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FOREIGN DIRECT INVESTMENT POLICIES IN THE LIBERALIZED TELECOM SECTOR OF INDIA - A REVIEW

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ABSTRACT

The Indian telecom network is the second largest in the world after China. 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. When compared to the initial years there is huge hike in the case of FDI inflows in 2009-10. Mauritius has the highest FDI in Indian telecom sector. When compared to Mauritius Singapore's investment is very low. In Telecom sector there is no steady improvement in Foreign Direct Investment (FDI).

KEYWORDS

FDI, foreign investors, liberalized policies, telecom sector.

INTRODUCTION

The Indian telecom network is the second largest in the world after China. With the adoption of liberalization policy in telecom sector, it could attract more FDI in this sector, and increase private sector participation in total telephone connections of the nation. In the year 1999, the share of private operators was 5 percent. In the year 2011 December, it was reached to 86 percent. A competitive stimulus brought forward through the liberalization and subsequent FDI policies could make a hike on telecom penetration together with a significant reduction in tariffs. Indian telecom industry has undergone an innovatory phase over the past few years. FDI is usually portrayed as an economic blessing that countries should strive to increase. FDI in some sectors can weaken governments vis-a-vis foreign corporations, which can exercise considerable influence over public policy through control of information and management decisions. FDI in sectors like essential services can actually undermine the balance of payments. In India, like in most other countries, telecom was originally the exclusive preserve of the Government. With the initial opening up of the sector to private capital, a large number of international telecom majors were interested in entering the Indian market.

FDI IN TELECOM SECTOR

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. The tender conditions specified that only companies registered in India could quote. However, it allowed companies to be joint ventures with a cap of 49% for foreign ownership. It might be noted that the license condition also specifies this cap and it is not a cap on direct foreign equity but on total foreign equity, therefore is a cap on both direct and indirect foreign equity. During the period April 2000-November 2012, the government took many policy initiatives to liberalize the FDI policy for the services sector. These include liberalizing the policy on foreign investment for companies operating in the broadcasting sector, like increasing the foreign investment limit from 49 percent to 74 percent in teleports (setting up up-linking HUBs/teleports) and direct to home (DTH) and cable networks, and permitting foreign investment (FI) up to 74 percent in mobile TV; permitting foreign airlines to make foreign investment and up to 49 percent in scheduled and nonscheduled air transport services. Hutchison, Idea, Bharti, BPL and Spice have emerged winners from the government's decision to increase the FDI limit in telecom Service providers. The investors, who are the beneficiaries of increasing FDI limit, are of the view that attracting foreign investment will help to increase the growth and telecom penetration in the country, and increased FDI limit can remove a large hurdle in the expansion of the Indian Telecom companies. International agencies such as IMF and the World Bank had also advocated the removal of such restrictions. The other voices in favour of lifting the foreign ownership cap had been the cellular, operators and also various foreign financial institutions. However, in spite of repeated attempts, the Indian Government had resisted such moves, mainly on security considerations till the year 2013. On 1st August, 2013 in a major reform push, government approved 100 percent FDI in the telecom sector. It has been decided to increase FDI cap in telecom to 100 percent from 74, up to 49 through automatic route and beyond that FIPB. The idea behind increasing the FDI limit in the telecom sector is to help the industry get fresh funds to lower financial burden. The decision of the government to increase the FDI limit in this sector would result in large scale funds coming into the Indian telecom market. Indian Telecom sector has shown high growth rates and the funds that will come in will facilitate the process of network expansion.

REVIEW OF LITERATURE

The following study papers and articles were reviewed in this study:

Preetha (2011), in the study paper on FDI in Telecom Sector presented an overview of FDI in Indian Telecom sector. This 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 paper concluded with a brief economic examination of the factors influencing the level of FDI.

Chennappa.D (2005), in his research paper discussed the FDI in Telecom sector in Indian. Through this paper the author 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. India, therefore, needed to strengthen the domestic manufacturing units and niche market first of all and increasing FDI cap is not sufficient for increasing higher rural Tele-density.

Chennappa.D (2005), in his article on FDI opined 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 percent to 100 percent. He was also of the opinion that the liberalization with foreign equity had led to the reduction of tariff significantly in mobile and long distance services.

SIGNIFICANCE OF THE STUDY

The argument for lifting FDI caps has been that India requires very large amounts of capital to rapidly expand its telecom infrastructure. According to some foreign investment consultants, without FDI flows, India would have shortage of capital and not be able to increase its Tele-density. Estimates showed that an investment of about Rs. 50,000 crores was required in the sector in the years 2005 to 2007 for keeping pace with the growing demand. Since such funds were not available in the domestic market, telecom operators had demanded the FDI limit be raised beyond 49 percent. The government was of the view that raising money from domestic market was more expensive than internationally. In the liberalized era, a study focused on FDI in telecom sector possesses more importance as the services of telecom sector are essential services of one nation.

OBJECTIVES

1. To analyze the FDI policies in Telecom sector of India.
2. To study the growth of FDI in telecom sector after liberalization.
3. To analyze the sector wise FDI in Indian Telecom Sector.

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 2000-2013. 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.

RESEARCH RESULTS

(1) FDI 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. Telecom Commission, the highest decision-making body of the department of telecom (DoT), approved 100% foreign direct investment in the telecom sector in the year 2013.

TABLE NO. 1: REVISED FDI POLICY OF TELECOM SECTOR IN INDIA

	FDI Cap	Entry Route
Telecom Services (including Telecom Infrastructure Providers Category-1) All telecom services (including Telecom Infrastructure Providers Category-1) Basic and cellular, United Access Services, Unified License (Access Services), 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/Audio tex /UMS, Resale of IPLC, Mobile Number Portability services, Infrastructure Provider providing dark fiber, right of way, duct space, tower (Category- I) except other service providers.	100%	Automatic up to 49% Beyond 49% Government (FIPB)
Other conditions: 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>

(2) YEAR-WISE FDI INFLOWS

TABLE NO. 2: FINANCIAL YEAR WISE FDI EQUITY INFLOWS IN TELECOM SECTOR FROM APRIL 2000 TO OCTOBER 2013

Sr No:	Year (Apr-Mar)	In Rs. Crore	% change
1	2000-01	784.16	-
2	2001-02	3938.46	402.25
3	2002-03	907.73	-76.95
4	2003-04	397.84	-56.17
5	2004-05	541.10	36.01
6	2005-06	2751.45	408.49
7	2006-07	2149.58	-21.87
8	2007-08	5099.56	137.24
9	2008-09	11684.81	129.13
10	2009-10	12269.66	5.01
11	2010-11	7542.04	-38.53
12	2011-12	9011.53	19.48
13	2012-13	1654.30	-81.64
14	2013-14 (Apr-Oct)	197.16	-
Grand Total		58929.38	

Note: Amount includes the Inflows received through SIA/FIPB route, acquisition of existing shares and RBI’s automatic route only.

Source: <http://www.dot.gov.in>

In FY 2009-10, telecom attracted USD 2.5bn FDI (10% of total FDI). The table indicates that the financial year 2012-13 faced the lowest FDI inflow (Rs 1654.30 crore) in this sector after 2004-2005. The financial years 2002-03, 2003-04, 2006-07, 2010-11 also have negative inflows of FDI in Telecom Sector. The industry has excellent future prospects, but can re-attract investors only if it can create stable long-term policies and a conducive atmosphere for Government and industry to work as partners.

(3) SECTOR-WISE FDI INFLOWS

TABLE NO. 3: SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS

S. no	Sector	Year			Cumulative inflows (Apr 2000 to July 2013)	%age to total FDI inflows
		2011-12 (Apr-Mar)	2012-13 (Apr-Mar)	2013-14 (Apr-july, 13)		
1	Services sector (includes Financial, Banking, Insurance, Non- Financial/ Business outsourcing, R&D, Courier, Tech. Testing and analysis)	24656	26306	5770	178045.57	19.10
2	Construction Development (Townships, Housing, Builtup infrastructure and Construction development projects)	15236	7248	2092	103140.99	11.20
3	Telecommunications (Radio paging, Cellular, Mobile, Basic telephone services)	9012	1654	66	58797.85	6.42
4	Computer Software & Hardware	3804	2656	1244	54018.53	5.94
5	Drugs and Pharmaceuticals	14605	6011	5453	54332.65	5.65

Source: RBI Bulletin

Table No. 3 shows that Telecom Sector possesses the 3rd position in attracting FDI. As per the accounts up to July, 2013 Telecom sector could attract FDI of Rs. 58,797.85 crore that is the 6.42 percent of the total FDI inflow of the country. When compared to other two sectors this amount is very low. With 858 million wireless connections, the Indian telecom system has become the second largest wireless network in the world.

TABLE NO. 4: SECTOR-WISE FDI EQUITY INFLOWS

S. no	Sector	Amount of FDI Inflows		%age of Total Inflows	
		(In Rs. crore) From April 2000 to August 2010.	(In Rs. Crore) From April 2000 to October 2013.	2000-10	2000-13
1	Telecommunication	15,354.29	19,365.26	2.88	2.07
2	Radio paging	26.25	27.30	0.0	0.0
3	Cellular mobile/ Basic telephone services	28,097.08	29,785.91	5.13	3.15
4	Other (Telecom)	2,017.32	9,750.91	.36	1.03
Sector Total		45,494.95	58,929.38	8.38	6.26

Source: <http://www.dot.gov.in>

The Table No. 4 shows that cellular mobile and basic telephone services have attained Rs. 28,097.08 and 29785.91 crores up to August 2010 and October 2013 respectively, which is the highest percentage of FDI in total Telecom Sector (5.13 percent and 3.15 percent in 2000-10 and 2000-13 respectively). The FDI inflows in Radio paging are Rs. 26.25 crores and 27.30 crores up to August 2010 and October 2013 respectively.

FINDINGS

The following major findings are emerged from the study.

1. In Telecom sector there is no steady improvement in Foreign Direct Investment (FDI).
2. More liberalization in policies could not bring huge hike in FDI in Telecom sector.
3. When compared to the other financial years there is huge hike in the case of FDI inflows in 2009-10
4. The highest FDI inflows in Telecom Sector of India go to cellular mobile and basic telephone services. In the case of radio, paging FDI is very low.

CONCLUSION

The growth opportunities are able to attract significant FDI in the telecom sector. Instead, it can be seen in Telecom sector that the confidence of investors in this industry is now at an all-time low (in 2012-13 and in 2013-14). This is evident from the decreasing FDI. Telecom sector in India has been facing ups and downs in FDI. Hiking FDI limit from 74 percent to 100 percent in the telecom sector will not make much of a difference, as foreign investors would continue to exercise control in more or less the same attitude as they did when the cap was 74 per cent. FDI is expected to provide a much-needed boost to the sector and is likely to attract huge investments in the near to long-term.

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