



Review of FDI and Financial Growth in Indian Telecommunication Sector

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Abstract: Foreign Direct investment has given a boom in telecomm sector in India. For achieving the higher edges in telecomm services the sector has witnessed a strong need for investment. The foreign direct investment has created a financial growth in Indian telecomm sector. The future of this sector is very bright. Present study is an attempt to review the FDI and Financial Growth in Indian Telecommunication Sector

Foreign direct investments (FDI)

Foreign direct investments (FDI) flows in any sector to a larger extent are responsible for the growth and development of the same. Since liberalization of Indian telecomm sector which enrouted influx of foreign investments in the same, this sector has experienced expansive growth.

Singh (2005) in an extensive study outlined that Indian telecommunication sector started receiving magnanimous FDI during 1995-1996 owing to changing policies and liberalization initiatives by government. These investments were mainly channelized for overall escalation of this sector along with infrastructural developments to support prospective growth.

In the following year, Sahoo (2006) conducted a study on South Asian countries namely India, Pakistan, Bangladesh, Sri Lanka and Nepal and stipulated that India has been the highest recipient of FDI inflows amongst all these countries. With favourable environment for FDI investments, India became a major destination for investors during early 2000s. During 2004, FDI investments growth mounted with an array of mergers and acquisitions deals that were

materialized on international platforms across borders. The FDI during this period escalated to approximately 5 billion USD which was considered to be the highest of its time. The overall trend of FDI in India in differing sectors including telecommunications is depicted in figure below.

	SECTOR	INFLOWS								
		2003	2004	2005	Cumulative Inflows (August 1991 to Sept. 2005)	% of Total Inflows	Exports (2003-04)	% share in total exports	Exports (2004-05)	% share in total Exports
1	Fuels, Power, oil	7418.51	7160	2765	107106	6.99	NA	NA	NA	NA
2	Telecommunication	7272.59	6088	9639	121994	7.96	NA	NA	NA	NA
3	Electrical equipment (including computer Software)	13550.09	39667	45938	210064	13.71	NA	NA	NA	NA
4	Transport industry	15133.84	8064	9659	131620	8.59	1932	3.06	2715.74	3.4
5	Chemicals	2849.05	8677	9045	74564	4.87	3207.77	5.09	4037.04	5.06
6	Services	13903.59	11456	31445	122743	8.01	NA	NA	NA	NA
7	Metallurgical Industry	1454.52	8584	6322	26951	1.76	NA	NA	NA	NA
8	Food processing	3076.28	3690	1783	46778	3.05	NA	NA	NA	NA
9	Hotels & tourism	2594.21	1527	2800	13198	0.86	NA	NA	NA	NA
10	Textiles	838.18	1785	3462	16864	1.1	NA	NA	NA	NA
11	Paper and products	337.69	175.6	1229	14047	0.92	360.92	0.57	434.62	0.54
12	Industrial machinery	476.71	430.8	1475	8253.3	0.54	NA	NA	NA	NA
13	Drugs & pharmaceuticals	2793.28	15711	5107	40506	2.64	1600.07	2.54	1951.81	2.44
14	Consultancy services	2480.26	11844	1627	20306	1.33	NA	NA	NA	NA
15	Glass	250.95	384.7	32.72	10302	0.67	207.43	0.33	206.47	0.26
16	Cement & gypsum products	440.4	7.3	19698	32313	2.11	616.63	0.98	793.74	0.99
17	Misc. mechanical and engineering	1910.24	717.3	2225	19278	1.26	NA	NA	NA	NA
18	Commercial office and household equipment	495.47	108.2	1557	8390.8	0.55	NA	NA	NA	NA
19	Ceramics	65.98	1208	276.4	3495.3	0.23	105.48	0.17	93.18	0.12
20	Misc. Industries	14568.58	13400	17568	175547	11.46				
	Total of 21	91910.42	1E+05	2E+05	1E+06					
	Total of all sectors	116172.6	2E+05	2E+05	2E+06					

Table 1: Sector-Wise Breakdown of FDI Inflows, India (Aug 1991 to Dec 2005)

Source: Sahoo (2006)

Sinha & Sinha (2007) delineated that as a step towards attracting higher FDI inflows in India within telecommunication sector government developed dynamic policies supporting growth of ITES / BPO. Investments were attracted and channelized through setting up on 'Software Technology Parks' and 'Export Enterprises Zones' thus developing overall sector.

Highlighting the extent of FDIs permitted in India within telecommunication sector, Inc Ibp (2013) outlined that upto 74% of FDI was allowed in radio paging services and internet service providers whereas 100% FDI was accepted in areas electronic mails, infrastructure providers offering dark fibers, voice mails and manufacturing of telecomm apparatus. However in a report by The Economic Times (2013) it was confirmed that the limitations of 74% were removed and 100% FDI was allowed by Department of Industrial Policy and Promotion (DIPP) wherein investors had to partner with Indian organizations for ensuring legal tolerance. The report also estimated that such changes would create a centre of attention thus pulling in approximately 10 million USD in future.

Daidj (2014) highlighted that the share of telecommunication industry in availing FDI continued to increase till 2009-2010 after which a decline within the same has been experienced as depicted in figure below:

Year	Total	Telecom Sector	Share of Telecom in Total (%)
2006-07	15,726	478	3.04
2007-08	24,579	1,261	5.16
2008-09	27,309	2,558	9.37
2009-10	25,888	2,554	9.87
2010-11	19,427	2,1665	8.57
2011-12	36,504	1,997	5.47
2012-13	22,423	304	1.36
2013-14 (April - July)	7,054	12	0.17

Table 2: FDI inflows in India (USD Million)

Source: Daidj (2014)

The major reason that was responsible for this decline was economic recession of 2008 which affected financial stability of many investors and countries alike. Issues like economic instability of India due to mounting inflationary trends and blockages in infrastructural implementation further discouraged investors resulting into a sluggish growth of telecom industry. The major attraction for investors was the mobile telephony in India which was solely responsible for FDI inflows within the country. It was further determined that due to unattractiveness of fixed telecommunications in India the spread and infiltration of broadband services has been restricted to a larger extent. The study advocated channelization of FDI into development of fixed telecommunications to support overall growth of the industry.

In another report by (The Times Of India, 2014) it was outlined that during fiscal year 2013-2014, the FDI inflows within telecomm sector in India was approximately 1.3 billion USD. These inflows increased during financial 2014-2015 wherein it was observed that within a short span of 4 months (that is from April 2014 - October 2014) an influx of approximately 10.73 billion USD was enrouted to the same. The rise was mainly attributed to a series of auctions along with invitation of funds in network rollout.

Though the FDI investments in Indian telecomm sector have experienced a crooked line but yet it is anticipated to grow thus fostering development of the sector in totality.

Financial Growth in Telecommunication Sector

The growth especially in terms of finances as experienced by Indian telecom sector has been unparalleled due to varied steps taken through government policies to relax the same. In accordance to a report by Dun & Bradstreet (2010) the overall income of telecomm industry was approximately 1,291 billion INR in 2008 which grew by 18.03% in 2009 reaching up to 1,524 billion INR. During the same period growth in number of subscribers was indexed to be 43% with approximately 429.70 million subscribers in 2009.

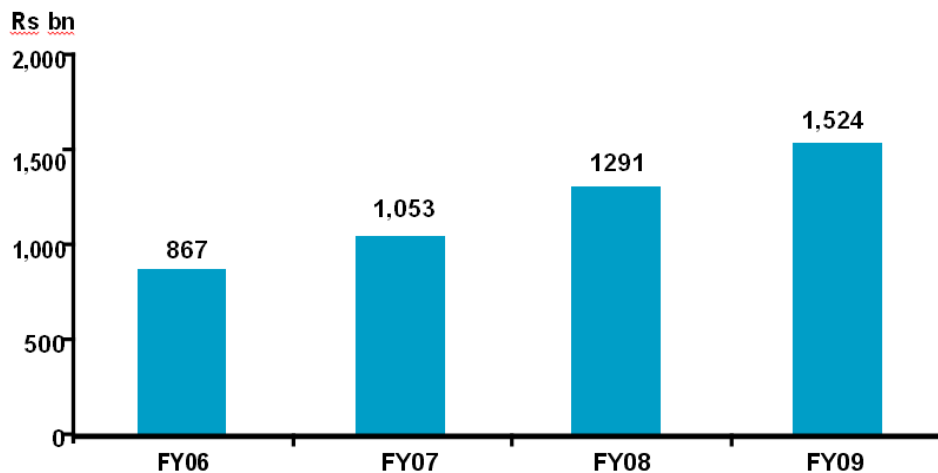


Figure 1: Revenues of Indian Telecomm Sector (Billion INR)

Source: Dun & Bradstreet (2010)

It was also determined that the overall contribution of telecomm sector to India's Gross Domestic Product (GDP) escalated from a mere 1% in 1992 to approximately 2.83% in 2007. The major driving force behind this financial growth was the mobile telephony which experienced a prominent increase in number of subscribers between 2002 and 2009. The report also acknowledged telecom industry being amongst the fastest developing sectors in Indian economy. The growth in GDP over the between 2001 and 2010 has been portrayed in figure below:

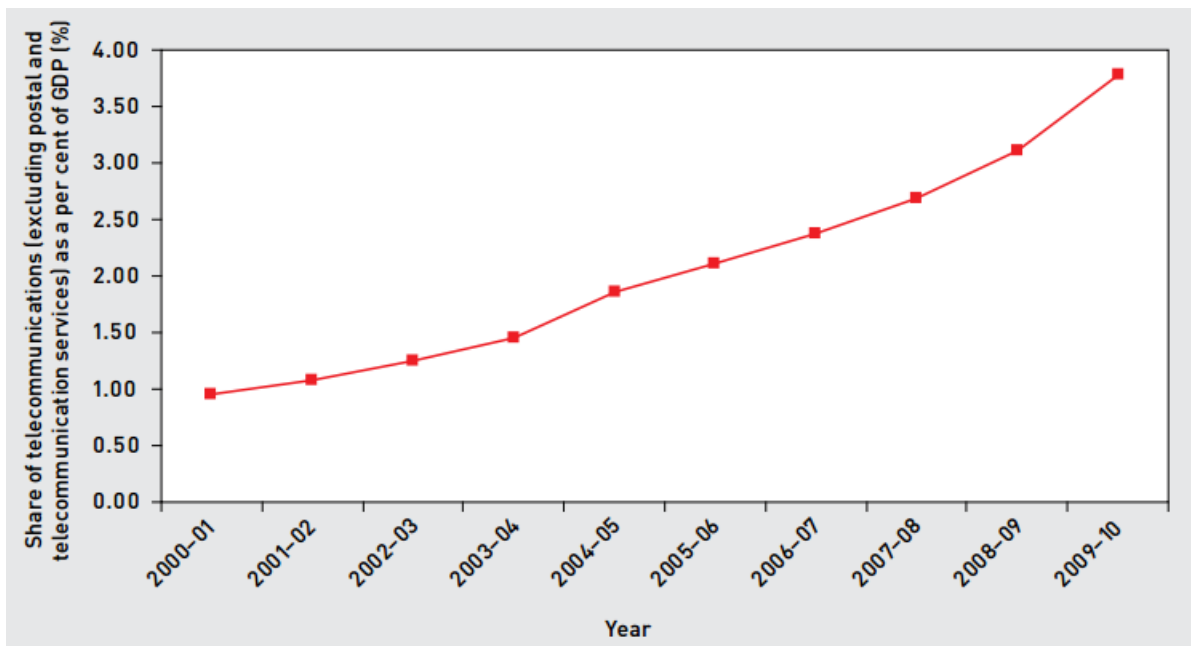


Figure 2 : Share of Telecom Sector to Indian GDP

Source: (TRAI, 2012)

Some of the major benefits in accordance to a report by TRAI (2014) along with contribution to GDP and employment generation that financial growth of this sector has provided are enhanced information usage, minimized transaction costs, modernization of services related to healthcare and education and expansion of business efficiencies owing to voice and data services.

A recent report by IBEF (2016) also attributed growth of telecom sector to mobile telephony as determined by Dun & Bradstreet (2010). The overall composition of telephone subscribers both wireless and wireline is depicted in table below:

Year	Wireless Subscribers (in million)	Wireline Subscribers (in million)	Total Subscribers (in million)	Annual Growth %
Mar' 07	165.11	40.75	205.86	45
Mar' 08	261.07	39.42	300.49	46
Mar' 09	391.76	37.96	429.72	43
Mar' 10	584.32	36.96	621.28	45
Mar' 11	811.59	34.73	846.32	36
Mar' 12	919.17	32.17	951.34	12
Mar' 13	867.80	30.21	898.01	-6
Mar' 14	904.52	28.50	933.02	4
Mar' 15	969.90	26.59	996.49	7

Table 3 : Growth in Telephone Subscribers as per TRAI Annual Reports (2012-2015)

Source: (Pritish & Saxena, 2015)

The revenues from mobile services are estimated to reach a mark of 37 billion USD by 2017 with a CAGR of 5.2% since 2014 as per reports by (IBEF, 2016). This growth is related to the penetration of smart-phones within Indian economy which is expected to make India the 4th prevalent smart-phone market across the world by year end 2020. Investment initiatives by the government like development of wi-fi cities and introduction of 4G would further foster this financial growth of Indian telecomm sector. Companies like Bharati Airtel and Reliance communications have joined hands with foreign counterparts to augment investments within the sector thus encouraging its development. Foreign companies like American Tower Corporation have also proposed investments in India. Overall the financial growth of this sector seems to be promising.

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