

TELECOMMUNICATION AND INFORMATION SERVICES IN INDIA IN THE CONTEXT OF NEW ECONOMIC ERA

DR.PARAMESHWARA NAIK *

Abstract

Telecommunication and information services represent the output of a given sector no doubt but they play a key role in industrial interdependence Growth in many other sectors like that in financial services, tourism and transport, to speak about a few, depend vitally upon provision of these services. Their role as inputs I many other important sectors cannot be overemphasized. The fact that basically they are infrastructure services and their growth is largely conditional upon the growth in demand from other sectors of the economy is true to the core. The development of service sectors in the economy will lead to intensification of demand for these industries and business and professional uses will multiply. The current industrial scene, not only in India but in foreign countries also is dominated by the service sector. Replacement of manufacturing by services implies greater need for faster communication. Industrial production is carried out in a single factory complete with several plants. Communication as between these different plants or sections is important no doubt but physical movement can also do the job where as in the case of services there is a separation between the client and the service provider. Connections cover long distance, for instance hotel booking or booking for hights may encompass considerable distance. Here tele link or internet connectivity assumes added significance. Thus further growth of service sector will create additional demand for infrastructural services.

Key Words: Telecommunication, Information, Service, WTO, Liberalization,

*** ASSISTANT PROFESSOR & HOD,DEPT OF ECONOMICS,S.J.V.P.COLLEGE,
AUTONOMOUS,HARIHAR.DAVANGERE (DIST), KARNATAKA, INDIA.**

INTRODUCTION:

General agreement on trade in services under the WTO is an important achievement in the sense that no attempt at regularizing trade in services have taken place so far. Services trade comprise of invisibles in the current account of balance of payments examples of which are travel, tourism, interest payments, royalties, shipping charges etc. A large number of services produced in developing countries are sold locally and they remain outside the purview of international trade. Such invisible items are known as non tradable and it may be one of the reasons explaining why trade in services have not been brought under multilateral discussions so far. Trade in services have been treated as synonymous with transactions involving non tradables so to say. Developed countries have a wide group of services that enter into international trade and it is basically their persistence that led to inclusion of services in the discussion agenda of the WTO. Concept of services trade has also undergone important changes in recent years. Previously the person providing the particular service was expected to be physically present in the foreign country but now that is no longer necessary. With the development of information technology production, Consumption and transfer can take place simultaneously and BPO can serve as a good example of that. Medical transcription, another popular IT application also corroborates this idea. International trade in services like in the case of commodities will require regulations as well as regulatory guidelines.

From the multiplicity of items that enter into services trade we take up telecommunication and IT services for discussion. That is because telecommunication and information services provide the crucial knowledge inputs into the production process. Faster communication and access to information tend to make productive activities more efficient. Stock of capital remaining the same improved means of communication and better information imply technological shift and higher level of output. Of course to offer a better package to the community in regard to communication facilities producers must possess some surplus in the form of investible resources. Once communication facilities reach a certain level, flow of FDI may also be expected. An element of dynamism that is imparted by the better communication infrastructure can attract outside capital and accelerate the process of growth. Foreign services providers may themselves show interest in penetrating the developing country market and offer competition to the domestic monopoly producer.

Secondary foreign competitors generally are guided by the exclusion principle in the sense that their services remain confined to urban areas of the developing countries. Lack of proper communication facilities relegate interior areas to a state of oblivion and with the cities will help foreign competitors to reach out to the poor and the sectoral imbalance in resource allocation can be somewhat eliminated. Market integration whether within or with the rest of the world might prove to be an incentive to the foreign competitors to set up business in third world countries. The areas which remained isolated so far might emerge in the lime light and offer expanding market opportunities.

Penetration of telephone facilities in a given country may be supplemented by foreign entry. Landlines may be controlled by a domestic monopoly while mobile services may be thrown open for competition. Quick dissemination of information is always one step ahead as far as market efficiency is concerned. Call center services, for instance, may deliver quick information and sometimes provide instant relief from consumer complaints. In health and education also service sector liberalization may add considerably to the efficiency level of market participants. A student having access to internet facilities will be more equipped compared to one with very little of such facilities.

When domestic resources do not permit extension of essential services to citizens can be entrusted to the foreign suppliers. Telecommunication and information represent the type of services which should be of use by one and all. It is a form of power to be equipped with the latest information. Any sphere of service be it education, health, finance or travel, information technology will have its present felt among the users. It may help poorer sections of the society as well when their capability to join mainstream of activities increases. Liberalization of trade in services might result in greater empowerment for the people in general.

Rules, Regulation and Discretion in Telecommunication Liberalization

It is since the eighties that pressures from multinational companies were coming for liberalization of trade in telecommunication services. Larger flow of goods and services on the one hand and investment on the other necessitated faster pace of communications as well.

Because companies from the USA and European Union were involved, rules for service sector liberalization were included in Uruguay Round of discussion. Forces of globalization needed a new approach to infrastructural services throughout the world and hence it was thought fit to take up it for discussion.

When new market access was being created for telecommunication services several questions has to be answered. The first and most obvious one was obviously whether rules for trade liberalization could be applied to service sector. Greater market access through reduction in tariffs and subsidies, competition laws etc which mark the opening of trade sector had to be applied in a modified form in the case of service sector. Regulations had to be there but these regulations applied not so much to cross border transactions but within country trade. For instance how a domestic country government would react to foreign service providers happened to be an important issue. A declared and well-defined set of rules will make the matters transparent. And not only that without a structure of rules and regulations a particular domestic sector cannot be opened up to foreign competition. The new entrants must know their area of operation in clear and unmistakable terms. And then it can be deliberated also whether the same set of rules are applicable in the case of telecom like services.

When the government of a country decides to invite foreign cable companies or news channels to broadcast something it must be having an objective function in mind. The primary objective mostly relates to the representative agents welfare; in this case greater availability of telecom services would improve subscribers welfare and that is the most important consideration. Subsidiary benefits to the governments are there and they take the form of increased revenue, higher employment, removal of disparities in telecom network etc. Revenue consideration or prospect of generating higher employment is important no doubt but the immediate consideration relates to increasing the level of welfare.

People in general are used to a given level of telecom services. Deficiencies of service are well known to them, a change will be welcome but they do not expect it. On the contrary the same level of services are expected to prevail year after year. Then suddenly the government announces a new policy the surprise element of which catches the people unguarded. Appearance of new foreign companies in the domestic market increases the number of competitors and

product range also. Sometimes differentiated products also can be made available. Utility function of the consumers will be altered in the sense that new alternatives are available. Thus before the opening up if utility function looked as $U = F(q_1, \dots, q_n)$, now it takes the form $U + F(q_1, q_2, \dots, q_n, q_{n+1}, \dots, q_{n+2}, \dots, q_{n+n})$. Similarly if employment is a function of output we can write N_1 - With the increase in number of products offered for sale total employment is bound to increase.

The change in public policy indicated by increased access to foreigners defiantly was not anticipated by domestic consumers. The surprise or shock imported by the policy change will introduce distortions in the economy. Actual availability of telecom services or call center facilities exceed the expected amount creating a divergence between the two $Tel - Te; 0$. Greater availability creates more demand simply because knowledge about the services were known to the people. Next the question will be whether the model we are talking about will be market cleaning or not. The answer is yes. Presence of foreign competition will impart efficiency and initial public provider of telecom services will offer reduced rates, larger no. of free calls or zero waiting period for getting the services. When prices adjust owing to market pressure it is surely a market clearing model but the response from the side of prices may not be instantaneous, Prices may adjust gradually over time to the equilibrium level.

Competitive bidding results in fixed rental charges as well as lower charges per call. Increase in demand for telephone services will depend upon degree of price elasticity of demand. Those who could not afford it previously can now exercise their choice. Higher demand not only leads to better capacity utilization and economics of scale but lower cost of production for receiving sets. Instead of prices coming down the greater possibility is that technological innovations will take place and completely new look sets or mobiles with larger fringe benefits will come to stay. If FDI penetrates into this field there is every possibility that introduction of new design or additional uses will become more frequent.

There is a revenue incentive for the government to go in favour of surprise change in policy. Lowering of rates will make public sector products more popular and revenue earning might get a boost. Quality of service rendered to the domestic consumers from public sector telephone

offices will have to improve if competition is to be offered to the foreign collaborators. Some changes in office culture like evening service, mobile cheque collection centers etc might be introduced. Changes in quantity and quality of services will of course be conditional upon institutional changes in the economy. Public sector service providers are generally conservative in the sense that they traditionally operate in a sellers market. Existence of competitors and need to introduce a customer friendly office culture will make them more efficient.

The attraction of generating more revenue through GATS is precisely due to an unexpected change in policy. Every country follows a licensing policy or competition policy of its own and it takes years to bring about suitable changes in policy. Under international initiative it becomes rather easy to introduce changes. Government policy may have a tendency to be rule based; services provided do not remain exactly constant but the level of service comes to be more or less expected. A sudden spurt in activity that follows from international policy decision can certainly lead the economy to a higher growth path as far as telecommunication services are concerned.

Any policy that is followed has two aspects associated with it namely benefit and cost. Benefit arises basically from the unanticipated change in policy which can be represented as $Tel - Tel_0$. Cost of policy change may assume different forms. To maintain market share at a given level extra costs might have to be incurred. Cost of advertising for instance might go up. If a decision is taken to provide round the clock services new people might have to be hired leading to any increase in salary bill. To keep up with foreign service providers technological changes are necessary which mean cost on R and D will go up. To bring above a competitive advantage reduction in marginal cost might be necessary but that can be achieved by having an innovation that reduces costs, Innovations imply higher cost on R and D so that decrease in cost on physical output might be more than compensated by ancillary costs. A regime of differentiated services will be perfectly compatible with slight difference in price. It is quite possible that these costs will not increase by constant amount. To preserve market share in the face of increasing competition marginal costs might increase in a quadratic manner. Costs can be shown as a $(Tel)^2$ where Tel_1 = actual cost of providing telecom services by the public sector at time t. Net benefit

from departure of rule based policy will be given by the difference between cost and benefit arising from surprise change in policy.

The ranges of benefits that can be expected from telecom services liberalization include greater market efficiency. Rural urban divide that exists in India in regard to provision of these services might get eroded with the introduction of GATS. Private ownership of affordability may be limited but if availability of roadside STD / PCO booths should increase gap between urban and rural areas or between rich and poor should definitely come down. Internet facilities in remote areas may to a large extent compensate for the lack of good library facilities. Good reference material can be collected at much lesser cost from internet searching. Familiarity with modern technology and the confidence to use it indicates an important empowerment for the rural poor. Urban people can also participate in service sector development through greater accessibility to internets. Women can avail of internet banking, railway booking etc. without actually going to a railway reservation office or bank. Internet use is definitely not gender specific. Why we refer to women is due to the fact that real empowerment actually knocks at their doorstep.

Market Structure For Telecommunications

Till recently telecommunication services have been provided by the public sector in most of the developing countries. After the signing of GATS a material change has come over the entire scene. Multiplicity of service providers has become a reality for all developing countries throughout the world. For successful provision of these facilities infrastructure is a very important thing and that has to be provided by public sector. Telephone cables, copper or aluminum wires, satellite links have to be offered by the government to this extent telecommunication and IT sector assume the character of public utility services. When we talk about faster communication link between rural and urban areas underground lines have to be laid down by the government sector. The raw materials needed for construction of telecommunication links like switch gears and other equipments are made available by public sector units. When foreign companies start offering competition this dual character of the market still prevails. The government is one of the competitors and at the same time it retains the character of public utility services.

For a long time telecommunication services were sold by the public sector only and products were homogeneous. Differentiated product has been a relatively new phenomenon which is being facilitated by internationally famous brand names. Product differentiation is accompanied by price differentiation also but price differences do not continue at the same level. There is interdependence and slight increase in price by one may prompt another also to increase the mark up. Market rivalry and cut throat competition to maintain market share are likely to mark telecommunication services once the country decided to open up. A competitive market involving foreign participants cannot function in the same way as a competitive domestic market will do.

The distinction between domestic and foreign participation will be there as long as the question of injury to national interest clause continues to exist in trade negotiations. Certain rules then have to be devised to ensure friction free functioning of the market

Harmonious functioning of the market will require the introduction of rules as it exists in the case of commodity trade. For instance tariff and non-tariff barriers would have to come down. Non-discrimination and national treatment clauses will also be there. Added to them will be the requirements of service trade liberalization embodied in commercial presence, dispute settlement and trade related investment in materials provisions unique to trade in services may relate to commercial presence, the right to use public utility like role of domestic telecommunication services, the right to control production, distribution and delivery of particular services, the freedom to choose equipments, right to introduce services hitherto unknown in the country and so on. In addition services may be provided from the host or the foreign country, and foreign companies must have the freedom to lease, construct or operate equipment within the host country that is essential for the provision of their services. To meet these objectives certain domestic laws might have to be amended or existing laws extended to incorporate new challenges.

Relative decline of manufacturing sector and parallel growth of service sector have been described as deindustrialization in certain quarters. Whatever be the other consequences, impact of service sector growth has been totally favorable for telecommunication and IT services. Infact

the demand for inclusion of services in the WTO negotiations was associated with the change in the relative position of service sector. Millennium development goals have put heavy emphasis on development of social sectors like education, health along with stress on poverty reduction. The earlier World Bank strategy of helping the developing countries in initiating a structural change from agriculture to industry has been replaced by the new goals. Quality of development has been accorded greater significance compared to the broad measure of industrialization. And this is to be expected. Attitude towards development and priorities assigned to different objectives are bound to change in a dynamic scenario. Growth of NGOs has been another significant development in this regard. Now that international institutions also have recognized their presence they are becoming an integral part of governance. NGOs by nature are closer to service sector or at best to simple manufacturing production. social network of information or more precisely of internet services is essential for proper functioning of these enterprises. Therefore when one talks about the market structure of telecommunication and IT related products role of external agencies cannot be denied. Opening up of service sector or acceptance of NGOs as important agencies of development are not decided by the India government. Even the strategy of globalization and liberalization have sanctions from the highest policy making bodies of the world. Speed of development of the service sector, the degree of opening up of the service sector ad capacity to absorb the spirit of new development strategies will determine to a large extent India's success in telecommunication and IT services.

Conclusion

Combined development of telecommunication and IT services is expected to bring about a profound change in the level of skills and consequently in salaries of the persons employed in these sectors. As an illustration one can take the case of business process outsourcing embodied in call centers. Duty in a call centre is different from similar work in traditional offices in more than one way. Here employees have to be very prompt to the needs of the respondents. Computers may be ready with requisite data but one must know to read them correctly and convey them accurately. Employees must be prepared to withstand long hours, it may even tamper with their sleep cycle. When dealing with foreign centres and there accept and diction of speaking English might also change. The habit of a regular working hour in office has to be replaced by the needs of the employer which may include frequent late night duties. The smart

look of the offices, cosmopolitan nature of the predominantly young employees whose link language is mainly English gives rise to an altogether new bred of young professionals Qualified young girls are coming in large numbers to be employed in call centres where flexi timing and better pay packets are there. Indian families which are conservative by nature are getting used to the idea of a young professional girl coming back from office late in the night. In a way service sector opening up signifies not only diverse avenues of employment but a change in cultural practices also. The urban middle class is participating in the new growth process in a significant way and this participation is not within a closed economy. What we are watching in the metros of India reflects faithfully a part of the global trend only.

REFERENCES:

1. Kathuria, R., H.V.Singh and A.Soni, Telecommunications Policy Reform in India in A. Mattoo and R.M.Stern(ed) India and the WTO, World Bank and OUP, 2003.
2. Pipe, G.Russell, Telecommunications Services in Trade in Services: Sectoral Issues, UNCTAD, 1989.
3. Roseman, D.Domestic Regulation and Trade in Telecommunications Services: Experience and Prospects Under the GATS in A. Mattoo and Pierro Sauve(ed) Domestic Trade and Service Trade Liberalization, World Bank and OUP, 2003.
4. Sabater. J.N., A.Dymond and N.Jintumen, Telecommunications and information Services for the Poor, World Bank Discussion Paper No. 432, 2002.
5. Mc.Millan, D.C.Outsourcing Identities: Call Centres and Cultural Transformaiton in India in EPW, January 21-27, 2006, pp.235-241.