

PROBLEMS OF FDI IN INDIAN TELECOM SECTOR

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Abstract: Telecommunications is one of the fastest growing industries in India that has undergone an innovative phase over the past few years and stands as the second largest telecommunications market in the world after China. It is due to liberalization policy that telecom sector could attract more FDI flows in private sector participation increased in total telephone connections of the nation. By recent decision government of India did hike FDI ceiling from 74% to 100% through the Foreign Investment Promotion Board (FIPB) and Government's consolidated FDI Policy. The sector is witnessing steady growth since the government has increased FDI in the telecom space to 100%.The most impactful contributors to India's booming economy are developing the service sector and the role of foreign direct investment or FDI in telecommunications. The preceding law permitted FDI up to 100% but any investment beyond 49% required the prior approval of the Government. The automatic route provision for FDI by the Government is a welcome step to the telecom sector as it facilitates investment in the sector. Much like in financial services, telecom customers now prefer fully digital onboarding performed through self-service. The pandemic accelerated this trend further and it seems here to stay through 2022 and 2023. With more and more telco companies offering one-click service subscription, transparent billing, and instant connectivity, traditional telcos should look to raise the bar in 2022 when it comes to how they use digital to stand up customers and enhance customer experiences.

Key Words: Telecommunications, FDI, Government, customers and investment.

I.INTRODUCTION

Telecommunications is one of the fastest growing industries in India that has undergone an innovative phase over the past few years and stands as the second largest telecommunications market in the world after China. It is due to liberalization policy that telecom sector could attract more FDI flows in private sector participation increased in total telephone connections of the nation. This led the sector to competitive stimulus, high telecom penetration and substantial reduction in tariffs. Though foreign telecom players have been present in India for almost more than a decade with tremendous growth, the sector is yet to witness the expected vibrancy and infusion of innovative technologies. FDI in the telecom sector was initially allowed at 74%. It was subject to the condition that companies bringing in FDI shall obtain necessary license from the Telecom Regulatory Authority of India (TRAI) for undertaking telecom activities. By recent decision government of India did hike FDI ceiling from 74% to 100% through the Foreign Investment Promotion Board (FIPB) and Government's consolidated FDI Policy. The sector is witnessing steady growth since the government has increased FDI in the telecom space to 100%.The most impactful contributors to India's booming economy are developing the service sector and the role of foreign direct investment or FDI in telecommunications. The preceding law permitted FDI up to 100% but any investment beyond 49% required the prior approval of the Government.The automatic route provision for FDI by the Government is a welcome step to the telecom sector as it facilitates investment in the sector. The sector until the telecom reforms were announced was cash strapped with some of its players like Vodaphone Idea being on the verge of

bankruptcy due to the levy of past AGR dues by the DOT. FDI in the telecom sector has jumped nearly five times in the past 3 years – from \$1.3 billion in 2015-16 to \$6.2 billion in 2017-18. However, FDI has plunged to \$2.6 billion in 2018-19. In financial year 2023, the telecommunications sector in India saw a foreign direct investment equity inflow of approximately 713 million U.S. dollars. This was a decrease compared to the strong financial year 2020 with 4.4 billion U.S. dollars.

The latest FDI policy circular has retained the FDI cap of 100% in telecom services (including Telecom Infrastructure Providers Category – I), of which up to 49 per cent investment can be done through the automatic route. The inflow of overseas investment beyond that requires government approval because of security reasons. This is applicable in case of Basic, Cellular, Unified License (Access Services), Unified License, 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 / Audiotex / UMS, Resale of IPLC, Mobile Number Portability Services, Infrastructure Provider Category – I (providing dark fibre, right of way, duct space, tower) except Other Service Providers. However, 100% FDI is permitted through automatic route in the area of telecom equipment manufacturing and provision of IT enabled services.

FDI in Telecom sector is 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, except “Other Service Providers”, which are allowed 100% FDI on the automatic route. The Unified License paves the way for the implementation of DoT’s One Nation – One License plan by consolidating license terms for different telecom services under the ambit of one license, i.e. the Unified License. The Unified License replaces the old regime of a telecom operator applying for separate licenses for separate services proposed to be offered by bringing all the major telecom services under one license. The Unified License includes within its ambit the following services:

- Access Service (Land Line Telephony Service along with Mobile Phone Telephony Service);
- Internet Service;
- National Long Distance Service (“NLD Service”);
- International Long Distance Service (“ILD Service”);
- Global Mobile Personal Communication By Satellite Service (“GMPCS Service”);
- Public Mobile Radio Trunking Service (“PMRTS Service”);
- Commercial Very Small Aperture Terminal Closed User Group (“Commercial VSAT CUG Service”);
- INSAT Mobile Satellite System-Reporting Service (“INSAT MSS-R Service”); and
- Resale of International Private Leased Circuit Service (“Resale of IPLC Service”).

Access Service providers can provide, within their area of operation, wireline (basic) as well as wireless (cellular) services in a service area. Access Service providers have also been permitted to provide internet telephony, internet services including IPTV, broadband services and triple play i.e. voice, video and data. Importantly, Access Service is the only authorization which is permitted to provide full-fledged Internet Telephony, i.e. they are permitted to interconnect Internet Telephony network with the PSTN network. ISP licensees are primarily allowed to provide services such as internet access (through any method including IPTV) and internet telephony (which is a service to process and carry voice signals offered through the internet by the use of personal computers (“PC”) or internet protocol based equipment).

Currently the ISP license allows limited internet telephony by permitting connections between the following:

- PC to PC (within or outside India).
- PC / a device / Adapter conforming to standard of any international agencies like ITU or IETF etc in India to PSTN/PLMN abroad.
- Any device / Adapter conforming to standards of International agencies like ITU, IETF etc. connected to ISP node with static IP address to similar device / Adapter within or outside India. Thus, ISP Licensees offering Internet Telephony are not allowed to interconnect Internet Telephony network with the PSTN network.

Audiotex / Voicemail / Ums License includes the authorization to provide, voicemail services or call conferencing services or unified messaging services. With 100% foreign investment being permitted for this license. An applicant can provide the aforementioned services upon obtaining the requisite ‘Audiotex / Voicemail / UMS’ license from with the DoT. However, it is pertinent to note that a prerequisite of obtaining a UMS license is having an ISP Authorization under the Unified License. Sharing of “**passive**” **infrastructure** viz., building, tower, dark fiber, duct space, etc. between licensees is permitted for Access Services. However, sharing of active infrastructure amongst licensees shall be governed by the license conditions/amendments issued by the DoT. Similarly, ISPs, NLD and ILD authorization holders have been permitted to share “passive” infrastructure namely building, tower, dark fiber, duct space, Right of Way owned by other authorization holders.

As per New Telecom Policy (NTP) 1999, Other Service Providers (OSPs) do not require a specific license; however a registration process is required to be fulfilled subject to fulfilling certain criteria. The most important of which is the Other Service Providers registration. Call centers (international and domestic), BPOs, Network Operation Centers, Vehicle Tracking Systems, services with respect to tele-banking, tele-medicine, tele-education are allowed to operate (with 100% FDI) upon registration as “Other Service Provider” or “OSP” with the DoT. These OSP’s operate the service using the telecom infrastructure provided by licensed telecom service providers. There are various security related obligations imposed on various telecom licensees. As security related conditions are applicable to all licensed telecom service providers, the security conditions shall not be separately enforced on OSPs. An interesting development in the OSP registration policy is the amendment which officially recognized the “work from home” provided certain financial guarantees are provided.

Benefits of FDI

in Indian Telecom Sector:

1. Private participation has ensured that the best of services are provided to consumers at reasonable rates. Due to the increase in the number of telecom companies, the competition has enhanced consumer experience with the freedom of choice between these networks.
2. The Indian telecom sector is growing at a steady rate as more and more of the population becomes connected. The investment opportunities are immense since the subscriber base is showing healthy growth. Hence, for foreign investors, Indian telecom sector is a very attractive and promising one.

Private investment has also improved the allied telecom infrastructure. This has ensured maximum connectivity to the general population with telecom connectivity reaching all corners of the country

II.REVIEW OF LITERATURE

Review of literature is a written overview of major writings and other sources on a selected topic. This provides a critical review of miscellaneous studies, researches, books, scholarly articles, blogs and all other sources related with Problems of FDI on Telecom Sector in India.

Mukherjee (2018) The positive impacts of the competition approved in the Indian telecom sector after Jio entered. It has been highly appreciated that Jio has invested in almost all the categories of cellular infrastructure which may lead the country's telecommunication service towards consistent growth in the global market. During the initial period of investment, potential Jio customers have been incentivised with seamless data streaming services, guaranteed free calls with initial connection services. It was just an attempt to make a sizeable customer base which immediately created pressure on the leading companies like Vodafone, Airtel and others. Based on a recent report, in Delhi, Reliance Jio has obtained the position of market leader with 1.77 crore subscribers (ET Telecoms, 2020a).

Pandey, Gaurav and Kumar (2015) Mentioned that the companies will face challenges in obtaining high data-rates of 5GBPS when the users will expect fast and immediate connectivity without any delay caused by the network. Difficulties will arise in developing wider carriers in latest spectrum bands by using new technologies.

Usmani, (2017) Stated 4 challenges and the resolution measures to ensure a healthy financial health of the Indian telecom industry. Firstly, it has stated that Reliance Jio should gradually withdraw its discount in order to earn optimally as compared to the mere one third that it earns currently. Secondly, the charges on inter network services should be dissolved or at least minimised. In this case, Jio is in favour of dissolving charges however the companies such as Bharti Airtel wants it to be doubled which would prove to be adverse for the Indian telecom industry due to a critical disparity in the charging dynamics.

OBJECTIVES OF THE STUDY:

- To study and analyze the Problems of FDI on Telecom Sector in India.
- To Evaluate the present position of Telecom Sector in India.

III.METHODOLOGY

The method used in this paper is descriptive-evaluative method. The study is mainly review based. It is purely supported by secondary source of data, i.e. books, journals, papers and articles and internet.

Firstly, India's fixed-line coverage (telephone lines connected to a nationwide network through metal wires or optical fibers) is nowhere close to what most developed countries have. While 70% of the towers in developed countries are connected through fibre networks, in India merely 25% of towers are covered under such network. This won't be sufficient for 5G network which requires towers to be connected to very high-speed systems. Secondly, the approvals from the various departments such as Forest, Railways, National Highway Authority, etc. have always delayed the development of several towers, fiber planning and the rollout processes across the country. A proactive and timely dispute resolution by Telecom Disputes Settlement and Appellate Tribunal is the need of the hour. Then, the rise of voice and messaging services by platforms such as WhatsApp and Telegram using the telecom network is also adversely affect the revenues of the telecom companies. There are also environmental factors such as disposal of e-waste which need to be resolved in the near term, as more than 95% of e-waste is illegally disposed off in India. In terms of penetration, though adequate density has been achieved, there is a large discrepancy between urban and rural penetration which stands at 55.42% and 44.58%

respectively. Thus, although the telecom sector is well set to advance into the future, it needs to choose the right course of action to address the existing challenges.

IV.DISCUSSION

Current Challenges of Telecom sector in India:

According to Deloitte, the telecommunications industry has been able to keep pace with the shifting landscape of post-pandemic life. In 2021, the industry embraced new networks, services, and applications such as 5G, increasingly competitive broadband markets, a decentralized broadband infrastructure, and cyber security and risk management. Faster 5G mobile, 5G FWA, and satellite services have created more options for consumers connecting to the internet. More reliable 5G connectivity, distributed computing, and artificial intelligence have led to a growing enterprise interest in multi-access edge computing and private cellular networks. These new networks, services, and applications will require more proactive measures to mitigate cyber security risk..

Deloitte found that many consumers increasingly perceive little-to-no difference in the performance between their mobile and home Wi-Fi connections. In fact, the Deloitte survey found that most consumers see no difference between internet speeds on their mobile devices compared to their home WiFi and, in some cases, perceive their mobile internet access to be superior to at-home networks. Cable and telecom companies should continue to target customers with similar product offerings centered on broadband internet and mobile-service bundles with little differentiation. Much like in financial services, telecom customers now prefer fully digital onboarding performed through self-service. The pandemic accelerated this trend further and it seems here to stay through 2022 and 2023. With more and more telco companies offering one-click service subscription, transparent billing, and instant connectivity, traditional telcos should look to raise the bar in 2022 when it comes to how they use digital to stand up customers and enhance customer experiences.

Greater need for analyst and specialized telecommunications industry knowledge:

Like many organizations across industries, telcos are facing significant hiring challenges, especially for more specialized and senior roles. Telcos face a unique challenge in that the skills to fill these are shifting. The most in-demand skills tend to fall into one of 3 categories:

- Digital and analytics skills, including both hardware and software skills.
- Specialty domain expertise on particular topics and areas, such as 5G.
- Cross-functional management support for skills essential to leadership, project management, and effective hiring and retention.

In fact, according to a study by BCG, 73 percent of workers in digital roles are planning to switch jobs within the next three years. Upskilling and reskilling existing talent pools will prove a cost-effective and future-forward way to defer and deflect labor upheavals caused by the Great Resignation.

Continuing to Track Changes in Telecom:

Telecom companies are still grappling with demand for ever-increasing communication speed, security concerns, and demand for further interconnectedness. There is, of course, the modern twist thrown in by the reams and reams of data we create every day. The rollout of 5G is bringing many changes and challenges for the telecom industry. 5G touts improved data rates and low latency and it has the potential to change the telecom industry right to its core. With 5G, more data can flow with less delay. This increase in speed paves the way for alternatives to traditional communication routes. And, customers have less tolerance if speed or quality of service drops. 5G places higher standards on the services telecommunications companies provide.

But, at the same time a way to meet those standards. Improved data rates and low latency mean better, faster ways to provide service to your customer.

Demand for traditional services is decreasing:

Video calls are also taking precedence over traditional voice calls. Without the ability to meet face-to-face customers began to depend on video calls to achieve the in-person meetings they were missing out on. astly, messaging, video, and voice calls are able to be carried out over wifi. Customers no longer depend on their cellular service provider to stay connected. Telecommunication companies will be able to adapt to this shift. They can begin to work with messaging apps or even begin to incorporate some of their own messaging apps into the pool. Video calls can also be incorporated into the platforms or services telecommunications companies provide.

The internet of things (IoT) and network security:

The scope of the internet of things (IoT) is large and getting larger. By definition, it is the network of things that are connected to the internet. Think smart climate control, pet treat dispensers, or wearables like the FitBit. Smartphones and PCs are generally excluded from the IoT. Data is collected from the IoT for the purpose of making the world a safer, healthier, and more productive place.

Network security: The IoT poses a major security threat to users simply in the way that it works. One Challenge in the telecom industry is if the network that things are connected to is not very secure, users are left vulnerable to attack. Take for example color-changing light bulbs that you have the ability to change using a mobile app. Connect these lightbulbs to the internet using your wifi that is in turn also connected to your desktop computer. A nefarious passerby need only notice your color-changing light bulbs to place a pretty safe bet on a successful next target.

Artificial intelligence (AI) can have the devices “learn” from their data and experience. Telecommunication companies can then leverage this data to improve upon their networks, making them more secure simply by the input of the devices using them. And, while there is so much data, AI can help suss and sort what is helpful in improving the system.

The rise of the conscious customer:

An IEEE study found telecommunications companies are some of the biggest consumers of energy. In 2021, customers increasingly demand providers of goods and services to be green and ethical (or at the very least, making strides towards achieving this goal).While this poses a problem in terms of needing to rework and upgrade a system, in the long run, telecommunications companies will benefit from this shift. Green energy is cheaper energy and appealing to customers’ demands is always beneficial. Earning a B corp certification can take telecommunications far.

Future outlooks for the telecommunications industry:

As it always has, the challenges in the telecom industry is changing quickly and telecom industry challenges continue to evolve. With careful planning and foresight about lessons learned in the wake of the coronavirus pandemic, network operators can set their sights on a promising 2022.

Set a renewed focus on customer needs :

For a long time, the telecom sector was dominated by a few major players who largely controlled the market and as a result, didn’t have to worry too much about what customers wanted. The rise of IoT and 5G, as well as novel messaging apps, has changed that, as customers have more choices for how they communicate and can “cut the cord” from lackluster service providers more easily. This shift is driving a more nuanced approach to customer engagement

that favors personalization over pushy mass marketing. Forward-thinking telecom organizations will capitalize on this drawing upon their vast reserve of customer data to create more personalized messaging, tailored product recommendations, and user-centric services.

Solving a Telecom Challenge by Repositioning services:

The days of locked-in contracts and fixed-price services are fading. Taking their place are flexible service plans and customizable bundles focused on what the customer wants and needs. It's a positive change in terms of serving the customer, but it will also require some hefty business process changes. Being able to communicate clearly with customers and having ample channels available for them to communicate with you is key in introducing and selling next-gen products and services.

New market opportunities "As A Service" businesses:

Digital transformation is driving a new crop of "as a service" businesses that capitalize on advanced wireless technology; infrastructure as a service, enterprise IT as a service, and storage as a service are a few such examples. Companies that can pinpoint industry-specific needs and develop corresponding as-a-service applications will enjoy a highly lucrative market opportunity.

V.CONCLUSION

The quantum and nature of FDI inflows depend on many factors and accordingly no specific reasons can be attributed for increase or decrease of inflows on year-to-year basis. There has been neither a regulatory uncertainty nor the lack of conducive environment to invest in the Telecom Sector which may be cited as a reason for the year-to-year decline in FDI. The telecom sector is facing financial stress due to stiff competition and reduction in tariffs. The country needs massive investment in developing newer technologies which could be accessible and affordable to the people and at the same time creates productive employment. The government is aiming the commercial rollout of fifth-generation or 5G services by the end of 2020. The newer technology is also expected to bring in potential investment in the country with an array of multinational expressing interest in the enterprise applications and utility services.

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