



## Telecom Industry of India: FDI Trends and Market Development

Gourav

Former Student of M.Com, Govt. P.G. College, Jind, Haryana, INDIA

### ABSTRACT

Foreign Direct Investment is considered as most important especially for the developing countries like India, as foreign investors tends to bring it with the capital, technology and the skills needed for Industrial development. Over the past decade, the Telecom sector of India has experienced rapid growth owing to regulatory liberalization, To attract more Foreign direct investment in, the government made an attempt to liberalize FDI policy in telecommunication sector. Now Govt. of India invites 100% FDI in telecom industry i.e. 49% through Automatic route and 51% through FIPB. The objective of research paper is to study the FDI trends in telecom industry. The paper also highlight the present scenario of telecom industry in India i.e. market size as well as recent developments in this sector. Secondary data is used for this study, which is taken from various sources such as research papers, articles, websites of DOT, GOI, other websites etc. The study concludes with that government has enabled easy market access to telecom equipment and a fair and proactive regulatory framework that has ensured availability of telecom services to consumer at affordable prices. The deregulation of Foreign Direct Investment (FDI) norms has made the sector one of the fastest growing and a top five employment opportunity generator in the country.

**Keywords--** FDI, Telecom sector, Development, Liberalization, Industry

in another country. FDI, is a type of investment that involves the injection of foreign funds into an enterprise that operates in a different country of origin from the investor. It has been a vital non-debt financial force behind the economic upsurge in India. Special investment benefits like tax exemptions and cheap cost wages on the amount being invested magnetize foreign companies to invest in India.

**Technique to obtain FDI inflows in India:** In India, foreign direct investment introduce into the economy with the help of the following techniques:

**Automatic Route:** Under this route, when foreign direct investment inflows injected in an economy, at that time there is no need of prior approval either Reserve Bank of India or Government of India in the different sectors of the economy.

**Government Route:** When foreign direct investment inflows injected in an economy not covered under the automatic route. Then, it requires prior approval of the Government of India, which is considered by the Foreign Investment Promotion Board (FIPB), Department of Economic Affairs and Ministry of Finance of India.

### Objectives

- To study the trend of FDI inflows in Indian telecommunication sector.
- To study the FDI inflows in telecom industry on parameter of sector wise and country wise.
- To study about present scenario of telecom industry of India.

### Review of Literature

It is very glare that the importance on telecommunication sector is growing in India due to the development concept in the light of liberalization globalization and privatization that have brought the changes in the economic dimensions very significantly, so the FDI role getting higher in the sector day-by-day. Hence, there are limited studies on telecommunication sector with regard to FDI in India. Some of the important studies are discussed in the following lines.

Yadav et al. in his paper on rapid changes in technology in Indian telecom sector stated that there is a

## I. INTRODUCTION

Telecommunication 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 of liberalization policy, telecom sector could attract more FDI inflows. 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. Foreign direct investment (FDI) is a controlling ownership in a business enterprise in one country by an entity based

significant impact of technology on the operational aspect of telecom business with increased competition and emergence of rural market.

Fathima et al. in her article on FDI in Telecom Sector presented an overview of FDI in Indian Telecom sector. The article examined the current status of FDI in the Indian telecommunication sector and the issues being faced by foreign companies. The paper concludes with a brief economic examination through relevant factors influencing the level of FDI.

Chennappa, in his research discussed on FDI in Telecom sector in India. He opined that many countries allowed FDI based on the growth of tele-density and the per capita income that had gone up to considerable levels.

## II. METHODOLOGY

Secondary data is used for this study, which is taken from various sources such as research papers, Newspaper articles, websites of DOT, GOI, other websites etc. Tables are also used to analysis the statistical data related to FDI trends.

## III. DISCUSSION

### FDI and Indian telecommunication sector:

India has already marked its presence as one of the fastest growing economies of the world. It has been ranked among the top 3 attractive destinations for inbound investments The FDI flow into telecom sector was totally Rs 883287.89 million over the period of 2000 to 2015, including telecommunications, with Rs 307695.62 million, Radio paging Rs 272.98 million, Cellular Mobile, Rs 298921.4 million and other related services Rs 276397.89 million. Govt. has also permitted 100% FDI (49% in automated root) for all telecom services which will again pave the way for FDI inflow in India.

**Analysis of Table1:** It can be realized from **Table 1** that percentage of FDI inflows in telecommunication sector over the total FDI. For the period of 10 years, i.e., 2005-2006 to 2014-2015, the FDI inflows were not constant, but, fluctuated in most of the years, particularly in the year 2005-06 the flow was very less at Rs 90154.44 Ten million. Similarly, in the year 2005- 2006 it was Rs 2751.45. Ten million in the telecommunication sector. In percentage the FDI flows in the sector in 2005-2006 year was 3.05. Hence, FDI registered the highest flows of Rs 248754.05 Ten million, in the year 2011-2012 in the country, whereas, the telecommunication sector registered the highest inflow of FDI in the year 2014-2015 by Rs 17371.82 Ten million, which is equal to 9.45% over the total. In a time span of 10 years, an average FDI flow in India was found at Rs 177087.3 Ten million, whereas, with the telecommunication sector it was found at Rs 7752.20 Ten million, which is equal to 4.33% over total flows of FDI.

Hence, the inflows of FDI are very minimal in the telecommunication sector as part of FDI flows in India.

**Table 1: FDI Flows in India and total inflow of FDI**

Year	Total FDI in India (Rs. in Ten millions)	Total Inflow of FDI in Telecommunication Sector Rs. in Ten millions	Growth rate in percent	Percentage of FDI inflows in Telecommunication sector over total FDI
2005-06	90154.44	2751.45	-	3.05
2006-07	94065.95 (104.34)	2149.58 (78.12)	-21.87	2.28
2007-08	151462.58 (168.00)	5099.56 (185.34)	85.34	3.37
2008-09	202502.66 (224.62)	11684.81 (424.68)	324.68	5.77
2009-10	172570.14 (191.42)	12269.66 (445.93)	345.93	7.11
2010-11	162665.79 (180.43)	7542.04 (274.11)	174.11	4.64
2011-12	248754.05 (275.92)	9011.53 (327.52)	227.52	3.62
2012-13	218381.22 (242.23)	1654.30 (60.12)	-39.87	0.76
2013-14	246447.58 (273.36)	7987.28 (290.29)	190.29	3.24
2014-15	183869.03 (203.95)	17371.82 (631.37)	531.37	9.45
Avg.	177087.3	7752.20	-	4.33

S.No	Sector	Amount of FDI Inflows (In Rs million)	Amount of FDI Inflows (In US\$ million)	%age of Total Inflows
1.	TELECOMMUNICATIONS			
	TELECOMMUNICATIONS	311,725.89	6,235.23	2.01
	RADIO PAGING	272.98	5.93	0.00
	CELLULAR MOBILE/BASIC TELEPHONE SERVICES	407,511.62	8,121.28	2.62
	OTHER (TELECOM)	394,371.43	6,806.65	2.19

**Analysis of Table2:** It clearly depicts that Max. amount of FDI inflows comes in Cellular, Mobile and basic telephone services, whereas In radio Paging sector FDI inflows is least i.e. 0.00%.

**Table 3:** Top 10 Country-wise FDI Equity Inflows from Apr.2000 to Sept. 2016

## Sector -- Telecommunication

S. No	Name of the Country	Amount of Foreign Direct Investment Inflows(In Rs million)	Amount of Foreign Direct Investment Inflows(In US\$ million)	%age with Total Inflow
1	Mauritius	607,863.29	12,229.45	57.77
2	Singapore	245,919.90	4,293.21	20.28
3	Japan	127,238.25	1,980.64	9.36
4	Russia	46,032.80	846.62	4.00
5	USA	17,873.79	358.95	1.70
6	Cyprus	11,921.01	253.84	1.20
7	United Kingdom	11,558.22	250.90	1.19
8	Germany	8,018.28	181.61	0.86
9	UAE	9,001.12	150.34	0.71
10	Netherland	5,401.08	109.90	0.52

**Analysis From the Table 3** it is clear that maximum % of FDI inflows comes from Mauritius i.e. 57.77% of total inflows. After that Singapore contributes 20.28% of inflows, then 9.36% from Japan. Netherland contribute least i.e. 0.52% in top 10 countries.

#### IV. TELECOM INDUSTRY OF INDIA IN PRESENT SCENARIO

The Indian mobile economy is growing rapidly and contributes substantially to India's Gross Domestic Product (GDP). The liberal and reformist policies of the Government of India have been instrumental along with strong consumer demand in the rapid growth in the Indian telecom sector. The Indian telecom sector is expected to generate four million direct and indirect jobs over the next five years according to estimates by Randstad India.

- With a subscriber base of nearly 1058.86 million, as of March 2016, India accounted for the second-largest telecom network in the world.
- Third-highest number of internet users With 462.12 million internet subscriptions, as of July 2016, India stood third-highest in terms of total internet users in 2016.
- Mobile based Internet is a key component of Indian Internet usage, with seven out of eight users accessing internet from their mobile phones.
- Rising penetration rate: As of March 2016, urban tele-density stood at 154.01 per cent and rural tele-density at 51.37 per cent.

*Some of the major developments in the recent past are:*

- Apple plans to produce iPhone SE at an upcoming facility in Bengaluru, owned by its partner Wistron.
  - Chinese smartphone manufacturers, Oppo and Vivo, have both planned to invest in setting up large scale manufacturing capacity in the state of Uttar Pradesh in India, with an aggregate investment size of Rs 4,000 crore (US\$ 600 million).
  - LeEco, a Chinese technology company, has entered into a partnership with Compal Technologies and invested US\$ 7 million to set up manufacturing facility at Greater Noida in order to start manufacturing Le2 smartphones in India.
  - Chinese telecom gear maker Huawei has set up its largest global service centre (GSC) at Bengaluru in India, with an initial investment of Rs 136 crore (US\$ 20.4 million), which will extend its support to Huawei's domestic and international telecom carrier customers in about 30 markets across Asia, Middle East and Africa.
  - Chinese smartphone maker Gionee, which currently assembles smartphones in partnerships with contract manufacturers Foxconn and Dixon, plans to invest Rs 500 crore (US\$ 75 million) to set up a manufacturing facility in India..
  - Chinese smartphone manufacturer OnePlus has partnered with Foxconn to start manufacturing its products in India as part of its plan to have 90 per cent of the devices sold in India to be locally manufactured by the end of 2017.
  - Reliance Communications Ltd, India's fourth largest mobile services provider, has agreed to acquire Sistema Shyam TeleServices Ltd (SSTL), the local unit of Russian company Sistema JSFC, in a deal valued at Rs 4,500 crore (US\$ 675 million), which includes payments to the government for spectrum allotted to Sistema.
- Government Initiatives In Telecom Industry**
- The government has fast-tracked reforms in the telecom sector and continues to be proactive in providing room for growth for telecom companies. Some of the other major initiatives taken by the government are as follows:
- The Government of India has allocated Rs 10,000 crore (US\$ 1.5 billion) for rolling out optical fibre-based broadband network across 150,000 cumulative gram panchayats (GP) and Rs 3,000 crore (US\$ 450 million) for laying optical fibre cable (OFC) and procuring equipment for the Network For Spectrum (NFS) project in 2017-18.
  - The Ministry of Communications & Information Technology has launched Twitter Sewa, an online communications platform for registration and resolution of user complaints in the telecommunications and postal sectors.
  - The TRAI has released a consultation paper which aims to offer consumers free Internet services within the net neutrality framework and has proposed three

models for free data delivery to customers without violating the regulations.

- The Department of Telecommunications (DoT) has amended the Unified Licence for telecom operations which will allow sharing of active telecom infrastructure like antenna, feeder cable and transmission systems between operators, thereby lowering the costs of operations and leading to faster rollout of networks.

- The TRAI has recommended a Public-Private Partnership (PPP) model for BharatNet, the central government's ambitious project to set up a broadband network in rural India, and has also envisaged central and state governments to become the main clients in this project.

- The TRAI has directed the telecom companies or mobile operators to compensate the consumers in the event of dropped calls with a view to reduce the increasing number of dropped calls.

## V. CONCLUSION

FDI is the main source of capital formation in India. Since the entry of FDI, government of India make such source to penetrate into almost all sectors including telecommunication sector. Inflows of FDI is increasing significantly in telecom industry. Trends of FDI inflows is increasing favourably. As a result of this, 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. With the government's favourable regulation policies and 4G services hitting the market, the Indian telecommunication sector is expected to witness fast growth in the next few years. From being an import-centric industry, it is slowly but steadily moving towards becoming a global telecom equipment manufacturing hub.

## REFERENCES

- [1] K Yadav, T Shashank, R Divekar, "Impact of technological changes in telecom sector in India", Indian Journal of Science and Technology 8: 194-199. 2015.
- [2] A Fathima , A Badiuddin , SS Kumar, "FDI in Indian telecom Sector a perspective-telecommunication the apple of Foreign investor's eye", International Journal of Scientific Engineering and Technology 2: 982-985. , 2013.
- [3] K Nagesh "Liberalization and Foreign Direct Investments Flows and Development: Indian Experience in the 1990s", Economic and Political Weekly 40: 1459-1469., 2005.
- [4] M Azher Parvez and T Satyanarayana Chary, "Foreign Direct Investment (FDI) and Telecommunication Sector in India"
- [5] Kearney's AT. Global Services Locations Index, 2007.
- [6] <http://www.dot.gov.in>

[7] <http://www.trai.gov.in>

[8] <http://telecomepc.in/about-us/telecom-sector-in-india/>

[9] <https://www.ibef.org/industry/telecommunications.aspx>