

## **IMPACT OF FOREIGN DIRECT INVESTMENT IN TELECOMMUNICATION SECTOR IN INDIA**

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### **ABSTRACT**

India is currently the world's 2nd largest telecommunications market with a subscriber base of 1.2 billion and has registered strong growth in the past decade and half. The industry has witnessed exponential growth over the last few years primarily driven by affordable tariffs, wider availability, roll out of Mobile Number Portability (MNP), expanding 3G and 4G coverage, evolving consumption patterns of subscribers and a conducive regulatory environment. The number of smartphone users in India crossed the 300 million mark in 2016, making it the largest smartphone market in the world. Total number of Subscriber Identity Module (SIM) connections is expected to reach 1.4 billion by 2020 from 1.1 billion in 2017. The Indian mobile economy is growing rapidly and will contribute substantially to India's Gross Domestic Product (GDP), according to report prepared by GSM Association (GSMA) in collaboration with the Boston Consulting Group (BCG). As of January 2019, India has witnessed a 165% growth in app downloads in the past two years. 100% FDI in telecommunications sector is allowed in the Telecom, wherein up to 49% is allowed through the automatic route and beyond 49% FDI in telecom sector under government route. This article will examine the current status of foreign direct investment (FDI) in the Indian telecommunications sector and the issues facing foreign companies seeking to invest in the Indian telecommunications sector. The researcher concludes with a brief econometric examination of the factors influencing the level of FDI in the Indian telecommunications sector and discusses on the role of FDI in the development of telecom sector.

**Keywords:** FDI; Economic growth; Public and private sector; TRAI; MNP, GSMA.

### **INTRODUCTION**

Telecommunications is one of the fastest growing industries in India that has undergone an innovative phase over the past few years and stands as the second largest telecommunications market in the world after China. It is due to liberalization policy that telecom sector could attract more FDI flows in private sector participation increased in total telephone connections of the nation. This led the sector to competitive stimulus, high telecom penetration and substantial reduction in tariffs. Though foreign telecom players have been present in India for almost more than a decade with tremendous growth, the sector is yet to witness the expected vibrancy and infusion of innovative technologies. FDI in the telecom sector was initially allowed at 74%. It was subject to the condition that companies bringing in FDI shall obtain necessary license from the Telecom Regulatory Authority of India (TRAI) for undertaking telecom activities. By recent decision government of India did hike FDI ceiling from 74% to 100% through the Foreign Investment Promotion Board (FIPB) and Government's consolidated FDI Policy.

The sector is witnessing steady growth since the government has increased FDI in the telecom space to 100%. FDI in the telecom sector has jumped nearly five times in the past 3 years – from \$1.3 billion in 2015-16 to \$6.2 billion in 2017-18. However, FDI has plunged to \$2.6 billion in 2018-19.

The quantum and nature of FDI inflows depend on many factors and accordingly no specific reasons can be attributed for increase or decrease of inflows on year-to-year basis. There has been neither a regulatory uncertainty nor the lack of conducive environment to invest in the Telecom Sector which may be cited as a reason for the year-to-year decline in FDI. The telecom sector is facing financial stress due to stiff competition and reduction in tariffs. The country needs massive investment in developing newer technologies which could be accessible and affordable to the people and at the same time creates productive employment. The government is aiming the commercial rollout of fifth-generation or 5G services by the end of 2020. The newer technology is also expected to bring in potential investment in the country with an array of multinational expressing interest in the enterprise applications and utility services.

### **Benefits of FDI in Indian Telecom Sector**

1. Private participation has ensured that the best of services are provided to consumers at reasonable rates. Due to the increase in the number of telecom companies, the competition has enhanced consumer experience with the freedom of choice between these networks.
2. The Indian telecom sector is growing at a steady rate as more and more of the population becomes connected. The investment opportunities are immense since the subscriber base is showing healthy growth. Hence, for foreign investors, Indian telecom sector is a very attractive and promising one.
3. Private investment has also improved the allied telecom infrastructure. This has ensured maximum connectivity to the general population with telecom connectivity reaching all corners of the country.

### **FDI in Telecommunications Sectors**

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## **OBJECTIVES OF THE STUDY**

- To understand the impact of Telecom sector at both macro level and micro level.
- To analyse the variables impacting FDI on Telecom industry.
- To help the Telecom industry to understand specific improvement opportunities to overcome the issue in telecommunication sectors.
- To examine the trend of FDI inflows in India telecommunication sector.

## **Meaning and Economic Benefits of FDI**

Over the past two decades, FDI has been one of the most important driving forces for the world's economic growth. According to the US Department of Commerce, FDI is a direct investment which "implies that a person in one country has a lasting interest in, and a degree of influence over the management of, a business enterprise in another country." The US Commerce Department defines FDI as "ownership or control by a foreign person of 10 percent or more of an enterprise's voting securities or the equivalent," which is deemed enough to influence management decisions. At a Global Investment Forum hosted by the United Nations Conference on Trade and Development (UNCTAD), it was reported that "there was a strong feeling among ministers from some developing countries that more research and analysis was needed about the critical issues at stake in a multilateral framework on investment...and many speakers stressed the complexity of the issues related to the effects of economic policy liberalization on the quantity, quality and distribution of FDI, and its impact on development." Requiring sufficient economic information and abundant funds, foreign investment is always accompanied by higher risks. With such risks, foreign investment also comes with the possibility of much greater returns. Traditionally, foreign investment has been very closely related either with trade or with an international development agency. Most current foreign investment thus has either been the result of someone taking a huge risk or the result of an international organization such as the World Bank underwriting that risk. Meanwhile, international developmental agencies often pursue the more enlightened goal of helping countries develop properly rather than seeking the greatest return. The benefits of foreign investment include promoting economic growth, technology transfer and job-creation in the local economies.

It is assumed that exports would increase since a large part of exports is comprised of shipments from domestic companies to their foreign affiliates. Technology transferred from foreign investment projects will improve the efficiency of local firms as well. These effects become the major attractions for developing and underdeveloped countries seeking foreign investment. In addition, FDI can serve to integrate domestic markets into the global economic system far more effectively than could have been achieved only by traditional trade flows. The benefits from FDI will be enhanced in an open investment environment with a democratic trade and investment regime, active competition policies, macroeconomic stability and privatization and deregulation.

Under such conditions, FDI can play a key role in improving the capacity of a country to correspond to global economic integration and future national developmental strategies. In practice, the greater the openness and freedom toward FDI, the more economic reforms and potential benefits that receiving countries will reap.

Although FDI implicitly brings large economic benefits and potentially attracts numerous business opportunities, many countries are only partially open to foreign investment or even refuse business with foreign enterprises. Those countries believe they will be losing the control power over the local economy by inviting foreign investment. They often use performance requirements such as exporting requirements or technology transfer agreements to control the categories and sizes of FDI.

### **Meaning Of FDI in Telecommunications**

Foreign direct investment on telecommunications comprises the ability to establish a commercial presence in a foreign territory, or the purchase of telephone companies by foreign investors or joint ventures between local and foreign partners to establish new telecommunication service companies.

Historically, the opportunities for foreign investment in the telecommunication services sector have been limited by the fact that most countries had state-owned monopoly telecommunication carriers. Since 1984, however, forty-four Public Telecommunication Operators (PTOs) have been privatized raising 159 billion US dollars with about one-third of this investment coming from outside the home countries. Obviously, fueling the operation of old PTOs, foreign investment has gradually played a more important role in either domestic or international telecommunication market. For increasing the proportion of foreign investment on telecommunication sectors, foreign capital now has raised either through a share offering or the sale of a minority share of a PTO to foreign partners. Under the process of privatization of telecommunication industries, there are increasing numbers of opportunities for foreign investors to establish foreign subsidiaries or to combine with others in joint ventures. On the other hand, because telecommunications covers many other industrial sectors including the sectors of manufacture, entertainment, and communication, it has a dual role as both a traded product and service, and as a facilitator of trade in other products and services. Liberal foreign investment on telecommunications will promote more economic gains including new and improved telecommunication products and services with lower prices and additional investment on other industrial sectors. Opening foreign investment on the telecommunication services sector should result in more competition, lowering prices for most businesses and for many consumers and providing both with a choice of different service providers.

### **FDI on Telecommunications and International Organizations**

The telecommunications sector is currently undergoing a transition from a global market system for telecommunication services that has been based on multilateral arrangements. This should foster a suitable international environment where investment and entrepreneurship can prosper, including the development of new forms of electronic commerce. For FDI in the Telecommunications sector, the WTO and ITU are two of the most important international organizations. The WTO agreement hopes to promote foreign and domestic investment in the telecommunication sector and, as a consequence, the development of each country's telecommunication infrastructure and services.

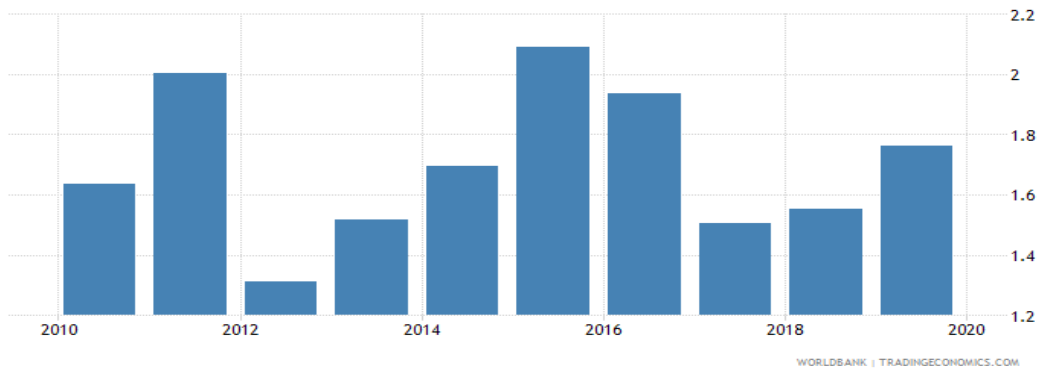
Under the WTO, GATS on Telecommunication which was concluded on February 1997 and which entered into force on February 1998, commits 72 countries to a program of progressive opening of their basic telecommunication service markets to competition and increased foreign investment. Those agreeing countries made commitments to liberalize their telecommunication market and to open up to foreign investment in basic telecommunication services.

That is, the provision of voice telephone, telex, telegraph, data transmission and privately leased circuits. On the other hand, the ITU provides great benefits in terms of telecommunication infrastructure construction and the development of information processing industries.

### **FDI on Telecommunications and Economic Growth**

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 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 counties. 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.

**FORECAST OF FDI IN INDIA**

Foreign direct investment, net inflows (% of GDP) in India was reported at 1.7641 % in 2019, according to the World Bank collection of development indicators, compiled from officially recognized sources. India - Foreign direct investment, net inflows (% of GDP) - actual values, historical data, forecasts and projections were sourced from the World Bank on July of 2021. Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows (new investment inflows less disinvestment) in the reporting economy from foreign investors, and is divided by GDP.

**CONCLUSION**

Foreign direct investment in the Indian telecommunications sector has increased substantially since early 1991. Much of this growth can be attributed to foreign firms entering into partnership with local mobile telephone operators to serve customers across the country. Some of the growth represents multi-national companies establishing mobile telephone manufacturing facilities within India to better serve the country and produce goods for regional exports. However, Indian telecommunications FDI, like FDI in all Indian sectors, has suffered from phased implementation, an ambiguous legal and regulatory environment and inadequate physical infrastructure. Consequently many foreign companies entered and then exited the Indian telecommunications sector within a few years. Indian rural areas represent the greatest growth area for telecommunications. However, this growth is limited by the extreme poverty of the persons living in the rural areas, where there may be a greater focus on life's basic necessities of food, health, sanitation and water. The present cost of telecommunications access may exceed the affordability of rural residents. Foreign direct investment in the Indian telecommunications sector would likely increase further if limits on investment were removed, regulations were clarified and the physical infrastructure was improved. These actions would improve regulatory transparency and entail additional costs.

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