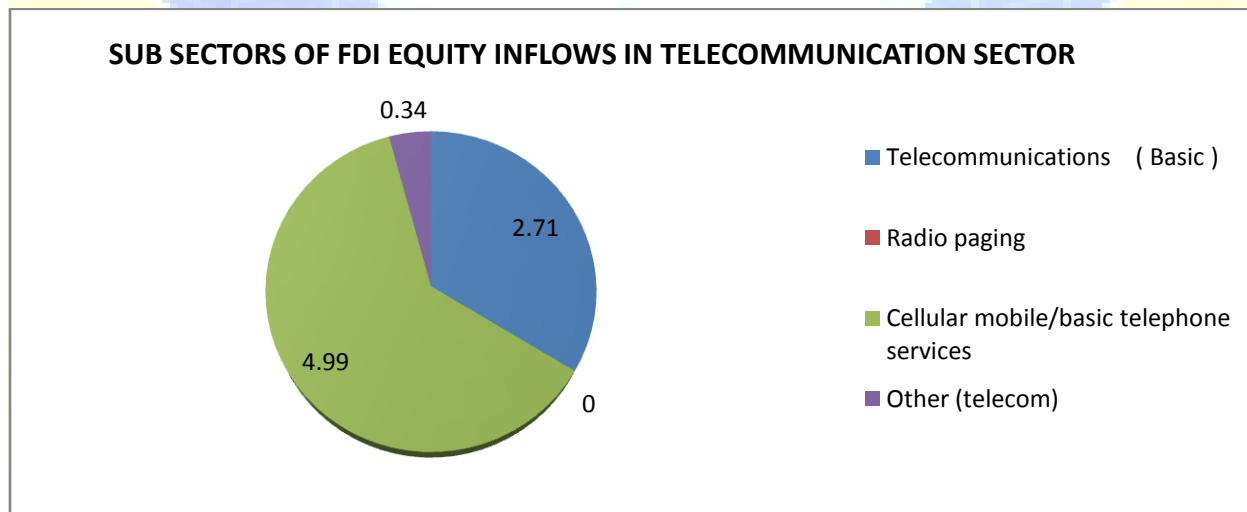


Table-1 & Chart-1 shows the segregation of FDI inflows in different sub-sectors of telecommunication industry in India and it can be said that the basic telecommunication and cellular mobile have significant contribution in the total FD inflows in telecommunication sector. These FDI investments are shared by basically five countries which in shown in Table 2 below.

**Table - 2: SHARE OF TOP FIVE COUNTRIES ATTRACTING FDI INFLOWS IN TELECOMMUNICATION SECTOR (from 2000 to 2012)**

Ranks	Country	Amount of FDI Inflows		%age with total FDI Inflows
		Rs. in Crores	US \$ in Million	
1	Mauritius	30,880.32	6,838.06	66.91
2	Singapore	6,740.20	1,451.66	14.20
3	Russia	1,902.39	394.48	3.86
4	Japan	1,532.19	313.65	3.07
5	U.S.A	1,097.80	243.24	2.38
	Total of above	42,152.90	9,241.09	90.42

Source: Department of Industrial Policy and Promotion, Govt. of India

Table-2 shows that Mauritius has the highest contribution to FDI in telecommunication industry in India following by Singapore. Though Russia, Japan and, USA have some contribution to FDI, the results are not encouraging. Other countries have some contributions which is less than 1 % but in total it is 9.58%. The status of telecommunication sector attracting highest equity inflows are presented in Table-3 below.

**Table - 3: SECTOR ATTRACTING HIGHEST EQUITY INFLOWS (from 2000 to 2012)**

Sector	Cumulative FDI ( Rs. in Crores)	% in Total FDI
Service Sector	145764	19
<b>Telecommunication Sector</b>	<b>57078</b>	<b>7</b>
Construction Sector	52253	7
Computer Software & Hardware	50118	7
Housing & Real Estate	49717	7
Chemical	47904	6
Drugs and Pharmaceuticals	42868	5
Power	33214	4
Automobile Industry	30785	4

Metallurgical Industries	26936	4
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Source: Department of Industrial Policy and Promotion, Govt. of India

Chart - 2

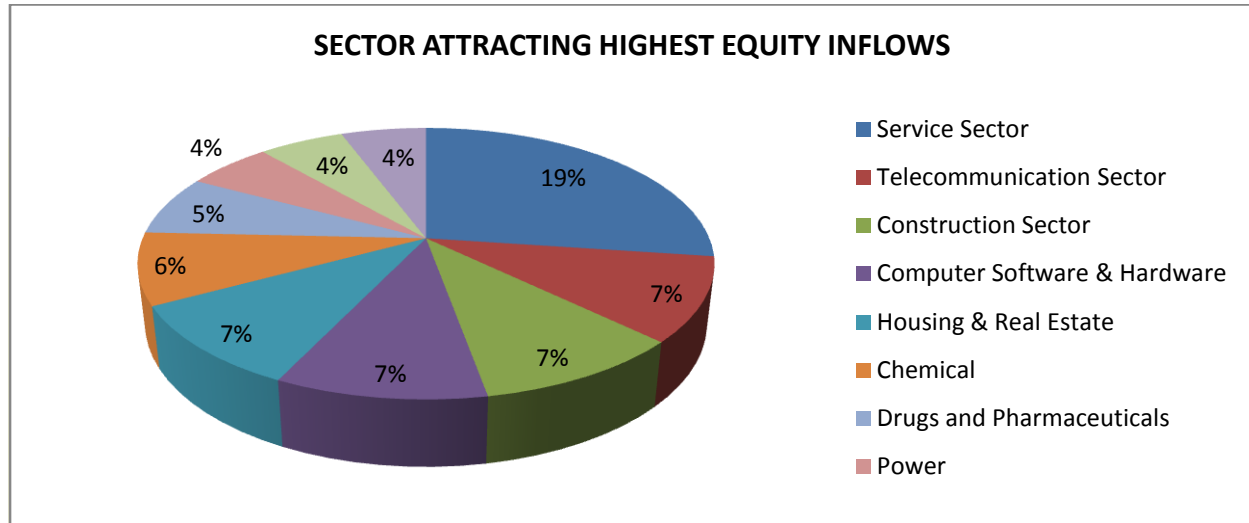


Table-3 & Chart-2 reveals that telecommunication sector contributes 7% of total FDI which is second in terms of the positions of the other sectors. So, it can be said that the telecommunication sector have played a significant role in FDI growth and overall growth of the industry.

### Major findings from the reports of FDI in Telecommunication Sector

- At present, 74% to 100% FDI is permitted for various telecom services. 100% FDI is permitted in the area of telecom equipment manufacturing and provision of IT enabled services. This has made telecom one of major sectors attracting FDI inflows in India.
- For Basic and cellular, Unified Access Services, National / International Long Distance, V-Sat, Public Mobile Radio Trunked Services (PMRTS), Global Mobile Personal Communications Services (GMPCS) and other value added telecom services - FDI up to 74% (including FDI, FII, NRI, FCCBs, ADRs, GDRs, convertible preference shares, and proportionate foreign equity in Indian promoters/ Investing Company) is permitted.
- For manufacture of Telecom Equipments - FDI up to 100% is allowed through automatic entry route.



- The Telecom Regulatory Authority of India (TRAI) encourages competition in the telecom sector together with better quality and affordable prices in order to meet the objectives of New Telecom Policy, 1999.
- The Department of Telecommunications (DOT) under the Ministry of Communications and Information Technology is the concerned authority for all matters relating to telecom. The department is responsible for formulating the developmental policies; granting licenses for various telecom services; promoting standardization, research and development as well as private investment in the sector.

### **FDI ON TELECOMMUNICATIONS AND ECONOMIC GROWTH OF INDIA**

Investment in telecommunications is a prerequisite for broad based economic development. The dual role of telecommunications as both a traded service and a vehicle for trade in other service sectors means that price reductions, improvements in the level of investment and the development of infrastructure and services brought about by liberalization should also have an impact on other sectors of the economy. In addition, efficient, low-cost telecommunication networks will provide the necessary platform for the growth of electronic commerce. The implementation of liberalized telecommunication investment should produce significant benefits not only within the country's telecommunication sector but also for the national economy as a whole. The opening of telecommunication markets has facilitated the entry of domestic and foreign private capital and technological skills that have in turn accelerated network build-out, the provision of new services and improvements in the quality of service. Market liberalization also has a profound effect in promoting development in other sectors such as information technology and computing, which depend heavily on good, reliable and low-cost telecommunications. Economic development in these sectors indeed has been constrained in many countries because of the lack of an adequate telecommunication infrastructure to service them. Inadequate telecommunications also reduces efficiency throughout the economy, diminishes the effectiveness of investments and development programs, causes a Contemporary Management Research comparative disadvantage in attracting investment, and lowers the quality of living standard as well as personal access to communication. The evidence leaves no doubt that there was indeed a correlation between economic development and investment on telecommunications. Throughout economic developmental history, telecommunication

infrastructure has played an important role in supporting the economic development of countries. There are numerous documented examples about the direct relationship between investment in telecommunication infrastructure and economic growth. The growth of global telecommunication development will bring rapid expansion of new and advanced information services, attract more domestic and foreign investments, and improve economic development and global competitiveness, as well as a better living standard of health care and education.

## EPILOGUE

From the above analysis, it can be said that there are many positive implications of foreign investment in telecommunications. One of the major impacts foreign investments is the creation of necessary infrastructure. The growth of FDI in telecommunications is significant enough in comparison to the other sectors, especially the cellular mobile and basic telephone service have significant contribution in the total FD inflows in telecommunication sector. Mauritius as country has played a prominent role in contributing FDI in Indian telecommunication sector. In a nutshell, it can be said that telecommunication is playing an important role towards the inflow of FDI as compared to the other sectors. Provision of telecom services in the rural areas of India has been recognized as another thrust area by the Government which also helps for enormous opportunities in this sector. Therefore, telecom sector in India is one of the fastest growing sectors in the country and has been zooming up the growth curve at a feverish pace in the past few years. So, the Govt. should take necessary steps to facilitate the growth process in this sector. The study shows that there was indeed a correlation between economic development and investment in telecommunications. FDI brings the promotion of economic growth, the obtainment of technology transfer and the creation of employment. Although, FDI brings huge economic benefits, many countries are still only partially open to foreign investment.

In finale, it may be concluded that India as a developing country has still fear that by opening up markets to competition and foreign investment without any restrictions; they will lose control of their strategic industries. However, a stable, transparent and non-discriminatory regulatory system is the best way to attract more foreign investment for growth and development of the telecommunication industry.

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