

## A study of foreign direct investment in the Indian telecommunication industry

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### Abstract

The present study is an attempt for understanding the trend of FDI inflow in the telecommunication sector of Indian economy. It focuses on the role played by Foreign Direct Investment (FDI) in the development of the Telecommunications sector. FDI in services responds well to openness especially when it comes to the telecommunications sector. This is quite evident looking at the recent boom in the Indian Telecommunication sector. Further liberalization of services involves potential advantages for Indian economy. Benefits can arise from increased competition, lower prices, and better quality of services. FDI in services like Telecommunications provide key inputs to other productive activities that lead to further investment and competitiveness of an economy. Efforts should be made towards attracting efficiency seeking FDI through a right policy that expands operation, improve local skills, establish linkages and upgrade technology.

**Keywords:** FDI, telecommunications sector, liberalization, Indian economy

### 1. Introduction

FDI FULL FORM is Foreign Direct Investment. It is an investment in a business by a company in another country. It is a controlling ownership in a business by an entity that is in another country. In India, FBI was introduced in 1991 under FEMA (Foreign Exchange Management Act) that is made by finance minister Mr. Manmohan singh. Foreign direct investment (FDI) is direct investment into production in a country by a company located in another country, either by buying a company in the target country or by expanding operations of an existing business in that country. Foreign direct investment is done for many reasons including to take advantage of cheaper wages in the country, special investment privileges such as tax exemptions offered by the country as an incentive to gain tariff-free access to the markets of the country or the region. Foreign direct investment is in contrast to portfolio investment which is a passive investment in the securities of another country such as stocks and bonds.

*According to the International Monetary Fund, foreign direct investment, commonly known as FDI, "... refers to an investment made to acquire lasting or long-term interest in enterprises operating outside of the economy of the investor." The investment is direct because the investor, which could be a foreign person, company or group of entities, is seeking to control, manage, or have significant influence over the foreign enterprise.*

In the year 1991 the Government of India put forward liberalization policies. This affected the telecom sector also with a hike in competition rate-especially in the case of cellular services, which can capture the attention of various foreign investors. Foreign ownership in telecom in India came in with the 1994 tender for basic and cellular services through which the private parties were to be given licenses for various telecom circles. Telecommunication has been recognized world-over as an important tool for socio-economic development for a nation

and plays a phenomenal role in growth and modernization of various sectors of the economy. Over the last few years, Indian telecom market has shown overwhelming growth thanks to domestic demand, policy initiatives undertaken by the government and admirable efforts by the players of the industry and in the process, has managed to emerge as one of the youngest and fastest growing economies in the world today. Factors like regulatory liberalization, structural reforms and competition played a very important part in this rapid transformation.

The fact that India is one of worlds fastest growing telecom markets in the world, has acted as the primary driver for foreign and domestic telecommunication companies investing into the sector. It is also recognized as one of the most lucrative markets globally, resulting in massive investments being made in the sector both by the private and government sector in the last decade. The telecom industry has witnessed significant growth in subscriber base over the last decade, with increasing network coverage and a competition-induced decline in tariffs acting as catalysts for the growth in subscriber base. The growth story and the potential have also served to attract newer players in the industry, with the result that the intensity of competition has kept increasing.

### 2. Objective of the study

- 1) To find out the status of telecom sector in India.
- 2) To know the FDI policies in Telecommunication Industry of India.
- 3) To analyse the sector wise, year wise and countries wise FDI in Indian Telecommunication Industry.

### 3. Research methodology

The study is based on secondary data collected from various sources like research journals, records of Department of Telecommunication, Annual reports, etc. The period of study

covers from the years from 2000– 2015. Through this study, India’s FDI policy in telecom sector, FDI inflows in telecom sector from various countries and in various telecom sectors were also analyzed.

### 3.1 Status of telecom sector in India

Telecommunication has been recognized the world-over as a powerful tool of development and poverty reduction through empowerment of masses. It is one of the key enabler for 'inclusive and sustainable' growth and in areas of poverty reduction, employment generation, gender equity, balanced regional development and special protection for vulnerable sections of the society. Indian telecommunication sector has emerged as a strong growth engine for the Indian economy in the last decade with the country witnessing tremendous growth in wireless sector. The penetration of internet and broadband has also improved. The Government of India approved a project for creation of National Optical Fiber Network for connecting 2.5 lakh Gram Panchayats with support from Universal Service Obligation Fund (USOF). The proposed National Telecom Policy, under finalization in consultation with various stakeholders is a step forward for bringing rapid and equitable growth of this sector.

Indian Telecommunication sector maintained the impressive growth rate during the current year. Indian telecom network has 926.55 million connections at the end of December'11 with 893.86 million wireless connections and is the second largest network in the world after China. The one billion mark also appears to be achievable. The penetration of internet and broadband has also improved with 20.99 million internet subscribers and 13.30 million broadband subscribers across the country. The future progress of telecommunication in our country is very encouraging as operators have started rolling out the wireless broadband networks in the country and soon the services are expected to be available in the entire country. The present status of telecom sector as:

- Indian Telecom market is one of the fastest growing markets in the world.
- With its 926.55 million Telephone connection, it is the second largest network.
- The country is poised to achieve 1 billion telephone connections.
- Telephones are 96.47% of the total phones. The share of private sector in total telephones is 86.09%.
- Whereas rural Tele-density is at 37.52% which is also steadily increasing. Broadband connections increased to 13.30 million.

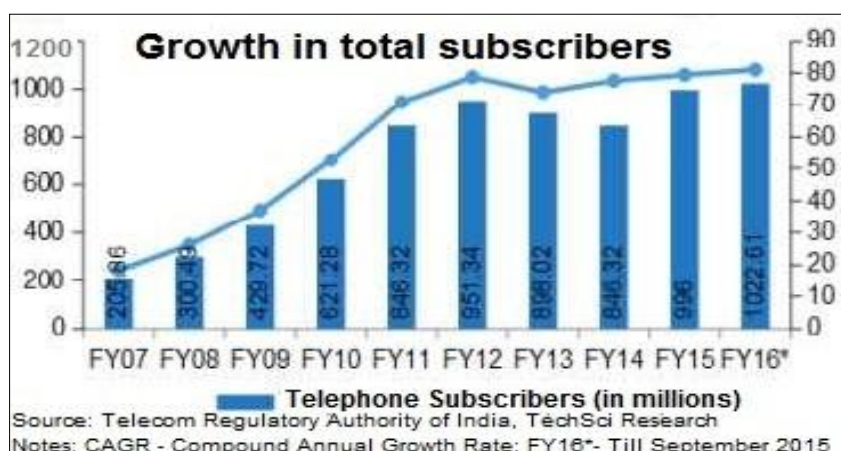


Fig 1

- Telecom subscriber base expands substantially: India is currently the second-largest telecommunication market and has the third highest number of internet users in the world, Between FY 07-16\* India’s telephone subscriber base

expanded at a Compound Annual Growth Rate (CAGR) of 19.5 per cent to 1,022.61 million and teledensity to 80.98, In September 2015, total telephone subscription stood at 1,022.61 million, while teledensity was at 80.98 percent.

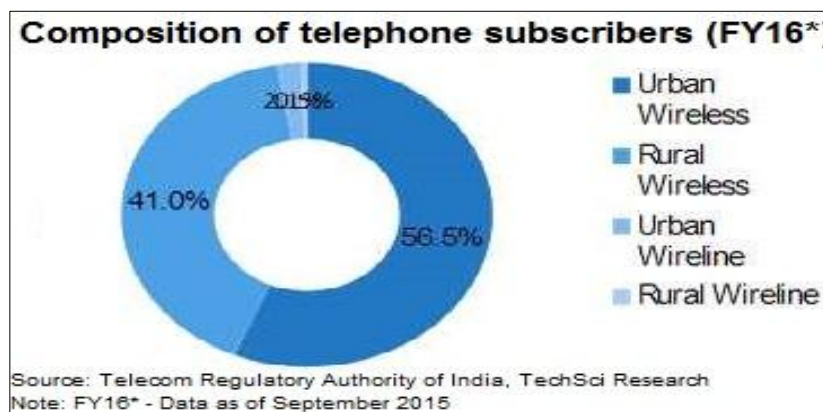


Fig 2

- Wireless segment dominates the market: India’s telephone subscriber base reached 1,022.61 million in September 2015. The wireless segment (97.46 per cent of total telephone subscriptions) dominates the market, while the wire line segment accounts for the rest, urban regions account for 58.58 per cent of telecom subscriptions, while rural areas constitute the remaining.

**3.2 Foreign direct investments policy**

India has lived up to its image of being one of the most

attractive foreign direct investments (FDI) destinations. FDI has been one of the main drivers of continuous growth in the Indian telecom sector. In 2005, the government decided to increase the limit in the telecom sector to 74% from 49%. Additionally, the government has permitted 100% FDI in the areas of telecom equipment manufacturing and provision of IT enabled services. In the telecom sector, FDI up to 49% was allowed under automatic route and beyond that up to 74% was permitted through the Foreign Investment Promotion Board (FIPB), a government body.

**Table 1: FDI Policy in Telecommunication Industry**

Sector/Activity	FDI Cap/Equity	Entry Route
<b>Telecom Services (including Telecom Infrastructure Providers Category – I):</b> All telecom services including Telecom Infrastructure Providers Category-I, viz. Basic, Cellular, Unified Access Services, Unified license (Access services), Unified License, National/ International Long Distance, Commercial V-Sat, Public Mobile Radio Trunked Services (PMRTS), Global Mobile Personal Communications Services (GMPCS), All types of ISP licenses, Voice Mail/Audiotex/UMS, Resale of IPLC, Mobile Number Portability services, Infrastructure Provider Category – I (providing dark fiber, right of way, duct space, tower) except Other Service Providers.	100 %	Automatic up to 49%. FIPB beyond 49%.
<b>Other conditions:</b> FDI up to 100% with 49% under automatic route and beyond 49% through FIPB route subject to observance of licensing and security conditions by licensee as well as investors as notified by the Department of Telecommunications (DOT) from time to time.		

Source: <http://www.dot.gov.in/fdi-policy-telecom>

**i) Year-wise FDI inflows**

**Table 2: Statement on financial year wise FDI equity inflows From April 2000 to December 2015**

S. No.	Year	FDI in Rs million	FDI in US\$ million
1.	2000-01 Apr-Mar	7841.59	177.69
2.	2001-02	39384.61	873.23
3.	2002-03	9077.31	191.60
4.	2003-04	3978.4	86.49
5.	2004-05	5411.41	118.33
6.	2005-06	27514.50	617.98
7.	2006-07	21495.77	476.51
8.	2007-08	50995.61	1260.70
9.	2008-09	116848.11	2548.63
10.	2009-10	122696.62	2539.26
11.	2010-11	75420.44	1664.50
12.	2011-12	90115.26	1997.24
13.	2012-13	16543.04	303.87
14.	2013-14	79872.83	1306.95
15.	2014-15	173718.22	2894.94
16.	2015-16 Apr-Dec	69359.91	1071.88
17.	Grand Total	910,273.22	18,129.83

Source: <http://www.dot.gov.in/fdi-policy-telecom>

Note: Amount includes the inflows received through SIA/FIPB route, acquisition of existing shares and RBI’s automatic route. The industry has excellent future prospects, but can re-attract

investors only if it can create stable long term policies and Conducive atmosphere for Government and industry to work as partners – not as adversaries.

**ii) Sector-wise FDI inflows**

**Table 3: Statement on sub-sector-wise FDI equity Inflows for Telecommunications from April 2000 to December 2015**

S. No	Sector	Amount of FDI Inflows		%age of Total Inflows
		(In Rs million)	(In US\$ million)	
1.	Telecommunications	307,711.22	6,175.25	2.22
2.	Radio paging	272.98	5.93	0.00
3.	Cellular mobile/basic telephone services	300,249.07	6,525.26	2.35
4.	Other (telecom)	302,039.95	5,423.39	1.95
Sector Total		910,273.22	18,129.83	6.52

Source: <http://www.dot.gov.in/fdi-policy-telecom>

Note: Amount includes the inflows received through SIA/FIPB route, acquisition of existing shares and RBI's automatic route. The Table NO.3 shows that cellular mobile and basic telephone

services have attained Rs. 300,249.07 million; The FDI inflows in Radio paging are Rs. 272.98 million in 2015 respectively.

### iii) Country-wise FDI inflows

**Table 4:** Statement on country-wise FDI equity inflows From April 2000 to December 2015 sector Telecommunications

S. No	Name of the Country	Amount of Foreign Direct Investment Inflows		%age with Inflows
		(In Rs million)	(In US\$ million)	
1.	Mauritius	584,364.85	11,880.41	65.53
2.	Singapore	186,189.44	3,394.68	18.72
3.	Russia	46,027.47	846.54	4.67
4.	U.S.A	15,624.59	325.49	1.80
5.	Japan	15,682.62	320.53	1.77
6.	Cyprus	11,920.60	253.83	1.40
7.	United Kingdom	11,552.07	250.81	1.38
8.	Country Details Awaited	8,018.28	181.61	1.00
9.	Germany	4,231.64	100.17	0.55
10.	Netherlands	4,536.77	97.02	0.54
11.	NRI ***	3,330.07	77.02	0.42
12.	UAE	3,926.31	74.57	0.41
13.	British Virginia	2,343.53	49.44	0.27
14.	Australia	1,903.38	42.19	0.23
15.	Spain	1,745.41	39.53	0.22
16.	Hong Kong	1,185.70	26.03	0.14
17.	South Korea	958.40	20.73	0.11
18.	Thailand	737.81	17.14	0.09
19.	France	708.50	17.04	0.09
20.	Sweden	675.98	15.66	0.09
21.	Italy	619.80	13.90	0.08
22.	New Zealand	568.86	12.31	0.07
23.	Caymen Islands	530.50	11.60	0.06
24.	Switzerland	476.97	10.38	0.06
25.	South Africa	407.75	8.44	0.05
26.	British Isles	331.49	7.30	0.04
27.	Finland	313.25	6.61	0.04
28.	The Bermudas	260.14	5.77	0.03
29.	Taiwan	208.26	4.58	0.03
30.	Maldives	196.07	4.37	0.02
31.	Saudi Arabia	105.51	2.10	0.01
32.	Bahamas	96.71	1.93	0.01
33.	Kuwait	63.83	1.37	0.01
34.	Canada	81.48	1.34	0.01
35.	Malaysia	59.98	1.13	0.01
36.	Chile	45.00	1.00	0.01
37.	Seychelles	34.88	0.87	0.00
38.	Czech Republic	31.66	0.71	0.00
39.	Israel	28.30	0.60	0.00
40.	Qatar	29.90	0.54	0.00
41.	Korea(North)	21.54	0.45	0.00
42.	China	19.39	0.36	0.00
43.	Greece	13.85	0.31	0.00
44.	Liechtenstein	12.00	0.30	0.00
45.	Ireland	13.29	0.30	0.00
46.	Luxembourg	12.23	0.27	0.00
47.	Bulgaria	6.33	0.14	0.00
48.	Uruguay	8.13	0.14	0.00
49.	Sri Lanka	4.73	0.10	0.00
50.	Philippines	3.80	0.08	0.00
51.	Turkey	2.45	0.05	0.00
52.	Belgium	0.87	0.02	0.00
53.	Denmark	0.40	0.01	0.00
54.	Baharain	0.30	0.01	0.00
55.	Norway	0.10	0.00	0.00
56.	Oman	0.05	0.00	0.00

57.	Bermuda	0.00	0.00	0.00
58.	Scotland	0.00	0.00	0.00
59.	Austria	0.00	0.00	0.00
60.	Indonesia	0.00	0.00	0.00

*Source:* <http://www.dot.gov.in/fdi-policy-telecom>

*Note: Amount includes the inflows received through SIA/FIPB route, acquisition of existing shares and RBI's automatic route. The table shows that Mauritius possesses the first position in the investment for the period April 2000 to Dec. 2015.*

#### 4. Conclusion

India is the fastest growing free market democracy in the world. India's emergence as a leading destination for foreign investment is considered as the result of stable economic outlook, large market potential, large talent pool, and low labour cost. In the view of policy-makers regulators, a conducive and competitive climate for foreign investment can facilitate the capital investment required for building telecom infrastructure. The Indian telecom industry has always allured foreign investors. In fact, the cumulative FDI inflows from 2000-01 Apr-Mar to 2015-16 Apr-Dec, in telecommunication sector amounted to US \$. 18,129.83millions. this makes telecommunication the third largest sector to attract FDI in India in the post liberalization era. The investment was majorly in handset manufacturing and telecom services. With stable macro-economic impetus and numerous other advantages, India has the potential to become the electronic manufacturing hub of the world. With the world now recognizing India's manufacturing potential, the Indian telecom handset manufacturing market is likely to touch a huge amount in the coming years.

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