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An analysis of the impact of FDI on Indian economy with special reference to telecom sector

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Abstract
Foreign direct investment (FDI) has played an important role in many of the economies of the region. The present study is an attempt to examine the impact of FDI inflow on the Indian economy specifically to telecommunication sector. In this study the researcher has tried to know overall trend of FDI inflow and sub-sector wise FDI inflow in the sector.
The result shows that there is no sustainable growth of FDI in telecommunication sector however; there is no significant difference between FDI inflows in the various subsectors of the telecommunication sector of the Indian economy. This also directs that there is need to improve policy of FDI in telecommunication sector according to the changing scenario in global market.

Keywords: Economic growth, FDI, telecom sector, industrial reforms

Introduction
Foreign direct investment (FDI) has played an important role in many of the economies of the region. There is a widespread belief among policymakers that foreign direct investment (FDI) enhances the productivity of host countries and promotes the economic development. Foreign Direct Investment (FDI) being a non-debt capital flow is a leading source of external finance, especially for the developing economies. The developing economies do not fulfill the needed level of savings and income in order to meet the required level of investment for sustaining the high growth rate of the country. In such cases, foreign direct investment plays an important role of bridging the gap between the available resources or funds and the required resources or funds. It not only brings in capital and technical knowledge but also increases the competitiveness of the economy.

Economic Growth and FDI Policy in India
FDI has been recognized as an important factor for economic growth and development. India's economic reforms way back in 1991 has generated strong interest in foreign investors and turning India into one of the favorite destinations for global FDI flows. In fact, FDI policy reform formed part of the first package of industrial reforms in July 1991 and was reflected in the Industrial Policy announced in 1991:
"Foreign investment would bring attendant advantages of technology transfer, marketing expertise, introduction of modern managerial techniques and new possibilities for promotion of exports.… The government will therefore welcome foreign investment which is in the interest of the country's industrial development."
More recently, the Economic Survey 2008-09 described that:
"FDI is considered to be the most attractive type of capital flow for emerging economies as it is expected to bring latest technology and enhance production capabilities of the economy.", UNCTAD' World Investment Report, 2010 considers India the 2nd most attractive destination among the TNCS after the China. The positive perceptions among investors as a result of strong economic fundamentals driven by 18 years of reforms have helped FDI inflows grow significantly in India.
The current phase of FDI policy is characterized by negative listing, permitting FDI freely except in a few sector indicated through a negative list.

Table 1: Growth in FDI Inflows

S. No	Financial Year (April - March)	Amount of FDI Inflows		%age growth over previous year (in terms of US $)
Financial Years 2000-01 to 2013-14 (up to November, 2013)		In Rs crores	In US$ million	
1	2000-01	10,733	2,463	-
2	2001-02	18,654	4,065	(+) 65%
3	2002-03	12,871	2,705	(-) 33%
4	2003-04	10,064	2,188	(-) 19%
5	2004-05	14,653	3,219	(+) 47%
6	2005-06	24,584	5,540	(+) 72%
7	2006-07	56,390	12,492	(+) 125%
8	2007-08	98,642	24,575	(+) 97%
9	2008-09	1,42,829	31,396	(+) 28%
10	2009-10 (P) (+)	1,23,120	25,834	(-) 18%
11	2010-11(P) (+)	97,320	21,383	(-) 17%
12	2011-12(P)	1,65,146	35,121	(+) 64%
13	2012-13(P)	1,21,907	22,423	(-) 36%
14	2013-14 (Apr-Nov,2 013)**	92,994	15,458	
Cumulative Total (from April, 2000 to November, 2013)		9,89,907	2,08,862	

Note: (i) including amount remitted through RBI's-NRI Schemes (2000-2002).

(ii) FEDAI (Foreign Exchange Dealers Association of India) conversion rate from rupees to US dollar applied, on the basis of monthly average rate provided by RBI (DEPR), Mumbai.

Figures for the years 2009-10, 2010-11, 2011-12 & 2012-13 (from April, 2012 to September, 2012) are provisional subject to reconciliation with RBI.

^ Inflows for the month of March, 2012 are as reported by RBI, consequent to the adjustment made in the figures of March, '11, August, '11 and October, '11.

'*' An additional amount of US$ 4,035 million pertaining to the year 2008-09, since reported by RBI, has been included in FDI data base from February, 2012.

** An amount of US$ 1,218 million has been added in the month of September, 2013 after clarification received from RBI vide its letter No FE.CO.FID/12639/10.02.035(stat)/2013-14 dated 8th January, 2013 for M/s Hindustan Unilever Ltd. Equity Inflows for the month of September, 2013 are now US$ 4,132 million.

FDI policy changes increasingly reflect the requirements of industry and are based on stakeholder's consultation. Upfront listing of negative sectors has helped focus on reform areas, which are reflected in buoyant FDI inflows. Cumulative amount of FDI Inflows from April 2000 to Nov., 2013 stood at US$ 2, 08,862 million. FDI inflows declined globally in 2009, 2010 & 2012-13. While India was able to largely insulate itself from decline in global inflows in 2009-10. FDI flows moderated in 2011-12. It is found that there is a huge gap in FDI approved and FDI realized. It is observed that the realization of approved FDI into actual disbursements has been quite slow. The reason of this slow realization may be the nature and type of investment projects involved. Beside this increased FDI has stimulated both exports and imports, contributing to rising levels of international trade. India ranked at 26th in world merchandise exports in 2007 with a share of 1.04 percent. Further, the explosive growth of FDI gives opportunities to Indian industry for technological upgradation, gaining access to global managerial skills and practices, Optimizing utilization of human and natural resources and competing internationally with higher efficiency. Most importantly FDI is central for India's integration into global Production chains which involves production by MNCs spread across locations all over the world.

Objective of the study

- To analyze the impact of FDI in Telecom Sector in India
- To analyze the per Capita and Tele Density in India
- To evaluate the impact of FDI on the economy.

Data Collection

This study is based on secondary data which is collected from department of Telecommunication, Government of India Telecom Regulatory Authority of India World Bank Reports research projects, Journal and newspapers already conducted surveys analysis database available etc.

Foreign Direct Investment (FDI) in Telecom sector

Table 2: FDI Inflows in Top 10 Sectors in India from April, 2000 to Nov. 2013

S. No.	Sector	Amount of FDI Inflows		% age with total FDI Inflows (+)
		(In Rs crore)	(In US$ million)	
1	Services Sector*	180,936.13	38,713.32	18.55
2	Construction Development	106,484.22	22,969.45	11.00
3	Telecommunications	58,930.27	12,888.72	6.17
4	Computer Software & Hardware	55,968.20	12,220.28	5.85
5	Drugs & Pharmaceuticals	55,903.83	11,570.50	5.54
6	Chemicals (Other Than Fertilizers)	43,358.29	9,362.40	4.49
7	Automobile Industry	44,003.64	9,133.26	4.38
8	Power	39,295.85	8,357.23	4.00
9	Metallurgical Industries	36,430.45	7,780.61	3.73
10	Hotel & Tourism	34,401.88	6,825.56	3.27

Source: DIPP, Federal Ministry of Commerce & Industry, Govt. of India

Table 2 clearly indicates the FDI inflow in different sector for the period of April, 2000 to Nov, 2013. Most of the foreign investors were liked to invest their amount in Service Sector, Construction Development, Telecommunications, and Computer Software and Hardware, because these sectors earn more profits compared to others. At present, India provides a liberal, attractive, and investor friendly climate to foreign investors allowing greater participation of foreign investment has helped in growth of the sector and telecom was the third major sector attracting FDI inflows after Service Sector, and Construction Development sector. Until 22nd August 2013, FDI upto 74% (49% under automatic route) was permitted in most cases. The policy is liberalized further on 22.08.2013 {(Press Note No. 6 (2013 Series), DIPP, Ministry of Commerce and industry} and FDI up to 100% is permitted in almost all telecom services including basic, cellular, unified access services, national/international long distance, VSAT, Global Mobile Personal Communications Services (GMPCS), all types of ISP, infrastructure providers (providing dark fibre, telecom towers, duct, space), and voice mail and 100% FDI in manufacturing of telecom equipments. FDI upto 49% is allowed through automatic route and beyond 49% is allowed through Foreign Investment Promotion Board (FIPB).

The FDI equity inflows in telecom sector was US$ 177.69 million in 2000-01, which has gone up to US$ 2,548.63 million in 2008-09, thereafter recorded decline (Table -03).

Table 3: FDI Equity Inflows in Telecommunications Sector in India from April 2000 to Oct., 2013

S. No.	Year	FDI (Rs crore)	FDI(US $ million)
1	2000-01	7,84.16	177.69
2	2001-02	3,938.46	873.23
3	2002-03	9,07.73	1,91.60
4	2003-04	3,97.84	86.49
5	2004-05	5,41.10	118.33
6	2005-06	2,751.45	617.98
7	2006-07	2,149.58	476.51
8	2007-08	5,099.56	1,260.70
9	2008-09	11,684.81	2,548.63
10	2009-10	12,269.66	2,539.26
11	2010-11	7,542.04	1,664.50
12	2011-12	9,011.53	1,997.24
13	2012-13	1,654.30	303.87
14	2013-14 (April-Oct)	1,97.16	32.52
Grand Total		58,929.38	12,828.58

Source: DIPP, Federal Ministry of Commerce & Industry, Govt. of India

Note: Amount includes the inflows received through SIA/FIBP route, acquisition of existing shares and RBI's automatic route only

Impact of FDI in Telecom Sector in India

Telecommunication has been recognized world-over as an important tool for socio-economic development for a nation and plays a phenomenal role in growth and modernization of various sectors of the economy. Over the last few years, Indian telecom market has shown overwhelming growth thanks to domestic demand, policy initiatives undertaken by the government and admirable efforts by the players of the industry and in the process, has managed to emerge as one of the youngest and fastest growing economies in the world today. Factors like regulatory liberalization, structural reforms and competition played a very important part in this rapid transformation.

Telecom services in India can be basically divided into two major segments:

(a) Telephones, wire line and wireless, and (b) Internet services. In addition, it also comprises of other smaller segments including radio paging services, VSATs, PMRTS and global mobile personal communication by satellite (GMPCS). As mentioned earlier, wireless phones and Internet services have registered the highest growth in the last few years.

Teledensity: Teledensity or coverage of population under telephone is an important indicator of telecom penetration in the country. It is defined as number of telephones per 100

population. An analysis of teledensity in India (Table-04) has shown following features:

- The overall teledensity was 3.58% in March 2001, which increased to 73.60% in August 2013. Thus, there has been continuous improvement in the overall teledensity of the country.
- The rural teledensity, which was below 1% in March 2001, has gone up to 41.85% at the end of August 2013.
- The urban teledensity, on the other hand, has increased from 10.37% to 145.45% during the Aforesaid period.
- The wireless teledensity has increased from 0.35% to 71.21% during the same period.
- The private teledensity has increased from 0.38% to 63.45% during the same period

Table 4: Teledensity (Rural, Urban, Wireless, Wireline, Public and Private) in India (%)

Year ending 31st March	Rural	Urban	Overall	Wire line	Wireless	Public	Private
2001	0.93	10.37	3.58	3.23	0.35	3.20	0.38
2003	1.49	14.32	5.11	3.87	1.24	4.04	1.07
2005	1.73	26.88	8.95	3.77	5.18	4.74	4.21
2007	5.89	48.10	18.22	3.61	14.61	6.32	11.90
2009	15.11	88.84	36.98	3.27	33.71	7.71	29.27
2011	33.83	156.94	70.89	2.91	67.98	10.55	60.34
2013	41.05	146.64	73.32	2.47	70.85	10.62	62.69
August' 13	41.85	145.45	73.60	2.39	71.21	10.15	63.45

Sources: Various Annual Reports of TRAI

Impact of FDI might be measured in the following areas also

- Indian telecom network is second largest in the world after China.
- The country has 895.51 million telephone connections, including 864.72 million wireless telephone connections.
- Overall tele-density in the country is 73.34%.
- Urban tele-density is 149.55%, whereas rural tele-density is 39.90%.
- The share of wireless telephones in total telephones is 96.56%.
- The share of private sector in total telephones is 85.51%.
- Number of Broadband connections is 14.98 million.

Table 5: Sector Wise FDI Equity Inflows from April 2000 to Oct., 2013

S. No.	Sector	Amount of FDI Inflows		% age of Total Inflows
		(In Rs crore)	(In US $ million)	
Telecommunications				
1	Telecommunications	19,365.26	4,271.19	2.07
2	Radio Paging	27.30	5.93	0.00
3	Cellular Mobile/Basic Telephone Services	29,785.91	6,488.07	3.15
4	Other(Telecom)	9,750.91	2,123.39	1.03
Sector Total		58,929.38	12,888.58	6.26

Conclusion

The adoption of liberalized telecom policy, necessitated the setting up of regulatory body for conducive growth of the telecommunication sector and protection of consumer's interest. In 1997, the Telecom Regulatory Authority of India (TRAI) was set up to provide regulatory framework for the telecom sector. National Long Distance Telephony (NLD) service was opened to the private sector on August 13, 2000 and International Long Distance Telephone (ILD) on April 1, 2002.

2G Scam woes FDI in telecom declined from Rs 9,011.53 crore in 2011-12 to Rs. 1,654.30 crore in 2012-13 primarily due to uncertainty in regulatory conditions after 2G scam. FDI flow into telecom sector hit a high of Rs. 12269.66 in 2009-10. But in 2012 many investors were forced to exit the sector after the Supreme Court cancelled 122 licenses. Since then the Government has been going back and forth on spectrum allocation and pricing policy, resulting in two failed auctions.

The Year 2012 was an epoch making year as far as the development of Telecom and ICT is concerned. In that year, three policy announcements known as "Triad of Policies" were made by the Government of India. These three policies are i) National Telecom Policy, ii) National Policy on Electronics and iii) National Policy on Information Technology. These policies are designed to help in taking Telecom and ICT sector to the next level.

The primary objective of NTP-2012 is maximizing public goods by making available, affordable, reliable and secure telecommunication and broadband services across the entire country. It also recognizes the predominant role of the private sector in this field and the consequent policy imperative of ensuring continued viability of service providers in a competitive environment. NTP –2012 aims to increase rural teledensity from 39 to 70 by the year 2017 and 100 by the year 2020. The policy also aims to provide affordable and reliable broadband-on-demand by the year 2015 and to achieve 175 million broadband connections by the year 2017 and 600 million by the year 2020 at minimum 2 Mbps download speed and making available higher speeds of at least 100 Mbps on demand. NTP 2012 has recognized the need to promote R&D in the manufacturing of domestic telecom equipments and enhancing competitiveness of domestic manufacturing. The Policy has also recognized the need to permit spectrum pooling, sharing and trading to enable optimal utilization of spectrum through appropriate regulatory framework.

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