The Indian Telecommunication Sector – The Future Challenges

Preeti Jain¹ and Dr. Sanjiv Kumar²

¹Junior Research Fellow, Department of Commerce, MDU, Rohtak (Haryana)
p.jain1831@gmail.com
²Professor, Department of Commerce, MDU, Rohtak (Haryana)
sanjivkmdu@gmail.com

Abstract
Telecommunication is an essential infrastructure in any country, for its development and growth. But in a developing economy like India, the telecommunication sector which works like a government development in a bureaucratic regime for a foreign rule, suffering from high tariffs, non availability of telephones, lack of infrastructural networks has face many challenges in the Independent India, in order to give world class telecommunication services to the people at affordable prices. All those mean a phenomenal size of investment in building world-class network in the country size, using innovative technologies, preferably indigenous in a big way.

Keywords: Indian Telecommunication Sector, Essential Infrastructure.

1. Introduction

During the last a century and a half, until the year 1994 the telecommunication services more catered by public owned organisation, the Department of Telecommunication Services for the domestic services, and be overseas communication services, for the trans-boundary services. In 1984 the Department of Telecom Services has been bifurcated to create, an independent autonomous public company, named Mahanagar Telephone Nigam Limited and exclusively enter to telecom services into two metros of Delhi and Bombay and rest of domestic services remained with the Department of Telecom Services. The same time, in 1984, the overseas communication services were incorporated as a public company under the Companies Act 1956 christened as Videsh Sanchar Nigam Limited to look after the international telecom services.

In 1991, the government of India introduces Economic Restructuring and Stabilisation Reforms, in the public sector extensively. The centre public sector undertakings were asked to introduced Liberalisation and Privatisation. Liberalisation meant withdrawing artificial custom restrictions or the inflow of foreign goods similar to the liberal reform introduced globally. Privatisation allowed private sector Indian companies to run services (except in railways, atomic energy and defence, whose privatisation has not been introduced), parallel to the public sector enterprises. Besides, Foreign Direct Investment (inflow of foreign capital and technology), in a selective way was accepted as a main in the services sectors a more arrival of utilising foreign capital and technology in order to catalyse development of country’s growth.

Reforms in Indian telecommunication sector were introduced with the announcement of the National Telecom Policy, in 1994, aimed at ensuring world class telecommunication services and people at affordable tariffs, raising the tele-density to 4% (from 0.4% earlier) in the rural areas, and to 11% in the urban areas. It also allowed private sector companies to start telecom services in India, object to the fulfilment of licensing and spectrum allotment within the country in addition to the existing two public sector organisations. Foreign Direct Investment in the Indian private companies was allowed to the extent of 49% (now this limit has been raised to 74%). But the private sector did not fulfil the target given to them.
The New Telecom Policy, 1999 gave fillip to the sale of private sector companies who generated lot of competition to the public sector companies, resulting in lowering the tariffs tremendously. The dream of affordable services was fulfilled (with foreign telecom companies joining the Indian companies with investment and technology). In the year 2000, the Department of Telecom Services was corporatized as Bharat Sanchar Nigam Limited.

Disinvestment of Government shareholding in the public sector companies was one of the measure (without affecting the veto-powers of the Government) practised by the Government, as one of the Reforms, extensively in favour of the private sector. Disinvestment was introduced in the MTNL and VSNL. In the VSNL, the Tata’s are the majority shareholder under the disinvestment plan and consequently VSNL has been named as Tata Communication Limited, with its own management and control (the Government of India’s shareholding reduced to 26% now). However, because of the resistance by the Employees Unions, the disinvestment and other reforms suggested by Sam Pritoda Committee could not be introduced in the BSNL.

2. Achievements

The reforms in the Telecom Sector ......in the National Telecom Policy, 1994 and the New Telecom Policy, 1999 has resulted in three types of companies now working in India, namely -

A. Purely State owned enterprises – Bharat Sanchar Nigam Limited and the Mahanagar Nigam Limited,
B. Privately owned Indian companies – Reliance Communication, ITC and
C. Foreign Investment Indian companies – Vodafone, Bharti Tele Ventures, Escotel, Idea Cellular, BPL Mobile and Spice Communication.

Bharti Airtel is the largest private sector company with its presence in South Africa, followed Reliance Communication, both of them having All-India presence in all the twenty two telecom circles’.

Amongst the foreign investment companies, Vodafone (UK) leads. With the opening up of telecom services partially in the domestic services, and from 2002, in the international services, the sector is facing immense competition, which has resulted in reduction in tariffs in the domestic as well as in the international services, has also improved to a reasonable extent the quality of services. The new business strategy of the multipronged tariff plan has resulted in a Mobile Revolution in the country and a major thrust in the SMS services. However, the inherent facilities of the mobility and as-when-and where facility to switch on your mobile has dented the growth (rather the latter has recorded a negative growth during the F/Year 2010 and 2011) in the fixed-line subscribe numbers (the major loser being the BSNL which could not optimise its large country wide network and the patronage of the state).*

In the mobile Tele-services there has been an increased in subscriber’s base geometrically. According to one estimate, there were 81 crore SMS card–holders in June, 2011 (but the actual users of these SMS cardholders are about 50.1 crore, which works out to a Tel-density of around 49% (Urban), which is far less than the 70% Tele-density in china. The sad story is of our dismal performance both in network addition and Tele-density (being 21%) in the rural India, where the USO (Universal Services Obligation) Fund. A specific fund created for network expansion in rural area, and granted to companies as subsidy to the telecom. Companies by the Government remaining unutilized (except by the BSNL) Besides numbers, There has been Innovative increases in telecom services from 2 G to 3G and on to 4G technologies which have facilitated speed in data transfers and business applications.

3. Future Telecom

Telecom sector is an important contributor (3%) to the Indian GDP, and has a multi-pliers effect on other sectors of the economy. It paves the way for national and international understanding. It is obvious that the country looks towards to this sector with great hopes and expectations. During the year 2010, new licensees were issue for 2 G and 3 G technology given licenses, along with the necessary spectrum and broadband, which was increased the internet operational speed to the customers, so very important to business, education and governance. The national telecom policy, 2011 has targeted to expand broadband internet facility to connect each and every panchayat of the country. Thus, besides the urban area telecom growth the rural India would receive the benefit of telecom broadband, in future.

The recent reform allows the mobile number portability to the mobile users so that one can change the operator without changing his mobile number.
allotted to him. As a consequence, the old times slow operators would lose subscribers until his services improve. In future, similar number portability is likely to come in the fixed-line services also. In the long run this facility would appear internationally.

Constant innovation in technology for example from second generation to third generation, and now to fourth- generation 4-G, which mean a number of new services, on your mobile handset which would make mobile as an indispensable accessory. Already we have internet and conferencing and videos-viewing available on the mobile-handset, besides a number of business applications like reservation, payments, inquires are connected and available on mobile.

Rural area and internet on mobile will be our thrust area. The telecom companies would have to go rural, and multiply services, as the current competition has already reduced the average revenue per user of the companies and this would compel operators to diversify services in the rural area. Mandi-inquiries crop forecast would become attractive to the farmers on the mobile.

This would mean the subscribers base on mobile which has crossed 49% overall (in 2010-11), and also 55% (urban) 29% (rural), would cross 85% and 50% in urban and rural areas respectively by the end of the 12th Five year plan (i.e. 2017) if the present rate of telecom growth continuous. According to a study, the urban Tele-density would cross 90% by the year 2025 and 65% rural the total internet subscribers would cross 180 millions (with 100 millions of broadband subscribers) which will be 90% and 20% amongst the urban/rural broadband subscribers by the year 2025. (Source Tele-net, July 2011)

4. Future Challenges

The availability of spectrum would remain a scare commodity, so very essential for any telecom growth. The country has witnessed scams in the telecom sector (with A. Raja, the then Minister of Communication and information technologies) during the year 2010, in 2G spectrum allotment such frauds and scams have not only brought bad name to the government but have slowed down the telecom growth. A fool-proof spectrum allotment policy is often auction would reduce such frauds in future, and would bring huge capital revenue to the Government.

But, such high bidding costs paid by the telecom companies, when passed in to the people by the companies would mean higher tariff rate in future. The Bharat Sanchar Nigam has already enhanced its tariff on its out-of-circle rates from 49 paisa to 60 paisa/minute, on the mobile services.

The rate of the telecom regulator (Telecom regulatory Authority, TRAI) would be very much challenging, while keeping a check on the companies to give world class services to people, at affordable rates.

An Important off-shoot in future will be the acquisition and mergers in the sector. Because, the high spectrum costs, the aggressive competition and the question of survival, would mean possible the survival of big and large companies only a phenomenon seen world-wide in the strength of the MNCs, (Multi National Companies) which can diversity and sustain losses of one country, to be retrieved in the other country. The liberal FDI policy of the Government would mean larger companies surviving (e.g. The Vodafone a foreign company and Bharti Airtel, The Indian biggy).

The telecom sector in times to come would remain attractive for the government, as a major revenue earner, and a cherished essential service for the people and a golden geece for the telecom companies. The future challenges have to be converted in to opportunities by the stake-holders, for its sustained contribution to the Indian economy.

References

[6] Consultation papers-TRAI
[8] Indian telecom sector and world view, Indian Book Centre, New Delhi.