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GROWTH OF TELECOM INDUSTRY IN INDIA

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ABSTRACT

India's economic liberalization programme that began in 1991 and aimed at raising the economy from low – growth equilibrium and putting it on a sustained growth path targeted a wide range of sectors – from international trade to finance and infrastructure. Growth of a world class telecommunication system in the country was inevitable to meet the demands of the economic and it becomes a necessity rather than a luxury in the globalized scenario. The economic policy forced the Indian government to shift telecommunications secondary status to priority status. As a result after 1990, India witnessed a paradigm shift in telecommunication policies. Further in the early 1990's due to technological changes and challenges of globalization, the natural monopoly in the telecom sector was challenged in countries like USA and UK[1]. This resulted in the growth of both private and public telecom sectors worldwide which led to competition and greater consumer welfare.

Fixed line:

The fixed line subscriber base which was 26.66 million in 1999.00 has just doubled by 2006 and then declined to 40.3 million by the end of 2006, and further declined to 28.50 million by 2013-14 and registered negative growth rates, after 2005 ranging between 3% to 6%. Share of different service providers are BSNL maintained nearly 85% share in total fixed phone sector upto 2003-04,but from 2005-06 onwards BSNL lost its share -12% relegated to the 65% by 2013-14. Whereas MTNL maintained its share of 10% from 2003-04 upto 2013-14, among private players Airtel has increased its share from just 1% in 2002-03 to 12% by 2013-14. Other important players are HFCL Infotel and Shyam Telelinks accounted for 5% by 2013-14.

Mobile Cellular:

The data reveals an interesting fact that cell phone market in the country is increasing by leaps and bounds because of the favorable policies of the government and the marketing efforts made by the private players. The net addition of subscribers was 11 million till 2002-03. During 2003-04 and 2004-05 the number of customers added was 20.69 million and 18.53 million (260% and 155%) respectively. But the net addition during 2005-06, 2006-07 and 2007-08 broke all the records and accelerated the overall tally to 90.14 million, 150 million, and 165 million respectively. 38.5 million, 75 million, and 96 million cellular customers were added during 2005-06, 2006-07 and 2007-08 respectively. But this growth is little below the targets fixed by TRAI for the cellular sector. In March, 2003, the target of 100 million cell phone subscribers by December, 2005[3] and 2007 and poor infrastructure planning and failure in control (budgeting) are the main reasons for the poor functioning of the sector. The private players' refusal to enter the rural market further hindered the sector from achieving the target.

However, the net addition was very high during 2008-09 to 2011-12 broken the record of 2005-06, 2006-07 and 2007-08. Yearly net additions are 220 million during these years. The subscriber base increased from 391.76 in 2008-09 to 919.17 in 2011-12[3] and slightly declined to 904.5 by 2013-14[4].

The major service providers when subscriber base crossed 100 million in 2006-07 are Bharthi Airtel, BSNL, Reliance, Vodafone, Tata Docomo, Idea and Aircel. Bharthi Airtel is leading the mobile market with GSM technology by making a highest number of subscribers (37.11millions) large market shares (22.50%) closely followed by BSNL with 18.76 million customer base and 19% market share. There is a great demand for BSNL mobile by the first time purchasers due to price competition. Reliance is just behind BSNL by a slight margin and joined the fray very late (2003) by offering CDMA Technology (16.93%). The trend shows that both GSM and CDMA technologies are equally attracting customers. The other important players are Vodafone 16.02% Tata Docomo 9.70% and Idea (8.48%). Aircel also accounted for 3.35% market share. These service providers together accounted for nearly 96% of total cellular segment.

However by 2013-14, where the subscriber base crossed 900 million, Airtel Vodafone, Idea Reliance, BSNL, Tata and Aircel occupied first, second, third, fourth, fifth, sixth and seventh positions respectively in terms of market share. Airtel continued to be the market leader since early 2000's, but BSNL lost its second position and declined to fifth position. Reliance also declined to IVth from IIIrd position. Whereas Vodafone and Idea were improved their positions, and secured IInd and IIIrd positions by 2013-14. It implies BSNL is not in a position to compete with major private service providers. This is because of private service providers marketing strategies are highly competitive and successful compared to BSNL. In other words BSNL lag behind in marketing strategies.

Impact on telecom tariff:

With increased and intense competition, there has been a dramatic fall in telecom tariffs. During mid 1990's the average outgoing call charges were more than Rs 32 per minute and incoming call charges were Rs 16 per minute. Gradually they reduced the tariff outgoing call charges are Rs.16 per minute in 1998-99, and the Rs.4 per minute by March 2002[5]. During mid 2000's with the presence of multiple telecom operators, the competition in the mobile market stepped up and price wars start. The data reveals the average out go call charges reduced to Rs 1.77 per minute by March 2006 and then reduced to 0.60 per minute. This is mainly because the BSNL introduced tariff plans with outgoing call as low as Rs 1 per minute under "one India plan" from March 2006. Further BSNL was the first telecom operator introduced tariff plans with incoming calls free of charge. Subsequently all mobile operators adopted market follower strategy and mobile incoming calls become absolutely free. By June 2011 the average out go call declined to the lowest level of Rs 0.50 paise per minute and rate of decline appears to be leveling off and they are less than TRAI tariff rate. Further data from 'Telecom sector in India: A decade profile' reveals that mobile tariffs are the second lowest per month (US $ 1.6 per month in 2008) in the world after Bangladesh[6].

Internet:

The internet subscriber's base in the country as on 31st March 2014 stood at 251.59 million as compared to 164.81 million (narrow and broad band) as on 31st March 2013[7], and 22.9 million in 31st March 2012. The internet subscriber base ranges between 11 million to 23 million during March 2008 to March 2011 thus internet base increased phenomenally during 2012 to 2014.

The total broad band subscriber base in the country 60.87 million as on 31st March 2014 as compared to 15.05 million as on 31st March 2013, and 11.89 million in 31st March 2011. Thus broad band base increased tremendously with the revised definition. The Government had revised the definition of Broadband from July 2013: by increasing the minimum down load capacity from 256 kbps to 512 kbps to an individual.

Public Sector Vs Private Sector:

The data reveals that market share of public sector interms of subscriber based in fixed line sector declined from 99% in 1999.00 to 82% in 2005-06 and again increased to around 90% during 2006-07 and 2007-08. However the share is fastly declined 77% by 2013-14. On the other hand the share of private sector increased from less than 1% in 1999-00 to 23% in 2013-14[8]. Thus the share of public sector slowly and steadily declined in fixed line sector, where as private players growing faster by increasing their share fastly.

In cell phone sector, since the opening of the Telecom sector the private sector have contributed for the growth of cell phone market. The data reveals that the market share of private sector interms of subscriber base declined from 100% in 1999-00 to 80% in 2006-07 and again the share increased to 90% by 2013-14. This indicates the public sector BSNL and MTNL also have significant share 20% upto 2005-06, and 10% in 2013-14 in 90 crores cell phone subscriber base. Thus private sector continuously enjoyed 80% to 90% share in cell phone subscriber base.

Rural Telephony:

The telecom development in rural areas assumes special significance in India as more than 70% of the population lives in the villages. The telecom services are the important driving forces for development of the private sector, delivery of public services such as education and health and integration of the rural areas with the rest of the country. The telecom services enhance the ability of people to participate in market economy that in turn improves their productivity and contributes to their earnings. Villages in India facing the problem of inadequate telecom services, this is because commercial viability of rural telecom services was poor as cost of provisioning them was high and propensity to pay was low. With the onset of private services in both mobile and fixed services, the government was concerned about the coverage in rural areas, as these were largely commercial unviable.

The data reveals that villages had only 18% of total number of phones by the end of 2002. Though urban teledensity is 10.37 in 2000-01 because of low rate in rural areas (0.93), the total teledensity is pulled down to 3.52%. The same trend is continued up to 2005-06[9], the urban teledensity is 35.12 and rural teledensity is only 2.1 there by the overall teledensity is pulled down to 12.80%[10]. Thus telecom policies are not successful in rural areas.

The public telephone is a facility provided to access the modern technology to the large number of people who cannot afford their own telephones particularly in rural areas. By the end of 1990's only 24% of total villages of India had public call offices. The NTP-94 targeted to cover all villages in India with one Village Public Telephones (VPT) by the end of 1997 but the progress was slow due to many reasons. Therefore the biggest challenge to the Indian government after the corporatization of DoT and formation of BSNL in 2000 was to develop rural telecom services in the market driven and competitive scenario.

Foreign Direct Investment (FDI):

Prior to 1991, the Foreign Direct Investment policy framework in India was highly regulated. The Government aimed at exercising control over foreign exchange transactions. All dealings in foreign exchange were regulated under the Foreign Exchange Regulation Act (FERA) 1973 under the deregulated regime, FERA was consolidated and amended to introduce the

Foreign Exchange Management Act (FEMA) 1999. Primarily FDI allowed only 45% and later it was increased to 74% and now it was 100% in telecom sector[11].

The present study found that FDI inflow in India from April 2000 to March 2014 is 217,703 US$ million. The data also reveals that Mauritius emerged as the most dominant source of FDI contributing 78,525 (36%) US $ million of the total investment in the country. The telecom service sector accounted for 14,163 (7%) US $ million of the FDI and occupied third position after Services sector and Construction Development.

In this context the NTP-99 again laid down the targets such as increase the rural teledensity to 4% by the end of 2010. Further the end of 2002 year was fixed as a new date for coverage of village in the country and accelerated the development of telecommunication in backward hilly regions and tribal areas. For the purpose of development of telecom services in rural areas the government has taken number of policy measures which are as follows:

1. The DoT introduced rural rollout obligation of 10% of fixed lines in rural areas as a part of the licenses. But the private fixed line operators perceived the rural rollout obligation as commercially unviable and they are prepared to pay penalty for non-fulfillment of obligation rather than making investment because penalty for breach was lower than their cost of provisioning, hence there was a little progress in rural rollouts.

2. Subsequently, Dot came up with the Access Deficit Charges (ADC) mechanism for funding rural rollout. The frame work of ADC was based on fixed line deployment in rural areas. BSNL as the incumbent operator being the only one providing such connectivity. ADC was to be paid to BSNL. ADC was also to be paid MTNL though it did not provide connectivity in rural areas. The ADC regime is also failed in implementation because the ADC regime was complex due to variety of slabs, arriving at ADC was not considered scientific and frequent changes to the rates of ADC. In this context the TRAI recommended universal service obligation fund to increase rural teledensity[12]. The policy came in to affect from April I st. As per the guidelines all telecom operators had to pay a levy of 5% of their gross revenue towards this fund. This will be credited to USOF and operated by administrator. The fund will be paid to service providers to subsidize the cost of providing public or community telephones in villages and high cost rural areas. Under this programme USO Fund disbursed Rs. 3500 crores up to 2005-06 and further nearly Rs.20000 crores by 2013-14 to the operators. (Table No.3.8) Government also made special budgetary provisions during 2005-06 and 2006-07 to the tune of Rs.3000. government also reduced rental charges from Rs.250 to Rs.180 per month and announced 'India One' Plan where all calls with in India made through BSNL and MTNL network are charged equally (Rs. 1 per minute).

As a result, the rural teledensity increased to 5.84 in 2006-07 from 2.10 in 2005-06 and a tremendous growth of 34% by 2010-11 and peaked to 44% by 2013-14, the rural teledensity increased at the growth rate of more than 50% (50-60%) during 2006-07 to 2010-11 and more than the urban growth rate. In the same way by 2012-13, 99% of total villages in India had village public telephones (VPT). The number of DELs in the rural area phenomenally increased from 4.82 million in 1999 to 15.47 million increased 2006 against the target of 15.79 million fixed by the government during the X th plan. This is mainly because of creation and utilization of universal service obligation fund (USOF) and tremendous growth of cell phone segment. Under USO Fund Rs.20000 crores are disbursed to service providers by 2013-14.

Summary:

Thus the growth in subscriber base gained momentum after 1999 and registered very high growth rate of 40% in 2005. Interestingly the growth is tremendous after 2005-06 by crossing the subscriber base of 20 crores by 2006-07 and 40 crores by 2008-09 and reached to peak of 95 crores by 2011-12 and stagnation afterwards, the additions per annum crossed more than 10 crores during last five years and more than 10 folds compared to the period 1999-2005. The growth continued to register more than 40% up to 2010, even with high subscriber base of more than 20 crores in 2006-07. Automatically teledensity increased from 12.80 in 2005-06 to 26.22 in 2007-08 and further to 52% in 2009-10 reached peak of 75% by 2013-14, the growth rate also registered more than 40% from 2006-07 onwards in teledensity. The main factor for this phenomenon is that cell phone segment in the country increased by leaps and bounds because of the favorable policies of government and market efforts made by the private players. The data reveals that the growth in cellular sector is much higher than the growth in the traditional land line sector.

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