

# Conclusions made on indian economic reforms politics essay



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This paper has made an attempt to broadly study the politics of economic reforms in India by focusing on the telecommunication sector. Reform is a difficult matter particularly in a plural political setting like that of India, and especially in a network industry like telecom. Yet, telecom is one sector where the reforms have been exceptionally successful in India and we are witnessing an unprecedented growth in this sector, which is nothing short of a revolution. Institutional, policy, and governance reforms, such as privatization, deregulation and the introduction of competition, have contributed to improved telecommunication adoption and also to the growth of access to telecom services and the telecom market.

But the reform process in this sector has been a long and an arduous one, because of the particular socio-political-economic context in which it occurred, as well as the unique sectoral characteristics of telecom marked by rapid technological changes. The reform process in telecom has witnessed a host of political controversies, inter-party conflicts (especially in coalitional settings), inter-ministerial differences, bureaucratic turf-battles, corruption charges, aggressive lobbying by various ' stakeholders' involved, labour disputes, judicial pronouncements, institution-building and bickering, etc. that are unheard of in reforms concerning other sectors.

We had set out to study the politics of telecom reforms by posing certain questions:

How do the cultural legacies of the Indian state-its linkages to capital, particular vision of modernization, the historic commitments to redistribution-reconstitute the meaning of ' public interest' which lies at the

heart of the telecom reforms? Hence, how do the dominant cultural values shape the politics that frames the theory and practice of the telecom reforms? Why did the policy change occur? What was the rationale behind the reforms? How did the institutional framework of the democratic political system cope with the perceived need for change? What are the political and institutional factors that have led to the stability of the reform? What has been the role of the Indian state in the telecom reforms? What has been the degree and type of state intervention involved in the process? What lessons can be drawn from the telecom experience for the overall reform scenario?

In this sections that follow, we attempt to answer these questions.

Culturally, the spectrum of positions that formed the limits of policy debates related to telecom reforms in India were influenced by the competing visions of Nehru, Gandhi and Ambedkar. The reforms were marked by a series of negotiations and compromises between the Nehruvian advocates of state-led industrialization and Gandhian critics of technological modernisation and Ambedkarite supporters of affirmative action.

The outcome of the Nehruvian and Gandhian visions for telecom in the post-independence period was a centralized state ownership coupled with a long term political neglect of the services. As per the Nehruvian vision of state-led development, telecom was to be in the public sector (like many other sectors). As per the Gandhian vision, telecom was considered an 'urban luxury' and was highly neglected. The revenue surpluses from the telecom services were used to finance the labour intensive postal services. There was hardly any research and development in telecom. This was in contrast to the

other Departments like those of the Atomic Energy, Aerospace Research and, later, the Department of Electronics that got direct protection from the Prime Minister's Office. Research and development in these Departments was given special privileges and shielded from public scrutiny, justified by concerns for national security.

Further, the Ministry of Posts and Telegraph implemented the Ambedkarite affirmative action policies by reserving large number of low-skilled jobs for the Scheduled Castes. But these policies were not strictly implemented in all the Departments evenly. The large number of low-skilled reserved jobs in telecom as compared to other Departments, coupled with the powerful lobby of the Indian Telecom Services (ITS) would later form a strong anti-reform constituency. Often a distinction was drawn between 'scientific bureaucracies in strategic defence-related sectors' that were insulated from 'political demands' from the 'politicized' bureaucracies like the Department of P&T. The politics of caste would leave a great impact on the class formation in the telecom sector. This was especially after the implementation of the Mandal Commission recommendations in the early nineties, which was also the period when the efforts for telecom liberalization began on a wider scale. It largely influenced how the workers and the bureaucrats saw themselves and how the heterogeneous Indian public would see them over time. When there would be a public outcry against the poor quality of the telecom services, the ITS cadre would put a larger share of the blame on the reservation policy. But when there would be pressure from the reformists, backed by the PMO for corporatization, privatization or disinvestment of the state-owned telecom monopolies, all the employees

would unite (to resist such moves) under the banner of Unions supported by the Left Parties.

In the mid nineteen-eighties, the global discourse of 'telecom for development' clashed with competing discourses that critiqued Western modernity in the context of the Indian state and its changing relationship to science, the market and national development and equity (Chakravarty 2004: ). The 'telecom for development' agenda offered a new recipe for modernization: an urgent reform of inefficient public monopolies and the transfer of technologies from advanced to developing nations. It argued that telecom should no longer be seen as a luxury for elites, but rather as an essential service that directly leads to economic growth. This agenda, coupled with a technocratic thinking about taking a 'more pragmatic view of the markets' in the scientific community had an influence on the Rajiv Gandhi administration, which took the earliest steps towards telecom reforms in the country. 'Telecom Mission' was among one of the six technology missions of the Rajiv Gandhi era. The growing and vocal urban middle class was dissatisfied with the pace of development through state intervention, and was easily mobilized to support the strategic criticisms of the administrative failures of the state. The missionary strategy attempted to mobilize broader segments of the population to join the 'computer revolution' on terms that would also serve the interests of rural India.

But again, the efforts at telecom reforms were delayed by the emphasis on indigenous technology over foreign technology. But now the emphasis had shifted from the Gandhian 'conspicuous' technology to 'appropriate

technology' (Nandy 1996). The Center for Development of Telematics (C-  
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DoT), under Sam Pitroda had embarked on an effort to develop an indigenous switch, which in effect would be a foreign switch, albeit suited to 'Indian conditions'. The move to try and develop an indigenous technology rather than to buy it from foreign firms was also due to the perilous balance of payment situation at that time. This possibility of indigenous success led to a slowdown in purchases of other technologies and slowed down construction of new manufacturing facilities based on foreign technologies (Mc Dowell). The hybrid appeal to Gandhian traditions and market logic was ambitious but short-lived, and faced opposition on the grounds of caste and privilege as a form of urban, upper-caste ' yuppie fascination with technology' (Bhagwati, 1993: 97).

In the 1990s, telecom reform became the centerpiece of the government's liberalization agenda. Notions of public interest in relation to access to telecom services, employment opportunities in the high-tech sectors, accountability of state and corporate institutions, and local and national interest in the era of globalization, were articulated through formulations of culturally resonant discourses encountered in the past. The material outcome would be the increasing politicization of telecom reform throughout the 1990s.

## **The Rational behind Reforms**

Until 1994 provision of telecommunication services was the monopoly of the Department of Telecommunications (DOT) of the Government of India. The inefficiencies of the service provider were manifest in the demand and supply gap with customers having to wait for five or more years in most service areas to get a telephone connection, the rent seeking involved in out <https://assignbuster.com/conclusions-made-on-indian-economic-reforms-politics-essay/>

of turn telephone connections (\$1000), the abysmal productivity (14 telephones per employee compared to 84 Malaysia), low tele-density (0.29 telephones per 100 persons), high calling costs (\$1.5 per minute for long distance calls) and negligible FDI (Rs 20.6 million).(3).

The challenge was to transform the telecom sector business environment in India from a Government monopoly dominated by the Department of telecommunications (DoT) to one with private players and government-owned entities like BSNL. The entry of private players would bring in competition which would lead to drastic improvements in the services. The government also wanted to generate investments — both domestic and foreign-to spur economic growth as also to generate revenue to take care of its fiscal concerns.

The reforms were needed to remove certain political and legal obstacles that were favouring status-quo. The political obstacle was the rent-seeking in the sector owned by the government. In the context of the DoT's monopoly, it was possible to extract rent from the consumers because they had no other option. The Indian customer subsidized an overstuffed telecom Department with more than four lakh employees that was a source of political patronage. (Mukherji promoting). No incumbent telecom monopoly in the world had willingly subjected itself to competition. But in India, the problem was particularly difficult because the DoT had historical advantages and the issue was politically sensitive.

Next, there were legal obstacles in the way of introduction of competition in the telecom sector. There was no provision for an independent regulator that

could check the predatory behavior of the DoT. According to the Indian Telegraph Act (1885), the DoT was the policy maker, service provider and the licensor-all rolled into one. It was easy for the DoT to distort licensing norms to favour itself. The DoT had kept all the regulatory powers with itself by opposing the formation of any regulator by using the provisions of the Act.

Institutionally, while telecom liberalization is usually associated with the post-1991 era, the seeds of reform were actually planted in the 1980s. At that time, Rajiv Gandhi, carved the Department of Telecommunications (DoT) out of the Ministry of Posts and Telegraph. For a time he even considered corporatizing the DoT, before succumbing to union pressure. In a compromise, Gandhi created two DoT-owned corporations: Mahanagar Telephone Nigam Limited (MTNL), to serve Delhi and Bombay, and Videsh Sanchar Nigam Limited (VSNL), to operate international telecom services. He also introduced private capital into the manufacturing of telecommunications equipment, which had previously been a DoT monopoly.

The telecom sector governance in India underwent wide scale institutional changes in the 1990s, with new telecom policies introduced in 1994 and again in 1999. The institutional configuration changed in a number of ways. New agencies, most significantly the TRAI (Telecom Regulatory Authority of India) and TDSAT (Telecom Disputes Settlement Appellate Tribunal) are now major actors in telecom policy. The central policy actor and service provider fifteen years ago, the DoT (Department of Telecommunications), is now separated from service provision functions and from regulation, although working with the Telecom Commission it remains central to policy. The <https://assignbuster.com/conclusions-made-on-indian-economic-reforms-politics-essay/>



Planning Commission also addresses telecommunications and Information and Communication technologies in plans and in background documents, but in a long-term fashion. Although the major changes took place in the 1990s, there were adjustments made in many steps. The institutional redesign was significant, but the process of making adjustments was incremental, and arguably, pragmatic. The 1994 New Telecom Policy was updated by the 1999 New Telecom Policy. The TRAI Act of 1997 was updated by the TRAI Act of 2000. High level policy decisions that set the groundwork for significant new directions in telecommunications policy and more strategic policy choices are referred to the Empowered Group of Ministers (E-GoM). The TDSAT provides a venue for appeal of DoT and TRAI decisions, as well as for commercial dispute settlement. Another agency, the Communications Commission of India was proposed, but did not materialize. The overall institutional configuration that includes the government and cabinet (and Group of Ministers), the DoT and Telecom Commission, TDSAT, Planning Commission, as well as numerous private sector actors and their powerful lobbies (notably COAI, AUSPI, FICCI, ASSOCHAM, CII) apart from the state-owned BSNL and MTNL, with their associated Labour Unions. This arrangement itself is an interesting component of communications governance in India.

Although there have been adjustments, this institutional configuration has been in place for over a decade now. This has been a period during which India has become one of the fastest growing telecom service networks and markets across the world.

Policy-wise, the PMO had a clear view of the technological developments in electronics and the possibilities that telecom provided for the country's development. The political will favouring prioritization of telecom modernization and for separating the policy-making functions from the service provision functions within the DoT had arrived before the balance of payments crises in 1991 (Mukherji 2006: 66). But the absence of a well thought-out initial plan and strategy came through clearly as the main reason for much of the problems that arose in India's telecom reforms. This in turn was linked to confusion with regard to three distinct objectives of the government- promoting new investment, efficiency through competition and fiscal concerns - which influenced decision- making at various stages of the process.

The components of telecom reform (Baijal) in India were as follows:

Break the monopoly network into network elements.

Introduce competition in network elements i. e. by bringing in private players, the incumbent being a monopoly public company.

Introduce such interconnection regime between competing operators and between network elements that the newcomers get a level playing field.

Ensure that the incumbent does not prevent the above by use of his monopoly power and predatory pricing.

Ensure that cross-subsidies, if any, are within such limits that they do not lead to malpractices and do not disturb the level playing field.

Ideally, Government ministries are expected to be objective, transparent and fair while bringing in private players into the network and successfully reform. But their ownership of the incumbent puts them at a disadvantage. The Telecom Ministry unsuccessfully tried to reform between 1995 and 1997, after bringing in private players into the basic local loop network through the National Telecom Policy (NTP-94). The performance was bad and courts intervened to force the appointment of the telecom regulator - TRAI. The relationship between the DoT and the TRAI introduced through reforms was another area of weakness that contributed to uncertainties and delays. DoT predation had made private investment uneconomic and a crisis of private investment had matured. The crises had been in the making since the early days of the licensing process, when the auction had generated bids that were not economic in relation to the Indian market (Mukherji 2006: 74). It is noteworthy that clarity on the basic issues was eventually brought about only through the recommendations of task forces and groups (reporting to the Prime Minister) culminating in NTP-99. But further problems cropped up on account of the entry of new wireless-based technologies, in particular, the way this entry was handled. This led to disputes and eventually to renegotiations of the terms of licenses already awarded for fixed line and mobile services, a process that again turned out to be messy.

Nevertheless, the process of reduction in tariffs initiated by the regulator was soon taken over by the forces of competition, leading to an unprecedented telecommunication revolution in the country and the process is still continuing. Yet, the 'success' of Indian telecom is limited to lowering of tariffs and increase in access by lower income households in the urban areas

where the new operators have networks. But a restrictive licensing regime and unresolved issues of infrastructure-sharing have not resulted in the replication of the urban competitive model in the rural areas. The overall impression is that the regulator has not been very successful in proving that it has enough powers over the incumbent. However, it is not clear whether this inability is on account of the limited jurisdiction that TRAI had in the licensing process or because it is carrying forward the Universal Access policies of the Government (Malik). Whatever maybe the case, the point is that the regulator can and must improve its abilities and general public perceptions on this count and should not be seen as subservient to the Government and hence the incumbent.

### **Politics of Insitutional Change**

“ In case of India’s plural polity, where gradualism is the key to the success of reforms, the telecom sector needed political will, a powerful industrial sector, and a crisis of investment for promoting an investment-friendly regulatory framework”(Mukherji 2006: 74) All these ingredients were readily available.

As mentioned earlier, the PMO was convinced about the need for reforms in the telecom sector even before the balance of payment crisis of 1991. It had a clear view of the changes in the electronics industry and the promise of telecom development to the overall economic growth of the country. The PMO under Rajiv Gandhi played a significant role by shifting policy attention to telecom in the 1980s. But despite being a majority government, it could just make a beginning in the telecom reforms. Owing to political pressure, Gandhi could neither privatise the DoT, nor corporatize substantial portions

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of it (Mukherji 2004). But in 1991, the PMO, supported by the Finance Ministry could use the balance of payment crisis as an alibi to bring about significant reforms that it was not able to push through earlier. This was despite the fact that the Narsimha Rao administration had a minority government. Moreover, the PMO's efforts were supplemented by the fact that telecom reforms were not as significant part of the ' mass politics' that was being witnessed in India in that politically turbulent period. Ashutosh Varshney had argued that opposition to Hindu nationalism as well as support to the implementation of the Mandal Commission recommendations for reservations for the OBC's became more important an objective for the Indian Left parties than opposing economic reforms. This was the reason why they did not oppose the economic reforms of the Congress Party in 1991 (Varshney, 1999). Further, it may be noted that the changes were brought about by stealth, which is a strategy of implementing policy change in the garb of continuity (Jenkins 1999). Telecom was just one amongst the various sectors where sweeping economic reforms were being pursued, in the wake of the balance of payment crisis and sustained pressure from the World Bank and the IMF.

After a spell of coalitional instability at the center, the NDA rose to power in 1998 with a comfortably stable majority. This would enable the PMO to bring about the requisite reforms. The BJP manifesto had a separate chapter on the need to develop India as an IT superpower. The PMO became proactively involved with making India a major IT exporter. But this would need removal of impediments to telecom growth. This period coincided with the second major investment crisis in the telecom sector, owing to the mess created by

the absence of a well-thought out plan and strategy in the previous phase of the reform. The PMO intervened directly responding to private sector groups. PM Atal Bihari Vajpayee took over the Telecom Ministry replacing Jagmohan and the reform process was expedited. This led to the landmark NTP-99 and the consolidation of the reforms in the later period in terms of formation of TDSAT and corporatization of BSNL.

It is also noteworthy that the changing gamut of power relations due to the initiation of the reforms itself provided stability to the reforms. A change in the material interests affected interests within the government. Over time the private players became powerful and gained significant lobbying clout against the restrictive practices of the DoT. Thus “ institutional change favouring regulation enhanced the relative power of the private actors. Institutions stabilize power relations, and institutional change brings about changes in the power relations” (Mukherji 2009 : 496).

In 2004, the NDA faced defeat in the Lok Sabha elections signaling a growing discontent against its supposed elite bias reflected succinctly in its ‘ India shining’ campaign. It is widely accepted that in the wake of the growing disparity between ‘ India’ and ‘ Bharat’ as also the reaction against the Godhra riots, the UPA rose to power with a fresh mandate for secularism and inclusive growth, with outside support from the Left parties. But the apprehensions regarding the slowdown of reforms were largely proved misplaced as the reforms process was seen to be irreversible. The Centre-Left coalition promoted a globalization-friendly telecommunications policy. It was a paradox of sorts that the major shift favouring foreign capital

investment in the telecom sector occurred in the tenure of UPA-I. This policy-  
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shift was visible in three decisions taken by the UPA-I towards the end of 2005. These three decisions were: a reduction in the access deficit charge; a reduction in the long distance license fees; and, an increase in the foreign investment equity limit from 49% to 74% (Mukherji 2008). These three decisions of the UPA-I signaled a reversal of the NDA's policy to support domestic capital by promoting the policies favouring fixed and fixed-wireless (CDMA) operators in the private sector who were invariably large domestic industrial houses (TATA and Reliance). The new set of policies favoured the GSM cellular operators, who were smaller Indian investors, dependant largely on foreign capital.

There has been a visible change in the politics of telecom reforms in terms of tact and pragmatism since the UPA-I came to power in 2004. Unlike in the earlier phases of the reform, no longer could important reform decisions be taken by stealth, i. e. in the garb of continuity. In this information age, all the consultations were done in the public domain, and in a transparent manner, with the entire industry being aware of what was at stake due to impending policy decisions and the interested parties fought for or opposed them according to their interests.

Neither there were any major politically sensitive and turbulent distractions to drive away the public attention. Nor was there any crisis of investment or foreign pressure to force the government to take any reform decision. The important change agent was the telecom minister Mr. Dayanidhi Maran who was convinced about the lost opportunities for the GSM industry in the earlier era of 'unfavourable regulation'. In his view, empowering GSM

service providers and foreign capital was the best way to boost investment  
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and productivity in the sector (Mukherji 2008). Further the Left parties, whose outside support was crucial for the survival of the UPA-I, were vehemently opposed to the illegal practices of Reliance Industries with respect to circumventing the Access Deficit Charge (ADC), which not only amounted to illegal financial advantage, but also jeopardized national security. This, coupled with the fact that the CDMA players enjoyed major advantages in the earlier regime, and often indulged in predatory practices that were at odds with the GSM operators, politically helped the policy shift to level the field for the GSM operators.

Institutionally, the policy making powers of the DoT which were earlier used to oppose the drive towards globalization were now used to harness foreign capital in the interest of Indian telecommunications (Mukherji 2008). The GSM and FDI friendly policies had a dramatic impact on the growth of mobile telephony in India. Even the telecom bureaucracy now appreciated the role that foreign capital could play towards promoting telecom manufacturing and service provision in India. But this is only because the three policy decisions favouring foreign investment did not seriously affect the state-owned BSNL. Again, these decisions largely formed part of the 'elite politics' and were not politically difficult to push through, although it required considerable political will on the part of the ruling dispensation. It would not be so easy to push through reforms that affect the state-owned BSNL/MTNL, irrespective of whether the Left is in power or in the opposition. This was witnessed recently, when the government had to quickly put back on the backburner, the proposal of disinvestment of BSNL (based on



recommendations of a high-level Committee headed by Sam Pitroda), after countrywide strike by the BSNL employees no.

In the overall assessment, it would be fair to say that the Indian state has achieved a reasonable success in its conflicting goals with regard to telecom policy. It has successfully encouraged private sector investment and competition to increase national coverage at an affordable price. It has raised huge revenue to fund its deficit by auctioning off licenses and spectrum. It still protects the interests of the state-owned firms, which still retain a level of dominance in the industry. So much more could have been achieved, but what has been achieved is extraordinary in comparison to the reform initiatives in other sectors in India.