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ABSTRACT

The telecommunication sector plays a vital role as it is considered as the backbone of industrial and economic development. The Indian Telecom Sector experienced a rapid growth over the past one decade on account of regulatory liberalisation, structural reforms and competition, making telecom one of the major catalysts in India's growth story. Foreign Direct Investment (FDI) has been one of the major contributors in the growth of the Indian economy and the need for higher FDI is felt across sectors in the Indian economy. The telecom sector has played a crucial role in attracting FDI in India. The FDI inflows into India have increased significantly since 1991 and it accounts for more than 40 percent of Global FDI with the strong support from Union Government. FDI has been hiked upto 100 percent in many sectors and upto 74 per cent in Indian Telecom Sector, which is otherwise limited to 49 per cent. Since April 2000, the actual inflow of FDI in Indian Telecom Sector has increased to 12456 million US dollars in September 2011. It accounts for almost 10% of the total FDI inflows in the country and has been the third-largest sector to attract FDI in India in the post-liberalisation era.

Keywords: Telecom Sector, FDI, GDP, Equity Inflow, Globalisation, NTP.

INTRODUCTION

In the present information age, the telecommunication sector plays a vital role as it is considered as the backbone of industrial and economic development. Indian telecom sector is more than 165 years old. Globalisation has made telecommunication an integral part of the infrastructure of the Indian economy. The Indian Telecom Sector experienced a rapid growth over the past one decade on account of regulatory liberalisation, structural reforms and competition, making telecom one of the major catalysts in India's growth story. The contribution of the Indian Telecom Sector to the GDP has been increasing gradually and is 2.83 percent. Foreign Direct Investment (FDI) has been one of the major contributors in the growth of the Indian economy and the need for higher FDI is felt across sectors in the Indian economy. The telecom sector has played a crucial role in attracting FDI in India. The FDI inflows into India have increased significantly since 1991 and it accounts for more than 40 percent of Global FDI with the strong support from Union Government. The share of telecom sector in the

total FDI inflows in India has gone up to 10% in 2009. The present paper attempts to analyse the various pros and cons of FDI in Indian Telecom Sector in the context of past, present and future scenarios.

Growth of FDI and Government Policy

Recently the Central Government has liberalized its FDI policy and decided to allow 100 percent FDI in cash and carry wholesale trade sector apart from the single brand retail market. It has also preferred to allow 51% FDI in the multi brand retail segment subject to certain predetermined conditions. Till now, there is no consensus on this matter with the various State governments and opposition parties.

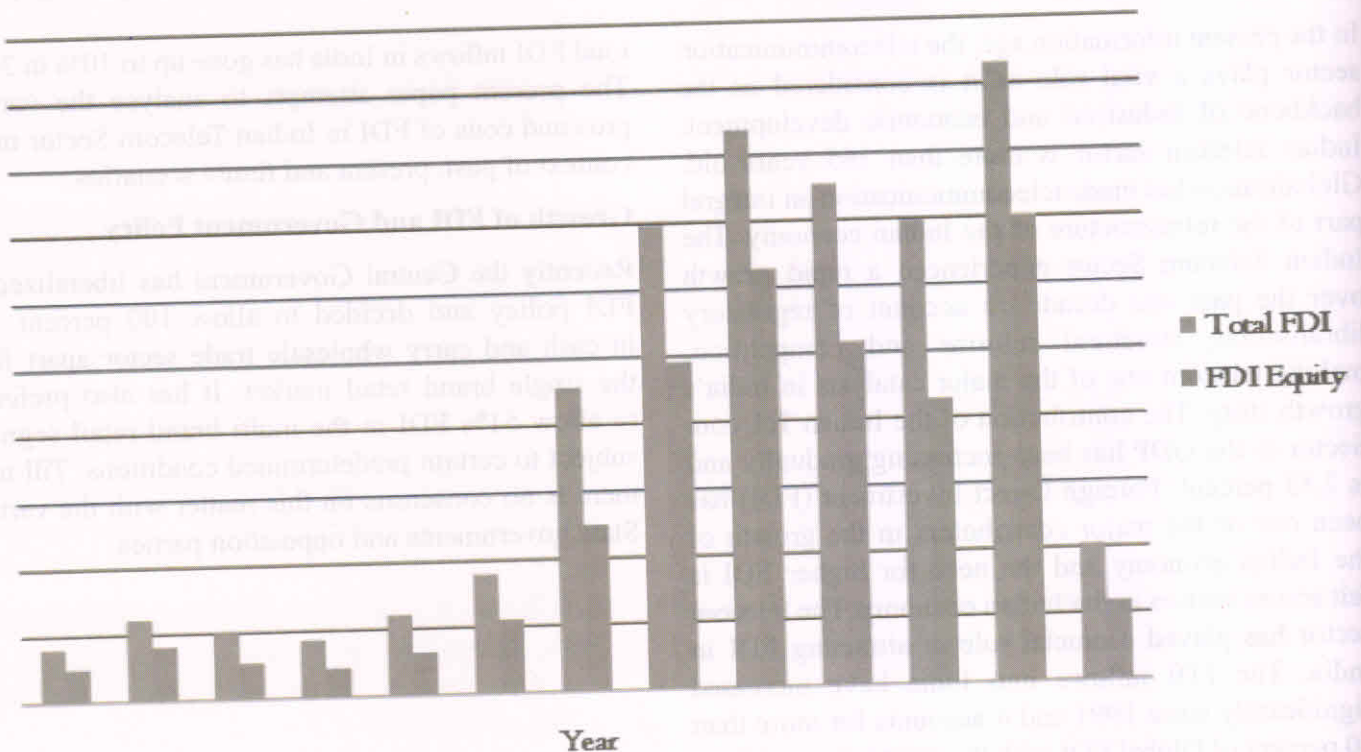
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Table .1 Year-wise FDI Inflows in India

| S. No. | Financial Year (April-March) | Total FDI Inflows (in US \$ million) | FDI Equity Inflows (in US \$ Million) | Increase/Decrease (%) |
|-------------------------|------------------------------|--------------------------------------|---------------------------------------|-----------------------|
| 1 | 2000-01 | 4029 | 2463 | - |
| 2 | 2001-02 | 6130 | 4065 | +65 |
| 3 | 2002-03 | 5035 | 2705 | -33 |
| 4 | 2003-04 | 4322 | 2188 | -19 |
| 5 | 2004-05 | 6051 | 3219 | +47 |
| 6 | 2005-06 | 8961 | 5540 | +72 |
| 7 | 2006-07 | 22826 | 12492 | +125 |
| 8 | 2007-08 | 34843 | 24575 | +97 |
| 9 | 2008-09 | 41873 | 31396 | +28 |
| 10 | 2009-10 | 37745 | 25834 | -18 |
| 11 | 2010-11 | 34847 | 21383 | -17 |
| 12 | 2011-12 | 46553 | 35121 | +64 |
| 13 | 2012-13 (upto July 2012) | 10257 | 5902 | - |
| Cumulative Total | | 263472 | 176883 | |

Source: www.dipp.gov.in

Chart 1 -Year-Wise FDI Inflows in India



Country-wise Analysis of FDI Inflows

The Table 2 shows the list of countries that are leading foreign direct investors in India during the last one decade.

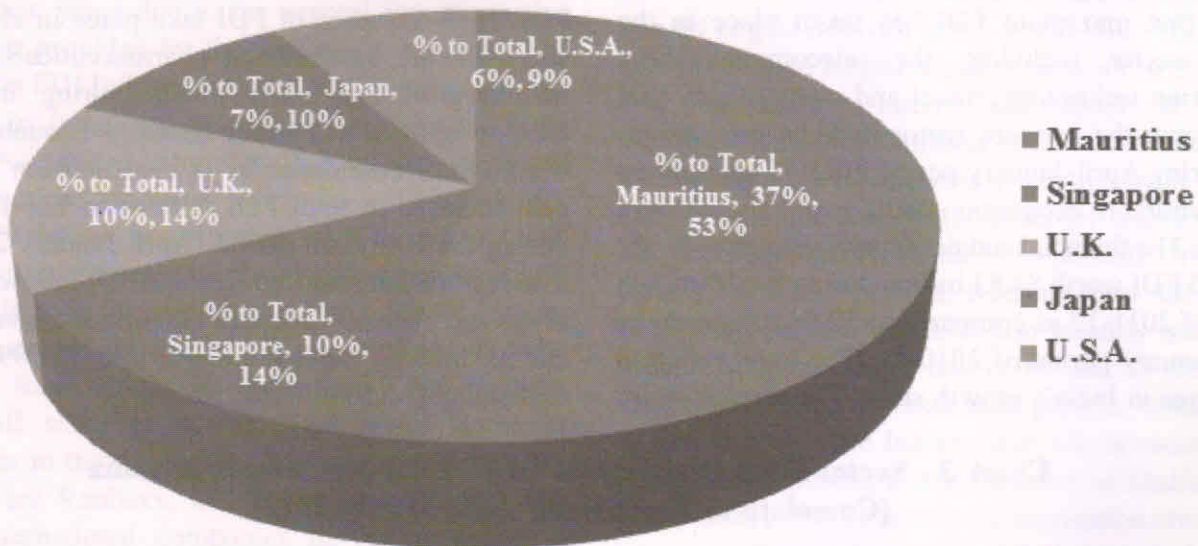
Table 2 Top Country-Wise FDI Equity Inflows (Amount in US \$ Million)

| Country | 2010-11 (April-March) | 2011-12 (April-March) | 2012-13 (April-July) | Cumulative Inflows (April 2000-July 2012) | % to Total Inflows | Rank |
|-----------|--------------------------|--------------------------|-------------------------|--|-----------------------|------|
| Mauritius | 6987 | 9942 | 1970 | 66139 | 37 | 1 |
| Singapore | 1705 | 5257 | 886 | 18039 | 10 | 2 |
| U.K. | 2711 | 7874 | 421 | 16890 | 10 | 3 |
| Japan | 1562 | 2972 | 417 | 12730 | 7 | 4 |
| U.S.A. | 1170 | 1115 | 179 | 10742 | 6 | 5 |

Source: www.dipp.gov.in

It is inferred from the table 2 that India has attracted FDI worth 10,742 million US dollars till July 2012. The highest FDI has come from Mauritius (37%) as it enjoys several tax benefits followed by Singapore (10%)

Chart 2 - Top Country-Wise Distribution of FDI Inflows in India
(From April 2000 to July 2012)



Sector-wise Analysis of FDI Inflow

According to the Department of Industrial Policy and Promotion (DIPP), the following sectors of Indian economy have attracted the maximum FDI since 1991.

- Services
- Automobile
- Computer hardware and software
- Power
- Telecommunications
- Metallurgical industries
- Real estate and housing
- Petroleum and natural gas
- Construction
- Chemicals with the exception of fertilizers

Table 3 Sector-wise FDI Inflows (Top Ten) (Amount in US Dollars)

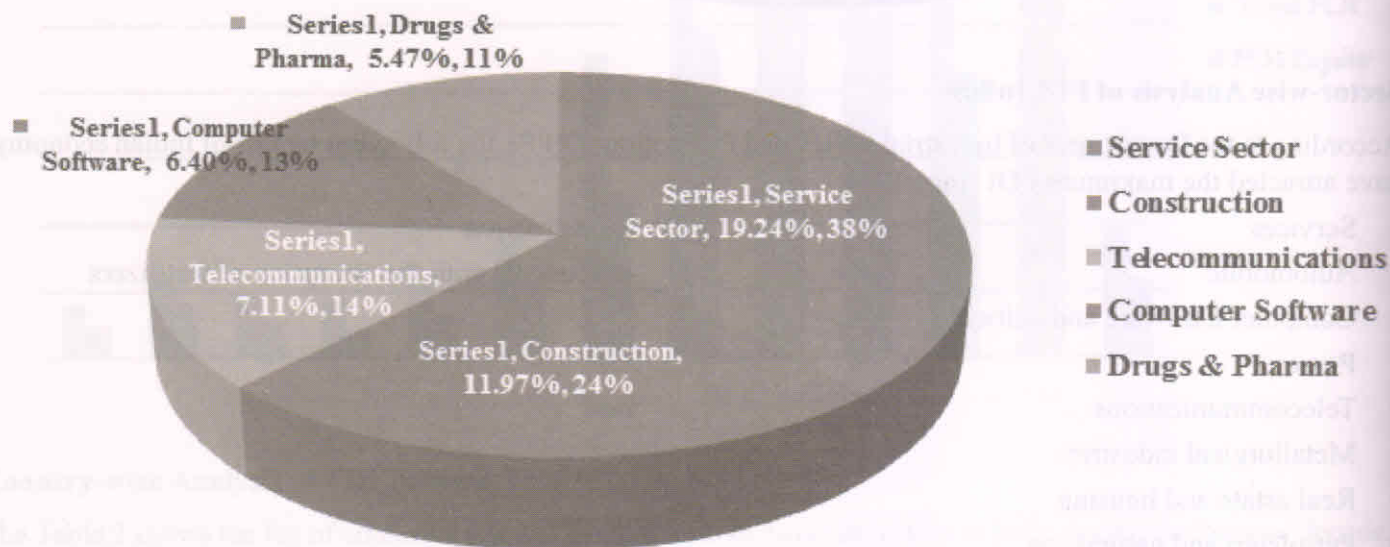
| Sector | 2010-11 (April-March) | 2011-12 (April-March) | 2012-13 (April-July) | Cumulative Inflows (April 2000- July 2012) | % to Total Inflows | Rank |
|---------------------|--------------------------|--------------------------|-------------------------|---|--------------------|------|
| Service Sector | 3296 | 5216 | 1649 | 34,001.45 | 19.24 | 1 |
| Construction | 1103 | 3141 | 421 | 21,159.86 | 11.97 | 2 |
| Telecommunications | 1665 | 1997 | 15 | 12,567.26 | 7.11 | 3 |
| Computer Software | 780 | 796 | 112 | 11,317.22 | 6.40 | 4 |
| Drugs & Pharma | 209 | 3232 | 478 | 9,672.34 | 5.47 | 5 |
| Chemicals | 2354 | 4041 | 74 | 8,662.31 | 4.90 | 6 |
| Power | 1272 | 1652 | 237 | 7,535.62 | 4.26 | 7 |
| Automobile | 1299 | 923 | 234 | 6,991.87 | 3.96 | 8 |
| Metallurgical | 1098 | 1786 | 334 | 6,375.23 | 3.61 | 9 |
| Petro & Natural Gas | 556 | 2030 | 103 | 5,269.24 | 2.98 | 10 |

Source: www.dipp.gov.in

The Sector wise Analysis of FDI Inflow in India reveals that maximum FDI has taken place in the service sector including the telecommunication, information technology, travel and many others. FDI inflows into the services sector in India went up by 62% during April-January period 2011-12 on account of unfavourable economic conditions of the western markets. The financial and nonfinancial services sector attracted FDI worth \$4.83 billion during the 10-month period of 2011-12 as compared to \$2.98 billion in the April-January period of 2010-11. The trend reflected confidence in India's growth story. The service sector

is followed by the manufacturing sector in terms of FDI. High volumes of FDI take place in electronics and hardware, automobiles, pharmaceuticals, cement, metallurgical and other manufacturing industries. Despite taxation and policy issues, the country enjoys the investor confidence as is evident from a 53 per cent increase in total FDI inflows to \$26.19 billion during the 10-month period (April-January 2011-12). The sectors that attracted sizeable FDI inflows include drugs and pharmaceutical (\$3.20 billion), construction (\$2.23 billion), telecommunications (\$1.99 billion) and power (\$1.56 billion).

Chart 3 - Sector-Wise Distribution of FDI Equity Inflows in India (Cumulative, From April 2000 to July 2012)



The FDI in Automobile Industry has experienced huge growth in the past few years. The increase in the demand for cars and other vehicles is powered by the increase in the levels of disposable income in India. The options have increased with quality products from foreign car manufacturers. The introduction of tailor made finance schemes, easy repayment schemes has also helped the growth of the automobile sector. For the past few years the Indian Pharmaceutical Industry is performing very well. The varied functions such as contract research and manufacturing, clinical research, research and development pertaining to vaccines are the strengths of the Pharma Industry in India. Multinational pharmaceutical corporations outsource these activities and help the growth of the sector. The Indian Pharmaceutical Industry has been experiencing a vast inflow of FDI. FDI Inflows to Drugs and Pharmaceuticals industry in India has grown over the last few years due to the several incentives that have been provided by the Indian government. The increase in FDI Inflows to Drugs and Pharmaceuticals industry in India has helped in the growth of the sector. As per the estimates of 2004 the drugs and pharmaceuticals industry of India was worth 8.8 billion US dollars, contributing 1.3% to India's GDP. The domestic market in the drugs and pharmaceuticals industry in India is worth more than US\$ 4.8 billion. The industry of drugs and pharmaceuticals in India is highly fragmented with more than 3,000 medium and small sized producers. The major domestic companies in the drugs and pharmaceuticals industry of India are Ranbaxy, Dr. Reddy's, and Cipla. The major international companies having presence in the industry of drugs and pharmaceuticals in India are Johnson & Johnson, Novartis, Pfizer, and Glaxo SmithKline. The FDI inflow in the Cement Industry in India has increased with some of the Indian cement giants merging with major cement manufacturers in the world such as Holcim, Heidelberg, Italcementi, Lafarge, etc. The FDI in Semiconductor sector in India were crucial for the development of the IT and the ITES sector in India. Electronic hardware is the major component of several industries such as information technology, telecommunication, automobiles, electronic appliances and special medical equipments. The IT industry is one of the booming sectors in India. At present India is the leading country pertaining to the IT industry in the Asia -Pacific region. With

more international companies entering the industry, the Foreign Direct Investments in India has been phenomenon over the year. The rapid development of the telecommunication sector was due to the FDI inflows in form of international players entering the market and transfer of advanced technologies. The telecom industry is one of the fastest growing industries in India. With a growth rate of 45%, Indian telecom industry has the highest growth rate in the world. It was observed that though the economic growth in India itself declined in 2011-12 to 6.9%, the economy was among the best performing in the world.

FDI IN INDIAN TELECOM SECTOR

The Indian Telecom market is one of the fastest growing markets in the world. Indian telecom network has 926.55 million connections at the end of December 2011 with 903 million wireless connections and is the second largest network in the world after China. It is also the second largest wireless network in the world. 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 overall tele-density (Number of telephones per 100 population) has reached 76.86 percent. Urban tele-density is 167.46 percent, whereas rural tele-density is at 37.52 percent which is also steadily increasing. Indian Telecom Sector has continued to emerge as the prime engine of economic growth, contributing to nearly 2% of the Indian GDP. On account of this phenomenal growth, a large number of Multinational Companies (MNCs) in telecommunication are pouring into our nation and expressing their interest to invest in the telecom industry in India.

This sector has undergone a major transformation through significant policy reforms, particularly under the National Telecom Policy 2011. The NTP 2011 stresses on 6 hot areas, namely, Broadband, manufacturing, spectrum, licensing, grievance redressal, and cloud computing. The NTP is expected to shape the future of Indian Telecom Sector in the present decade. The NTP 2011 has set a target of 175 million broadband connections by 2017 and 600 million connections by 2020. The New Telecom Policy on manufacturing aims to meet 80 percent of the Indian telecom sector's demands through domestic manufacturing with a value addition of 65 percent by

the year 2020. Driven by various policy initiatives of the government, it has achieved a phenomenal growth during the last few years and is poised to take a big leap in the future. In recent years, the Telecom sector has been delivering strong returns on investments and steady subscriber additions. This growth has been built on wireless revolution. The industry is expected to reach a size of 344,921 Crore (US\$ 68.81 billion) by 2012 at a growth rate of over 26 per cent, and generate employment opportunities for about 10 million people during the same period. Moreover, the cellular services continue to fuel growth of the Indian telecom sector, with mobile subscribers anticipated to grow at a CAGR of around 11% during 2009-10 to 2013-14.

Since the introduction of economic reforms in 1991, FDI has been used as a tool to bring the expected growth in all the sectors of the economy. FDI was permitted in the Indian Telecom Sector beginning with the telecom manufacturing segment in 1991. When the Indian government opened up cellular services to private industry, several foreign investors were ready to enter Indian telecom sector. The Indian Telecom Sector is considered to be one of the most attractive sectors for FDI.

As per the recent recommendation by a Committee headed by Planning Commission member N.K. Singh, FDI has been hiked upto 100 percent in many sectors and upto 74 per cent in telecom, which is otherwise limited to 49 per cent. The limit to FDI in telecommunications was increased from 49% to 74% in 2005 by the Department of Industrial Policy and Promotion that functions under the Ministry

of Commerce and Industry, Government of India. Important aspects of FDI in telecommunications are -

- Telecom sectors which will be entrusted with the FDI ceiling include National/ International Long Distance, Basic, Cellular, V-Sat, Unified Access Services, Public Mobile Radio Trunked Services (PMRTS), Global Mobile Personal Communications Services (GMPCS) and other value added Services
- The major sources of foreign investment in Indian market include Foreign Institutional Investors (FIIs), Non-resident Indians (NRIs), Foreign Currency Convertible Bonds (FCCBs), American Depository Receipts (ADRs), Global Depository Receipts (GDRs) and convertible preference shares held by foreign entity
- The license companies which will be regulated by the public sector banks in India and the public sector financial institutions in India will be recognized as 'Indian holding' and Indian shareholding cannot be less than 26 percent by any means
- FDI up to 49 percent will be allotted to certain telecom sectors in India under automatic route
- In case of the license companies, FDI will require the FIPB approval provided it has a total ceiling of 74 percent
- The investments that would require FIPB approval will clearly depict the evidence that the company would abide by license Agreement
- FDI investments will be entitled to the laws of the Government of India and not the overseas countries. At present, the FDI Policy for the Telecom sector is as under:

Table 4 FDI Policy for Indian Telecom Sector

| Sl. No. | Sector/Activity | FDI Cap/Equity | Entry Route |
|---------|--|---|-------------------------------------|
| 1 | 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 | 74% (Both direct and indirect foreign investment) | Automatic upto 49%. FIPB beyond 49% |
| 2 | ISP with gateways, *ISP without gateway, Radio-paging, End-to-End Bandwidth provider. | 74% | Automatic upto 49%. FIPB beyond 49% |
| 3 | Infrastructure Provider providing dark fibre, right of way, duct space, tower (Category -I); b) Electronic Mail and Voice Mail | 100% | Automatic upto 49%. FIPB beyond 49% |
| 4 | Manufacture of Telecom Equipments | 100% | Automatic |

* The government had revised guidelines for ISPs on 24-8-2007 and new guidelines provide for ISP licenses with 74% composite FDI only.

The cumulative FDI inflow for the last five years is presented in Table 5.

Table 5 Cumulative FDI Inflows in Indian Telecom Sector since 2000

| Sl. No. | Financial Year (April-March) | FDI Inflows (in US \$ Million) | Increase/Decrease (%) |
|---------|------------------------------|--------------------------------|-----------------------|
| 1 | 2006-07 | 2,581 | - |
| 2 | 2007-08 | 3,782 | +46.53 |
| 3 | 2008-09 | 6,392 | +69.01 |
| 4 | 2009-10 | 8,924 | +39.61 |
| 5 | 2010-11 | 10,555 | +18.28 |
| 6 | 2011-12 (upto Sep. 2011) | 12,456 | +18.01 |

Source: www.dipp.gov.in

The FDI policy provides an investor-friendly environment for the growth of the telecom sector. Since April 2000, the actual inflow of FDI in Indian Telecom Sector has increased to 12456 million US dollars in September 2011. The FDI Equity inflows in the telecom sector have been increasing continuously over the past few years as is evident from Table 6.

Table 6 Growth of FDI Equity Inflows in Indian Telecom Sector

| Sl. No. | Financial Year (April-March) | FDI Inflows (in Million US \$) | Increase/Decrease (%) |
|---------|------------------------------|--------------------------------|-----------------------|
| 1 | 2002-03 | 223 | - |
| 2 | 2003-04 | 116 | -47.98 |
| 3 | 2004-05 | 125 | +7.76 |
| 4 | 2005-06 | 625 | +400 |
| 5 | 2006-07 | 478 | -23.52 |
| 6 | 2007-08 | 1261 | +163.81 |
| 7 | 2008-09 | 2558 | +102.85 |
| 8 | 2009-10 | 2554 | -0.16 |
| 9 | 2010-11 | 1665 | -34.81 |
| 10 | 2011-12 (Upto Sep. 2011) | 1901 | - |

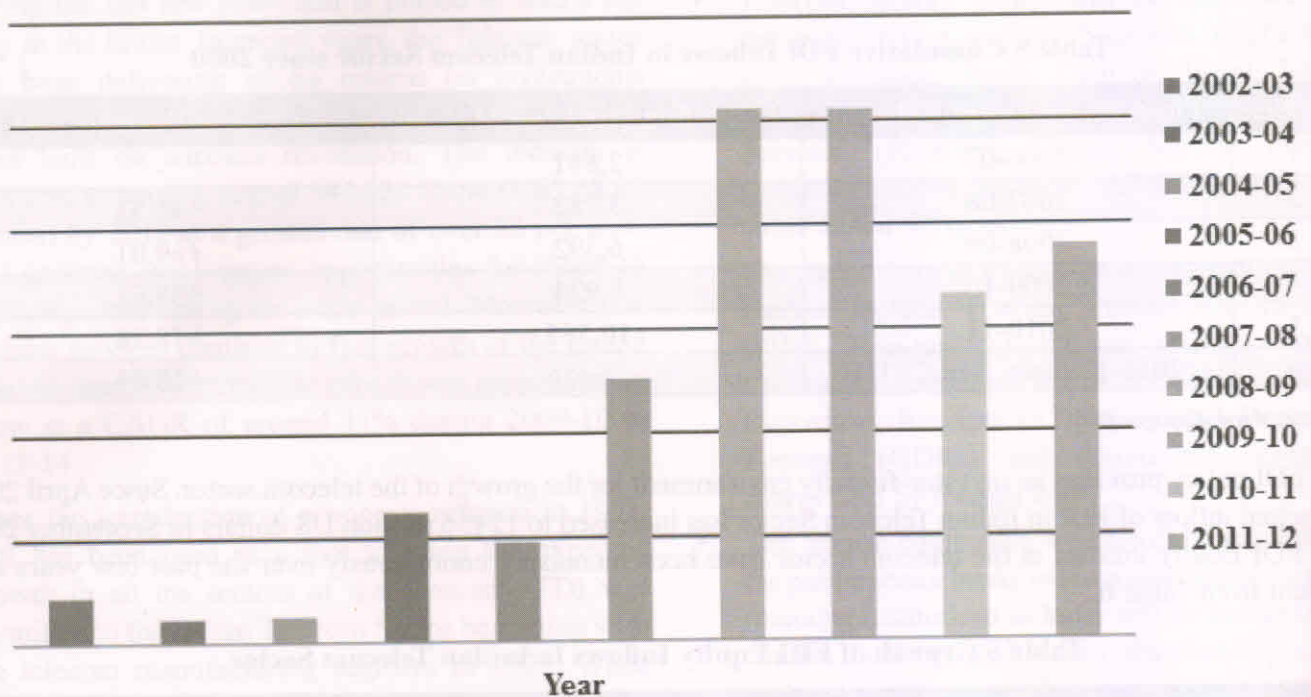
Source: www.dipp.gov.in

Since 2004, there has been a large inflow of FDI in the sector. During 2004-05 and 2005-06, a period during which the FDI norms were relaxed, the FDI inflow grew by an astounding 400% to US\$ 624 million in 2005-06 from merely US\$ 125 million in 2004-05. During the year 2009 the FDI in the telecom sector at US\$ 2,558 million was 103% higher than that seen in 2008 at US\$ 1,261 million. Further, the FDI in the telecom sector has already reached US\$ 2554 million at the end of March 2010 and declined in the recent years.

The following are the important areas for FDI opportunities in the Indian Telecom Sector:

- E-commerce
- Manufacturing of equipments and components
- Tele-education
- Tele-banking
- Exports of telecom equipment and services
- Tele-medicine
- Setting up a national long distance bandwidth capacity in the country

Chart 4 - FDI Equity Inflows in Indian Telecom Sector



CONCLUSION

The Indian Telecom Industry has undergone a revolution in the recent years. The country is ranked second worldwide in terms of having the largest telecommunication network, after China. With the ongoing investments into infrastructure deployment, the country is projected to see high penetration of Internet, broadband and mobile subscribers. The launch of advanced telecom services like 3G and IPTV will lead to growth of Indian telecom subscriber base. Beside, mobile handset market is also expected to register a robust growth in future. The Indian Telecom sector requires huge investments for its expansion as it is capital-intensive and FDI plays a vital role in meeting the fund requirements for expansion of the telecom sector. It accounts for almost 10% of the total FDI inflows in the country and has been the third-largest sector to attract FDI in India in the post-liberalisation era. The Indian Telecom Sector is the third major sector attracting FDI inflows after services and computer software sector.

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