POLITICS OF LIBERALISATION IN INDIA: STUDY OF THE TELECOM SECTOR

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CERTIFICATE

Certified that the dissertation entitled "**Politics of Liberalisation in India: Study of the Telecom Sector**" submitted by **Mr.PRATAP CHANDRA DEBARAJA BEHERA** is in partial fulfillment of the degree of **Master of Philosophy** of this University. This dissertation has not been submitted for any other degree to any other University and is his own work.

We recommend that this dissertation be placed before the examiners for evaluation.

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Dedicated

to my

Parents

CONTENTS

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CHAPTER I

INTRODUCTION

Policy changes which depend upon time is the consequence of socio-economic and political factors. This is particularly true for all countries irrespective of any policy. Leaders of the most third world countries realised the need for change in economic policy. Hence there is market oriented reforms in the name of liberalisation and privatisation.

The introduction of market oriented reform agenda almost throughout the developing countries have been put in place under the auspices of International Monetary Fund (IMF) and World Bank. While IMF's focus is paramountly on certain stabilising measures, the World Bank has focussed on realising long term structural adjustments in under-developing countries and recently quite a few erstwhile socialist countries. The mechanism of structural adjustments is used to promote the marketisation of economics through reliance on market signal, such as demand and supply, to guide economic decision. As a part of its programme the World Bank seeks reforms in the form of de-regulation.

Marketisation, Import Liberalisation and Privatisation of Economy

Macro-economic crisis usually takes the form of accelerating inflation and unsustainable fiscal and current account deficit. Thus to avoid such a crisis and to stabilise the economy the emphasis of reform programme should be based on fiscal restraint and currency devaluation. Because stabilisation involves returning to low and stable inflation. After stabilising the economy it is suggested that the emphasis should shift to the structural adjustments comprising various institutional reforms in order to remove inefficiencies and to ensure a sustainable growth. It has been argued that stabilisation should precede structural reforms. However, this kind of sequence is not being followed for the last five years. "Since both IMF and World Bank, two important world bodies in economic stablisation process, are operating simultaneously, and hence the broad sequencing of stabilisation, this is no longer adhered to.[1]" Moreover these two importants world bodies focus on an important ingredient of stablisation process called liberalisation.

By liberalisation we mean a process of removing legal prohibitions against the private trade in selected commodities and taking other actions aimed at facilitating the functioning of the private sector. Liberalisation involves the fundamental reallocation of roles between the public and private sector.[2] Thus liberalisation refers to the relaxation of government controls so that the government agencies can no longer control certain prices, production, marketing, transport, foreign exchange etc. In theory greater liberalisation will allow the market to set prices adequately by remunerating products and relieving shortages. Liberalisation will also remove government controls over marketing allowing goods to come more freely through distribution channels. In a sense privatisation will allow greater competition and efficiency as market forces are allowed to operate and the number of workers are reduced to efficient level.[3] Privatisation refers to the selling of publicly-owned enterprises, including industries, banks,

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1 Nirupama, Bajapayee, "Economic Reforms in Developing Countries, Theory and Evidence", *Economic Political Weekly* (Bombay), 14 January 1995, pp.113-118.

2 George, A., Lopez and Michael Stohl,(eds.), *Liberalisation and Redemocratisation in Latin America*, New York Green Wood Press, 1987, p.3.

3 Jean M.Due, "Liberalisation and Privatisation in Tanzania and Zambia", *World Development*, vol.21, no.12, 1993, pp.1981-88.

agricultural cooperations and marketing agencies, most of which operate with negative net returns, to the private sectors.

In the mid-1970s many countries particularly the U.K. witnessed the policy of liberalisation and privatisation in the form of de-regulation. This was due to the public dissatisfaction with the regulations imposed by the state combined with criticisms by the economists on the specific regulatory programmes. This resulted in a strong political movement bent upon ending many particular regulatory programmes. Although the campaign began to grow for "denationalization" or privatisation of the public sector in the mid-1970s and 1980s, it started with the notion of turning the big public enterprises into small private enterprise. The impetus was quite remarkably redirected in the form of ownership rather than in the form of organisation. Following this rule, the industry has been operating more efficiently after deregulation than earlier. Although some firms have faced the threat of bankruptcy most of these have increased their profitability considerably. In the *New Palgrave* dictionary Stephen Breyer and Paul W.Macvoy observes: "the de-regulatory movement has not advanced to the point of widening the coverage of health, safety and the environment regulation; and that the rationale for intervention is stronger. In these areas regulatory reform pressure has taken the form of advocating, not total deregulation, but rather less restrictive of less burdensome methods of government intervention aimed at achieving the regulatory end.[4]

Adam Smith, the propounder of *laissez-faire*, advocated that public administration was negligent and wasteful because public employees do not have a direct interest in the commercial outcome of their actions. To justify privatisation he concluded: "no two characters seem more consistent than those of trader and sovereign, since people are

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4 Stephen Breyer and Paul W. Macvoy, "Regulation and Deregulation", *The New Palgrave*, vol.4, eds., Ealwell, J., Ilgate, M. and Newman, p.127.

more prodigal with the wealth of others than with their own."[5] Smith also observed that, in the monarchies of Europe, there was great tracts of crown lands which he characterised as a mere-waste and loss of country in respect both of produce and population.[6] Smith had estimated the productivity of public lands which was only about 25 percent that of comparable private lands. This was due to the fact that private owners had greater initiatives than did the sovereign to enhance the value of their lands. Adam Smith concluded:

> The attention of the sovereign can be at best a very general and vague consideration of what is likely to contribute to better cultivation of the greater part of his dominions. The attention of the landlord is a particularly and minute consideration of what is most likely to be the most advantageous application of every inch of ground upon his estate.[7]

In consequence, he proposed that

> in every great monarchy of Europe the sale of crown lands would produce a very large sum of money, which it applied to payment of public debts, would deliver from mortgage much greater revenues that any which those lands have afforded to the Crown.[8]

Just as 1960s and 1970s were characterised by the rapid expansion of public sector in the developing world, in the 1980s there have been widespread attempts by policy makers to curtail the states' economic role. The divestiture of privatisation of public enterprises has featured prominently in these attempts, just as an earlier generation

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5 Adam Smith, *An Inquiry into the Nature and Causes of Wealth of Nation*, London: J.M.Dent, 1933, p.771.

6 Ibid., p.776.

7 Ibid., p.785.

8 Ibid., p.776.

of policy makers had emphasised direct state intervention to redress perceived failures in the operation of private markets.[9]

Thus global liberalisation or globalisation is not a new concept, though now-a-days it seems to have assumed new connotations as a result of the changing international balance of forces. In the recorded human history one finds a number of attempts at some sort of globalisation. From Alexander to Chengis Khan and even Napoleon attempted to bring the entire world under one supreme ruler. The situation changed qualitatively from the middle of the last century, when capitalism became a worldwide system and all countries of the world irrespective of their domestic modes of production came under its influence. From the mid nineteenth century onwards export of capital was the main feature of international economic relations. The mirage of building an international order based on capitalism was first pursued under the hegemony of Great Britain for three decades (1840s to 1870s) and the result was an order, which led to the aggravation of tensions and heightening of conflicts which gave rise to chaos and disharmony.[10]

After the Second World War, once again the mirage was pursued and this time it was under the hegemony of USA. A new world order to achieve this goal was set up under the Brettonwoods agreement of 1944 the IMF came into existence to oversee the conduct of the new world order. It is needless to add that US was the top most economic power. Towards the end of 1960s its economic supremacy came under serious challenges from Germany and Japan and the United States' hegemony was shattered. Under such background liberalisation and privatisation as a phenomena originated in

9 Nicolas Van De Walle, "Privatisation in Developing Countries: A Review of the Issues," *World Development,* vol.17, no.5, 1989, p.60.

10 Girish Mishra, "Some Implications", *World Focus*, vol.13, no.2, February 1992, pp.3-5.

Britain under Margaret Thatcher's disillusionment with nationalised industries. Her government translated the election manifesto of the conservative party into an economic policy providing for privatisation. Thatcher's policies of privatisation caught the attention of world.[11]

The United States of America witnessed the liberalisation and privatisation policy under Regan. The foremost aim of privatisation has been to reduce the role of government by making the private sector dominant in public services.[12]

Amongst the Asian nations the experience of Japan, Pakistan, Thailand, Malaysia, Singapore, South Korea and Bangladesh need to be mentioned. In Japan national railways, telegraph and telephone services and the airlines are the areas earmarked for nationalisation. In Pakistan, rice and cotton mills, basic heavy industries are being privatised.[13]

When the wave of liberalisation was going on around the world, India began the process of structural reforms by magnifying macro-economic problems such as reducing revenues while opting for trade reforms. It also helped macro-economic problems. For instance from import control to controls of tariff raised the revenues to the national chequer. And also reforms in the areas of public enterprises, reduced losses and, hence, controlled government expenditure.[14]

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11 Clive Hamilton, "The Irrelevance of Economic Liberalisation in Third World", *World Development*, vol.17, no.10, 1989, pp.1531-41.

12 Ibid., pp.1531-41.

13 A.Peter, "Privatisation Debate in India: Some Issues", in Kanesalingam (ed.), *Privatisation: Trends and Experiences in South Asia*, New Delhi: Macmilan India Ltd., 1991, pp.83-85.

14 Vijay Joshi, I.M.D. Little, *Indian Economic Reforms 1991-2001*, Delhi, Oxford University Press, 1996, p.13.

The recent economic liberalisation policies of the Government of India of broad-banding, delicensing, re-endorsement of capacity and trade liberalisation are attempts to make Indian industry efficient. Liberalisation is an attempt to connect the prevalent situation through the introduction of competitive market conditions.[15]

The liberalisation policy can be dated to the policy of changes of India in 1985. Antecedents of this can however be traced to the Industrial Licensing Policy (ILP) of 1973 and subsequent policy changes of 1983. In fact, most of the changes in policy introduced in 1985 were already in existence in some form under ILP (1973). The significant aspect of recent economic liberalisation policies is the magnitude of changes coupled with rethinking of industrial strategies. This thinking has been influenced considerably by committees set up by the government between 1973 and 1985. The liberalisation efforts of 1973 were examined by the study group of Industrial Regulations (1978) headed by G.V. Ramakrishnan. This was followed by Dagil Committee on controls and subsidies and finally the Narasimham Committee. Liberalisation reached its height during the regime of Narasimha Rao Government.[16]

With the implementation of liberalisation policy, it affected the various sectors of the counties in general and Indian sectors in particular. Before analysing the impact of liberalisation on telecom sector in India, we should have a close look at the impact of liberalisation on telecom sector of several other countries as the telecom sector was increasingly recognised as a key sector in the infrastructure of economic development.

The liberalisation of telecom sector, in a developed country like England took place during Mrs.Thatcher's regime. In order to introduce competition the market for

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15 Y. Venugopal Reddy, "Privatisation in India," Ramanadham, V.V. (ed.), *Privatisation in Developing Countries*, London: Routledge, 1989, pp.178-88.

16 Ibid., p.188.

consumer equipment and cellular services were opened to new providers in 1981. In 1984 telecom was privatised through the sale of 51 percent of shares in the domestic and foreign markets. Also in 1984 the office of Telecom (OFTEL) was created as an independent non-political regulatory body. In 1992 the British Telecom market had thoroughly transformed itself into one of the most dynamic market in the world. It had implemented a massive domestic investment programme and successfully entered into new venues such as foreign investment.[17]

Liberalisation of Telecommunication in New Zealand

New Zealand, another glaring example of the policy of liberalization, liberalised its telecommunication sector as a priority policy measure. During 1960s and 70s the New Zealand economy was characterised by wide range of controls and regulations. The performance of state trade activities which included such diverse activities as coalmining, banking, postal and telecommunication service was in a very poor condition. In 1986 Masson and Morris Report found that New Zealand post office which provided postal telecommunication and banking service had an inefficient operating structure. In 1986, the net return to the government on it was NZ $20 billion investment and in all productive sectors it was zero. Efficiency was necessary if the state of the economy as a whole was to be improved. Policy and regulatory functions previously handled by post office were transferred to the newly established communication division of the

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17 Robert J. Saunder, Jermy J.Warford, and Bjorn Wellenium, *Telecommunication and Economic Development*, World Bank, Baltimore, Hopkins University Press, 1994, p.307.

department of trade and industry.[18] The government announced the progressive and full de-regulation of New Zealand telecommunication sector in 1987. The process which had begun in 1987 culminated in April 1989 with the abolition of statutory telecommunications monopoly. Telecommunication of New Zealand (TNCZ) was fully privatised in 1990.[19]

As the western countries were spearheading the telecommunication liberalisation policy with success, the Indian government thought of liberalising its telecommunication sector. In the mean time World Bank and IMF suggested India to liberalise the telecommunication sector as India had a good potential for revenue raising.

In India the Department of Telecommunication (DoT) sets rules for and provides telecommunication service. At the same time it encourages the manufacture of domestic telecommunication equipment. For several years, policy makers have attempted to delegate operational responsibility to independent business units within DoT. Mahanagar Telephone Nigam Limited (MTNL) was established as a corporate entity within DoT to operate telephone services in Bombay and New Delhi. Similarly Videsh Sanchar Nigar Limited (VSNL) was established to operate international telecommunication service.[20]

Against the background, the Aretheya Committee submitted its report about the future of Indian Telecommunication in March 1991. The committee recommended to encourage more decentralisation in DoT. The Committee recommended that the DoT's

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18 Hunter Donaldson, "Telecommunication, Liberalisation and Privatisation: The New Zealand Experience", in Bjorn Wellenius and Peter A. Stern (eds.), *Implementing Reforms in Telecommunications Sectors: Lessons from Experience*, Washington, The International Bank for Reconstruction and Development, 1994, p.260.

19 Ibid., p.260.

20 Robert R. Bruce, Jeffrey, P.Cunard, "Restructuring the Telecommunication Sector in Asia", in Bjorn and Stern, op.cit., p.197.

operational function be separated on an inter-regional basis. The Committee also recommended a restructuring of regulatory and policy making functions within DoT.

But with the coming of new government in June 1991 under the leadership of Narasimha Rao there began a broader policy examination of options for the Indian telecommunication sector. These included the possibility of introducing private investment for cellular telephone and value added service. In 1992, the Indian government moved ahead with the process of attracting private investment in cellular telephone throughout India.[21] All the constraints of liberalising the telecommunication sector was driven away with the introduction of National Telecom Policy in 1994.

This research though limited in scope, intends to look into the problems on the basis of specific provisions and policies. On the basis of our hypotheses, following problems stated are assumed to occur in India if the proper checkmate is not taken care of.

Hypotheses

1. The fruit of liberalisation policy may be enjoyed by the rich people due to certain loopholes in the programme and policies.
2. With the participation of foreign Multinational Companies in the telecommunication service, it may not bring about a change in the telecommunication sector of India.
3. As there is a lack of transparency in all the governmental procedure, it may give rise to corruption, favouritism, etc.

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21 Ibid., p.231.

4. The demands of a liberalised regime may hamper the growth of indigenous technology.

5. In all these problems stated above the beneficiaries are largely the politicians and big business magnets who have a well-knit nexus among themselves. It is the common mass, who is going to be victimised.

6. Though liberalisation policy has been adopted by the government and foreign companies are allowed to participate in the basic service, still the monopoly of the government would be the dominant feature. Hence under the liberalised regime, instead of the upliftment of the common people, the politicians are going to be the major beneficiaries, if proper check and balance is not maintained.

As far as methodology is concerned, this study is both analytical and empirical. The research is largely based on two sources such as primary and secondary.

Primary Data

The primary data used here are Plan Document, Economic Survey, various reports etc.

Secondary Data

The secondary data, which have been dealt with, can be classified as follows:

1. Various Text Books
2. Various related journals and magazines such as Telematics, India, Economic and Political Weekly etc.
3. Various Newspapers

The research work is an attempt of empirical, analytical and suggestive study within the stipulated time frame.

CHAPTER II

EVOLUTION OF INDIAN LIBERALISATION

Indian economy at the time of independence was overwhelmingly agricultural in character with nearly 85 percent of the population living in villages and deriving their livelihood from agricultural and related pursuits using traditional low productivity techniques. The backwardness of Indian economy is reflected in its unbalanced occupational structure with 70 percent of working population engaged in agriculture. Thus the economy was faced with the problems of mass poverty, ignorance and disease which were aggravated by the unequal distribution of resources.[1]

Immediately after the attainment of independence, Government's main concern in its economic policy was to alleviate shortages of essential food items which have been aggrevated by partition of the country in 1947. The industrial policy resolution of 1948 marked a fundamental departure from the earlier policy of *laissez-faire*. According to the new policy resolution the government was to have a major role in initiating and regulating development in one of the key sectors of the economy. The Directive Principals of State Policy incorporated in the constitution defend the broad objectives of socio-economic policy. They mentioned the right of the citizens to an adequate means of livelihood, regulation of ownership, and control of the material resources of the country to subserve the common good and avoidance of concentration of wealth. Finally the concept of co-ordinated Planning of development was accepted; and then came the Planning Commission.[2] The Planning Commission of India was set up in March 1950

1 Uma, Kapila, *Indian Economy Since Independence*, Academic Foundation, Delhi, 1991, pp.17-18.

2 Ibid., p.18.

by a resolution of the Government of India which defined the scope of its work in the following terms -

> The Constitution of India has guaranteed certain Fundamental Rights to the citizens of India and enunciated certain Directive Principles of State Policy, in particular that the State shall strive to promote the welfare of the people by securing and protecting as effectively as it may a social order in which justice, social, economic and political, shall inform all the institutions of the national life and shall direct its policy towards securing, among the other things, (a) that the citizens - men and women - equally have the right to an adequate means of livelihood; (b) that the ownership and control of the material resources of the community are so distributed as to subserve the common good; and (c) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment.

The government committed itself to these rights and to the furtherance of these principles as well as of the declared objectives pertaining to promote a rapid rise in the standard of living of the people by efficient exploitation of the resources of the country, increasing production and offering opportunities to all for employment in the services of the community.

The Planning Commission will -

1. Make an assessment of the material capital and human resources of the country, including technical personnel and investigate the possibility of augmenting such of these resources as are found to be deficient in relation to the nation's requirements.
2. Formulate a plan for the most effective and balanced utilisation of the country's resources.
3. On a determination of priorities, define the stages in which the plan should be carried out and propose the allocation of resources for the due competition of each stage.

4. Indicate factors which are tending to retard economic development and the conditions which in view of the current social and political situation, should be established for the successful execution of the plan.

5. Determine the nature of the machinery which will be necessary for securing the successful implementation of each stage of the plan in all its aspects.

6. Apprise from time to time, the progress achieved in the execution of each stage of the plan and recommend the adjustment of policy a measures that such appraisal may shone to be necessary; and

7. Make such interim or ancillary recommendations as appear to be appropriate either by facilitating the discharge of the duties assigned to it; or on a consideration of the prevailing economic conditions, current policies, measures and development programmes; or an examination of such specific problems as may be referred it for advice by central or state government.

India was considerably influenced by the socialistic pattern of development. It should be noted down that Nehru was highly influenced by the Russian socialism which he wanted to practise in independent India too. So it is evident that the thinking of a person is very much found in his formulation of policy, which was due in the case of Nehru. Though the Indian planners did not outrightly reject participation of the private enterprises in Indian economic development, they give much more weightage to the public sectors. With a view to keep the government's political thinking intact. The politics of government was well justified as it had to rectify the disequilibrium in the economy caused by the war and partition and to initiate the development of certain basic resources so as to a draft outline, July 1951.[3]

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3 First Five Year Plan, pp.1-2.

The Planning Commission laid the foundation for rapid economic growth in future. To reduce considerably development of foreign resources, the importance of agricultural production was sought. The total outlay of the first five year plan was 1960 crores and the outlay for telecommunication was 47 crores which constituted 2.4 percent of the total outlay.[4]

The First Five Year Plan ends in March 1956. It was prepared the way for achieving the socialistic pattern of society - an economic and social order, based upon the values of freedom and democracy. The country's external accounts are virtually in balance. The important targets proposed in the First Plan have been realised. National income over the last five year was estimated to have risen by about 18 percent as against the original expectation of about 11 percent. Development expenditure in public sector in 1955-56 was over 2½ times the level of 1951. Like the First Plan period, where telecommunication was neglected, similarly the Second Five Year Plan did not give much importance to the telecommunication sector. During the Second Five Year Plan the total outlay was 4672 crores. The investment for the telecommunication sector was 66 crores which constituted 1.4 percent of the total outlay. If we make a comparison between First and Second Five Year Plans then we can see that it was further neglected by 1 percent. During this period telecommunication was considered as a luxury item. Hence no interest was shown by the government.[5] During the Third Plan national income (revised series) at 1960-61 prices rose by 20 percent in the first four years and registered a decline of 5.6 in the last year. In 1960-67 following a severe drought national income registered only nominal increase of 0.9 percent. However, the record harvest of 1967-

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4 LEEE Communication Magazine March 1992, p.25.

5 Ibid., p.25.

68, marking a significant increase in agricultural output was instrument in raising national income by 9 percent that year. The estimated national income has been put at 1.8 percent higher than the previous year.

The slow rate of growth in agricultural production not only depressed the rate of growth of economy but led to an alarming dependence on imports of food grains and other agricultural commodities. During the Third Plan the country imported 25 million tonnes of food grains, 3.9 billion bales of cotton and 1.5 million roles of jute. During the subsequent three years, the imports continued to be heavy. Despite increased imports of foodgrains per capita availability was lower than the 1961 level except in 1965 and there was severe pressure on prices.

Similarly, industrial production was also slowed down, which was attributed to the dislocation caused by Indo-Pakistan conflict and consequent disruption in the flow of foreign aid. Another important reason was the slowing down of the public investment. The index of industrial production (base 1960=100) increased by only 1.7 percent in 1966-67 and there was hardly any growth (0.3 percent) in 1967-68. This sharp decline was accompanied by an increased unutilised capacities in a number of industries. Many factors contributed to it: decline in purchasing power because of the set back on the agricultural front; stagnation in investment; shortage of foreign exchange because of the need for abnormal imports of food grains and raw materials and for completion of a number of projects started earlier. As a result of several measures taken by government - such as import liberalisation following devaluation, decontrol of certain commodities like steel, coal, paper, fertilisers and commercial vehicles, delicensing of a number of industries, some increase in public sectors demand for domestic manufactures and a rise in the exports of engineering goods; an all round industrial recovery began in January

1968 and resulted in an increase of 6.2 percent in industrial production in 1968-69.[6] Hence the liberalisation policy began noticeably.

During the Fourth Five Year Plan telecommunication was kept under the government's authority. The total outlay in the Fourth Five Year Plan was 15799 crores and the outlay for telecommunication was 415 crores which constitutes 2.9 percent.[7]

The Fourth Plan aimed at acceleration of the tempo of development in conditions of stability and reduced uncertainties. It proposed to introduce safeguards against the fluctuations of agricultural production as well as the uncertainties of foreign aid.

In the process of development there was inevitably an increase in concentration of economic power. Government have therefore, formulated the new licensing policy to control and regulate the economic power. Continuing its efforts in intensive irrigated agriculture and basic modern industry, it proposed to pay special attention to certain fields of productive activity, particularly in agriculture and related primary production which had been relatively neglected. It proposed to chart the course of industrial development so as to provide for future technological advance and at the same time to bring about dispersal of industrial activity and enterprise. The Plan proposed detailed action through regional and local planning to help large numbers of the smaller and weaker producers and increase immediate employment and future employment potential. It suggested steps to stabilise prices through buffer stocks and through operation by public agencies in certain sensitive trading areas. It expected that the nationalisation of banks would help in this and also contribute towards diffusion of enterprise and strengthening of weak producing units. The Plan proposed utilisation of Panchayati Raj

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6 Fourth Five Year Plan (1969-74), pp.7-8.

7 Ibid.

Institution in local planning and the gradual building up of an integrated cooperative structure for establishing social and economic democracy particularly on the countryside. It suggested reorganisation of the management of public enterprise to achieve the twin aims of a strong well-knit public sector and the autonomous operation of responsible units.

The Fifth Five Year Plan was formulated in terms of 1972-73 prices and in the context of economic situation obtaining in the first half of the fiscal year 1973-74. Thereafter, two major developments took place. The inflationary pressure gathered momentum till September 1974; and the balance of payment position worsened due to steep rise in the prices of imported oil and other materials.[8]

It was, therefore, designed mainly to control inflation and increase production particularly in the key sectors. The Plan Outlay had to be kept at the modest level. Yet care was taken to ensure adequate provision for agriculture including irrigation and fertiliser, energy (power, coal and oil) on going payment in steel, non-ferrous metals and certain basic consumer goods industries. Emphasis was on fuller utilisation of the unutilised capacities. The provision for social service was restrained but kept at a reasonable level.[9]

India has experienced the balance of payment crisis of varying intensity in twenty-nine out of thirty-five years. The period since 1956-57 to 1989-90 can be divided into three sub-periods. Such as 1956-57 to 1975-76 constitutes period I, 1976-77 to 1979-80 constitutes period II and 1980-81 to 1989-90 period III. The first period was marked by three wars (in 1962 with China, in 1965 and 1971 with Pakistan), several droughts

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8 Fifth Five Year Plan, 1974-79, p.1.

9 Ibid, p.2.

(including the disastrous droughts of 1965-66 and 1966-67 and the first oil shock in 1973). Despite tight import controls (through quantitative restrictions) and foreign exchange regulations, the foreign exchange reserves were at a low level, generally less than sufficient to cover three months import. Almost the entire current account deficit (92 percent) was financed by inflows of external assistance on highly concessional terms.[10]

In this scenario the 20 point programme was announced by the prime minister on 1st July 1975. The various items of 20 point economic programme, especially those which require financial investment, have been identified. Priority has been accorded to the implementation of the schemes formulated under this programme.[11] This declaration and implementation of the programme was made by the Prime Minister with a view to win over the people in general, and common masses which constitute a large chunk in particular.[12]

The Fifth Plan also permitted foreign capital participation where the technological gap could not be filled by indigenous technology. However, such participation was normally not expected to exceed 40 percent.[13]

The gradual process of liberalisation policy was also shifted to Sixth Five Year Plan by stating that a relatively liberal environment was necessary to maintain growth with stability. It also called for flexible licensing policy for private participation to increase the overall rate of capital formation. Though the key industries remained under

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10 Jalan, Bimal, *India's Economic Crisis*, New York, Oxford University Press, p.98.

11 Fifth Five Year Plan, p.53.

12 Ibid., p.53.

13 Draft Fifth Five Year Plan 1974-79, vol.II, p.136.

the control of the public sector, a little openness gradually started occurring in India. The Sixth Five Year Plan stated that maximum attention was needed to be given in the coming years to the objectives like.[14]

a) Removing the disadvantages which exports suffer because of the restrictions on imports.

b) Removing obstacles to the expansion of capacity for export.

c) Streamlining the existing cash compensation and other schemes intended to remove the disadvantages suffered by exports on account of taxation and physical controls operating in the economy.

d) Ensuring that Government intervention in the foreign trade policies is such as not to discriminate against exports and production for exports, there is a case for making export marginally more profitable than import substitution in view of the need to diversify export trade which involves capturing new markets abroad and retaining them; and

e) Maintaining adequate links with technological development abroad so that our export capability is not hurt by outdated technology.

The total Plan investment for the period 1980-85 was estimated at Rs.158,710 crores, of which Rs.84,000 crores (53 percent) was estimated to be in the public sector and the balance of Rs.74,710 crores (47 percent) in the private sector. The distribution of private investment in the major sectors is shown in Table.[15]

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14 ibid, p.84.

15 Sixth Five Year Plan, p.84.

Table-1: Distribution of Private Sector Investment 1980-85
(Rs crores at 1979-80 prices)

S.No.	Sector	Amount	Share (%)
1	Agriculture and allied	16101	21.55
2	Industry and Minerals	30323	40.59
3	Power	189	0.25
4	Transport & Communication	3390	4.54
5	Others	24707	33.07
Total		74710	100.0

Source: Sixth Five Year Plan, 1980-85, Planning Commission, Government of India, p.84.

In Seventh Plan the liberalisation policy was more encouraged. Unlike the Nehru-Mahalanobis Plan, the Seventh Plan gives the importance that "in addition to the programme of public sector investment, the plan must contain a set of policies designed to bring about the desired pattern of investment in the private sector. Other policies lead supportive of the plan will be those which lead to efficiency and economy in resources use in both the public and private sector. Thus the success of the plan would depend among others on the choice of the current policy framework.[16] According to thiP plan the planner thought that strenuous effort of non-planned expenditure control was required. Arguing that many of the subsidies are not beneficial to the poor. It called that the subsidy burden must be kept down to a reasonable level. It justified the need of introducing the principle of zero based budgeting which according to the plan could be applied to non-developmental expenditure as well as developmental expenditure.[17]

According to this plan which argued that because of the development of economy and the industrial structure, which were becoming more and more diversified and

16 Seventh Five Year Plan (1985-90), vol.1, p.68.

17 Ibid., p.68.

complicated, the licensing mechanism and other physical control became more difficult to operate. Hence it considered it necessary to reduce the regular range of physical controls and the greater reliance on financial controls which would give signals but would not involve inefficiency and delays.[18]

The Sixth Five Year Plan noted "The Framework of rules and regulations relevant to the nascent stage of development are not necessarily appropriate to the complex industrial structure which has since been built-up. Without sacrificing, the basic principles of a planned economy sufficient flexibility would need to be built into the system to impact a sense of dynamism to take advantage of the considerable technological and managerial capabilities that have been developed over the years.[19]

During this period considerable liberalisation was introduced in the rules and operations relating to industrial and import licensing. The level of investment below which licensing was not required raised to Rs.5 crores. A sizeable number of commodities were placed on the open general licenses (OGL). In the light of the experience gained during the sixth plan, substantial changes in licensing policy have been introduced. Several important industries have been delicensed and broad-banding has been introduced to import flexibility in regard to choice of product by the entrepreneurs.[20]

The Seventh Plan tried to liberalise the import policy more vigourously. It says, "Quantitative import restrictions, though no doubt effective have also fostered a chronic disregard for productive efficiency by creating a protected domestic market. And in the

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18 Ibid., p.68.

19 ibid, p.73.

20 Ibid.

absence of equally secure and commensurate incentives for sales abroad, they have discriminated against exports in the same way as generalised export duty. As a consequence a large number of import products are placed at a much higher domestic resource cost than would have been involved in acquiring equivalent foreign exchange through exports. In the line with Sixth Plan policy concerns deliberate efforts were mounted to minimise this basis against exports, and the policy package for exporters from the domestic tariff area (DTA), consisting essentially of import replenishment, duty drawbacks, cash compensatory support, concessional credit and provision for domestic intermediates was streamlined and liberalised.[21] It also in subsequent para stated "Discrimination against exports can be avoided as has been done through the establishing of Free Trade Zone (FTZ), or more percent export oriented units (EOUs), a Foot Loose version of the former." Hence it could be said that the Seventh Plan under the Chairmanship of Rajiv Gandhi strengthened the base of liberalisation policy which was already laid down by his mother Indira Gandhi in the previous plan though not in elaborate manner.

Eighth Five Year Plan and Liberalisation Policy

In the Eighth Plan the process of liberalisation gained further momentum. In this plan it was felt that the more and more opening of the Indian economy was not merely necessary but essential. The Planning Commission cited following causes of the need of reformation of Indian economic structure.[22]

21 ibid, p.75.

22 Eighth Five Year Plan (1992-97), vol.1, p.84.

Industrial growth in 1991-92 is estimated to be negligible and the overall growth of the economy is estimated to be not more than 3 percent. Besides Annual inflation rate in 1991-92 has been about 13 percent. On the balance of payment front, although there has been some improvement in foreign exchange reserve (partly due to the borrowing from International Monetary Fund and partly because of enhanced foreign remittance by non-residents) exports are exceptionally sluggish. One of the reasons for the sluggish performance in 1991-92 was collapse of our trade with the rupee Trade Area declined by 40 percent in 1991-92. The poor export performance among other factors had its toll in industrial growth.

Therefore, the Government of India felt the reformation of macro-economic policies comprising both "structural" policies and the "stabilisation" policies. Following first three comes under the structural policies while the rest one is regarded as stabilisation policies.[23]

a) The policy regime governing trade, technology and transborder capital flows.

b) Industrial deregulation and administered price policy.

c) Financial sector reforms.

d) The stance of demand management as reflected in monetary policies.

Besides macro-economic structural and stabilisation policies, specific policies has also been felt by commission as an important bearing on efficiency growth.

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23 Ibid., p.85

Policies on Trade, Technology and Capital Flows

Eighth plan moved our trade regime policy towards openness. It called for gradual reduction of the tariffs, the union budget for 1991-92 reduced the maximum rate of import duty from more than 300 percent to 150 percent.

Within eight months of introducing these trade policy changes, the Government initiated another set of policy change in the areas of trade and border capital flows coinciding with the union budget for 1992-93, these change being more for reducing schemes than ones initiated in July 1991. The EXIM scheme was replaced by a system of partial convertibility of the rupee on the current account of the balance of payments. Under the new system, 40 percent of the foreign exchange remitted can be converted at the official exchange rate while remaining 60 percent at a market determined rate. The foreign exchange surrendered at the official exchange requirements of essential imports such as petroleum and oil products, fertilisers, defence and life saving drugs. All the other imports except for a "negative" list are freely importable provided the foreign exchange for these imports are obtained from the market. Similarly non-resident Indians (NRIs) are now allowed to import five kilograms of gold per passenger with a modest import duty. Along with this the government has introduced a Gold Bond Scheme, with a view to help mobilise the idle private gold reserves of the country to supplement official reserves.

The new EXIM policy has now specified the "negative" list of imports, the import of which is either banned, chanalised or subject to import license. Similarly the EXIM policy has specified a negative list of exports, the export of which is either banned, canalised or subject to export license. In addition to specifying the negative lists of import and exports, the EXIM policy has pronounced a set of incentives for exports and deemed exports.

Further Trade Policy Returns

The key objectives of these reforms are two-fold: (i) A further pruning of negative lists of imports and exports; and (ii) a gradual reduction on both the level and dispersion of tariff rates. It says "As a broad guideline as the foreign exchange stimulation improves and the economy because more resilient our objective to remove most raw-materials and components from negative list of imports. In later stage, the manufactured items should also be removed from the negative list which would be banned for reasons such as environment and safety.

Keeping in mind the liberalisation policy more rigorously the Eighth Plan states that the average tariff level would come down to 25 percent within a period of three to four years.

Policies on Capital Flows

As part of package of recent trade policy reforms, the Government has liberalised capital flows in the form of Foreign Direct Investment (FDI) special measures in this direction are:

1) automatic approval of foreign technology collaboration as well as foreign equity participation in 51 percent in about 81 areas;

2) delinking technology transfer from equity investment to impart flexibility in sourcing of technology imports; and

3) automatic clearance for import of capital goods in cases where foreign exchange flow through foreign equity. More recently, the Foreign Exchange and Regulation Act (FERA) has been amended to place FERA companies at par with Indian companies for all operational purposes. Foreign companies are now permitted to use their trade marks accept appointment as agents or technical or management advisors. They are also

allowed to borrow and accept deposits from the public and acquire and sell immovable property.

Over all strategy of eighth plan is to rely less on external commercial borrowing and more on foreign direct investment for financing the current deficit. Its target is to increase flow of FDI to about 1 billion per year by the end of plan period.

Industrial De-regulation and Administered Price Policy

The thrust of the new industrial policy announced in July 1991 is an attempt at removing bureaucratic controls that thwart industrial development and opening up a large number of industries to the private sector. The requirement of industrial licensing has been abolished for all but 18 product categories such as defence, equipments, industrial explosives, electric aerospace, coal, petroleum, alcohol, hazardous chemicals, pharmaceuticals and drugs and certain consumer goods such as sugar, edible oils, refrigerators, motor cars and consumer electronics. The maximum asset limit on the size of the companies which has hitherto been enforced under the monopolies and Restrictive Trade Practices Act has been scrapped.

Further Delicensing of Industries

With the recent policy changes industrial productivity subject to licensing control has been reduced to about 20 percent stating that there was no justification of controlling through continuation of licensing of sugar, edible oils, motor cars refrigerators and consumer electronics, Eighth Plan sought a need to further shorten the list of industries requiring industrial licensing. Only industries related to defence, explosives and hazardous chemicals are required now to be in the restricted lists requiring industrial licensing by the Eighth Plan.

Similarly, it says that moreover the product concerned is internationally tradeable, the government should decontrol the prices. In order to ensure that such price decontrols do not allow the existing producers to hike prices and hence enjoy rents, the tariff rates on the import of these products should be suitably adjusted downward, as had been recently done in the case of steel.

Financial Sector Reforms

The financial sector which includes mainly the sector and Development Financial Institutions (DFIs) needed an immediate attention under the Eight Plan which, for reasons of greater competitiveness, relaxed some of the controls. Both DFIs and commercial banks are allowed to charge the interest rate based on market condition subject to a floor rate fixed by government. The formula based pricing of new issues of capital by companies, eitherto being enforced by the controller of capital issues, have been abolished. Companies are now free to price their new capital issues based on market conditions.

With regard to the banking system it also called for the reduction of the Statutory Liquidity Requirement (SLR). Arguing that concessional interest rates, adversely affected the banks profitability, it stated that no more than two concessional rates of interest, for priority sector lending should be prescribed so as to keep the burden on the banking system within limits. Similarly, moving away from an elaborate administered structure of interest rates, it shifted more towards a more simplified system where only a few rates are prescribed by the monitory authorities.

Regarding DFIs it says (i) DFIs should be given adequate autonomy in matters of loan sanctioning and internal administration, (ii) The DFIs should be made to operate in a more competitive environment.

Prudential Norms and Guidelines

Two aspects of prudential regulation which have assumed greater importance are capital adequacy and provisioning. As per the guidelines, RBI has recently prescribed that all banks with international presence should achieve the capital adequacy (i.e., the ratio of un-impaired capital funds to the aggregate of the risk weighed assets) of 8 percent by March 1994 and other banks should achieve a capital adequacy ratio of 4 percent by May 1993 and 8 percent by March 1996.

Another important aspect of prudential regulations relate to adequate provision for bad and doubtful debts.

Demand Management Policies

Three pronged fiscal and monetary policy package are aimed at (1) providing a better balance between aggregate demand and supply, (2) minimising the distortionary effects of the tax system, and (3) forcing public enterprises to minimise cost and maximising efficiency.

Government Expenditure Containment

It was felt necessary by the Government to cut down (1) the administrative expenditure, defence expenditure in one hand, and (2) reduce the subsidy payments on the other hand. It also saw some reduction of capital expenditure.

Giving serious thought to revenue mobilisations which it wanted to about 22 percent of GDP by the end of the plan from that of 20 percent of GDP in 1990-91. It states that the required additional revenue can be generated by a judicious mixture of broadening the tax base, rationalising the tax rates and through non-tax securities. It also called for the tax form as a part of revenue mobilisation under Eighth Plan.

Evaluation of India's Development Planning

Jawaharlal Nehru was the chief architect of Indian planning. He viewed planning as a way of avoiding the unnecessary rigorous of an industrial transition in so far as it affected the masses of India's villages. Furthermore he viewed planning as a possible instrument of resolving conflict in a large and heterogeneous subcontinent. After independence though there was conflict between the Gandhian Approach and the Modernisation approach of Nehru, the latter succeeded, though the Gandhian model of rural upliftment, self-sufficiency etc. also continued to take its place in Indian planning. Keeping in mind of the Indian constitution, plan was prepared.

Three plans were largely activated by the Nehru-Mahalanobis Approach. The second plan witnessed a major watershed in India's economic thinking where an attempt has been made to give the concrete shape to the vision of transformation. It is said by some later scholars that Nehru was a moderniser par excellence. However, some may like to differentiate sharply between Nehru as moderniser and say J.R.D.Tata, one of the authors of the famous 'Bombay Plan' which project as a vision of Industrial India even before the country became independent.

As already stated the plan was initiated in India keeping in the eye of the people's development. Hence Mahalnobis mentioned three major issues of policy as deserving of serious attention, even if short run productivity gains were not particularly great. On the issue of land redistribution he had written such redistribution would not necessarily lead to an increased productivity but it may still be worthwhile because of social and political benefits which would acquire from it. Further he was worried about the premature mechanisation of agriculture as well as of light consumer goods industries, at least in part from distributional consideration.[24]

A committee was again set up under the chairmanship of Prof. Mahalanobis to look into the question of whether the 'level of living' had improved or deteriorated as a result of planning. The report came out with the Scottish verdict of 'nonproven' and the working group headed by Pitambar Pant comprising eminent personalities as the economists, D.R.Gadgil, B.N.Ganguli, P.S.Lokonathan and V.K.R.V. Rao, the politicians M.R.Masani and Ashok Mehta and others came out with a set of recommendations on the 'minimum level of living'.

In further plans which was taken by Indira Gandhi, the alleviation of the mass poverty was seriously emphasised. In early 70s the 'Garib Hatao Slogan' was launched. Hence the Fifth Plan was based on a strategy of redistribution with growth.

When the Sixth Five Year Plan was formulated in 1980 a number of poverty eradication measures were introduced. The impact of these measures, which basically consisted of rural employment programmes of different types along with programmes for self employment aimed at improving productivity of small and marginal farmers and rural artisans. However the plan was considerably criticised by different political spectrum and economists. Such eminent economists as M.L.Dantawala and Nilakantha Rath have widely divergent views on the usefulness of these integrated programmes for rural development.[25]

At this juncture the process of liberalisation culminated in India. However large sections of Indians were under the clutches of poverty and illiteracy. It was so despite

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24 Sukhmoy, Chakravarty, *The Indian Experience*, Oxford, Clardeon Press, 1987, pp.27-28.

25 ibid, p.37.

the fact that India adopted the socialistic model of economy, controlled all the major sectors of economy and formulated various plans and programmes. The social scientists are of the opinion that the conditions of weaker section are disastrous déspite the allocation of a large part of budget to them due to non-implementation of plan in proper manner. In some cases the amount is spent in pen and paper in name of social upliftment. Actually those are appropriated,[26] in various levels, in various ways, both in direct or indirect way through either manifested form of corruption or latent form of corruption.[27]

Chakrovarthy says in this connection, "One possible explanation for this failure is that plan model have been improperly specified, in the sense that they have failed to capture the true state of underlying relationship."[28] According to him an implementational failure may be said to arise if one or more of the following conditions held.[29]

1. Planning authorities are plainly inefficient in gathering the relevant information within the needed range of precision.

2. Planning authorities respond with considerable time lags when the underlying situation changes.

3. Agencies through which the planning authorities are supposed to implement plans have little or no capacity (or in some cases motivation) to carry them out.

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26 Bhimsen, Hantal, "Corruption and Social Development in India", *The Radical Humanist*, June 1996, p.26.

27 Ibid., p.26.

28 Sukhomoy, Chakrovarty, op.cit., p.39.

29 ibid, p.41.

He further says "I expressed the view that planning should be viewed more as a form of instrumental inference, as Adolph Lowe has emphasised in his writings. Instrumental inference according to Lowe consists first of derivation of one or more paths which can transform the initial states into desired terminal states. While the derivation of the transitional path as a necessary first step, based in large part on structural requirement. It has to be supplemented by establishing behaviour patterns which will set the system on goal adequate trajectories. It can be maintained that Indian planning has largely confined its attention to the second.[30]

Recently culminating the process of liberalisation the Government of India is of the view that the economic policy will enhance the economic growth which would be helpful for social progress. However, this point seems to be incorrect. Because the amount sanctioned for the social upliftment are not merely short, but largely unappropriated. Hence even if the amount generated through liberalisation, the trend so far indicates those would be again reappropriated like the past one. Secondly, the pubic sectors are not running with profitability mainly because of (1) corruption (2) looseness of work due to job security (3) politicization which can be further developed with adequate policies of control. It is not absolutely correct that due to the inefficiency of the government to (1) check corruption (2) motivate through moral and legal ways to work (3) control and influence politically minimum, the government is marching towards liberalisation. On the other hand those deficiencies can be checked out through adequate measures. Secondly even though the per capita growth may surge up due to liberalisation policy, there is no guarantee that it could help the poor. On the other hand, it is the politicians who will benefit by claiming that they have implemented this policy for the

30 Ibid.

betterment of India's weak position. The inequality between rich and poor will be engulfed. Further if otherwise the true programme and true implementation for social development is undone. For instance Danderker and Rath observe that "a plan of economic development, which accepts a national minimum and aims at assuming the same to all within the shortest possible time, cannot depend entirely on a high rate of economic growth. Without a deliberate policy to ensure an equitable distribution of the gains of development, the process of development benefit the upper middle and the richer sections of the population much more than the lower-middle and the poorer sections. This is not a plea for a lower rate of growth but warning that a high rate of growth is not a substitute for deliberate policies to ensure equitable distribution of the gains of development. In the absence of such policies, planning of economic development, as we have witnessed them in the past, makes the rich far too rich before the poor can secure even the minimum widen the gulf between the rich and the poor intolerably and inevitably undermine the democratic foundations of the economy.[31]

With regard to India's economic development Rao, after analysing it from 1950 to 1980, concluded "the startling feature of structural change is the failure of the occupational structure to coincide the sectoral N.D.P. structure during the first two decades of the period under review. But the latest data available from 1981 seems to show that the occupational structure is now departing from this trend in the direction of a more balanced response to the changing sectoral structure of NDP.[32] He also further commented that "India will continue to be one of the poorest countries in the world in

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31 V.M., Danderker, and Nilakantha, Rath, *Poverty in India, India*, Indian School of Political Economy, 1971, p.55.

32 V.K.R.V., Rao, *India's National Income 1950-80, An Analysis of Economic Growth and Change*, Sage Publications, New Delhi, 1983, p.194.

terms of its per capita product, though some of its citizens may enjoy a standard of living on par with those living in the richest countries even in 2000 A.D." This duality in Indian economy which has been growing over the last thirty years has to be arrested.[33]

The role played by the politicians in undertaking the liberalisation policy and its impact on telecom sector will be discussed in the fourth chapter.

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33 Ibid., p.194.

CHAPTER III

TELECOMMUNICATION SECTOR IN INDIA

Telecommunication sector in today's world encompasses the service of communication over distance by electrical, electronic and optical devices as well as the requisite physical infrastructure for this purpose. Telecommunication according to Alvin Toffler has shrunk local and international boundaries, expanded the flow of people, commodities, money and information beyond the confines of individual systems and states to such an extent that even in the least developed countries, the concept of global village has virtually reached their doorstep.[1]

India is unique in developing world. It has an enormous population of 850 million people. Nearly 7.5 percent of whom live in 875,000 village. As a historical matter, there has been significant under-investment in the telecommunication sector in India. It has less than ten million telephones of which nearly 90 percent are in urban areas. Thus the largest part of the Indian population living in Indian villages are deprived of telecommunication facility.[2]

Before going deep into telecommunication sector in India, we must have a very close look at the colonial background of the telecommunication. The British Indian telegraph system was a political, not a commercial undertaking. Experiment with telegraphy were taking place in India in 1839, the year in which Samuel Morse led the first telegraph lines.

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1 *Economic Times* (Delhi), 18 October 1995.

2 N.Ravi, "Telecommunications in India", *LEEE Communication Magazine*, March 1992, p.24.

The first operational land lines were laid by the government in 1851 near Calcutta, which was the then seat of British power. The mutiny by Indian soldiers in the British army in 1857-58 provided the impetus for the expansion of telegraphy as a command and control system. In contrast to the system set up by the mother country, where the telegraph was operated by private firms, the telegraph system organised in its Indian colony was set up as a government monopoly, reporting directly to the British government. The mutiny of Indian soldiers in the British army in 1857 hastened the Colonial government's adoption of submarine telegraph technology as well. Only five years after the telephone's invention in 1881, British private capital introduced POTS (plain old telephone service) into the Crown colony. The British naturally began with their own commercial seat, Calcutta licensed to operate until 1944. These private firms operated the system in five cities while the Director General handled all other national services. Colonial India had 321 city-centred telephone exchanges (half of which could handle long distance switching), 86,000 working lines and 338 long distance public call office. Telephone density was .025 per 100 people.[3]

After independence not surprisingly domestic capital encouraged the state to protect the home market in its own interest. Thus the first 40 years of India's statehood led to the expansion of the public sector and its hegemony over the economy. It was believed that the state could be trusted and the market was bad consistent with the post-World War II experience and the advice of the international donor agencies. As a result the newly independent Indian state decided that its telephone and telegraph systems would be strictly a government monopoly administered by its own civil service. Most noticeable changes in the telegraph and telephone systems in India after independence

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3 D.R.Headrick, *The Tentacles of Progress: Technology Transfer in the Age of Imperialism*, New York: Oxford University Press, 1880-1940, p.104.

was the major increase in staff size (approximately 47,000 in the early 1990s) and a decline in staff efficiency. The staffing level is approximately 104 per 1000 line in comparison to 7-12 per 1000 in industrialised countries, 20-40 in middle income countries and 60-90 in developing countries. It was politically necessitated for the independent state to create jobs for citizens and hence postal, telegraph and telephone agencies (the PTT) were used to provide the opportunities, particularly for those who did not have the opportunities to receive formal schooling.[4]

Unfortunately in India till the end of the Sixth Plan, the planners viewed telecommunication as an elitist commodity and were content to give such investment as would meet government and some business requirements, especially in large cities.[5]

Ownership, policy, regulation and service provision of telecommunication were initially organised under the conventional PTT system in which posts, telegraph and telecommunication were the natural monopoly of the Department of Communication of the Central government. The first organisational change was the creation of Department of Telecommunication (DoT), separate from the postal system as recently as 1985 headed by an engineer - civil servant always. DoT was intended to be the exclusive provider of the domestic, local and long distance service and its own regulator. The field organization of DoT consists of circles, areas, districts and subdivisions. The system is managed from the capital in New Delhi through circular, directives, orders and volumes of rule books.[6]

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4 Bella Mody, "State Consolidation Through Liberalisation of Telecommunications Service in India", *Journal of Communication*, vol.45, no.4, 1995, p.111.

5 T.H. Chowdary, "Reforming the Telecom Regime", *Seminar*, vol.404, April 1993, p.27.

6 Mody, op.cit., p.112.

After separation of postal and telecommunication service, the profits of telecommunication that previously went to offset the losses in postal system now stayed with it. In 1986, protest against the poor quality of state telecommunications service from business, government and urban residential users led to the creation of two separate corporations with a little more autonomy from government. The Mahanagar Telephone Nigam Limited (MTNL) was created to run services in the metropolitan cities of Delhi and Mumbai (the then Bombay). Videsh Sanchar Nigam Limited (VSNL) was created to run international telecommunication.[7]

Prior to the 1980s, India's state of telecommunication was abysmal. Telecommunications was neither regarded as having a direct impact on economic development nor as being critical to the future of India. It was considered as a luxury item reserved for elite, and hence investment in telecommunication was not a priority for the Indian government. Telecom received little money and even less attention. In the 1980s, telecom investment totalled a meager 2 percent of total government expenditure. The net result of this attitude was that India, as many other third world countries did spend its valuable and scarce foreign exchange to buy outdated and in some cases abandoned technology from other countries. This left India with a grossly inadequate telecommunications infrastructure. One which was only falling further behind world standards, hurting both the wealthy and poor and condemning India to third world status indefinitely.

In the 1980s this attitude began to change. There was a new and controversial viewpoint coming to the forefront of telecommunication in India. Telecom was said to

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7 Ibid, p.112.

have not only a profound impact on economic growth but also to having significant social implications as well. A number of facts were cited in support of this idea.

1) High technology is an integral part of all developmental efforts. e.g., Satellite surveys for geo-hydrological studies, Bioengineering to increase crop production.

2) Modern telecom is essential to meeting basic human needs, e.g., Communicating the need for community immunisation; Ordering a replacement power grid when needed; Announcing a natural calamity as in an evacuation from a dam break.

3) Information technology provides a social levelling, e.g., To overcome cultural and language barriers; Bridge economic inequalities through access to information; Compensate for intellectual disparities.[8]

With the possibility that telecommunication would play a significant role in the future of India, the Indian government was taking notice of it. For the first time in the 1984 telecommunication was being considered as an important element of the countries infrastructure and telecom accordingly increased to 3.6 percent of government expenditure. Advisors to the government at that time felt that telecom was so important that it called for the country to move in two new directions. One, India must no longer accept second rate equipment but move directly to highest technology digital. Second, the critically and sensitive nature of this industry called for special arrangement. In effect, some control should remain within the country. It was also recognised that telecom industry would prove to be a lucrative one. These facts led to the push for the development of indigenous technology in telecom electronic and software. As such in 1984 the government set up a research and development organisation named the Centre for Development of Telematics (CDoT). CDoT was charted with developing indigenous

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8 Sam Pitroda, "Development, Democracy and the Village Telephone", *Harvada Business Review*, November-December 1993, p.42.

telecommunication technology. They were to propel India into the global arena with telecom as the vehicle.[9]

Rajiv Gandhi initiated demonopolination of telecommunication sector, beginning with the opening up of customer premises equipment (CPE) manufacture. The DoT selected the firms and the technology from among several bidders and negotiated the terms of technology transfer. As a result PBXs designed by Oki, General Telephone and Electric (GTE), Jeumont Schneider and the state funded CDOT are being manufactured in the country. Several domestic private firms have started manufacturing push button telephones including those designed by Siemens and Ericsson. In 1991 manufacture of central office switching equipment and transmission technology was opened up to private firms. Several multinational firms like AT and T, Alac Tel, Ericsson, Fujitsu, GPT and Simens started producing switches through joint ventures, with domestic firms CTala, Birla, Thaper, B.K.Modi, Jiwarajka and a punjab government enterprise.

However, the major thrust came with Seventh Plan where it was recognised that telecom access was the key to economic growth. The Seventh Plan send a much larger outlay and a major thrust towards digital switching technology. The expansion of the network and the improvement in quality of services was the result of this thrust. The Eighth Plan also made increasing telecom access as a key element in its planning. The Eighth Plan targets were not only fulfilled in the first three years but also DoT actually exceeded their targets.[10] The table shows original target of the Eight Plan and the actual performance of DoT.

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9 K.R.G. Nair, "Telecommunication in India", *Productivity*, vol.36, no.2, July-September 1995, p.212.

10 Purkaystha Prabir, "Induction of Private Sector in Basic Telecom Services", *Economic and Political Weekly* (Bombay), vol.30, 17 February 1996, p.414.

Years	Net addition of DELS	Total DELS end of the year
1992-93	986800	6796700
1993-94	1228900	8025600
1994-95	1769700	9795300
1995-96	292600	12721300
1996-97	2600000	15321300

Source: Purukayastha, Prabir, Induction of Private Sector in Basic Telecomservice, *Economic and Political Weekly*, vol.30, 17 February 1996, p.414.

This table shows the original targets of Eighth Plan and the actual performance of DoT. The interesting fact that emerge from these figures are the following:

1) DoT has increased its target from 75 lakh Direct Exchange Lines (DELs) to 95 lakhs at the end of Eighth Plan.

2) The additional resources were generated internally as DoT had not taken budgetary support.

3) The waiting list would have been fully met by the end of Eighth Plan by DoT.[11]

With the acknowledgement of the G.D.P. multiplier effect (for every $1 of telecommunication investment, comes $3-6 of Gross Domestic Products), telecommunication has recently taken a new role in India's economic reforms. Government's expenditure on telecom increased from previously 2-3 percent of total spending to 6 percent in the Eighth Five Year Plan. Thus with the government's determination to give much importance to telecommunication sector for the economic development, a new vistas in the India's communication history began. But regarding the ownership of telecommunication sector, a heated debate grew up, whether it would be privately or publicly controlled.

11 Ibid, p.119.

Private Vs Public Control of Telecommunication sector in India

The debate over private vs public control in telecommunication sector has been heated in India for long time. While it is clear that government cannot afford to make the required investment in telecommunication infrastructure, it was also been clear that they were unwilling to relinquish the control necessary to induce private investment. Those who favoured public control were concerned about losing the revenues associated with the telecom industry as well as large portions of the jobs filled by 400,000 Department of Telecommunications (DoT) employees, many of whom would no longer be needed. What options would these employees have? A group of 400,000 people have enough political influence to make any policy maker hesitate in their decisions.[12]

The division in this debate was demonstrated within Ministry of Communications in the divergent views manifested as Vittal's (Secretary to Government Telecom) vision of letting market forces had fully play and the minister's (Sukh Ram) stand on discretion in permitting private firms entry into the core infrastructure are:[13]

Additionally while corporalisation of the DoT was supported by Vittal, the minister feels that it will hurt the interest of the officers and the workers of the DoT, thereby hurting his political interest and removing his direct control over the Department of Telecommunication. Sukh Ram's protection of the DoT monopoly had interestingly enough been at the expense of the other government agencies. He had blocked the potentially lucrative efforts of both All India Radio and National Informatics centre from logically entering into telecom arena.[14]

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12 Ibid.

13 C.S.First Boston, Indian Telecoms: The Path to Reform, Hong Kong, 29 July 1996, p.12.

14 Ibid, p.13.

Thus the Indian government paved the way for the liberalisation of the Indian telecommunication sector. Here the question that arises to our mind is that why India opened its telecom sector for private operators. First of all the cause responsible is DoT's inability to fulfill the people's demand. As the DoT was running short of inadequate investment. Telecom as a department of Government of India had to conform to the investment policies of planning commission, its finance ministry, its public investment board and the borrowing limits and policies of the government.[15]

Apart from this when India turned to World Bank for structural adjustment loans, it had a great sense of humiliation. The World Bank's insistence on opening up the economy to global integration was the price that all the structural adjustment borrowers had to pay in all sectors of economy. The Planning Commission was allocating little more than 1-3 percent of the national budget to the telecommunications. Hence the DoT started raising tariffs to cover its own capital and operating costs. The major influence the World Bank had on the sector was inconvincing the Planning Commission on the strategic role of telecommunication infrastructure for the development of other sector. Thus the opening up of the telecommunication sector appears to have been part of India's response to general World Bank structural adjustment requirements.[16]

Telecom Commission and the Arthreya Committee

With a view to keep telecommunication policy go ahead, the government appointed the telecommunication commission. The Telecom Commission was set up to be the policy unit of DoT. The Commission is responsible for the finances and the budget of DoT and implementing government policies. Various studies were performed,

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15 Chowdary, op.cit., p.29.

16 Mody, op.cit., p.119.

but the most notably was by Arthreya[17] Committee in 1991 that resulted in current reform programme. The main conclusion of Arthreya Committee was,

1) Value added service should be opened to competition by public or private enterprise;

2) policy and regulation setting should be separated from "operational" functions;

3) The corporate structure is more effective in managing telecom service.

To raise the standard of service, value added service (VAS) were the first to be opened to private investment in July 1992. These included cellular phone service, radiopaging electronic mail, voice mail and data service. Eight cellular licenses were granted in four metropolitan cities of Mumbai, Delhi, Madras and Calcutta but were deferred due to the questionable methods of selecting operators. These licenses languished in Court until 1994, when the telecom policy was announced opening the entire sector. Though VAS was among the first to open to private investment, the growth of services has been slow. With the opening up of the value added services, proposals from around the world have flooded into India. A high level of interest was shown by foreign investors lured by massive market and the potential of Indian economy.[18]

With Narasimha Rao's economic reforms accelerating and achieving success, pressure to reform telecom sector increased, giving rise to National Telecom Policy. The National Telecom Policy was adopted in May 1994. The objectives of the National Telcom policy is as follows:

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17 M.B. Arthreya, "Alternative Modes of Privatisation", in S.R. Manhot, *Privatisation Option and Challenges*, Industrial Techno Economic Services Pvt. Ltd., 1991, p.10.

18 Ibid, p.15.

1) The focus is, telecommunication for all and telecommunication is within the reach of all.

2) To achieve universal service covering all villages.

3) The quality of Telecom Communication Service should be of world standard.

4) India should emerge as a major manufacturing base and an exporter of telecommunication equipment.

5) The defence and security interest of the country should be protected to achieve world class-comparable to international facilities, services of value added, private investment was allowed in the following areas (a) Electronic Mail (b) voice mail (c) Data Service (d) Audio Text Service (e) Video Text Service (f) Video conferencing (g) Radio paging (h) cellular mobile phone. In respect of the first six of these services companies registered in India are permitted to operate under non-exclusive license basis. Granting of license will take into consideration the trace record of the company, compatibility of technology being offered to future development, protection of national security interests, ability to give the best quality of service to the consumer of most competitive cost. In order to implement the above policy suitable arrangement would be made to protect and promote consumer interest and also to ensure fair competition.[19] Recently the government has come out with the ordinance for the setting up of the Telecommunication Regulatory Authority of India (TRAI).[20]

According to the government policy the country is divided into 20 cellular and 21 basic service circles. Circles in turn are categorised as 'A', 'B', 'C'. A circle includes

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19 Banarjee Parthasarathi and Bhatacharya Sujit, *Advanced Telecommunication in India*, Harada Publication, Delhi, 1996, pp.50-67.

20 K.R.G. Nair, "Telecommunication in India", *Productivity*, vol.36, no.2, July-September 1995, p.212.

Delhi, Maharashtra, Gujrat, Tamilnadu, Andhra Pradesh and Karnataka 'B' circle includes Kerala, West Bengal, UP (east), UP (west), Madhya Pradesh, Punjab, Rajasthan, Haryana. The remaining states like Assam, Bihar, Orissa, the Andaman and Jammu and Kashmir are within 'C'. Tenders have not been invited for Jammu and Kashmir.[21]

After the National Telecom Policy was announced, DoT constituted the D.K. Gupta committee which proposed restructuring of the DoT in the context of new policy. The Committee proposed to split the DoT into three separate entities. Those are 1) a market oriented India-Telecom to develop, operate and maintain telecom services and provide interconnection to private operators, (2) a Telecom Commission for policy formulation and resource mobilisation, (3) an independent Telecom Regulatory authority of India to oversee licensing, tariffs, inter-connection and ensure a level playing field for the private operators. The telecom commission has already been established and India Telecom is the DoT without its regulatory powers.[22]

TRAI Bill 1996 was introduced in Lok Sabha on 23 July 1996. The honourable speaker referred to this committee on 25 August 1996 for consideration and report. A person who is or has been a judge of the supreme court will be eligible for the appointment as the Chairman of the Authority. A member shall be a person who has held the post of Secretary or Additional Secretary to the Government of India or an equivalent post in the Central Government or the State Government for the minimum period of three years. Under the Bill the Chairman and Members will enjoy security of

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21 *Sunday* (New Delhi), 24-30 March 1995, p.26.

22 *Telematics India*, June 1995, Delhi, p.18.

tenure and they can be removed from office for a period of three years. The power and functions of the proposed Authority as provided in the Bill are:

1) To protect the interest of consumers of telecommunication service,

2) To settle disputes between service providers,

3) To ensure compliance of license conditions by all service providers,

4) To ensure technical compatibility and effective inter-connection between different service providers.

5) To regulate arrangements amongst service providers in respect of sharing of revenue derived from providing telecommunication service.

6) To levy fees of such rates and in respect of services as may be determined by regulations.

7) To facilitate competition and promote efficiency in the operation of telecommunication service so as to facilitate growth of such services, and

8) To ensure effective compliance of universal service obligations.

The proposed authority would be entrusted with inter-alia the following powers.

To seek information on all aspects of service providers activities

To seek information, advice and inputs from any source it deems necessary -

To investigate any matter which in its opinion constitutes public interest, and

To inspect facilities, books and records of operators/service providers.[23]

The new policy's most revolutionary provision would allow foreign and domestic companies registered in India to supplement the DoTs service and to participate in the expansion of telecommunication network in the area of basic telephone service. This provision would end the 100 year government monopoly and would liberalize India's

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23 *Communications Today*, no.27, November-December 1996, p.84.

telecom sector to a greater extent than most nations including developed countries such as France. The prospect of opening basic services to private competitors was a significant and unanticipated from a policy debate which had previously focussed on the merits of DoT corporatization. Would the new telecom policy force the DoT to compete with private operators and shed the monopoly's historical inefficiencies? Would the policy spur the level of private investment required to upgrade and expand an infrastructure that has been plagued by capital shortages? Supporters of the new policy were optimistic that it would give the necessary results. They were hopeful that competition in the telecom sector would increase the quality of service, customer choice, phone demand and quicken the inflow of foreign investment required to meet that demand.

However when policy observers took time to read and analyse the details of the new policy a consensus emerged that it is ambitious and often conflicting goals, in achieving these goals. For example the announcement promises phone access to all villages by 1997 and phone on demand in urban areas by the same year. However it only allows for 10 million new telephone connections by 1997. While 10 million lines may be sufficient to meet the demand represented on government held waiting list, industry analysts assert that these waiting list grossly underestimate real demand for telephone connections. Additionally, the policy admitted that a budgetary shortfall of Rs.23,000 crores would have to be privately raised in order to add the 10 million new lines. The comments of the then Chairman of the Telecom Commission N.Vittal suggested that in the final analysis the success of the policy would largely depend on its ability to attract the foreign revenues required to bridge this investment gap.[24]

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24 N.Vittal, "The Vittal Issues", *Voice and Data*, July 1994, p.30.

The policy's broad range of objectives effectively pre-empted any major opposition from Parliament and telecom interest groups. However, by failing to establish priorities, the announcement left most major telecom controversies unresolved. On 17 September 1994, four months after the policy announcement the government issued the first guidelines for implementing the "National Telecom Policy". The guidelines have received mixed reviews from telecom users and companies trying to provide basic and value added services in India. Some potential operators were encouraged that the guidelines clarified and provided more specifics on the criteria for entry, the balance between the urban and rural service and the government's intention to establish an independent regulatory body. Others were disappointed by the extension of domestic and international long distance services from the basic services definition and the continued lack of detail on critical implementation matters such as the DoT licensing control and international long distance services from the basic services definition and the continued lack of detail on critical implementation matters such as the DoT licensing control and interconnection fees.

The following issues were most frequently raised about the new telecom policy and its subsequent guidelines.[25]

1. Independent regulator body
2. Criteria for entry.
3. Definition of basic service.
4. Rural/urban balance.
5. Tariff structure.

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25 Leah Evanski, Tyler Johnson, Jeff Plocessand, Harpreet Saluja, "Unlocking Hidden Wealth", The William Davidson Institute Consortium on Business Infrastructure, The 1994 India Project, p.24.

6. Inter connectivity issues.

7. The tender process and the pace of its implementation.

8. Technology transfers.

9. Revenue sharing.

10. New lines vs upgrading.

Independent Regulatory Body

The guidelines include the establishment of the Telecom Regulatory authority of India to monitor prices, set standards, develop revenue sharing formulas, resolve disputes between operators and lookout for the best interests of consumers. The guidelines state that "The TRAI will be an autonomous body."[26]

There is a general opinion that the DoT should leave telecom policy and enforcement to an independent regulator. There is a consensus that for full liberalization and impartiality to occur the DoT should be stripped of all regulatory and licensing duties. These functions should be delegated to TRAI, limiting DoT to operational functions only. An independent regulator is a prerequisite to policy implementation.

Given that the DoT would remain the primary operator of basic telephone service under the new policy. Telecom providers and users are adamant that the regulatory body be divested from any interests of any operator. In this regard the fact that TRAI lacks statutory status. It lacks statutory status, has raised doubts among some providers about its degree of independence from the DoT and its ability to enforce decisions on the DoT. It is also concerned that the DoT, rather than TRAI, will continue to oversee the licensing function which involves the evaluation of an applicants technical standards and

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26 Ibid, p.24.

financial bids. There is a strong feeling among business users that the DoT should not evaluate the proposals of operators with whom it will complete in the future.

Criteria for Entry

The New Telecom Policy provides the opportunity for the private operators to participate in the service. The salient points of tender document for the entry of private sector may be as follows: (1) The bids must be for one Telecom Circle. One circle is roughly coterminous with one state, except Delhi which is considered equivalent to one circle. A bidder can bid for any number of circles. The circles have been divided into category A, B and C depending upon size. (2) Parties should have a minimum networth to quote for a given circle, the net worth depending on the category based on the category of circle, there would be different earnest money deposits that successful bidders would have to pay. (3) The trunk routes within the circle would also be available for private parties - an explicit departure from the National Telecom Policy. (4) The party quoting must have prior experience of operating such networks - clearly ruling out any Indian party quoting without a foreign collaborator (5) public sector companies would not be eligible to quote.[27]

Definition of Basic Service

The guidelines have clarified the definition of basic services such that it is now clear that private operators will not be allowed to operate long distance telephone network and will have to use the long distance telephone network of the DoT. Though this decision will be reviewed in five years, private companies had hoped that long

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27 Prabir Purkayastha, "Another Scam Rigging Tender for Foreign Entry", *Frontline*, vol.24, 16 June 1994, p.91.

distance would be included in the definition. Private operators are particularly disappointed in the policy's definition, as they were looking forward to more affordable and reliable long distance choices. While many users are satisfied with reliability of local and international telephone service, many complained about difficulty in establishing domestic long distance connections. The exclusion of long distance and international phone services from competition will seriously detract government's efforts to attract the private investment required to meet its policy goals.[28]

Rural and Urban Balance

The policy and its guidelines attempts to avoid the debate over rural versus urban provision by allowing operators to bid for large telecom circles. In theory this should allow operators to achieve reasonable returns by striking a balance between profitable and unprofitable areas. Currently the DoT receives 85 percent of its revenue from urban subscribers that comprise only 15 percent of its total customer base. Therefore potential providers consider access to urban markets and long distance pre-requisite to subsidising service in costly rural areas. The policy lacks detail on how the government proposes to force a balance between rural and urban telephone service delivery. Companies have a vested interest in both rural and urban development. Several large consumer product companies emphasised the importance of government providing incentives to improve the telecom infrastructure in rural areas, where 75 percent of the population lives.[29]

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28 Evanski, Johnson, Ploussand, and Saluja, op.cit., p.24.

29 Ibid, p.28.

Tariff Structure

With local tariff rates set artificially low and long distance rates monopolistically high, many private companies have preferred to look locally for customers and suppliers in order to keep overhead costs down. A limited geographic focus prevents companies from sourcing the best suppliers (regardless of their location) and from expanding their customer base. If it is too costly to interact with customers and suppliers outside of a business locality, this places serious constraints on the business ability to grow, prosper and improve product quality.[30]

The policy and its guidelines are missed in their definition of what DoTs tariff setting mechanism will be under competition. It is still unclear as to whether the DoT or market forces will set local tariffs rates for new entrants. Under the current tariff structure, the DoT keeps local rates artificially low by subsidising local services with revenue for higher margin domestic and long distance services. The DoTs current local tariffs are among the lowest in the world. At the current local tariff rates are Rs.1,100 per line in Bombay and Rs.1,000 per line in Delhi. This does not support competition and continues to limit the benefits that only competition can bring. Most providers prefer that tariff rates be determined by market forces rather than DoT.[31]

Inter-connectivity Issues

Under the new guidelines private operators will be forces to interconnect with the DoT network in providing domestic and international long distance services to their uses. Again, connection fees were not stated. Without fall and affordable connection rights,

30 Ibid, p.28.

31 *Business India*, 23 May-5 June 1994, p.99.

the value of basic service license will be substantially reduced. There are real concerns that DoT might prevent them from competing effectively on price and quality. There is sceptism regarding the capacity of MTNL and VSNL to handle the increased demand from private local networks. Will the DoT be capable of handling the surge of phone calls resulting the influx of private investment? VSNL claims that the current bottlenecks lie with DoT.

The Tender Process

The tendering process for telecommunication sector began on 23 June 1995. Only sixteen consortia submitted the bids and one circle. Jammu and Kashmir received no bids. There were six 'A' category circles, out of which significantly high bids of quoted levy ranging from Rs.139.09 billion to Rs.153.65 billion had received in respect of four circles like Andhra Pradesh, Delhi, Gujrat and Maharashtra. As compared to this the highest quoted levies for the two remaining two 'A' category service areas such as Tamil Nadu and Karnataka are Rs.45.20 billion and Rs.57.96 billion respectively. The number of bidders in all 'A' category service areas are 5 or more than the actual number varying from 5 to 9. The highest quoted levy in some of the 'B' category service areas were higher than the highest quoted levy in two 'A' category service areas like Tamil Nadu and Karnataka.[32]

Also in 'B' category service areas except UP(E) and Madhya Pradesh, there were two more bidders in respect of the remaining six circles. There was only a single bidder each in respect of UP(E) and Madhya Pradesh. In 'C' category Circles there was a single bid in three service areas like Orissa, Bihar, and Andaman and Nicobar Island.

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32 *Telematics India*, vol.11, January 1996, p.22.

No bid was from Jammu and Kashmir. There were a number of circles/service areas where for some service areas, the highest quoted levy for basic service was even lower than the highest quoted levy in basic services which was for fifteen years vis-a-vis the levies quoted in value added service tenders.

Further in respect of cellular mobile service two private operators are permitted in each service area and the number of slots allotted per service area in respect of paging service vary from two to four. Whereas in basic service only one private operator per service area is permitted. Bids in respect of some circles particularly those where only a single bid has been received appear to be on the lowerside.[33]

The Telecom Evaluation Committee which was given the authority to look after the bidding process found HFCL Bezeq as the highest bidder. If all the nine circles are awarded to this bidder, it would result in a kind of private monopoly with HFCL emerging as the single largest bidder. The main purpose of allowing the private sector to enter into basic service was to complement the efforts of DoT in reaching the target of telephone on demand situation by 1997. Covering of villages as early as possible and providing telecom service of world standard. If we entrust the development of telecom in so many major circles to only one bidder and that bidder not able to deliver the number of lines promised in short time to mobilise the very large resources required for providing service in so many circle than the development of the telecom in the country will be stunted.[34]

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33 Ibid, p.23.

34 Ibid, p.24.

Levies Quoted by Reserve Price Computed by TEC

Circles	H1 Levy	H1 Bidder	H2 Levy	H2 Bidder	Reasonable Levy TEC	Type of circle	H1 rebid	H1 bidder in Rebid
Delhi	15.085	HFCL Bezeq	11.200	Birla AT&T	6088.3	A		
UP(West)	6.580	HFCL Bezeq	2.698	Hughes Ispat	2767.01	B		
Haryana	4.060	HFCL Bezeq	3.150	Modi-T Asia	1312	B		
Maharashtra	13.909	Hughes Ispat	11.550	Tata Bell Canada	10.950	A		
Orissa	2.065	HFCL Bezeq	8.4	Usha Tel Moscow	692.46	C		
Rajasthan	1.110	Shyam Gundong	13.65	Reliance Nynex	1700.67	B		
Karnataka	5.796	Hughes Ispat	3.990	Tata Bell Canada	6.528	A		
Adhra Pradesh	13.365	HFCL Bezeq	3.528	United Jasmine	4035.8	A	4.200	Tata Bell C
Gujrat	15.085	HFCL Bezeq	2.835	Birla AT&T	3369.9	A	3.396	Rel.Nynex
Tamilnadu	4520.25	BPL-US West	3.500	RPG NTT	8208.2	A	11.620	RPG NTT
Punjab	9.065	HFCL Bezeq	3.675	Bharati Stet	2287.3	B	4.593	Essar
Bihar	2.44	Usha Tel Moscow	13.65	Reliance Nynex	602.22	C	266.57	Usha Tel M
Kerala	9.555	HFCL Bezeq	1.260	Shyam Gundong	7880.5	B	-	-
West Bengal	9.065	HFCL Bezeq	1.165	Tata Bell Canada	4226.7	B	-	-
A&N Islands	3.3	Usha Tel	0.35	Reliance Nynex	81.8	C	-	-
Assam	4.41	Reliance Nynex			294.22	C	-	-
Madhya Pradesh	29.4	Reliance Nynex			897.43	B	-	-
North East	1.785	Reliance Nynex			145.567	C	-	-
UP (East)	13.65	Reliance Nynex			1924.4	B	-	-

Source : Purukayastha, Prabir, Induction of Private Sector of Basic Telecom Service, *Economic and Political Weekly*, vol.30, 17 February 1996, p.416.

Second Round of Bidding for 14 Circles - A Cap on the Number of License and Higher Bids

In the first round the government rejected bids for eight out of twenty-one basic service licenses because they were too low. In addition five more circles will be up for bid, after being freed up by the cap, making up a total of fourteen circles up for bid. Jammu and Kashmir was also up for bid again. The high bids offered by Himachal Bezeq encouraged the government to reexamine how much capital could be raised in the tenders. In the second round of bidding a reserve price was set for each circle. The second round bidding drew a poor response because only six bids were submitted as high reserve prices made the license unprofitable for many interested companies. Five bids were finally accepted.[35]

Thus the second round of bidding was not a successful one. For which it gave rise to the third round of bidding. But the third round of bidding for nine circles only one bid was received. The high reserve prices scared many potential investors away as only Bharati Telenet placed a bid for Madhya Pradesh.[36] Poor response in the third round led to the fourth round of licensing. The government is likely to reduce the minimum bids for the remaining circles. Many of the basic and cellular license holders are already having the difficulty of financing. It is believed that some operators will forfeit their license fees. A particular doubt comes to mind is whether Himachal Bezequ's high bids will be viable. Another caution in maximising license fees by DoT is that uneconomical license fees by DoT is that an uneconomical license for operators may lead to higher telephone tariffs and slow efforts in fulfilling universal service

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35 Evanski, Johnson, Ploussand and Saluja, op.cit., p.17.

36 Ibid, p.17.

obligation. In the end it could be consumers who will pay with higher tax to subsidise the reforms.

All these processes taken by the government is to make India as a leading player in the international telecom scenario. But it is a long way to achieve that status. However, it is a point to note that it is definitely a stepping stone in that direction. While comparing Indian telecom infrastructure to that of United States is somewhat meaningless, a comparison with other developing Asian countries provides some startling realisations. India has in fact fallen behind countries such as China, Thailand, Indonesia. Indian teledensity figures clearly represent the inaction which has characterised telecom development. Urban teledensity in Bombay is the second lowest of the five longest cities.

The waiting list in India far exceeds that of following five countries. China has reduced its waiting list to two thirds that of India's. Additionally India's list represents only a fraction of those who are in need of a phone of private and business use. With the second largest average waiting line, it is unlikely that those needs will be met soon.[37]

Inefficiency continues to plague Indian telecom. The extremely poor quality has become unbearable. Other countries have made great strides in these two areas. Thailand has six times fewer faults per line. Malaysia has achieved more than four times the efficiency found in India. Given the low quality ratings that India has achieved, it is hard to believe that it employs the most people per line. Only free market competition will alleviate the current plight of the "potential" telecom user.

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37 Ibid, p.18.

Given that new entrants will be heavily rely on DoT lines to effectively deliver basic services, there is agreement on DoT's right to charge access fees to new operators. The level of such fees remain unclear. Industry experts have suggested that DoT replaces the MTNL revenue sharing formula with the internationally recognised revenue sharing formula which is based on the relative investment for a call's completion.[38]

New Lines vs Upgrading

The policy states that "the quality of telecom services should be of world standard and its intention "to achieve universal service covering all villages". If India is to meet these objectives, it must increase its teledensity by installing new lines in rural areas and improve quality by upgrading lines. India's consumer, most of whom reside in rural areas, want improved access to telephone service whereas the elite, business class most of whom are located in urban areas, would not like to expand.

Technology Transfer

The policy allows for the inflow of new state of the art technologies. However the importance of continuing India's Commitment to the development of indigenous technology is also stated. Business users will benefit substantially from the import of new technology and services. Value added services such as data transmission and paging services are critical to the business user. The DoTs provision of 64K lines for data communication has been particularly inadequate to meet demand. There is a strong need

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38 *Business India*, 23 May-5 June 1994, p.99.

for private companies to use their technology and to supplement the DoTs supply of data links.

Revenue Sharing

The new TRAI will control revenue sharing arrangements, but many private operators are skeptical of the body's independence from the DoT. Providers worry that DoT's control will produce unfair revenue sharing formulas; preventing them from competing effectively with the DoT and making reasonable returns. Without the ability to compete effectively, the benefits of competition will be diluted. Consumers will pay much higher prices or be forced to remain with substandard DoT service. Once again, the policy fails to prioritize these dual goals in an attempt to satisfy both constituencies. In a capital constrained environment, it is unlikely that the government will be able to satisfy both consumers and business in the short term. Both urban businesses hoping for upgrades in service and firms concerned with accessing rural markets have cause for concern.[39]

With the government predicting that the new guidelines would attract "massive investment" from foreign and private sources, others doubted the investors as the guidelines revealed the government's decision to only allow competition in the local loop the least profitable portion of basic services. One thing is certain that the Indian telecom problems of the past have not been resolved by the new guidelines. It is not specified what level of investment a private firm will have to make. What will be the licensing

39 Evanski, Johnson, Ploussand, and Saluja, op.cit., p.33.

fee, what will be the interconnect charges, or the minimum number of lines that will have to be realised by the private operator in a given area.[40]

The government's ability to attract needed investment for improving the infrastructure remains in question. The government has refused to relinquish the DoTs control over the sector to the degree that many entrants hoped. All such constraints and difficulties and politics that plays a vital role in telecom sector will be discussed in the next chapter.

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40 *Business India,* 26 September-9 October 1994, p.67.

CHAPTER IV

POLITICS OF LIBERALISATION AND THE TELECOMMUNICATION SECTOR IN INDIA

The politics of liberalisation has been a recent phenomena in some newly industrialised countries, like India. The ruling elites of these countries have used politics as a weapon in pursuing this economic liberalisation policy. An important question thus arises as to what type of regime are most likely to choose and to successfully pursue a market oriented liberal pattern of economic development.[1]

The leader of India have tried over the last 20 years to liberalise the country's controlled, import substitution model of development. The Janata Dal Government which stayed in power from mid 1977 to 1980 had initiated this liberalisation process in India. Mrs Gandhi also gave momentum to this liberalisation process in her tenure from 1980-84. Rajiv Gandhi government which took the responsibility in 1984, after the assassination of Mrs Gandhi, gave further momentum to this process. Even this liberalisation got the priority during his period. Narsimha Rao government which came to power in 1991 and continued till mid 1996 pursued this policy of liberalisation

The ruling elites of India have followed this policy for the last two decades. The political changes in the country have created the situation to follow such a policy though the Rajiv Gandhi government had followed a slightly slow process of liberalisation in comparison to Narasimha Rao government particularly due to the need to build political support. Still liberalisation has never come to a standstill position during all these regimes.

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1 A.Kohli "Politics of Economic Liberalisation in India", *World Development*, vol.17, no.3, 1989, p.305.

It is interesting to note the factors that have contributed for the inclination of India's leaders towards liberalising the controlled economy of India. Liberalisation has grown up in the thinking of the leaders in the third world countries in general and India in particular for certain reasons. The primary reason for the wide disillusionment with the model of Nehruvian-Nasserian-Nyerian was due to the results this model has produced over the last forty four years. The protracting public sector enterprises ran at phenomenal losses in all parts of the third world and dissavings in the public sector as a whole reached uncontrollable proportions. Complementing the dominance of public sector in this Nehruvian model of development was the license permit Quota Raj. These wide-ranging controls in the hands of politicians and government officials were primarily responsible for corruption in the lower developing countries.[2]

On the macro-economic plane the growth rate of these Lower Developing countries economies were sacrificed in the name of equity by the dogma model of development. Yet this model did not produce the expected level of quality of life for its common people. Ironically it is the capitalistic challenger to this model which produced growth with equity in East Asia.[3] There has been an important change in the nature of external forces that help legitimise Indian technocrats as skilled technocrats. Apart from this there grew a feeling amongst the people of India that public sectors are no more efficient.

Capitalist development in India was promoted in the post independence period in the context of an essentially unchanged structure of asset and in particular land concentration. This significance lay in the fact that overall land concentration remained

2 Amit Mitra, "Why Liberalisation", *Seminar*, vol.30, April 1991, p.14.

3 Ibid, p.14.

more or less unchanged. The composition of the top 15 percent of land owning household underwent a change. Thus concentration of landed property was within the rich class. Hence the redistributive efforts such as land reforms have never been a successful one.[4] Apart from this with the lapse of time anti-colonial and nationalist sentiments declined. So the leaders of India were keen to open up the Indian economy.

Besides one must keep a bird's eye view upon the economic background that compeled the government to undertake economic liberalisation. During the period 1950 to 1980 the Indian economy continued to grow at the rate of 3-4 percent per annum. The industrial growth of India slowed from 7-8 percent in the pre-mid 1960s period to about 5 percent per annum over the last two decades. It picked up its overall growth in the 1980s. So there arose an agreement amongst the policy makers that exists some sort of mistakes in the industrial policy. Hence it requires some change. The change is said to be rooted in the economic situations. It is to be noted that they are not in agreement that there is a single, clear way to solve the problem. Hence there arose a lot of controversial questions, who has the power to push through the preferred policies and why? Who benefits from these policies and why? Hence with a view to answer the above questions, we have to understand the liberalisation policy initiated during Indira Gandhi, Rajiv and above all P.V.Narsimha Rao whose tenure witnessed massive liberalisation of Indian economy.

Liberalisation under Indira Gandhi:- The liberalisation process in India was first initiated by Mrs Indira Gandhi not Mr Rajiv.[5] Indira Gandhi took some important

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4. Prabhat Patnaik, "On the Political Economy of Economic Liberalisation", *Social Scientist,* vol.146-147, July-August 1985, p.8

5 A.Kohli, *Democracy and Discontent: India's Growing Crisis of Governability*, Cambridge, 1990, p.304.

economic policy decisions during 1980-81. Steel and cement prices were decontrolled, manufactured imports were liberalised and control on both entry and expansion by firm were relaxed. Over the next two years as the perspective of the seventh plan, it became clear that the new emphasis would be on efficiency of investment. Hence more focus will be upon financial control instead of administrative control. Following the recommendations of the L.K.Jha Commission on Economic and Administrative Reforms, the government placed 20 important industries under automatic licensing.[6]

Here one question arises, why Mrs Indira Gandhi made certain policy changes and what are its political consequences? The new economic direction has to be seen as an overall political shift that Indira Gandhi adopted. This involved a move away from India's left or populist values of secularism and socialism and towards a package offered by the right wing parties, namely Hindu chauvinism and pro-business. In India's political culture, the two package of secularism and Hindu chauvinism and pro-business have tended to offer two alternative legitimacy formulas for mobilising political support. The logic behind these package may be as follows. Secularism in India often implies appeals to caste, religion as a tool of political mobilisation. In fact practice often deviates from principles. India's founding father's understood that national integration in a multinational and multi ethnic polity like India could only be facilitated by avoiding the politicisation of deep rooted, primordial loyalties. For the task of political mobilisation, Nehru favoured appeals along economic lines: the need to uplift the poor, the downtrodden, the peasants. Socialism was related to this political logic.

Apart from this there are certain factors which led India for further economic liberalisation. It is important to remember that the Bank move fairly rapidly from post

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6 *Economic Times*, 1 September 1984.

war construction financing to third world development financing in 1950s and has since become a major vehicle of American influence in the third world. The Third World nations are confronted with slow growth and balance of payments problems. Then the IMF and World Bank insisted in removing all barriers to provide enterprise both domestic and foreign by making appropriate adjustment in their external relations of the world economy so that they are hooked onto the advanced capitalist countries through what are called as structural adjustment programme. Hence even the decision to enter to an agreement with IMF and World Bank must be viewed as a prior political decision by the Indian government.[7]

When Mrs Gandhi came to power, several things have been clear to her. Congress has been rooted by Janata Party in 1977 election. Though she won the election in 1980s, it was primarily due to the incompetence of Janata party. Hence she has to build up her support.[8]

It is to be remembered that the entire business class was behind Morarji Desai. Hence Indira Gandhi was in a very awkward position keeping in her mind the future electoral finance. It was visible that Mrs Gandhi was going to change the stance of secularism and socialism and towards the one of Hindu chauvinism and pro-business. The new political posture had two ingredients. First of all an emphasis on communalism that has great appeal Hindi heartland and a more pragmatic attitude to build up her support with industrial and commercial groups. It must have been clear to Mrs Gandhi that her socialism was not working. Anti poverty programmes had simply not been

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7 Sanjay Baru, "The Economic and Political Consequences of the Fund-Bank Strategy", *Social Scientist*, vols.146-147, July-August 1988, pp.31-32.

8 Ibid, p.32.

successful.[9] The support that Mrs Gandhi was getting from the poor, therefore, was based not so much on concrete rewards but primarily due to her ideological and rhetorical support.

Indira Gandhi was further benefited from India's politico-economic circumstances. India's political attention was increasingly devoted to the issues like Assam and Punjab rather than economic policies. Indira down-played the significance of the economy and economic achievement as evidence of legitimacy. The rhetoric of socialism though toned down was still maintained. Left of center economic advisors like K.N.Raj and Sukhmoy Chakrovarthy were kept on in visible but largely ceremonial positions in the Economy Advisory Council but the policy changes were being implemented by advisors behind the scene such K.C.Alexander, L.K.Jha and Arjun C. Sengupta. It seems that the advice was to depoliticise economic decision as much as possible.[10]

But the tragic assassination of Mrs Indira Gandhi in the 1984 made a break to the liberalisation policy. It is very difficult to assess how far she was able to push forward the liberalisation policy. But with Mr Rajiv Gandhi coming to power in October 1984, all doubts about the liberalisation was cleared. He pushed liberalisation policy much faster than his mother. Prior to her assassination on October 31, 1984 it was generally believed that Indira Gandhi and her party would be returned to power with a bare majority at best and as the largest party in a coalition government. The assassination and Rajiv's succession to the prime ministership, however totally altered the picture.[11]

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9 A.Kohli, "Politics of Economic Liberalisation in India", op.cit., p.305.

10 A.Kohli, Democracy Discontent, op.cit., pp.314-15.

11 Stanley A. Kochanek, "Regulation and Liberalisation Theology in India", *Asian Survey*, vol.26, no.12, December 1986, p.1287.

The most difficult task that Mr Rajiv Gandhi came across was to accelerate India's rate of economic growth through a process of liberalisation. The Indian model of development, undertaken by Nehru was derived from a set of strategic choices that were clearly mentioned in the Industrial Policy Resolutions of 1948 and 1956. The developmental model that was created was based on centralised planning, a mixed economy dominated by hegemonic public and a private sector. The private sector in which all basic management decision involving investment, production technology location, prices, imports, exports and foreign capital were controlled and regulated by the state.[12]

Rajiv Gandhi's government made a promise for new economic policies. After winning a massive election, Rajiv summed up his government's economic approach as "involving a judicious combination of de-regulation, import liberalisation and as easier access to foreign technology.[13]

The broad outlines of Rajiv's new economic policy were initially spelt out in his first budget introduced in March 1985. The budget marked a series of significant changes in attitude, especially in the field of taxation and emphasised the need for closer co-ordination of fiscal, industrial and trade policies in order to facilitate modernisation and more rapid economic growth. The budget reduced the traditionally high rates of individual and corporation tax, abolished estate duties and lowered wealth tax rate. The objectives of these changes were to speed economic growth, generate more revenue at lower rates and reduce corruption and the size of the black money.[14]

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12 Robert I.Hardgrave and Stanley Kochnek, *India Government and Politics in Developing Nations*, New York, 1986, pp.309-10.

13 *Times of India,* 6 June 1986.

14 *India Today*, 15 April 1986, pp.22-32.

The budget of 1985-86 presented by Mr Gandhi in March 1985 created many ripples. The word socialism was not mentioned even once in the budget speech. Substantial tax concession were offered both to the corporate and urban middle class. Imports were liberalised in certain sectors, especially the sectors favoured personally by Rajiv Gandhi namely electronics.[15]

By such efforts of Rajiv Gandhi the business and upper middle class were euphoric. India's leading news magazine India Today, ran such cover captions as "The Economy;Beyond Mood" and "We are Going for Take off". Other commentators called it as "the most important budget in 30 years"[16] But the left and opposition parties called the budget as pro-rich budget. But Rajiv Gandhi made an attempt to get his party formally behind the new economic beginning that he had already begun with the new budget. The resolution that was eventually ratified, however made Rajiv and the Congress party recommitted to act according to the principles of socialism. A recommitment to socialism underlined clearly and starkly that the government's economic policies will maintain continuity with past. Socialism will define the limits within which the new policies have to fit. Now it is clear that these limits are very flexible. The economic resolution while reaffirming socialism also accepted all policy changes.[17]

Rajiv's first major encounter with his own party thus immediately set limits on how far he could carry economic policy changes. The confrontation with his own party marks the beginning of the second phase in economic policy formulation. Thus the government began to undertake piecemeal liberalisation policy. The rhetoric on

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15 *Times of India*, 21 March 1985.

16 Ibid, 2 April 1985.

17 *Times of India*, 7 May 1985.

economic policy increasingly became quite confusing. Rajiv reaffirmed that Congress's goal now as ever was socialism.[18] Congress's next few months economic policy went through several liberalising measures. When presenting the seventh plan to the National Development Council in November, Rajiv once again argued that "the industrial policy remains unchanged".[19]

Prime minister himself went on to agree for top priority to the public sector and to reemphasise that there was no shift from socialism. The main thrust of the seventh plan was eradication of poverty, self reliance and growth with social justice.[20] Finally several months later the government made it clear that privatisation of the public sector was not on the agenda and the mixed economy model would operate. In spite of the worsening of the balance of payment, the government did not reverse the liberalised import policy, even in the capital goods sector, which had been hurt quite badly. Companies restricted under the Monopoly Act were moreover given further concession.[21] and the budget of 1986-87 brought some further excise and customs relief to national firms.

If those policies went more or less unopposed, another set evoked considerable response. The seventh plan came under opposition from within the ruling party. It was clear that several groups from within the Congress had approached Rajiv to register their protest, namely that the plan did not assign enough resources to anti-poverty programmes. But the planners argued that resources devoted to such programmes in the

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18 *Deccan Herald*, 7 May 1985.

19 *Statesman*, 19 November 1985.

20 *Indian Express*, 19 December 1985.

21 *Indian Express*, 23 January 1986.

past have not been used effectively. A different type of policy fluctuations characterised the approach the government has adopted towards industry that import goods and thus directly affect the balance of payments. To have a clear idea of the above situation the best example could be cited here about the government's decision to have collaboration with Japan to manufacture automobiles but it was postponed indefinitely on the plea of conserving petroleum and to meet the worsening balance of payment situation.[22]

More serious opposition was evoked over the issue of price hike in February 1986. Within a few days of the announcement of price hikes petroleum and other related products such as kerosene, every opposition party in the country had plans for strikes and the closing down of the city or another. Congress politicians themselves argued against this hike fearing a popular backlash. Even before the strikes materialised, however the government reversed its decisions.[23]

The above examples demonstrate cases of specific opposition. Rajiv's overall popularity had gone down into a sharp decline in 1986. He had lost virtually every state election since the assembly election in March 1985. The loss in Haryana in May 1987 was alarming because it was under the Congress power base, the Hindi heartland. There was a growing consensus in the aftermath of the Haryana election that a major policy reversal might take place. But policy reversal nerver took place during his time. In fact, Rajiv and his key advisors remained committed to liberalising India's economic policy regime. As Rajiv's popularity declined the opposition had adopted a left-leaning position that criticised Rajiv for his neglect of farmers and the poor. The challenge led by V.P.Singh in the Hindi heartland and by others like Jyoti Basu of Communist Party of

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22 *The Economic Times*, 2 February 1986.

23 *The Telegraph*, 7 February 1986.

India, Marxist (CPM) in West Bengal and N.T.Rama Rao in Andhra Pradesh has exposed Rajiv's electoral vulnerability in the popular sectors. As this challenge had grown, the drive towards economic liberalisation has slowed down.

The liberalisation policy undertaken by Rajiv Gandhi came to a halt when he was out of power. After him no significant steps were taken by National Front Government as it ruled for a short period. But the Congress(I) under the stewardship of Narasimha Rao gave a new vigour to the liberalisation policy that was initiated by Rajiv Gandhi. The party had gone to the election without any proposals for deep rooted structural changes or radical policy reversion. The party's election manifesto did not give any indications of any departure of past policies. What it promised was a continuation of what the party in office had pursued in the 1980s. Hence it was reasonable to state that the reforms taken by the new government were not considered by the electorate prior to their sudden initiation.[24]

In the elections to the state Assemblies held since June 1991 the Congress(I) was thrown out of power in Karnataka, Andhra Pradesh, Gujarat and Maharashtra. It regained power in Madhya Pradesh and Himachal Pradesh. Its performance in Uttar Pradesh was miserable and in Rajasthan it did not fare much better. It failed to come to power in the newly formed state of Delhi. It is evident that the policies undertaken by the Congress(I) government did not attract the people. While the reforms are basically about the economy, the decisions relating to them have been primarily political. Hence political compulsions were playing a vital role behind those economic reforms.[25]

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24 C.T.Kurien, *Economic Reforms and the People*, Delhi, Madhya Book, 1996, p.4.

25 Ibid., p.4.

India's the then Prime Minister P.V.Narasimha Rao appears to have decided that to ensure sustainability over the short and medium terms, he must(1) maintain nearly complete control over the reform process at the very apex of the political system and (2) stop short of a vigorous attempt to generate support for the reforms among the voters or even within his own party. These decisions particulary the latter one may sound unwise. But it has some good reasons for adopting this approach.

Many observers believe that economic liberalisation can not succeed unless the government moves more forcefully on this front. A clear sign of the government's extreme caution in this sphere came on 24 April 1993, when the authorities agreed to provide central government employees with a dearness allowance award which is very expensive and will feel similar demands from other quarters. It requires for less political will to deny people pay increases than to sack them, but the government fought shy even of that.[26]

The cautious and limited character of economic reforms of the government is very much clear from the government's efforts to ease the difficulties of the indigenous industries which will now face competition from foreign firms. The new tariff structure in 1993 budget imposed the lowest tariffs on raw materials, the next higher on intermediaries and the highest on finished products in order to "afford protection to Indian Industry".[27]

The government has also been careful to reassure other powerful groups that it has their interests at heart. The professional classes and the urban middle classes have been given an attractive tax package and access to imports which they strive for it.

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26 *Indian Express*, 14 April 1993.

27 *Frontline*, 26 March 1993, p.115.

Prosperous farmers will not be confronted with an income tax and the finance minister has been quite responsive to their concerns over things like fertilisers prices. This was first evident in mid 1991 when he treated somewhat on the initial cuts in fertiliser subsidies. More recently, in his response to the 1993 budget debate, he promised to reduce the price of complex fertilisers and do nothing that hurts the farmers.[28]

The Narsimha Rao government could not make reforms succeed without tackling the dominant proprietary classes, the industrial bourgeoisie the rich farmers and professionals. [29] It was suggested to make available subsidies to prosperous farmers which could be presented as a way to liberate resources that could go to poor. He was advocating a departure from the Congress Party's tendency to try and please every possible interest groups. But the Prime Minister spurned his advice on the grounds that un-oriented workers and prosperous farmers were too powerfully represented within the party.

Apart from this the 1993 budget increased spending on health by(7.6 percent), education (by nearly 30 percent), rural development by (36 percent) most of which will go to rural employment generation. These measures have been taken as the poor have been hit by higher inflation that the official reported rate and because such programmes have been eroded by earlier budgets and by the stringencies which state governments have encountered as a result of liberalisation.[30]

These increases in spending demonstrate the desire of the Prime Minister and the Finance Minister to achieve social justice and they remind that the Congress party has

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28 *Times of India*, April 1993.

29 Pranab Bardhan, *The Political Economy of Development in India*, Oxford, 1984, pp.40-54.

30 *Frontline*, 26 March 1993, pp.113-14.

long drawn much of its electoral support from poorer voters. It also enhances India's chances of gaining support from the World Bank and other agencies which now look for poverty alleviation, provisions in adjustment packages. The government has sought to ensure that in many states, agencies whose main task is to promote rural development and poverty alleviation remain reasonably well funded. But this scheme was not successful as a whole. In some states where financial stringency was a much greater problem, the money that was available for the social sectors was much more limited. The 1993 budget provided these sectors with increased resources, but remains to be seen how great difference this will make. These efforts were being taken to ease the impact of liberalisation on the poor to persuade them to support the Congress Party at future election.[31]

Here it is to be mentioned that the cautious and limited character of the reforms arises out of the political management of liberalisation process. Narasimha Rao has maintained control of the process at the very apex of the political system. He has kept it in his own hands and those of his Finance and Commerce Ministers and perhaps two or three others, all of whom - like the former Commerce Minister have no regional political base and thus have nothing to loose. This implies that most of the members of the cabinet - whom the Prime Minister needs because of their links to regional basis - have been substantially excluded from the process.[32]

Before going deep into political management of liberalisation, it is important to note briefly the basic ideas which Narsimha Rao and Manmohan Singh followed. The politicians used the public sector as private empire for giving patronage to their

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31 United Nations Development Programme, *Human Development Report*, New York, 1993, p.59.

32 C.P.Bhambhri, *Politics in India*, New Delhi, Shipra Publications, 1993, p.186.

supporters. Similarly the response of organised working classes is based on genuine fears and vested interests. Staff cutting leads to unemployment and alternative jobs are not easily available to the retrenched workers. This factor had influenced the politics of Exit Policy. The Rao Government has had to assure workers, organised under powerful unions, that their interests will not suffer in a de-regulated economy.[33]

The other major change has been a political awakening among all sections of Indian society including both prosperous and disadvantaged groups. People have become more politically aware, more assertive, better organised and more impatient with other social groups and with governments that don't respond adequately to their rising expectations and demands. This awakening has made India more difficult to govern at a time when political decay has seriously damaged instruments of government.[34]

Narsimha Rao understood all this. He had sought to rebuild the Congress(I) by reintroducing intra-party democracy, which was in vogue from 1919 until Indira Gandhi abandoned it in 1972, His economic reforms were intended to complement those political initiatives. He wants to enlarge the role of market forces but in a measured manner that leaves the state with 1) some opportunity to distribute resources in numerous ways, so that ruling parties can gain political support from important interests 2) the ability to redistribute resource in ways that aid the poor and 3) a significant role in promoting development.

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33 J.Manor, "The Electoral Process Amid Awakening and Decay", in P.Lyon and J. Manor (eds.), *Transfer and Transformation: Political Institutions in New Commonwealth*, Leicester, 1983, pp.87-116.

34 J.Waterbury, "The Political Management of Economic Adjustment and Reform", in J.M.Nelson, *Fragile Coalitions: The Politics of Economic Adjustment*, Oxford, 1989, pp.39-56.

Let us more closely look at the political management of liberalisation. The reforms have been introduced in a calculatedly gradualist manner. After the formation of Narsimha Rao government at the center, a few major dramatic decisions were taken notably the sharp devaluation of the rupee. But those bold early steps were carefully described as unavoidable. The devaluation occurred not all at once but in two phases in order to asses the reaction to the first step before taking the second round. The partial rolling back of early cuts in agricultural subsidies, the reductions in some fertiliser prices in part compensation signalled the governments willingness to respond flexibility when important interests became alarmed. After one announcement which is liable to displease a particular set of interests, the government carefully postponed, further steps which they might dislike for a while. Potential opponents of the reforms are thus picked off one at time, in turn to prevent them from uniting. Some announcements have been designed to divide potential opponents by affecting various elements of a particular interest group differently.[35]

Finance Minister Manmohan Singh in his budget speech in March 1993 introduced numerous changes including various revenue raising measures. This made it possible for Manmohan Singh to have a budget consisting largely of good news, That ensured a warm welcome for the budget which made it difficult for opposition party to vote against it. The government also used the reforms at moments when its authority and determination have been doubted, to demonstrate its forcefulness. This was especially important in the aftermath of the destruction of mosque at Ayodhya on December 6, 1992 when many wondered whether Prime Minister had been gravely weakened,[36]

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35 *Far Eastern Economic Review*, 24-31 December 1992, p.9.

36 A.Kohli, *Democracy and Discontent*, op.cit., p.306.

The most curious element of political management strategy has been the decision -, -he Prime Minister not to make much effort to generate support for reforms within India. Narsimha Rao undertook vigorous campaign to seek popular backing for reforms. This is connected to the decision to retain control from the apex of the system. By saying little about the reforms the Prime Minister avoids alarming two different sets of his party colleagues, a limited number for whom socialism implies, the redistribution of resources to aid the poor and many more for whom it implies something quite different.[37] Narsimha Rao could of course offer the first group arguments about how liberalisation will produce economic growth and thus ensure that commitments to the poor are met over the long term. But he appears to have concluded that this message would be too subtle and unconvincing for many of his listeners and thus would create more trouble than benefit. He could offer the second set of Congressmen. Similarly subtle arguments about how economic growth will eventually make the state more capable of sustaining some forms of distributional politics. But he apparently reckoned that his would be even more likely to prove counter productive.

Thus Narasimha Rao demonstrated the determination to undertake his economic reforms. He may therefore appear to offer us a better test of the capacity of "high Politics". He had pleased all section of people one way or the other. Prosperous farmers have experienced some cuts in subsidies in agricultural, but these had been counter balanced by hikes in procurement prices and other concessions. The middle classes had been hit by increases in telecommunications charges and the like but they had also gained tax breaks, access to imports. Some industrialists feel international

37 James Manor, "The Political Sustainability of Economic Liberalisation, in "India the Future of Economic Reform" by Robert Cassen and Vijaya Joshi, Oxford University Press, Delhi 1995, p.357.

competition and many object to certain clauses smuggled into 1993 budget bill at the eleventh hour but these feelings are greatly outweighed by the opportunities which the reforms provided.

Above all Narasimha Rao was ably helped by Manmohan Singh. With his record as one of the country's ablest economic technocrats, a former deputy chairman of the Planning Commission, a former Governor of Reserve Bank, well known in international circle as the former Secretary General of South Commission and above all a person with a clean record. When the call of the duty came, Manmohan Singh accepted it and agreed to implement the reforms whose author he repeatedly acknowledged had been his leader P.V.Narasimha Rao. When the liberalisation wave was spread in India, it affected many sectors, in general and the telecommunication sector in particular. If we have a close look at this then we can find that politics is also playing a vital role in the telecommunication sector.

Until the mid 1980s, the telecom policy was formulated by the engineers and civil servants. The politics of telecommunication was limited to getting scare telecommunication lines through personal connections or bribes. With the announcement of the new economic policy by late Rajiv Gandhi and Rao's industrial policy, it opened the private sector participation. Hence the importance of telecommunication gathered momentum as a major infrastructure. The question that plagued to the mind that, why the Government of India all of a sudden decided to open up the telecommunication? There was political will of the government of India behind the opening up of the sector. The World Bank insisted the government of India for the opening up the sector as it would give India the substantial amount for fulfilling the foreign exchange. "Telecommunication is important not only because of its role in bringing the benefits of communication to every corner of India but also in serving the new policy objectives of improving the global competitiveness of the Indian economy and stimulating and attracting foreign direct investment.[38]

Thus when the structural adjustment in India was in full swing with the help of World Bank, the World Bank insisted on opening up of the economy to global integration. It was the price that all structural adjustment borrowers had to pay. The major influence of the World Bank on the telecommunication sector was in convincing the Planning Commission on the strategic role of telecommunications infrastructure for the development of other sector. Research reports on the role of telecommunication in development were commissioned by the World Bank to convince the major countries. The World Bank supported the state's identification of one particular area that could earn the country dollars to address its balance of payment problem.

Thus the opening up of the telecommunication sector in private capital appeared to be a part of India's response to World Bank structural adjustment requirements to allow private capital to penetrate sectors that had been previously reserved for the state.[39]

When the Government of India decided to open up the telecommunication sector for the private participation, the DOT labour unions threatened by loss of jobs became united in their resistance to any changes in the state monopoly. This led the federal cabinet minister in charge of telecommunication - Sukh Ram to negotiate with the labour unions in such a manner whereby both government and private sector could co-exist. These negotiations were preferably to risky strikes and the loss of votes from over 400,000 telecommunication employees, 18 million sympathetic employees in other public

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38 *Economic Survey*, 1994, p.xi.

39 Bella Mody, "State Consolidation Through Liberalisation of Telecommunications Services in India", *Journal of Communications Service in India*, vol.45, no.4, Autumn 1995, p.113.

sector enterprises and their friends and families in response to privatisation of the DOT. Sukh Ram had to take public stands in opposition to pro-liberalisation economists in Finance Ministry as well as against his own chief civil servant from the elite national administration service. Thus accommodating workers and managers in the DOT was a major factor in the choice of liberalisation over the state divestment of the DoT. Officers and labour in the monopoly were untouched. It would appear that the historical price the state has had to pay for political expansion of job opportunities in exchange of votes in previous decades is an overstaffed state telecommunications bureaucracy in the foreseeable future.

Management staff who have had protected jobs in the monopoly now share the fears of their former adversaries they foresaw that their organisation would become technologically less advanced and less efficient, that better staff would move to private competition. The state service supplier would become the poor person's phone company and would have to reduce its rates to capture to numerically large lower middle class residential and rural markets and that the private operator will offer more technological innovation and a more reliable efficient service for business and residences of the middle and upper class of the highest price allowed by the regular.

The Congress party's loss in state elections to two major opposition parties in 1995 and further loses in the national elections in 1996 made it clear that divestment of the DoT and other state enterprises would be undertaken. It has been politically impossible to change the status of DoT through bypassing its three unions. Thus the protective Minister of Telecommunication Sukh Ram who stood with the Unions against corporatisation and the decentralisation.[40] The political compulsion prevented the Congress government from taking any measure for making DoT a corporation.[41]

As the privatisation of telecom sector was in its infancy, Nagarajan Vittal was appointed as the Chairman of Telecom Commission(CTC). Vittal would also become the secretary, Department of Telecommunication (DoT). To provide for growth in telecommunication, it is necessary to move an environment of monopoly to one of competition. And it is necessary, moreover to have flexibility of options. The DoT net work, he proposed would be broken up into four regional segments, each to be managed by an autonomous corporation. There would be in addition another corporate entity. But the proposal of Vittal was not accepted by the members of the Telecommission on the plea of creating regional inequalities.[42]

It is interesting to note that DoT is a government body as such is entwined with the interests of many departments. Officials within these bodies have vested interest in keeping things the way they are and halted positive change. The efforts of Dr.Sam Pitroda an Indian patriot in some reform circles, were squelched by government officials whose interests were tied to non-government packet book.[43] The transfer of Vittal, a champion of change, from his position as head of Telecom Commission to the Department of Electronics, demonstrates an intolerance of change at the highest level.[44] What seems clear is that the government's strong reluctance to relinquish control of

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40. Belle Moody, op.cit., p.113.

41. Ibid.

42 Muralidharan, Sukumar, "Telecom Questions on the Road to Privatisation", *Frontline*, 28 January 1994, p.115.

43. Ibid.

44. Ibid.

telecom net works. The desire for power has made telecom a highly sought after prize. Another factor in this resistance to change is corruption.

Another impediment to telecom improvement is voter pressure with 70 percent of India's 900 million voters living in rural areas, rural versus urban prioritization becomes a tough issue. Most of the business wealth and influence comes from urban areas. Business lobbying pressure results when companies seek renewed government protection. This includes firms competing in telecom industry. One of the largest lobbying forces in 450,000 workers strong namely the DoT. This organisation has resisted proposed telecom changes from day one because it is viewed as a threat to their employment. With the magnitude of India's telecom needs however the likelihood of employment with a different telecom provider is high . Revisions in labour laws must be made to sufficiently promote productivity at world class level. The telecom benefits denied business operators can be tied to blockades set up various voter interest group.[45]

But the government's insistence for opening up of the market for the Multi National Corporations is quite remarkable. The bold part on the government's side was visible when the government declared the National Telecom Policy on May 13, 1994.[46] The act of the government had been shrouded with controversy with in the government. Globally no-advanced country allowed foreign ownership in basic telecom service. The United states of America allows only a 20 percent foreign ownership, while European Union with the exception of U.K allows none. While the advanced countries are fighting bitterly over reciprocal access for their markets. But the Indian government is prepared to surrender unilaterally its negotiating position in GATTS. After a prolonged debate

45. Ibid.

46 *Telematics India*, vol.10, no.7, April 1996, p.7.

Telecom Commission decided that if Indian Companies have a certain size, they would be allowed to quote without instance on qualifying clause requiring previous experience. Given that multinationals have already been permitted to have upto 49 percent share in private companies, the balance is always heavily lifted against Indian Companies. Obviously, multinationals, the only ones with such experience can now call the shots with blessing of Indian government.[47] Thus the National Telecom policy paved the way for the participation of multinationals and the private sectors. The interesting part of the policy is not what it says but what it does not. The policy neither identifies the basis of the upward revision of demand, nor the mechanism through which the private sector or the foreign sector can participate . Private participation in basic telephone service is of recent origin globally and the multiplicity of operators as well. The technical as well as the commercial problems involved with multiplicity of operators in a net work are quite formidable. However the government's policy paper does not even address such issues. Any government would be expected to work out the modalities of the policy before choosing the policy options.[48]

As per the new policy a multiplicity operators are envisaged in local loop. For a country with a limited resources, this is an extremely wasteful option. The technological efficiency was overwhelmingly in favour of one operator. Competition had been introduced in a few countries in the west for trunk routes. However a decision on the level of competition that can be allowed on the trunk route can be taken after a careful consideration of the volume of traffic and the cost of the same. If the

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47 P.Purukayastha, "Another Scam? Rigging Tender for Foreign Entry", *Frontline*, vol.12, 16-29 June 1995, p.91.

48 P.Purukayastha, "New Telecom Policy: Rushing in Where Angels Ferar to Tread", *Economic and Political Weekly* (Bombay), vol.29, 13 August 1994, pp.2125-26.

government is even half-way serious about liberalisation this is the first step that needs to be taken.[49]

Sukh Ram, the then Communication Minister had proudly stated that we are even ahead of Germany and France in introducing competition in telecom service. Most of the E.E.C countries are not introducing either privatisation or competition in the basic telecom service in near future. This is in spite of their telephone density and traffic volumes being far higher than ours. Instead of making such claims, the minister would be better employed examining the reasons why France and Germany did not propose to introduce competition in the basic telecom service. Instead of calculating the pros-and cons the government went on introducing privatisation in basic service with the plea of claiming itself, as the patron of liberalisation even at the cost of national interest.

The telecom sector possess certain other loopholes. These are as follows:- 1) First of all Indian telecom infrastructure is rather poor and weak. In particular, basic telephony is the worst. Secondly Indian telecom market is both limited and under-represented. It is limited because there is little telecom infrastructure available. It is under-represented because the potential customer shies away from applying when there is a long queue. In the third place Indian Telecom market is highly segmented and differentiated. There are two type of problems. The first type of problem is owing to the smallness of segmented market and the second type of problem is owing to the often compatibility in equipment and in standards. In the fourth place, our current basic telephony is now technologically segmented. Similarly our cellular and value-added services are also technologically segmented. Often the providers would be using technologies and standards that are not compatible with each other. Fifthly, it is indeed

49 Ibid.

peculiar to the Indian market that its service providers are always separated from other telecom providers. The logic of economy of scope demands that there should be integration amongst a) providers of services and suppliers of equipment b) integration amongst providers of varieties of services as also suppliers of software and c) providers of services and of entertainment media and sometimes of equipment suppliers.[50]

Soon after in September 1994 the guidelines for private entry were released in which a competitor to DoT was sought to be licensed with one telecom circle as the basic unit. The telecom circles are more or less equivalent to states. It is to be noted that there were two major departures from N.T.P in the Guidelines. The National Telecom Policy talked of supplementing or complementing DoT efforts in basic services. The Guidelines emphasised in introducing a competitor to DoT. The implication of this is that earlier schemes have visualised the Secondary switching Area(SSAS), roughly coterminous with districts being opened to private operators and the entire traffic to be with DoT. With the circle as the unit of operators, the lucrative intra-circle long distance traffic to be with DoT. With the circle as the unit of operations, the lucrative intra-circle long distance traffic would be transferred to private operator. This has very serious implications with respect to revenue and the cross subsidies that the DoT has to provide the more backward sections. Further the NTP had stated that only Indian companies would be allowed to enter basic service. The Guidelines elaborated this to mean any company registered in India with up to 49 percent foreign equity. The above modification decision of government was only to accommodate the foreign companies.[51]

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50 Banarajee, Parthasarathi, Bhattacharya, *Advanced Telecommunication in India, Regulation and Strategy*, Delhi, Harada Publications, 1996, p.67.

51 Purukayastha, op.cit., p.2125.

The decision to offer the circle as to unit had the other implication that a portion of long distance revenue is that it is the basis of the provision of cheap telecom access to subscribers. In the initial development of a net work the most important aspect is the expansion of the network. This expansion helps in the overall growth of revenue as connectivity allows a much higher volume of traffic. If access is made expensive, profit per line could be high but telecom growth low. Therefore the long distance traffic is used to subsidise the expansion of network and provision of cheap connection to backward area and less affluent section of subscribers.[52]

The aforesaid aspect of telecom network had been examined by the Murthy Committee,[53] and the Joshi Committee. These committees suggested that long distance network should be kept in the hands of DoT and provide the necessary revenue for this cross subsidy and only Secondary Switching Areas be given to private operators. Making the circle as unit of operation meant that this portion of the revenue would not be available for extending the telecom services to less well of subscribers.[54]

With a view to keep the tempo of liberalisation of telecommunication ahead, tender document was prepared in a hurry and the tender was floated in January 1995. There were significant departures in the tender terms and conditions from the NTP objectives. There were also certain new features that were introduced, like the party bidding must have in the consortia a company with experience of five lakh Direct Exchange line (DEL) and such a party must have at least ten percent equity. As Indian companies have not been allowed into basic services, this made foreign participation

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52 P.Purukayastha, "Introduction of Private Sector in Basic Telecom Services", *Economic and Political Weekly*, vol.31, 17 February 1996, p.415.

53 G.S.Murthy, Committe, 1993, pp.4-6.

54 Ibid, p.6.

mandatory and gave the foreign partner a leverage well beyond its equity contribution. The second was to deny even the biggest of public sector units in telecom an opportunity to enter telecom service.[55] While opening the doors for foreign companies, the third element was to whittle away the importance of Village Telephones by restricting this obligation to one Village Public Telephone. The telecom tender also categorised every circle as A,B or C based on its revenue potential. However the regulatory regime within which the private operators and the government would compete was left completely open.[56]

The major problem of telecom tender was its inability to identity the nature of regulatory regime that would be responsible for the functioning of telecom services. The other issue lay in that no financial bid can be given if the parameters of evaluation are not known. Sukh Ram was initially reluctant to release the criteria. The finance ministry put considerable pressure for realising the evaluation of criteria before the financial bids were given. While the initial reason given for bringing the private sector was the need for expanding coverage and rural telephones, the weightage finally announced was almost entirely based on the license fees. So to say the government was mainly interested in raising revenue by auctioning the licence.

It is very interesting to note that while rural telephones and low cost expansion of service had a higher priority in the NTP with commercially attractive terms being the last on the list. But the license fee has been the criteria for the selection of the parties.

The financial bids were opened on June 23, 1995. The bids of Himachal Futurists Company (HFCL) over shadowed all others. It had quoted a licence fee of Rs.85.50

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55. P.Purukayastha, op.cit., p.415

56. Ibid.

crores which was higher by Rs.55.000 corer over the next highest bidder. If all the nine circles are awarded to this bidder, it would result a kind of monopoly. With H.F.C.L. emerging as the single largest dominant private undertaking in this sector with over 75 percent of share. The main purpose of allowing the private sector to enter into basic service was to complement the efforts of DoT in reaching the target of telephone on demand by 1997 covering all the villages as early as possible and providing telecom services of world standard. If only one bidder is entrusted the development of telecom in so many major circles not able to deliver the number of lines promised due to inability to mobilise the resources required for providing service in so many circles, then the development in the country would not be carried out successfully. This was clearly too much of a coincidence and raised the ire of the opposition parties.[57]

Further telecom being a very sensitive sector from the point of view of national security, private foreign investment should be more evenly distributed and pre-dominance of any foreign country(which would result from one bidder with a specific foreign partner getting a majority of circles) should be avoided.[58]

Apart from this the Tender Evaluation Committee (TEC) made certain other recommendations which have become controversial. It worked out reserve prices for each circle and rejected all bids below the reserve price. HFCL was also allowed to choose the circles it wanted. With HFCL vacating five of the circles, the second highest bidders refused to match the prices of HFCL. As a consequence of this only five circles out of twenty could be selected for award and thirteen circles opened for rebid. The bids for two circles-namely Rajasthan and Karnataka were rejected by the Evaluation of

57 *Telematics India*, vol.10, no.4, January 1996, p.22.

58 Ibid.

Committee. The results of the rebid and the final position of the bidders are also given below:-

Table-1

Total Levy and Circle Wise Successful Bidders

Name of the Circle	H1 Levy	H1 Bidder	Type of Circle
Delhi	15,085	HFCL-BEZEQ	A
UP (West)	6,580	HFCL-BEZEQ	B
Haryana	4,060	HFCL-BEZEQ	B
Maharashtra	13,909	Hughes-Ispat	A
Orissa	2,065	HFCL-BEZEQ	C
Rajasthan	1,110	Shyam-Guondong	B
Karnatak	5,796	Hughes-Ispat	A
Andhra Pradesh	4,200	Tata/Bell Canada	A
Gujrat	3,396	Reliance, Nynex	A
Tamil Nadu	11,620	RPG NTT	A
Punjab	4,593	Essar	B
Bihar	26,667	Usha Tel Moscow	C
Total	72,414		

Source: Prabir, Purukayastha, Induction of Private Sector Basic Telecom Service, *Economic and Political Weekly*, vol.30, 1996, p.417.

The current subscriber base is heavily lopsided about five(5) percent users generate the major portion of the revenue, if the private operators concentrate on this narrow segment of the population, they can do what is called cream skimming and generate enough profits. This will leave DoT with the uneconomic sector of the traffic and backward states. With the high revenue earning states have found bidders, there are eight states for which no bids have been received. As rural telephones were one of the major thrusts of the National Telecom Policy but it is quite clear that bidders are not interested to go deep into the village. As the village net works would not fetch them profit.

Table-2

Number of Villages Uncovered by Phone

States	No. of villages
Jammu & Kashmir	5,564
Madhya Pradesh	52,887
Assam	19,568
Himachal Pradesh	12,307
North East	11,987
UP (EAST)*	50,000
West Bengal	38,034
Total	190,347

*Estimated

Source: Prabir, Purukayastha, Induction of Private Sector Basic Telecom Service, *Economic and Political Weekly*, vol.30, 17 February 1996, p.418.

Hence the government as per its commitment should do something positive to attract the bidders as per its promises. Instead of supplying the villages with phone facilities, it went on providing phone facilities to the towns, metros, business centers. Hence the dream of the government of providing phone facilities to villages have been unfulfilled.

Apart from this the other major problem with the Tender Evaluation Committee's Report has been the computation of the reserve price, it has done for every state. Initially each state had been categorised as 'A', 'B' or 'C' based on its revenue earning potential. The net worth of the bidders and the earnest money was also fixed in proportion, the higher category circles having a higher requirement of net worth and earnest money. However the reserve price calculations were quite different. The price for 'B' category states like West Bengal, Kerala were much higher than that of 'A' category states like Gujarat and Andhra. Even worse were the projections of per DEL revenue. After fifteen years, it was projected that West Bengal would have a per DEL revenue of about Rs.92,000, while states like Punjab and Madhya Pradesh would have a per DEL revenue of about Rs. 18,000 and Rs.7,500. The entire computation of reserve price has no co-relation to any known parameter. The government's reply before the Supreme Court was that categorisation and reserve prices had been worked out on two different basis. However no basis was furnished to the court. Hence it was very much evident that government did not show its stance clearly giving rise to lack of transparency.

Sensing doubt about the acts of government, there arose uproar in Rajya Sabha over Sukh Ram's favouritism towards HFCL. Subsequently, opposition stalled proceedings in both Lok Sabha and Rajya Sabha demanding a probe by a JPC. On December 16, 1995 Supreme Court ordered government to refrain temporarily from awarding any license to private companies to operate basic service. A two Judge-panel issued the order after considering nine petitions challenging the privatisation process. Finally Supreme Court declined to go into the extent of any mala-fide or arbitrariness alleged against it.

The Supreme Court Judgement on the telecom case has generated an orchestrated response from the government and sections of industry. The judgement is being viewed as a vindication of the government's position and exoneration of concerned officials from changes of malafide conduct in the tender process for privatisation of basic telecom service. Unfortunately the court has chosen not to express any opinion on a number of issues of public concern which were the main issues. These issues remained unresolved and need to be debated. The petition had not questioned the central government's power to grant license to private operators in the National Telecom Policy. However the contention still remains that this power can only be exercised in general public interest and not merely in commercial or business interest as was done under the Tender Document. While repeated changes were made in guidelines and terms and conditions, the government sought to justify these by claiming the right to trial and error and experimentation. While it is claimed by the government that this tender is the largest ever, totalling as much as Rs.1180 billion, such trial and error could bring disastrous consequences for India and its communication sector.[59]

Further mandatory induction of foreign companies into basic telephone services operation have national security implication. The Telecom Regularly authority of India(TRAI) belatedly set up by the government has no statutory powers or mandate to safeguard India's security concern. The recommendations of Expert Committees that certain Special Security Areas (SSAS) in border areas should not be given to private operators, have been ignored. While the National Telecom Policy sought to promote indigenous manufacturing of telecom equipment. But it is to be noticed that ITI Pvt. Ltd. - a giant public sector which promotes indigenous technology, was caught in a highly disadvantageous position. The real blow came with DoTs decision to invite private participation in basic telecom service. While ITI has historically been a manufacturer of telecom equipment, it has experience in providing basic telecom services to private customers for example in steel mills and town ships, large factories. However ITI was debarred from bidding in the DoT tender. ITI's social cost are not taken into account. ITI runs a full-fledged employee's colony, a school, a hospital and transport system. All sections within ITI are anxious about its future. The Unions, acting through the board based committee for promoting self reliance in Telecom are resisting the New Telecom Policy through agitations representations. It is to be remembered that the social

59 *Telematics India*, vol.11, no.8, May 1996, p.416.

costs served by ITI is very much important. But in case of the foreign companies, it could not demand moral cost. Because they did not believe in moral values. Thus while making liberalisation policy, which believes in competition, the government should make necessary arrangements for public sector like ITI, which the governments did not.[60]

Apart from, the Central Bureau of Investigation's (CBI) raided on the premise of Sukh Ram and seized rupees worth of 3.61 crore from his residence clarified the existence of nexus between the politicians and businessmen. In the name of the liberalisation policy the minsters and big business magnets are going to be benefitted. Thus corruption, kickbacks or pay offs have become a part of real politics in India.[61]

The former Union Communication minister has also failed to provide the CBI with any evidence to show who gave him money or in whose presence this was done. His other claim was that he did no wrong in dealing with the Hyderabad based telecom firm - Advanced Radio Masts (ARM) did not convince the CBI officials. While the former communication minister told CBI officials that in the ARM case he just followed the decision taken by his predecessor in the ministry, Rajesh Pilot. There is little evidence to support his claim, For one, while it is true that the original tender for the multiple access rural radio(MARR) systems was floated during Pilot's tenure, the issue of paying a lower price for the crystal controlled version came up when a Price Negotiation Committee (PNC) was formed in May 1993, during tenure. It was then that they overruled the PNC's recommendations by which ARM was benefitted.[62]

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60 P.Purukaystha, "Another Scam, Rigging, Tender for Foreign Entry, *Frontline*, vol.12, 16 June 1995, p.93.

61 *Disycom*, vol.2, issue 2, October 1992, p.1.

62 *India Today*, 15 October 1996, pp.100-1.

A series of diaries found during the raid bears the initials like NK, NATA, KMKA, JK and AT and figures entered against them - 40 against NATA and 28 against KMKA (these two names figured repeatedly). The investigators suspect that NATA is Mahendra Nahata Vice Chairman of Himachal Futuristic Communication Limited (HFCL) and KMKA is R.S.Khemka Director of a Delhi based company, Haryana sheet Glass. As late as February 1996, Sukh Ram tried to place repeat orders worth Rs.200 crores of optical fibres cables- the price was to be the same as the lowest in a tender floated a year earlier. DoT officials say one of the firms selected for this did not even have DoT approval for supplying cables. In his case though since DoT officials delayed approving the orders till very close to the general election, the order was finally scrapped.

Thus, the role of politicians and bureaucrats in finalising the deals was really very mysterious. The Central Bureau of Investigation (CBI) on March 18, 1997 formally indicted Sukh Ram,former DoT officials Renu Ghosh and Managing Director of Hyderabad - based Advanced Radio Masts Ltd(ARM), P.Rama Rao. Special judge Ajit Bharioke has committed the case to trial and issued summons to the accused to appear before him on 11 April 1996. Charges are framed under section 120 of the Indian Penal Code, pertaining to criminal conspiracy and sections of the Prevention of corruption Act.[63]

Briefly Sukh Ram and Renu Ghosh are accused of having ignored compelling technical and financial norms in the acquisition of multi-access rural radio terminals. Almost concurrently with the CBI charge sheet, the comptroller and Auditor General of India(CAG) released a major report on the import of switching equipment by DoT during

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63 Sukumar Murlidharan, "Stocks of Scandal: DoT Under Sukh Ram", *Frontline*, vol.14, 5-18 April 1995, p.24.

Sukh Ram's tenure. The magnitude involved here is more than Rs.600 crores, which has come under scrutiny and the deal has been found severely wanting in terms of transparency and commercial sense. The CAG intact has referred to the undue interest shown by Sukh Ram in pursuing particular purchase option, often in defiance of the best judgement of his officials. As domestic manufacturers of telephone exchange equipment in public sector fell into an abyss of official neglect, DoT gave its blessing to a policy of import penetration in this vital sector. An initial import order of 200,000 exchange lines was cleared by Rajesh Pilot during his brief tenure as Minister of state for communications. With Sukh Ram taking over, the order was enhanced to 890,000 lines at the same price as contracted under his predecessor. The CAG found this to be violative of the basic rules of commercial prudence. But Sukh Ram took the plea of urgency to justify the entire procedure. The CAG finds no basis for the argument. The CAG has estimated the national loss from the acquisition of 890,000 exchange lines at Rs.30 crores.

Apart from this financial scandals, the Government of India is not ready to remove its control over the Telecom sector. On January 20, 1997 the President of India promulgated Telecom Regulatory Authority of India(TRAI) ordinance, which has the force of law. However certain basic regulatory provisions are missing in the new ordinance. For example although the TRAI may issue to carry out its statutory functions, it is not required to publish the draft regulations and public comments over a defined period. However the TRAI is still limited to interservice provider and has been accorded only a recommendatory role with respect to licensing. Further devolution of power has been required for DoT to relinquish its troubling role of being both operator and regulator.[64] The above act is being done by the government not to relinquish its control over the DoT by which it could be able to keep its pressure. Hence politics is playing a vital role in the liberalisation policy, which is particulary affecting the telecommunication sector out and out. Industrialisation is not a hinderance to the development of Indian economy but liberalisation is certainly a hinderance to the progress and development of large number of weaker sections in India. Hence industrialisation in a socialist pattern is the way of progress and not liberalisation in capitalist pattern which in the scientific sense rather the bane of the Indian economy.

64 *Times of India* (New Delhi), 5 February 1997.

CHAPTER V

CONCLUSION

The study "Politics of Liberalization and the Telecommunication Sector in India" is an effort at evaluating the hypotheses proposed in the work. It required a proper methodology to arrive at the hypotheses destined. Thus, the different source materials, like primary and secondary, have been consulted. Endeavour has been made to gather a sound knowledge from these source materials even though they were sometimes ambigous and conflicting in nature. Thus a bold attempt has been made for the analysis of the problems and suggestions, thereof, within the stipulated time frame.

The research work includes the candid meaning and definition of liberalisation in a nutshell. Besides the statement of the problems the work has taken into account of the economic crisis which evolved mainly due to the heavy losses of men and capital in the two world wars and was also responsible for the growth of liberalisation in trade policy in world fora. After the developed countries found loosing their economic growth mainly due to the heavy losses of men and capital in the world wars, these developed countries realised the need for a liberal economy. The liberal economy was essential for boosting of the economic growth of these developed countries particularly because the colonialism, which was plundering wealth from the various parts of the world, had started loosing its earlier base. Now, to regain the past glory and influence, a different method of economic development called liberalisation was adopted.

The liberal trade policy led by United States of America was meant for the gradual reduction of the trade barriers. For making the momentum moving the GATT to which India was one of the founding members signatory, was formed after the Second World War. The movement of GATT was gradual and very often was being checked up by the USSR and its left wing countries. Because of this reason and also due to the other related problems like supremacy in nuclear weapons, the cold war began between USA and USSR. However, after USSR came into internal powerful contradiction, thereby losing its previous position, the process of Globalisation led by USA started becoming faster which successfully became able to pull even the erstwhile USSR into its fold. The GATT, therefore, in late 1980s and early 1990's cast its influence much more radically than its earlier phases. However the radical flow of liberalisation on trade demanded the Dunkel proposal in preparing various provisions that best suited the smooth functioning of the world trade. After debates and discussions by various countries, the agreements were signed by most of the member countries of GATT. Recently the GATT is being renamed as World Trade Organisation (WTO) for making the liberalisation policy more rigorous. Under the liberalisation policy, it influenced the various sectors in general and telecommunication sector in particular.

Thus the telecom sector of India was heavily influenced. To increase the telecom sector in India, the help of advanced countries along with the world bodies like IMF and World Bank were felt necessary. Various Indian economists supporting on these angles opined that the economic crisis, emerged especially in early 1990's, could not be curbed down until some drastic steps, like the liberalisation, were not being taken into account. These economists, thus, suggested for the structural adjustment programme (SAP).

In India, therefore, though the gradual development of liberalisation policy started much earlier, the radical transformation of structure of its economy, however, began to take place only after the Eighth Five Year Plan. This plan called for the need of privatisation of public sectors. It tried to restructure economy as per the guidelines instructed to India by the Dunkel proposal. Since then our Indian economic structure has been changing in different angles from that of socialistic pattern which was adopted in India, as per the instruction of our constitution.

However, in this changing economic structure the impact of liberalisation on the telecommunication sector has attracted the attention of the social scientist - that what would be the effect of SAP on the telecommunication sector! The present research work has highlighted some of those issues in brief. Moreover it highlights various problems which indicates that politics is playing a vital role in the liberalisation of telecom sector in India. The hypotheses formulated are proved to be correct which clearly stated that politicians are playing an active role in the ongoing process of economic reform. The various secondary sources as well as primary sources are able to inform that the new economic policy of India has affected the various sectors in general and telecommunication sector in particular. The telecommunication sector, as one of vital sectors, was opened up partially during Rajiv Gandhi Government but it was opened up totally during Narasimha Rao Government. The declaration of New Telecom Policy in 1994 paved the way for the development of telecom sector in India, which gave the green signal for the private companies for the participation in the telecom development in India It is to remember that India, like many developing economies, is severely short of world class telecom infrastructure standards. This is a serious handicap. Without adequate telecommunication facilities, economic development efforts become stifled. Poor infrastructure further perpetuates financial problems which demand for funds continually. But the government of India did the opening up of telecommunication sector in a hurry without having clear cut vision and it was made only to satisfy their own purpose. The issue of introducing competition in telecom network is different from that of privatisation. About fifteen countries have privatised their telecom network - they have converted their erstwhile government departments to corporations that have sold shares to the public. This does not introduce competition. Thus the Indian government should have followed this model which was also seen in case of another Asian country, South Korea. South Korea is spending 13-45 percent of GDP on telecom while 2 percent of telecom service are privatised. The India government on the other hand is spending only 2.5 percent of its GDP on telecom while it introduces the major chunk in privatisation for the network. A world class economy cannot be built without public investments in basic infrastructure. Hence a rational policy frame work should have been followed by the government of India, where such competition would have benefitted the consumer as well as refrain the technical efficiencies.

The current Parliamentary Standing Committee on Communication in its December 1996 report on "Privatisation of Basic Telecom Service" has also criticised the National Telecom Policy for allowing private competition in basic telecom service with "unseemly hurry", "without making a depth studies and reflecting lack of planning, and total lack of professional approach" and has described the privatisation as premature.[1]

The Government of India should seek the opinion of the telecom experts while framing the policy. The government's desire of Rs. 23,000 crore in just three years would be a distant goal to achieve. Such method of raising funds and realising the stated objectives had not been adopted successfully till now anywhere else in the world. It needs to be appreciated that the telecom service is different from other service. It is based on a net work concept. Telecom is unlike the airlines or railways which are used

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1 *The Hindustan Times* (New Delhi), 3 March 1997.

for limited period of time to move from one specific location to another. Privatisation of these services can thus be done in isolated sectors and areas.

Provision of telephones to all is the social responsibility of the Government. Private parties seeking profitable returns are unlikely to voluntarily take on this responsibility. Hence competition has been introduced in some countries only after achieving universal service. Most of the Indian villages are without telephones and will remain so unless specifically targeted by the Government.

The best course now for the Government would be to place the policy on hold and set up a working group of national and international telecom experts. This working group should be given a reasonable time, say three to six months to make its recommendations for a new and implementable policy. Thus some kind of improvements are required over the National Telecom Policy with a view to make it more attractive.

Hence it is hightime that the politicians should think positively and unnecessary interference should be stopped by them with a view to make India as one of the leading countries in the international telecom scenario. Thus, transparency should be maintained, particularly in undertaking governmental deals.

The Government is also trying to have its control over the telecom sector. In this context the case of TRAI is very clear. TRAI has to be an effective force for pushing the telecom reforms in the country. It should have the power to cancel and issue license. So long as these powers are vested with the Government, the TRAI can only be a body judicially examining the conditions of observance or their breach. The service provider will have a tremendous opportunity to delay the process, especially if the license has to be cancelled. If the TRAI is able to get the disputes resolved quickly, it would have made a small contribution towards the process of better telecom services in the country.

Nevertheless the TRAI lacks teeth because it lacks the power to issue and cancel license. Further spectrum management is outside its review. Hence the Government should vest necessary power with TRAI by which TRAI would function properly and powerfully.

On the basis of the research work the findings having unveiled. Further deep research in this regard will highlight more divergent dimensions and trends in future. However, it should be noted that, though this work is limited in its scope and content, the analysis from all corners indicates that the liberalisation in its present form is a resistant method for social progress.

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