

Title of Paper : Impact of Reforms on the Growth of Telecom Sector in India

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Synopsis The aim of this paper is to study and analyze the importance of telecom sector for an inclusive economic growth in India, because telecom is an important element of economic and social development. Based on the literature survey and analysis of the various policy initiatives of the Government of India since 1994 an attempt is made to understand the growth of telecom sector till date. This growth in providing affordable and quality telecom services has been achieved in spite of constraints of infrastructure and alleged scams in implementation of Government policy.

Executive summary : This paper attempts to look into the growth of telecom in India achieved so far and the future challenges and scope for further reforms in telecom sector , to face the global competition. This paper does not intend to dwell into the alleged scams and lapses in governance.

Objectives

- Study and analyze the various policy measures taken by the Government.
- Assess the growth of telecom services due to policy amendments.
- Challenges for sustainable growth.
- Need and scope for future reforms.

Methodology: This paper is an empirical study based on secondary information from internet and research articles.

Key words : telecom services, Govt policy, reforms, tele-density, regulators, spectrum license, TRAI .

Introduction : Growth of telecom services is imperative for global connectivity and inclusive economic growth of India. There has been great shift in telecom sector moving from monopolistic position to competitive environment. Prior to liberalization, telecom sector was characterized by poor state of tele-infrastructure, low tele-density(0.8%), high bureaucracy with Govt monopoly.

Need for reforms:

Better quality of communication services (coverage, mobility and reliability)
Penetration of telecom services into rural areas.
Bring more investment and structural changes in telecom monolith.
Improve tele-density and tele-infrastructure.
Overcome challenges in education, health and employment

Make communication affordable to common man by reducing tariff.

Make India a global hub for the manufacture of telecom equipment.

Protect security interests of the country.

Hence a need was felt for the reforms. Thus the government enacted various policies to achieve the above goals.

National telecom policy 1994: The policy establishes a strong and independent regulatory mechanism and provides guidelines for service providers and frame-work for dispute settlement. This policy laid down certain targets such as 1) telephone should be available on demand by 1997 covering all villages. 2) One PCO for 500 people should be available by 1997. 3) Value added services available internationally should be brought into India by 1996. 4) To open up value added services to private investors. 5) Government should set up suitable funding mechanism to take advantage of emerging technologies. 6) To protect and promote consumer interest.

National Telecom policy 1999: Recognizing the importance of world-class telecom infrastructure which would be a major contributor to the country's GDP, Government of India enacted NTP in 1999 with the following provisions.

- 1) To provide more mobility, CMSP (Cellular mobile service providers) were permitted to carry their own long-distance traffic within their service area without additional license.
- 2) To provide more mobility, the cable service providers are allowed to continue last mile linkages and switched services within their service area operations.
- 3) To review opening up of international telephony services by 2004.
- 4) To encourage better internet service, private players were to be allowed.
- 5) To encourage e-commerce, private players were also to be allowed in broad band services.
- 6) To increase FDI in telecom sector from 26% to 49%.

Policy changes in 2003-2004:

- 1) 2G license (unified access service license) was introduced, which became the corner stone of the telecom policy.
- 2) Both fixed lines and mobile services were brought under single license regime.
- 3) FDI limit in telecom industry has been raised from 49% to 74% and all GSM players raised their FDI stake in their companies.

Policy changes in 2005 – 07:

- 1) To encourage entry of more foreign players, long distance entry fees and revenue share fee was reduced from 15% to 6%.
- 2) 2G license holders were also allowed to offer internet telephony and broad band services to provide a variety of services to mobile users.

Policy changes in 2007:

- 1) Additional 2G licenses were introduced to create more competition. , but it was done on first –come-first serve basis instead of auction. This led to 2G scam.
- 2) 3G technology was introduced and licenses were auctioned in 2010 to increase the speed of internet and broad band.

Impact of reforms on growth of telecom services: The government policies and regulatory frame-work implemented by TRAI have addressed a number of issues like laying emphasis on consumer protection, quality of service, reduction in tariff, penetration to rural areas, settlement of disputes, attracting investment from big players etc. . .

Phenomenal growth is witnessed in telecom and value added services during post-liberalization period. Conducive environment is created for service providers. As per TRAI report International comparison show that (among 222 countries) , India has 2nd largest number of telephone subscribers accounting for 12% of world's total telephone subscribers. The growth is witnessed in the following areas.

- 1) The number of PCOs have increased manifold.
- 2) The tariffs have reduced from Rs 16.40 per minute to Rs 1/ per minute, which are cheapest in the world.
- 3) The tele-density penetration has increased from 0.4% in 1998 to 12.16% by 2008 and 32.11% by 2011 in rural areas and from 5.4 %(1998) to 81.4% by 2008 and 150.67% by 2011 in urban areas. (Annexure-I).
- 4) The share of tele-communication services (excluding postal and miscellaneous services) as a % of GDP has increased from 0.96 in 2000-01 to 3.78 by 2009-10.
- 5) Prior to liberalization, the waiting list for new connection was 2.5 million with tele coverage of 14,000 villages. Post liberalization, there exists no waiting list since the inception of cellular services.
- 6) Service quality has been enhanced due to extensive coverage, advanced mobility and reliability. The IPLC (International Private Lease Circuits) services offering global connectivity benefited not only tele-com sector but also other sectors like IT.
- 7) Revenues from value added services of tele-com have increased from Rs 5000 crores in 2008 to Rs 10,000 crores by 2009.
- 8) Due to the new FDI policy wherein FDI limit is extended from 49% to 74%, the FDI inflows have increased from Rs 3.43 billion in 2000 to Rs 45.97 billion by 2007. Large companies such as DOCOMO (TATA-DOCOMO), TELENOR (UNINOR), VODAPHONE entered Indian market raising tax revenues for the Government and wealth for the shareholders. Employment opportunities have tremendously increased.
- 9) TRAI is providing a wide range of functions and powers like revenue sharing among service providers, approving tariff for telecom services, ensuring compliance with license conditions to protect the interests of the consumers. However, allocation of spectrum and licensing remain with the Government. As the Government gave the option to the existing operators to shift from license fee payment to revenue sharing, the financial viability of telecom players has improved.
- 10) Due to the broad band policy of 2004, the number of broad subscribers and internet subscribers has increased from 1.4 million in 1998 to 100 million by 2010, thus showing a growth in user base by 100 times.(Annexure -2)
- 11) Issue of 3G licenses from 2010 led to mobile banking by which transfer of money has become more efficient.
- 12) Due to annual audit of metering and billing systems of service providers, better customer satisfaction is achieved.
- 13) Most of mobile service operators are able to meet bench mark.
- 14) The revised broad band service rules have resulted in e-commerce.

- 15) Due to broad band connectivity in India, people are connected globally thru social networking sites like Face-book, Twitter, Orkut etc..
- 16) Disputes are being settled thru TDSAT (Telecom dispute settlement and appellate tribunal).
- 17) Due to mobile number portability, service providers can be replaced instantly with out changing the number.

Future Challenges for telecom sector :

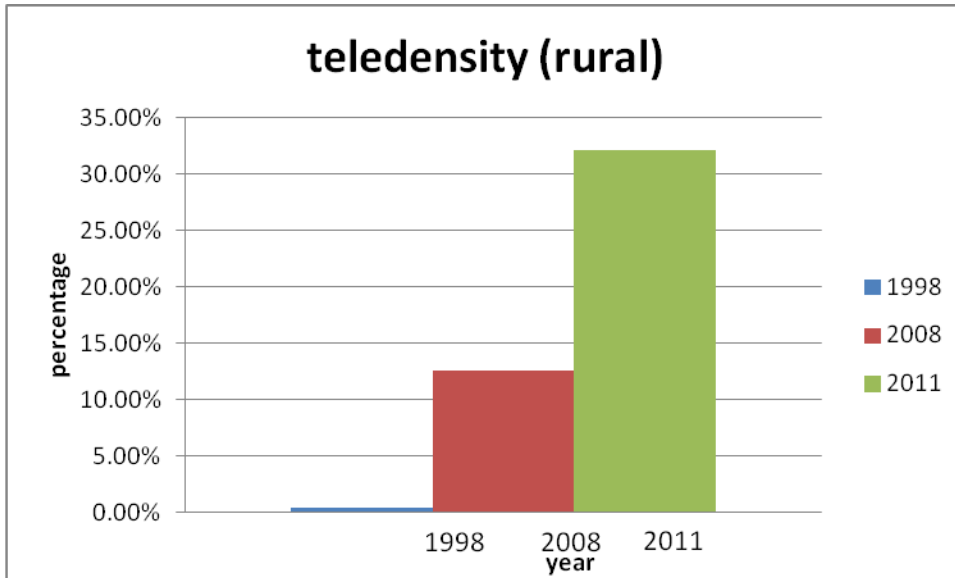
- 1) Penetration into rural areas is the top most priority by increasing the rural density from 39% to 100% by 2020.
- 2) Promotion of fair market competition with universal service.
- 3) The biggest challenge is establishing and implementing a sound and transparent spectrum policy.
- 4) Provide affordable and reliable broad band on demand by 2015.
- 5) Procure 600 million broad band connections by 2020.
- 6) Bring balance between consumer protection and promotion of universal service.
- 7) Promote innovation to reach global markets.
- 8) Finally, the challenge is to create one-nation, one-license.

Conclusion: The cabinet has given permission to draft the National Telecom policy 2012 which directs new initiatives which includes, free roaming, unrestricted net telephony, reduction of carbon emission etc... Though this sector succeeded in many spheres, it is yet to face many challenges by bringing more reforms.

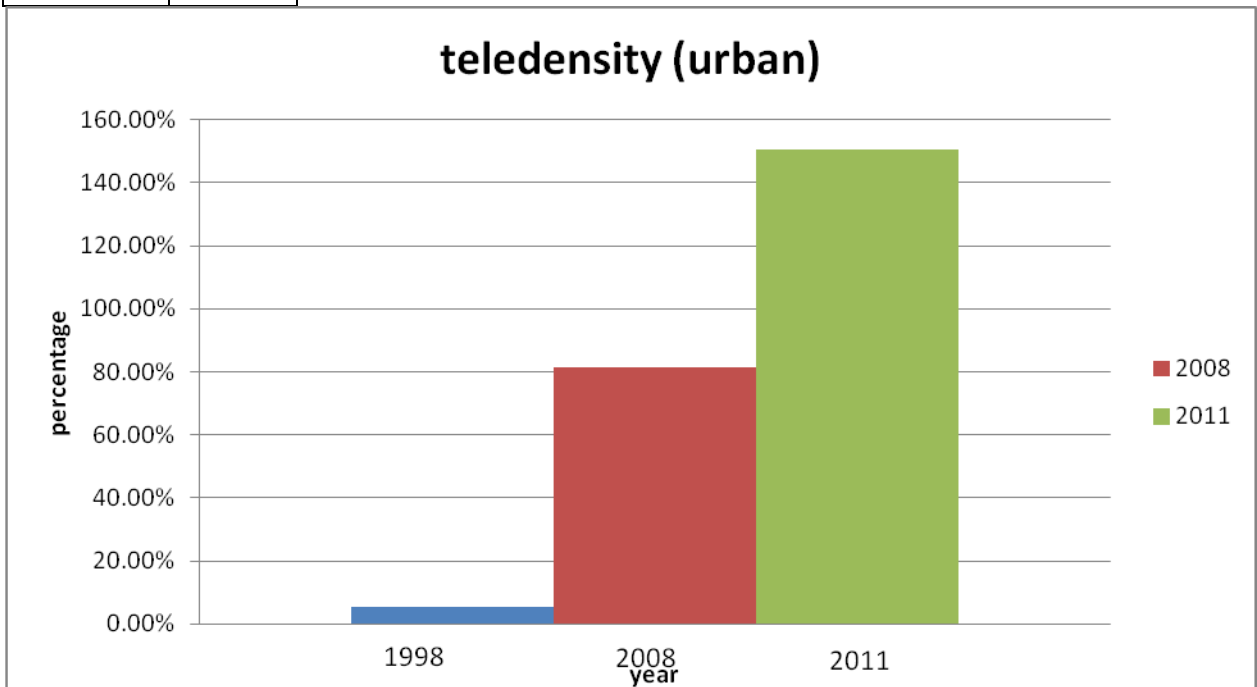
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Annexure -1



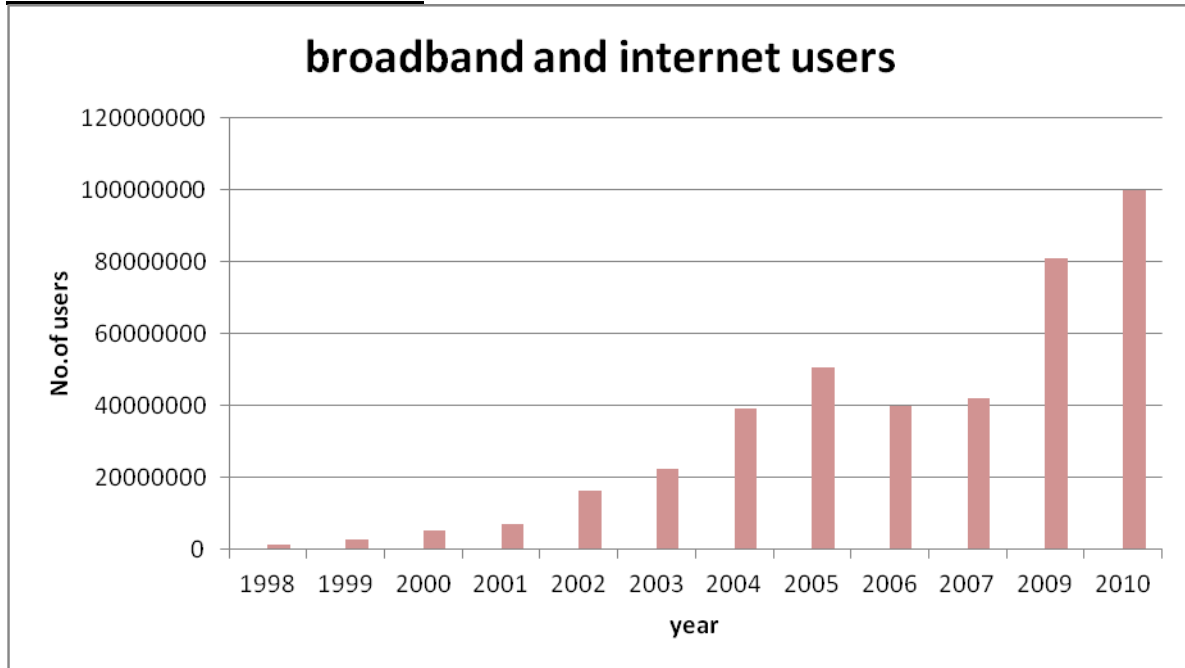
percentage	year
0.40%	1998
12.60%	2008
32.11%	2011



percentage	year
5.40%	1998
81.40%	2008
150.67%	2011

Annexure -2

Broadband and internet users.



1998	1,400,000
1999	2,800,000
2000	5,500,000
2001	7,000,000
2002	16,500,000
2003	22,500,000
2004	39,200,000
2005	50,600,000
2006	40,000,000
2007	42,000,000
2009	81,000,000
2010	100,000,000

