

INDIA'S FINANCIALIZATION AND ITS TELECOMMUNICATIONS SECTOR

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We are publishing here in French and English this article by Professor Barbara Harriss-White (Oxford Univ.) On the financialization of telecommunications in India, a country in which she is an economist, and by Dr. Jai Bhatia, (Cambridge University). We thus hope to make understand to our members and correspondents in France and in Europe that the scourge of financialization is the same everywhere, and that its power extends over the whole planet.

We start with the established fact that - in mainstream development thought - financial markets and institutions are seen as a way to access capital and as a source of opportunities for growth. In practice however they have come to incentivize companies to maximize their financial valuations rather than to maintain and improve productive activity. In India, with the deregulation and privatization of many industries, the role and the function of finance has changed rapidly, from facilitating business operations to transforming companies into investible financial assets that are bought and sold for profit.

For Indian households, debt in the form of home loans, auto loans, and other fixed monthly repayment (EMI) programs has become a key mechanism of financialization, financing consumption even when wages are stagnant. Easy access to credit cards and credit puts people who buy private goods and services, including health care and education, more into debt.

We can see how this works in India's telecoms sector.

Once described as India's most remarkable economic achievement, telecoms have often been paraded to justify the economic reforms of the 1990s. Providing telecom services at affordable rates to most of the population, creating new and booming spectrum markets, sustained by market-driven policy initiatives, telecom was credited with being one of India's most successful sectors. The subscriber base of wireless telephony increased from 5 million in March 1991 to 1.17 billion by June 2019 and the cost of services fell by 98.3 per cent between 2001 and 2019.

Spectrum (bands of electromagnetic waves) is crucial to the provision of mobile telephony services. So, the rights to use state-regulated spectrum are very valuable. The state leases out spectrum licenses to telecom companies for a defined period of time, usually twenty years. And in return for auctioning spectrum licenses it receives significant amounts of non-tax revenue.

The Indian telecom sector is a prime example of how financialization is not simply generating vast consumer debt, it is also changing corporate India for the worse. The logic of financial markets rather than profit from productive activities now guides business decisions in telecoms. Providing telecom services has become a loss-making activity. But financialization has provided opportunities to promoters and investors [1] to

profit by speculating on the future value of telecom services. Telecom companies with greater access to spectrum bands and higher numbers of subscribers are attractive to speculators because of their potential to create and be traded for greater financial value. Their promoters and investors are instantly rewarded by higher share prices on the stock exchange.

So, to boost financial values and future profits, Indian telecom companies have acted without scruples, using debt to bid recklessly in spectrum auctions and embarking on destructive price wars to increase the number of subscribers. They have not shrunk from aligning corporate managers' incentives by way of bonus payments and profit sharing with those of shareholders. Meanwhile, jobs are cut, organized bargaining power is resisted by both business and the state, and income is redistributed in such a way that labor loses out - a trend found globally which affects consumption and savings. For example, in April 2020 when Reliance Jio announced its lucrative deal with Facebook, it also announced (invoking coronavirus) that across the Reliance Group all employees' salaries would be cut by anywhere between 10% and 50%.

Telecommunications companies have relied on the state to enact pro-business policies, forgo spectrum payments, and cancel debt and interest payments to its public sector banks. These state bailouts support stock prices, when telecommunications companies run into financial difficulties - as in 1998-99, 2011-12 and 2017-19.

By these means, despite the cost overlaps of upgrading technology, despite heavy investments in spectrum and despite threats to profits from bitter price competition and debt servicing, this over-indebted sector has succeeded. to attract and own some of India's most reputable companies including Reliance Industries, Birla Group, Tata Group and Bharti Group.

Financial activity can then be developed to generate profits for investors and telecommunications promoters that are greater than those derived from the sale of telecommunications services. This phase of financialization involves activities such as mergers and acquisitions, initial public offerings (IPO), buybacks of its own shares by the company (Buyback) and the solicitation of private equity investments (Private Equity) at rates very favorable to developers. Telecommunications companies are becoming financial assets.

Reliance Jio is a recent example of how financialization has resulted in huge financial gains for a loss-making telecommunications company. Reliance Jio is part of Reliance Industries Limited, India's largest private company, run by India's richest man, Mukesh Ambani. Regarded as the world's largest "start-up", Reliance Jio has invested 1,500,000 crore INR (19 billion USD) in telecommunications infrastructure and technologies. Towards the end of the year, it launched commercial services to transfer voice and data over the Internet using fourth generation (4G) telecommunications technology. Offering free voice calls across India on its 4G network and data at very competitive rates, it has sparked a price war. To retain customers, competitors were forced to offer

similar prices. The price war has caused a collapse in the industry's average revenue per user (ARPU) - a key measure of profitability. Reliance Jio quickly acquired over 300 million subscribers and became the third largest telecommunications service provider in India.

A recent example of how financialization has resulted in huge financial gains for a loss-making telecom company is Reliance Jio. Reliance Jio is a part of Reliance Industries Limited, India's biggest private company, headed by India's richest man, Mukesh Ambani. Said to be the biggest "start-up" in the world, in 2016 Reliance Jio invested INR 1,50,000 crore (US \$ 19 billion) in telecom infrastructure and technologies. Late that year, it launched commercial services to transfer voice and data through the internet using fourth-generation (4G) telecommunications technology. Offering free voice calls across India over its 4G network and data at very competitive rates, it triggered a price war. To retain customers, competitors were forced to offer similar pricing. The price war caused a crash in the industry's average revenue per user (ARPU) - a key measure of profitability. Reliance Jio rapidly acquired over 300 million subscribers and became India's third largest telecom service provider.

Reliance Jio was hosted within Reliance Industries and its profit and loss was not separated from other Reliance businesses prior to its restructuring for the Facebook deal described below. The industry consensus, therefore, is that Reliance Jio was unprofitable and could only maintain itself on the financial strength and cross-subsidization of its parent company.

Achieving financial valuations, and therefore high stock prices, now defines success. What matters is not the current sustainability of the business, its survival as such, but a variety of estimates and assumptions about its potential future growth and profitability.

Reliance Jio's strategy to maximize its financial value was confirmed on April 22, 2020, when, regardless of Reliance Jio's history of debt and predatory behavior, Facebook acquired 9.99% of its stock for 43,574 crore. INR (US \$ 5.7 billion). For Facebook, the partnership with Reliance had a double advantage: first, Facebook has access to the 300 million 4G subscribers of Reliance Jio who use the Internet; second, they have access, thanks to Ambani, to the highest political positions in India. The deal means Reliance Jio's financial valuation is now 4.62,000 crore INR (\$ 60.7 billion). After investing 1,500,000 INR crore (\$ 19 billion), Ambanis have tripled its financial value in less than 4 years. As an immediate consequence,

Extrapolating from this case and a growing literature on India, we conclude that financialization has penetrated its corporate sector; that businesses behave in increasingly risky, destructive and irresponsible ways; that the state comes to their aid and often nationalizes their losses at the expense of the taxpayer. But the profits remain privatized.

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[1] The promoters in India are a group of shareholders who manage the business while the investors are a group of shareholders who provide capital to the companies. - Promoters in India are a group of shareholders who manage business while investors are a group of shareholders who provide capital to business.