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FDI'S IN INDIA- A STUDY OF TELECOMMUNICATION INDUSTRY

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Abstract: *Economic history is evident of the fact that presently developed nations of the world developed with the help of foreign capital. For example, England borrowed from Holland in the 17th and 18th century, the United States borrowed from England and France, Russia (earlier USSR) borrowed from United States, and China took the financial help from Russia. A developing country like India may need foreign capital on account of - Low Capital Formation, Need for High Level of Investment, Development of Basic Economic Infrastructure, Exploitation of Productive Resources, Backwardness in Technologies, Making Balance of Payment Favorable, and Filling the Gap of Private Entrepreneurs. So, like other countries India also depends on Foreign capital & technology for its economic development. Since the introduction of `Manmohanomics' during PV Narasimha Rao's government in 1991, Foreign Direct Investment (FDI) has been looked upon as a tool to transform under developed countries into advanced nations. Since then every government has encouraged the expansion of FDI. When the Indian government opened up cellular telephony to private industry, several foreign investors were ready to enter India's telecom sector. However beating other manufacturing and services sectors, Indian telecom had attracted major inflow of FDI since August 1991. According to the numbers published by Investindiatelecom (an online agency which tracks developments in the Indian telecom sector), Indian telecom has grossed actual FDI worth Rs 9576.40 crore during the period starting from late 1991 to early 2003. Of the total FDI inflow in Indian telecom sector, the major share has gone towards investment in holding companies followed by cellular network and manufacturing and consultancy. This paper is an attempt to study current international investment in telecommunications industry. We find that a stable, transparent and non-discriminatory regulatory system is the best way to attract more foreign investment. Foreign investment in telecommunications brings technology transfer, huge capital, and increased market competition, which help national telecommunications development. The implementation of liberalized telecommunication investment should produce considerable benefits not only within the country's telecommunication sector but also for the national economy as a whole.*

Keywords: - *FDI, Telecommunication Industry, Global Market & Economic Benefit.*

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INTROUDUCTION

Most of the underdeveloped and developing countries of the world suffer from low level of capital and low level of capital formation. But these countries have a desire to increase their level of income and to achieve higher level of economic development. To achieve this purpose, they require rapid industrialization, full utilization of resources and capacity. Since the domestic resources are insufficient to carry out this programme, countries have to depend on other nations for resources.Economic history is evident of the fact that presently developed nations of the world developed with the help of foreign capital. For example, England borrowed from Holland in the 17th and 18th century, the United States borrowed from England and France, Russia (earlier USSR) borrowed from United States, and China took the financial help from Russia. A developing country like India may need foreign capital on account of - Low Capital Formation, Need for High Level of Investment, Development of Basic Economic Infrastructure, Exploitation of Productive Resources, Backwardness in Technologies, Making Balance of Payment Favorable, and Filling the Gap of Private Entrepreneurs. So, like other countries India also depends on Foreign capital & technology for its economic development. Telecommunications sector plays a twofold role in economic activities, not only itself a separate circle in economic system but also a supplying mean for other sectors. Telecommunications relates to many other economic and industrial sectors like entertainment, manufacture, and communication sectors. Foreign investment has been one of the most significant driving forces in the exploration of natural resources and improvement in economic conditions of underdeveloped and developing countries for years. Recently, foreign investment has not only increased swiftly but also covered a wide spectrum of industries around the world. The role of foreign investment has played a very significant role in the world's economy. Among foreign investments, telecommunications is one of the most strategic industries of national economic control. Even though foreign investments on telecommunications will bring advanced technological skills, abundant funds, as well as market competition and will benefit national telecommunications development, many countries guide policy and legal requirements to control foreign investment to match to their economic and developmental demands. Telecommunications have a considerable and important influence on national security, social stability and economic development, as well as many industrial sectors. Due to its particular character, telecommunication industries are often state-operated and monopolized in many countries. Therefore, the balance between economic gains from foreign investment and national telecommunications sovereignty presents a challenging task.

OBJECTIVE OF THE STUDY

The main objective of the study is to find out the role played by FDI in telecommunication industry in India. This present paper also tries to find out the impact of FDI in Telecommunication on economic growth and to find out the various economic benefits derived from this industry. FDI brings the promotion of economic growth, technology transfer and the creation of employment. This paper is an attempt to study current international investment in telecommunications industry.

RESEARCH METHODOLOGY

To attain the above stated objective secondary data have been used. Different international agreements and various government reports were analyzed. Rural and Urban performance of Telecom Sector was studied. FDI Guidelines for this sector was also analyzed to find out the implications on the growth of this industry. The research methodology also includes compilation of research article of the experts in the field and reflections of the various books on FDI. The production of telecom equipment and export is studied for seven years from 2002 to 2010.

Sector Specific Guidelines for Foreign Direct Investment

Sector	**Guidelines**
Telecommunication	• In basic, cellular, value added services and global mobile personal communications by satellite, FDI is limited to 49% subject to licensing and security requirements and adherence by the companies (who are investing and the companies in which the investment is being made) to the licence conditions for foreign equity cap and lock- in period for transfer and addition of equity and other licence provisions • In ISPs with gateways, radio-paging and end-to-end bandwidth, FDI is permitted up to 74% with FDI, beyond

	49% requiring Government approval. These services would be subject to licensing and security requirements • No equity cap is applicable to manufacturing activities • FDI up to 100% is allowed for the following activities in thetelecom sector : • ISPs not providing gateways (both for satellite and submarine cables) • Infrastructure Providers providing dark fibre (IP Category I) • Electronic Mail; and • Voice Mail The above would be subject to the following conditions: • FDI up to 100% is allowed subject to the condition that such companies would divest 26% of their equity in favour of Indian public in 5 years, if these companies are listed in other parts of the world • The above services would be subject to licensing and security requirements, wherever required • Proposals for FDI beyond 49% shall be considered by FIPB on case to case basis

Though the investment is mainly confined to cellular telephony, sources opine that basic telephony too will start attracting foreign capital in a big way. But quite often one questions – Is FDI a solution for the pitfalls in the Indian economy? While some critics doubt the benefit of such an investment, some defenders view that India must permit FDI even in industries where it isn't beneficial.

As per the recent recommendation by a committee headed by Planning Commission member NK Singh, FDI can be hiked upto 100 percent in many sectors and upto 74 per cent in telecom, which is otherwise limited to 49 per cent. Though it might ring positive vibes for Indian telecom, this recommendation to hike the FDI inflow has raised mixed reactions from all quarters in the industry circles. However the issue of 74 percent Foreign Direct Investment (FDI) in telecom has been a topic of debate since 2001 when the country's security agencies warned that allowing foreign investors to hold a majority in Indian telecom companies could lead to control by foreign powers over communications in the country.

Service area-wise Rural and Urban performance of Telecom Sector as on 31.10.2012

Sr. No.	Service area	Total telephones (Psu+Pvt.)		
		Rural	Urban	Total
1	Andhra Pradesh	25976638	43848199	**69824837**
2	Assam	8024715	6829027	**14853742**
3	Bihar (incl. Jharkhand)	30121983	31851321	**61973304**
4	Gujarat	19167703	35606233	**54773936**
5	Haryana	9892908	11342832	**21235740**
6	Himachal Pradesh	4568716	2797932	**7366648**
7	Jammu & Kashmir	3080413	3931205	**7011618**
8	Karnataka	16917755	41832311	**58750066**
9	Kerala	16755210	19727739	**36482949**
10	Madhya Pradesh (incl. Chhattisgarh)	21715438	33151354	**54866792**
11	Maharashtra (excl.Mumbai)	32136355	39187775	**71324130**
12	North East	4126712	5036507	**9163219**
13	Orissa	13324975	12903464	**26228439**
14	Punjab	11554476	19978613	**31533089**
15	Rajasthan	23752498	26767326	**50519824**
16	Tamil Nadu (Incl. Chennai)	17438710	63141278	**80579988**
17	Uttar Pradesh (East)	34479134	40331865	**74810999**
18	Uttar Pradesh (West) (incl. Uttarakhand)	20613135	31102751	**51715886**
19	W.B. (excl.Kolkata & incl. A&N & Sikkim)	27406026	18984275	**46390301**
20	Kolkata #	754117	24505721	**25259838**
21	Delhi #	2686145	41801825	**44487970**
22	Mumbai #	0	36024963	**36024963**
	All- India	**344493762**	**590684516**	**935178278**

Note:

Rural-urban break up of population for Kolkata, Delhi and Mumbai service areas is not available.

TATA Teleservices Limitted,Quadrant Televentures Limitted and Reliance have submitted the figures of wireless phones (WLL plus GSM) and not separatly technology-wise.

ECONOMIC BENEFITS OF FDI

Opening up of markets have given immense opportunities to the business leaders in India to capture the opportunities over the globe. The fast rising economic performance of Indian Economy has created an environment of optimism on the part of the investors to invest more. Indian Industries in the fields of information and Technology, Steel, Textile, Software and some others have brought tremendous success for the country.

Attracting foreign direct investment (FDI) has become a key part of national developmental strategies for many countries. The see such investments as bolstering domestic capital, productivity, and employment, all of which are crucial to jump-start the economic growth. While many highlight FD's positive effects, others blame FDI for "crowding up" domestic investment and lowering certain regulatory standards. The effect of FDI can sometimes barely be perceived, while at other times these can be absolutely transformative. While impact depends or many conditions, well-developed and implemented policies can help maximize its gains. The following are the major impact of FDI in the host countries:

- Faster economic growth.
- Increase in trade,
- Employment and skills levels,
- Technology diffusion and knowledge transfer; and linkages and spillover to domestic firms.

FDI AND GROWTH OF GDP

At the moment Indian Economy's GDP is sizzling and foreign businessmen and investors are swarming to Banglore and Mumbai to grab a piece of the action. The foreign direct investment towards various sectors affected the Indian economy at significant level. Over the past four years the GDP of Indian Economy has clocked up an average annual pace of more than 8%, compared with around 6% in the 1980s and 1990s and a measly 3.5% during the three decades before 1980, when highly interventionist policies shackled the economy.

The Indian Economy's GDP seems to be reaping the rewards of reforms that were made in the early 1990s. As a result of which the total trade in goods and services has jumped up to 45% of GDP, form 17% in 1990. The co-efficient of correlation between FDI flows and GDP states that there is a high degree of relationship between the FDI flows and GDP. Hence the recent changes in the Indian economic policies have made India as one of the most prosperous economy of the developing world. Indian economy is one of the most preferred destinations for the foreign direct investments.Over the past few years, FDI become 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 adequate economic information and rich funds, foreign investment is always come with high risks. With such risks, foreign investment also comes with the possibility of much greater returns. Generally, foreign investment has been very closely related either with trade or with an international development agency. Most recent 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 progressive 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. Transfer of technology from foreign investment projects will improve the efficiency of local firms as well. These things are become the main attractions for developing and underdeveloped countries seeking foreign investment. FDI also serve to integrate domestic markets into the global economic system. 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 vital 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.

Similarly, in South Korea, various economic regulations that were prohibited by the national treatment provisions were essential to economic growth and development. The Korean government used measures like subsidized credits, tax and tariff exemptions and export subsidies to intervene against foreign investment. They targeted industries such as cement, fertilizer, steel, chemicals, and consumer goods, etc. FDI was restricted and played a minimal role in South Korea's industrialization and economic development (Westphal, 1990). After Asia's financial crisis in 1997, the IMF required the Korean government to take measures for internationalization and deregulation, including the removal of a number of restrictions on foreign ownership of domestic stocks and bonds, residents' ownership of foreign assets, and overseas borrowing by domestic financial and non-financial institutions (Chang, Park & Yoo, 1998). The sharp reduction in government planning and industrial policy has caused problems such as overcapacity in the petrochemical industry, over-investment, and corporate failures in industries (Chang, Park & Yoo, 1998). Meanwhile, the 1997 Asia Financial Crisis, one of the world's worst economic crises since the Great Depression. The crisis engulfed much of Asia including South Korea, Thailand, and Indonesia caused by the set-off of hot money prior to August 1997, and then a true panic when the Thai baht began to fall. The liberalization of international investment was struck by the Asian financial crisis and economists pointed out that the liberalization of international borrowing and investing in those countries over the last decades created the instability from which the crisis was born. One economist has noted, "The Asian crisis cannot be separated from the excessive borrowings of foreign short-term capital as Asian economies loosened up their capital account controls and enabled their banks and firms to borrow abroad. It has become apparent that crises attendant on capital mobility cannot be ignored (Bhagwati, 1998)." The reversal of capital flows amounting to eleven percent of the regional GDP was a result of foreign and domestic investors stampeding for the exits for fear of being caught with greatly depreciated local currency and assets (Weisbrot, 1998). Economists who supported increasing deregulation of international investment have recently begun to concede that a large number of workers have indeed been hurt by such a process. On the other hand, foreign investors take into account all relevant information affecting asset returns when deciding their market positions and would be hard pressed to explain future disinvestments from these countries (Weisbrot, 1998). The OECD has just issued a report intended to make the case for international investment liberalization where they contend that such negative impacts are "at most, modest."

PERFORMANCE OF TELECOM EQUIPMENT MANUFACTURING SECTOR

As a result of Government policy, progress has been achieved in the manufacturing of telecom equipment in the country. There is a significant telecom equipment-manufacturing base in the country and there has been steady growth of the manufacturing sector during the past few years. The figures for production and export of telecom equipment are shown in table given below:

(Rs. in crore)

Year	*Production*	*Export*
2002-03	14400	402
2003-04	14000	250
2004-05	16090	400
2005-06	17833	1500
2006-07	23656	1898
2007-08	41270	8131
2008-09	48800	11000
2009-10	50000 (projected@ 18%)	13500 (projected @ 25%)

Rising demand for a wide range of telecom equipment, particularly in the area of mobile telecommunication, has provided excellent opportunities to domestic and foreign investors in the manufacturing sector. The last two years saw many renowned telecom companies setting up their manufacturing base in India. Ericsson set up GSM Radio Base Station Manufacturing facility in Jaipur. Elcoteq set up handset manufacturing facilities in Bangalore. Nokia and Nokia Siemens Networks have set up their manufacturing plant in Chennai. LG Electronics set up plant of manufacturing GSM mobile phones near Pune. Ericsson launched their R&D Centre in Chennai. Flextronics set up an SEZ in Chennai. Other major companies like Foxconn, Aspcom, Solectron etc have decided to set up their manufacturing bases in India.

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. For example since 1984, 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. Observably, fueling the operation of old PTOs, foreign investment has gradually played a more vital 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.

ECONOMIC GROWTH AND FDI IN TELECOMMUNICATIONS

Investment in telecommunications is a requirement for broad based economic development. The 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 considerable 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.

KEY FINDINGS

1. The study found that there is a significant telecom equipment-manufacturing base in the country and there has been steady growth of the manufacturing sector during the past few years. The figures for production of telecom equipment show three time increase in production from Rs. 14400 crore to Rs. 50000 crore during the study period.. Similarly export of telecommunication equipments has been increased from Rs. 402 crore to Rs. 13500 crore during the same period. Rising demand for a wide range of telecom equipment, particularly in the area of mobile telecommunication, has provided excellent opportunities to domestic and foreign investors in the manufacturing sector. The last two years saw many renowned telecom companies setting up their manufacturing base in India. Ericsson set up GSM Radio Base Station Manufacturing facility in Jaipur. Elcoteq set up handset manufacturing facilities in Bangalore. Nokia and Nokia Siemens Networks have set up their manufacturing plant in Chennai. LG Electronics set up plant of manufacturing GSM mobile phones near Pune. Ericsson launched their R&D Centre in Chennai. Flextronics set up an SEZ in Chennai. Other major companies like Foxconn, Aspcom, Solectron etc have decided to set up their manufacturing bases in India.
2. The following are the major impact of FDI in Telecommunication:
   - Faster economic growth.
   - Increase in trade,
   - Employment and skills levels,
   - Technology diffusion and knowledge transfer; and linkages and spillover to domestic firms.
3. The co-efficient of correlation between FDI flows and GDP states that there is a high degree of relationship between the FDI flows and GDP. Hence the recent changes in the Indian economic policies have made India as one of the most prosperous economy of the developing world. Indian economy is one of the most preferred destinations for the foreign direct investments. The evidence shows us that there was indeed a connection between economic development and investment in telecommunications. FDI brings the promotion of economic growth, technology transfer and the creation of employment. Foreign investment

in telecommunications brings technology transfer, huge capital, and increased market competition, which help national telecommunications development. The implementation of liberalized telecommunication investment produces considerable benefits not only within the country's telecommunication sector but also for the national economy as a whole. We find that a stable, transparent and non-discriminatory regulatory system is the best way to attract more foreign investment.

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