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Foreign Investment in India With Special Reference To 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 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 Investindiatele.com (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. It is found 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.

1. 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

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Level of Investment, Development of Basic Economic Infrastructure, Exploitation of Productive Resources, and 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.

2. OBJECTIVE OF THE STUDY

- To find out the role played by FDI in telecommunication industry in India.
- To find out the impact of FDI in Telecommunication on economic growth
- To find out the various economic benefits derived from this industry.
- To study current international investment in telecommunications industry

3. METHODOLOGY

Secondary data have been used for the study. 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 2005 to 2013.

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SERVICE AREA-WISE RURAL AND URBAN PERFORMANCE OF TELECOM SECTOR AS ON 31.10.2015

S. NO	SERVICE AREA TOTAL TELEPHONES (PSU+PVT.)			
	SERVICE AREA	**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	Haryana	4568716	2797932	7366648
7	Jammu & Kashmir	3080413	3931205	7011618
8	Karnataka	16917755	41832311	5875006
9	Kerala	16755210	19727739	3648294
10	Madhya Pradesh	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)	20613135	31102751	51715886
18	Uttar Pradesh (West)	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
23	All- India	344493762	590684516	935178278

ECONOMIC BENEFITS OF FDI

Employment: While the number of jobs created varies in accordance with the size of the investment and the production process itself, the most common benefit associated with FDI is increased or protected employment. And, of course, with new employment comes additional income and spending power for local residents.

Revenue benefits: FDI widens the local tax base and contributes to government revenues. Even if foreign investors are granted complete relief from taxes for a short period of time through investment incentives, governments can earn increased revenue from the payment of personal income taxes because of the new jobs created by FDI. In addition, export-oriented investment generates foreign exchange earnings.

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Favorable impact on local investment: FDI inflows tend to lead to an increase in domestic investment as companies gain access to distribution channels opened by TNCs, become suppliers to TNCs, or respond to competition from TNCs.

Technology transfer: FDI can improve a country's access to technology through licensing, joint ventures, and local trade. Employees of TNCs may take know-how they have acquired and set up new companies, or join existing local companies. Whatever the form, technology transfer tends to lead to improved productivity growth.

Improved labor Skills: Foreign firms usually carry out more on-the-job training than do local firms, and TNCs in particular frequently engage in activities that use relatively high levels of skilled workers. These skills are often transferred to other sectors and activities when employees seek new jobs or establish their own businesses. Employees are also often exposed to new organizational and management skills, exposure that can stimulate higher productivity, entrepreneurship, and openness to education.

Improved exports: Much FDI is export-oriented, and TNCs often account for a significant share of host-country exports. Because of their size and access to overseas marketing and distribution networks, foreign firms typically find it easier to enter export markets. Many developing countries have been able to use FDI as a way to increase their export levels and improve foreign exchange earnings. In addition, the presence of foreign-owned exporting firms has been influential in many countries in encouraging local firms to enter export markets.

Improved international competitiveness of local firms: The opportunity to sell inputs or supplies to foreign-owned firms encourages local companies to raise their quality levels and delivery reliability. Foreign firms often introduce new products to the local economy, and domestic firms are often encouraged to compete with these products. Finally, through their interaction with a foreign-owned company, suppliers, customers and competitors in the host country are often stimulated to higher levels of investment, productivity and innovation. The result is often greater economic efficiency and higher-quality production by domestic firms.

Increased competition: FDI can improve overall economic growth by increasing competition in sectors previously dominated by only one or two local firms. Once a government decides that attracting FDI is an objective, it must recognize the trade-offs associated with any type of investment. Labor-intensive assembly activities, for example, generate both exports and jobs, but these activities typically rely on imported intermediate goods rather than on local inputs. As a result, they may not create linkages with the domestic economy or encourage technology transfer. In addition, the jobs associated with assembly operations are frequently low skilled. FDI that occurs through privatization can result in technology transfer, particularly through staff training and the introduction of modern management and production techniques. As a trade-off, substantial job losses may occur when the new owners restructure the company to make it more efficient. However, the pay-back comes in terms of longer term competitiveness and viability.

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PERFORMANCE OF TELECOM EQUIPMENT MANUFACTURING SECTOR
(Rs. In crores)

YEAR	PRODUCTION	EXPORT
2005-06	14400	402
2006-07	14000	250
2007-08	16090	400
2008-09	17833	1500
2009-10	23656	1898
2010-11	41270	8131
2011-12	48800	11000
2012-13	50000	13500

Foreign direct investment and GDP

Foreign direct investment; net inflows (% of GDP) in India was last measured at 1.95 in 2014, according to the World Bank. Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows (new investment inflows less disinvestment) in the reporting economy from foreign investors, and is divided by GDP.This page has the latest values, historical data, forecasts, charts, statistics, an economic calendar and news for Foreign direct investment - net inflows (% of GDP) in India.

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

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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 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.

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.

4. CONCLUSION

It can be concluded that the recent upward swing in the Telecommunications sector in India is due to the introduction of FDI in this sector by the Indian Government since 1991 but at the same time we must also be careful and not get carried away by this development and should have proper regulations in place to actually utilize this situation to our advantage

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