

## Impact of Reforms and policies on the growth of Indian Telecom Sector

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### Abstract

The Indian Telecommunication industry is the fastest growing in the world. Telecom sector has been considered as an important tool for the socio- economic development of the country. Indian telecom industry has witnessed phenomenal growth in subscriber base during last decade. Regulatory reform in telecom service sector has focused on opening monopoly markets to full competition. The liberalisation of telecom markets has required a new set of regulatory reform and policies by which fair competition in markets take place. Policies and reforms measured by Government, wireless technologies, active participation of private sectors played important role in the rapid growth of telecom sector in India. This paper analyzes the changing shift of Indian telecom sector from a monopolistic to a competitive environment. The National Telecom Policy 1994 & New Telecom Policy 1999 established a strong and independent regulatory mechanism with well defined power and responsibilities. This paper is an attempt to examine the impact of policies and reforms on the growth of Indian Telecom Sector.

**Keywords-** telecom industry , reforms, national telecom policy.

Telecommunication has been considered as an important tool for the socio- economic development of the country. Telecommunication services are used in connection with a wide range of economic production and distribution activities, delivery of social services and government administration.

Indian telecom sector has registered a phenomenal growth during the past few years and has become the second largest telephone network in the world, only after China. Many policy reforms measured by government, the wireless technology, and active participation of private sectors played an important role in the rapid growth of telecom sector in the country.

### Present status-

The total number of telephones was 933.02 million at the end of March 2014<sup>1</sup>. The telecom industry has witnessed significant growth in subscriber base over the last decade, with increasing network coverage and a competition – introduced decline in tariffs acting as catalysts for the growth in subscriber base. Internet subscribers in India grew to 164.81 million as of March 31<sup>st</sup>, 2013, with as many as seven out of eight net users in the country accessing the services via mobile phones, according to telecom regulator TRAI. The total number of mobile internet subscribers stood at 143.2 million at the end of the last fiscal.

The number of broadband subscribers increased to 60.87 million as of March 31<sup>st</sup>, 2014 from 15.05 million as of March 31<sup>st</sup>, 2013. The number of non mobile subscribers in the quarter ended March 31<sup>st</sup>, 2013, grew to 21.61 million from 21.57 million, registering a quarterly growth rate of 0.16 percent.

Teledensity is an important indicator of telecom penetration in the country. Teledensity has increased from 73.32 percent in March 2013 to 75.23 percent at the end of March , 2014<sup>2</sup>.

The shift in the telecommunication sector in India from a monopoly regime to open competition and establishment of independent regulatory mechanism has followed the pattern of

deregulation of this sector. On the bases of ground realities Government of India took many policy initiatives & implemented it accordingly. Regulatory framework implemented by Telecom Regulatory Authority of India has provided a conducive environment for service providers.

Liberalization not only moves the industry towards the rapid growth but also helped in maximization of consumer benefits, evident in a huge fall in tariffs. Telecom sector have witnessed a continuous growth in total number of telephone subscribers and the teledensity. In simple words, teledensity is the number of landline telephones in use for every 100 individuals living within an area. A teledensity greater than 100 means there are more telephones than people.

Historically, the reform process began in the 1980s with the entry of private players in manufacturing of customer premises equipment & corporatization of domestic telecom operations in two metros : Delhi and Mumbai, the establishment of a corporation for international services in 1986 & telecom commission in 1989<sup>3</sup>. The policy initiative taken by the govt. of India during 1990s was the most important in telecom industry. It was a shift from monopoly to competition. New Economic policy of Govt. introduced around 1991, to provide a thrust to the economic reforms, aimed at improving India's competitiveness in global market, rapid growth of exports and attracting foreign direct investment. Since telecom services sector plays a dominant role in overall economic development, telecommunications services of world class quality were essential for success of new economic policy.

#### **National Telecom Policy 1994<sup>4</sup> and its implementation:-**

This policy represents the first attempt to codify the policy objectives and provide a path for the telecom development in India. This policy sets specific targets such as making telephone services available on demands by 1997, All villages to be covered by 1997, A PCO for every 500 population in urban area, and introducing all value added services available internationally, preferable by 1996. It was estimated that to achieved the revised targets, additional recourses required would be well over Rs 230 billion. This resource gap was covered by private investment. It was the first attempt that policy allowed private companies register in india to participate in the provision of basic telephone service.

The policy gave more emphasis on protecting and promoting consumer interest and ensuring fair competition. This obvious implication of this emphasis was to establish the institution of regulator for the telecom sector. In 1997, Government of India enact a law, Telecom Regulatory Authority Act 1997- leading to the establishment of an independent statutory regulatory authority for telecom sector, with clearly defined functions, power and responsibilities to encourage competition, ensure a level playing field and promote & protect consumers interest<sup>5</sup>. TRAI enjoyed wide ranging functions & powers in the area of its responsibility. It relates and includes technical compatibility and effective interconnection between operators and service providers, monitoring the quality of service standards. The TRAI is not entrusted with functions relating to licensing, standard setting and allocating spectrum which are in the domain of the Government of India.

#### **New Telecom Policy 1999<sup>6</sup> and its implementation:-**

The government anticipated that a major part of the growth of the country's GDP would be reliant on direct and indirect contribution of the telecom sector and accordingly the needed for a comprehensive and forward looking telecommunication policy was felt. Then the New Telecom Policy 1999 (NTP 99) was introduced which largely focused on an environment for attracting continuous investment in telecom sector and allowed creation of communication infrastructure by leveraging on technological development. The policy sets specific targets such as availability of affordable and effective communications for citizens strive to provide a balance between provision of universal service to all uncovered areas including the rural area and provision of high level services capable of meeting the needs of country's economy, create a modern and efficient

infrastructure taking in to account the convergence of IT, media, telecom and consumer and protect the defence and security interest of the country.

NTP99 allowed private operators providing cellular and basic services from a fixed licence free regime to a revenue sharing regime which made it financially viable for such operators to function in the market. The Govt recognised the necessity to separate the govt's policy wing for its operations wing so as to create the level playing field for private operators. The NTP99 directed the separation of the policy and licensing functions of DoT in oct 2000 & named as Bharat Sanchar Nigam Limited (BSNL). Thereafter in 2000, the monopoly of VSNL also came to an end.

The govt was unable to fulfil the demand for telephone connections because there was a long waiting list for telephones in India. For that govt invite private sector in telecom. After that the govt introduced the Cellular Mobile Telephone Service (CMTS) licensed and Basic Telecom Service (Basic) license allowing private players to provide telecom services in India.

#### **National Telecom Policy 2012:-**

The Government approved National Telecom Policy-2012 (NTP-2012) on 31st May 2012 which addresses the Vision, Strategic direction and the various medium term and long term issues related to telecom sector.

The department of Telecommunication introduced the National Telecom Policy 2012 (NTP2012) for policy makers, stake holders and law makers to achieve a common goal. Telecommunication has emerged as a key driver of economic and social development in an increasingly knowledge intensive global scenario, in which india needs to play a leadership role. NTP2012 is designed to ensure that India plays this role effectively and transforms the socio economic scenario through accelerated equitable and inclusive economic growth by laying special emphasis on providing affordable and quality telecommunication services in rural and remote areas.

#### **The mission of the NTP 2012 is as follows:**

- To develop a robust and secure state-of-the-art telecommunication network providing seamless coverage with special focus on rural and remote areas for bridging the digital divide and thereby facilitate socio-economic development.
- To create an inclusive knowledge society through proliferation of affordable and high quality broadband services across the nation
- To reposition the mobile device as an instrument of socio-economic empowerment of citizens.
- To make India a global hub for telecom equipment manufacturing and a centre for converged communication services.
- To create an inclusive knowledge society through proliferation of affordable and high quality broad band across the nation.
- To promote Research and Development, Design in cutting edge Information and Communications Technology and Electronics (“ICTE”) technologies, products and services for meeting the infrastructure needs of domestic and global markets with focus on security and green technologies.
- To promote development of new standards to meet national requirements, generation of IPRs and participation in international standardization bodies to contribute in formation of global standards, thereby making India a leading nation in the area of telecom standardization
- To attract investment, both domestic and foreign.

The NTP 2012 gives emphasis on One Nation – Free Roaming, which allows subscriber to receive free incoming call anywhere in India. It also introduced One Nation – One License in which subscriber can make outgoing calls at local tariffs without roaming charges.

#### **Impact of policies and regulatory initiatives on the growth:**

The telecom scene prior to liberalization shows low tele- density, poor quality of service, high tariffs, low level of consumer satisfaction, typical monopoly regime. In post liberalization era, the telecom sector itself better equipped to cope with the newly emerging challenges due to a more appropriate policy regime and the presence of a strong independent mechanism. The telecom regulators faced many challenges such as tariff setting, quality of service, protection of consumers' interests, licensing, expansion of telecom services in rural areas, and spectrum management. Coping with these issues successfully through regulations and by involving stakeholders in the process was an essential component in creating a level playing field and fostering competition, as well as in raising the level of customer satisfaction. The regulator takes these issues in full measure, which spurred the transformation in India.

#### **Tariff**

The TRAI recognized early the importance of an affordable tariff for the common man, as a catalyst for the much-needed expansion of the telecom network and as an instrument for promoting competition in the sector. Heightened competition in the telecom sector has allowed flexibility to the service providers to offer any tariff, subject to certain regulatory principles including Interconnect Usage Charges (IUC) compliance. This flexibility does not extend to rural telephony, roaming and leased circuits. The first major policy step was the Telecommunication Tariff Order (TTO) 1999 which provided transparency in the tariff structure for various telecom services. This TTO also sent signals to potential investors in the sector about the direction of telecom pricing reform, the main elements of which were:

- Rebalancing tariffs further to align with costs, while at the same time focusing on the social objective: encouraging non-users of telecom to connect to the system then use it more intensively; and
- Providing enhanced flexibility to service providers for price setting, and more choice to customers.

Other initiatives taken by the Regulator in the area of tariff include the introduction of the “calling party pays” (CPP) regime and cost-based IUC. These measures positively affected the competitiveness of the cellular mobile telephone services market in India and resulted in significant reduction in international, and domestic long-distance call charges, the rationalization of roaming charges, and the reduction in tariffs for mobile telephony. The positive impact achieved thereby on the affordability of service for the common person contributed to the rise in overall teledensity. The continuous decline in the tariff for fixed line and mobile services has been accompanied by a significant rise in tele-density. The telecom regulator's decision to phase out the access deficit charge as a percentage of adjusted gross revenue (AGR), which private operators pay to the public sector operator BSNL, with effect from April 1, 2008 will result in a further drop in call charges for the consumer. This initiative of the regulator is perceived as pro-consumer and pro-competition.

#### **Protection of consumers' interests**

The TRAI has variously addressed consumers' concerns, including by (i) holding half-yearly meetings with the registered consumer organizations to gain better appreciation of consumers' problems; (ii) inviting consumer organizations to seminars, workshops and conferences to apprise them of various developments in the telecom sector; and (iii) prescribing a written voluntary

declaration by the service providers about the various dimensions of service. In this context, the Quality of Service (Code of Practice for Metering and Billing) Regulation 2006 of March 21, 2006 merits special mention. This regulation mandates that service providers arrange an annual audit of their metering and billing systems, using any one of the auditors approved by the regulator, and to furnish an audit certificate thereof by June 30 each year. The regulation also requires that service providers take corrective actions on identified inadequacies within a specified period.

During 2006-07, TRAI took several steps to protect the interests of consumers including:

- i) Obliging all service providers to furnish full details of the tariff plan they offer to customers at the time of their enrolment.
- ii) Mandating that service providers regularly reflect credit limits set for a post-paid customer in their monthly bill on a regular basis.
- iii) Requiring service providers to display details of their tariff plans for the information of consumers. Service providers were also required to display the international private leased-line tariff and domestic leased-line tariff on their websites.
- iv) Prescribing the issuance of docket numbers for registering complaints made to call centres and also for termination of service.

Other measures taken to protect consumers' interests, include the appointment (in January 2008) of independent agencies to conduct a survey that assessed the implementation and effectiveness of the "Telecom Consumers Protection and Redressal of Grievances Regulation 2007" as well as customers' perception of service. In addition, an audit assessed the QOS from basic, cellular mobile and broadband service providers.

In January 2007, the TRAI established a Telecommunication Consumers Education and Protection Fund. The income realized from the fund will finance programs to educate telecom consumers, along with research studies on matters relating to consumer interests.

During the same month, it introduced another regulation envisaging a mechanism for curbing unwanted telemarketing calls. All these measures have improved consumers' perceptions of the efficacy of telecom services, and served notice that service providers must adhere to the norms prescribed by the regulator or be prepared for consequences.

These pro-consumer measures have had a salutary impact on telecom growth in India as would be evidenced by the welcome increase in tele-density both in urban and rural areas.

### **Licensing of Services**

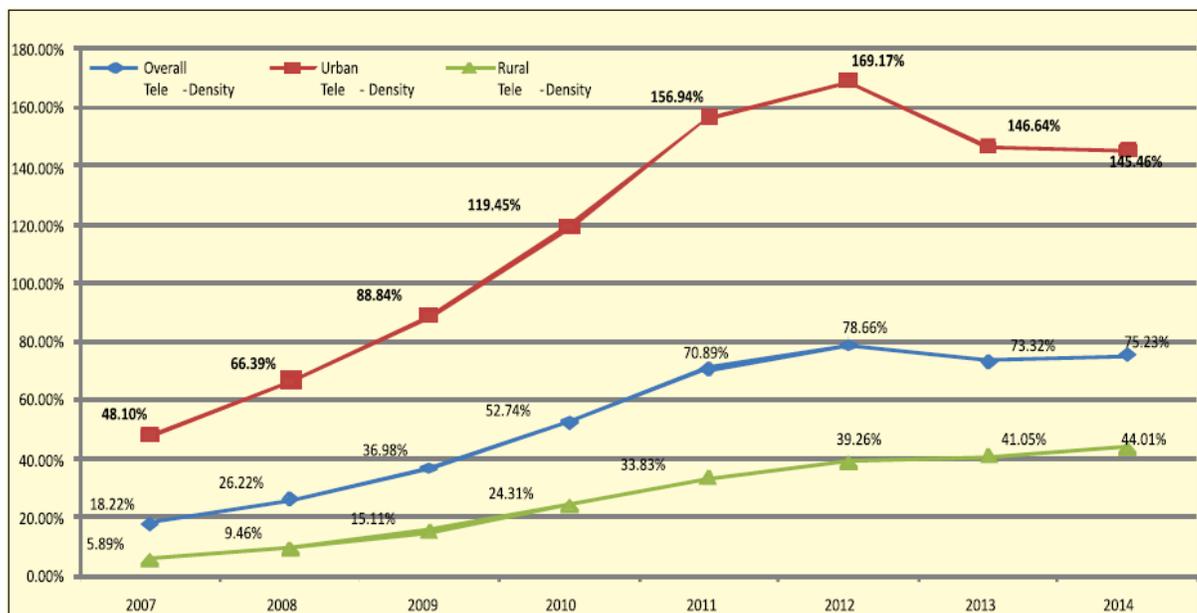
One of the important functions that the TRAI Act conferred on the regulator was to recommend, suo motu or at the request of the licensor, the need and timing for introducing a new service provider as well as the terms and conditions of the license. By and large, the regulator's track record in this area has been pro-competition, which boosted liberalization in the telecom sector. Recommendations have made a positive impact on:

- i) Public mobile radio trunk service (PMRTS), which contributed to lowering the license fee and creating more choice of technology.
  - ii) VSAT operations, which allowed higher data speed for VSAT users and lower license fees for captive VSAT networks.
  - iii) The internet service provider (ISP) licensing regime, which allowed scope for removing restrictive provisions in the existing license conditions.
  - iv) 'Infrastructure Sharing.'
  - v) licensing policy (in August 2007) for access services provisions. This particular recommendation envisaged lifting the cap on the number of access service providers in any service area and allowed service providers to offer services on GSM/CDMA platforms or any other technology under the same license.
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vi) Accelerating growth of internet and broadband. The TRAI's recommendations formed the basis of the government's broadband policy issued in October 2004.

To promote greater competition, the TRAI has made a number of recommendations covering such areas as mobile number portability, competition in the international private leased circuits (IPLC) segment, the unified licensing regime, infrastructure sharing, competition in national long-distance communication and opening access to the international long-distance circuits. Other measures taken by the TRAI that have already been discussed above have had a beneficial cumulative impact in creating a competitive environment in the telecom sector.

The impact of recommendations of the TRAI, together with the policy initiatives taken by the government from time to time, is clearly discernible in the growth of the telecom sector, as witnessed by the increasing number of operators -- both in basic and mobile service segments, a significant lowering of tariffs, a higher quality of service, a quantum increase in FDI inflow, an increase in consumer awareness, and a considerable expansion of tele-density, both in urban and rural areas. For example, the tele-density in the country, which was 0.8 per 100 persons in 1994 rose to 75.23 in March 2014. The rural tele density was 41.05 percent in March 2013 but it increased to 44.01 percent in March 2014 percent. The growth in tele density is a positive indicator to prove that policies introduced by government have resulted positive growth.



**Growth in Tele Density  
Sources of TRAI**

## Conclusion

The telecom sector in India has travelled far, emerging from its early struggles to expand basic service to reach the current phase of phenomenal growth of wireline and wireless telephony, as well as value-added services. The sector has surmounted many obstacles in reaching its current stage of development, but has to continue to reform if it is to realize fully the potential of new technologies and truly become an engine of inclusive economic growth.

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