Equipments for Indian telecom boom!

Introduction

Telecommunication has over the years become a key factor in the development of social, economic, and commercial activities. The development of telecommunication infrastructure plays a greater role in meeting the diverse needs of people and improving their quality of life through inter-linked development of many other sectors. The Government of India (**"GOI"**) recognises that telecom and information is the key to rapid economic and social development of India and that it is critical not only for the development of the information technology industry, but also has widespread ramifications on the entire economy of the country. Keeping this in consideration, the telecom policies of India have so far targeted an enabling framework for development of telecom industry.

Accordingly, measures have been taken in telecom equipment manufacturing sector that has propelled the growth of the telecom sector. To begin with the focus was on the manufacturing of the telecom equipments in India to meet the ever increasing demands due to the rapidly growing telecom sector. Subsequently, the need for research and development (**"R&D"**) was also felt in this sector so the exclusive domain of GOI was opened first for private players and then for foreign players as well. This article attempts to analyse the way the regulatory policies related to telecom equipments have changed over the years that has assisted in smooth progression of the telecom industry.

1.0 Relaxing policy framework over the years

Telecom equipment manufacturing was exclusively reserved for GOI enterprises until 1984. Until then it was dominated by Indian Telephone Industries *(switching, transmission and terminal equipments)*, Hindustan Cables *(cable products)* and Hindustan Teleprinters *(telex machines/modems)*. Subsequently, private entry was allowed in the domain of manufacturing of telephone instruments, cables, transmission equipment, small switching exchanges developed by C-DoT and large exchanges. With time this was further relaxed and presently, private sector is allowed to manufacture the entire range of telecom equipments or components (**"Equipments"**).

The requirement for a license for manufacturing Equipment was already abolished in 1991 and value added services were declared open to the private sector in 1992, following which radio paging, cellular mobile and other value added services were opened gradually to the private sector. This has resulted in large number of manufacturing units been set up in the country and most of the Equipments used in telecom area is being manufactured within the country. The Telecom Policy of the GOI in 1994 defined certain important objectives, including availability of telephone on demand, provision of world class services at reasonable prices, ensuring India's emergence as major manufacturing/export base of Equipments and universal availability of basic telecom services to all villages. With the announcement of New Telecom Policy 1999 (**"NTP"**), the aim to strengthen R&D efforts in the country and to provide an impetus to build world-class manufacturing capabilities was also set.

2.0 Equipments - regulatory framework

All Equipments manufactured or traded or used in India are required to meet the relevant International Telecommunication Union (**"ITU"**)/Telecommunication Engineering Center (**"TEC"**)[1] standards and approval of TEC is required before connecting the Equipments to a particular network. Manufacturers are issued either interface approval or type approval upon satisfaction of the requirements/performance dimensions stated under the applicable generic requirements[2] as laid down by TEC. Further, the principles that govern the application or deployment of any generic Equipments or a class of Equipments in a real network environment are provided by TEC in the form of either planning or engineering guidelines.

A license and frequency clearance is required from the Wireless Planning & Coordination (**"WPC"**)[3] wing of Ministry of Communication to import receiving Equipments. The National Frequency Allocation Plan, 2005 (**"Plan"**) provides the earmarked or pre-allocated frequencies as per international and national norms and the receiving Equipments sought to be imported should conform to the applicable frequency as stated under the Plan.

Further, for providing telecommunication infrastructure and services such as internet services, international long distance services, public mobile radio trunking service and cellular mobile services, employing bulk encryption Equipments in networks are prohibited. The encryption Equipments employed by the telecom service providers requires prior approval of the Department of Telecommunication (**"DOT"**) with the sole exception of internet service providers. Also, valid approval from the Reserve Bank of India for import and sale of the imported Equipments is mandatory.

3.0 Domestic Equipments market

Rising demand for a wide range of Equipments, particularly in the area of mobile telecommunication, has provided excellent opportunities to domestic and foreign investors in the manufacturing sector.[4] The last two years saw many renowned telecom companies setting up their manufacturing base in India.[5] GOI set up the Telecom Equipment and

[1] TEC is a technical body representing the interest of DOT, Ministry of Communications and Information Technology, GOI.
[2] Generic requirements of telecom product/components technically refers to the fundamental qualitative and operational requirements, applicable standards, applicable interface requirements, and requirements regarding the performance, facilities etc. of service providers.
[3] WPC Wing of the Ministry of Communications is the National Radio Regulatory Authority, and is responsible for frequency spectrum management including the issue of license(s) to establish, maintain and operate wireless stations.
[4] Please refer to http://www.dot.gov.in/osp/Brochure/Brochure.htm for details, as visited on April 04, 2010.
[5] Ericsson set up GSM Radio Base Station Manufacturing facility in Jaipur. Elcoteq set up handset manufacturing facilities in Bangalore. Nokia and Nokia Siemens Networks have set up their manufacturing plant in Chennai. LG Electronics set up plant of manufacturing GSM mobile phones near Pune. Ericsson launched their R&D Centre in Chennai. Flextronics set up an SEZ in Chennai. Other major companies like Foxconn, Aspcom, Solectron etc have decided to set up their manufacturing bases in India.

Services Export Promotion Council and Telecom Testing and Security Certification Centre (**"Testing Centre"**).

Further, to beef up R&D infrastructure in the telecom sector GOI has set up the Telecom Centers of Excellence with the objectives of having a secure information infrastructure that is vital for country's security, work towards capacity building through knowledge for a sustained growth, reduce rural urban digital divide, effectively manage National Information Infrastructure during disaster and create environment for innovation.

The foreign direct investment up to 100% is allowed under the automatic route (i.e. prior approval of government is not required) for Equipments manufacturing and provision of IT enabled services. Due to this the domestic Equipments market is dominated by multinational/international Equipments majors. This is also due to the absence of domestic player in switching and other high-end Equipments segments. Additionally, the multinationals have an edge as they can afford to offer long term vendor finance to the service providers and also have the required expertise and product portfolio to provide a complete system solution.

4.0 EXIM hurdles

The Equipments are covered under the term "Technology" as described under Special Chemicals, Organisms, Materials, Equipments and Technologies (**"SCOMET"**)[6] and covers electronics, computers and information technology including information security.[7] Further, the following are specifically included within the scope of "information security" viz., data processing security equipment, data security equipment and transmission and signaling line security equipment, using ciphering processes; and identification, authentication and key-loader equipment and key management, manufacturing and distribution equipment. SCOMET items have a lot of security concern attached to their very nature and function.

The major concerns attached to SCOMET items are that the items so exported are to be used only for the stated purpose. Any change or modification of use can be effected only with the prior consent of the GOI. Prior consent of the GOI is required for any re-transfer of the items or their replicas or derivatives. The end-user is required to obtain the consent of the GOI for transferring the export items to another user within or outside its country.

[6]Export and import of goods in India is regulated by the Directorate General of Foreign Trade (**"DGFT"**). The export import code along with the description of each item as well as the prohibitions and restrictions, if any, related to the import and export of such items are provided by DGFT in the exhaustive document called "Indian Tariff Classification (Harmonized System) for Export and Imports Items." The export policy is detailed in Schedule 2 of this document. Schedule 2 lists all restricted or prohibited items, and all other items are freely exportable and also include SCOMET.

[7]"Information security" has been defined to include all the means and functions ensuring the accessibility, confidentiality or integrity of information or communications, excluding the means and functions intended to safeguard against malfunctions in the Export policy under the Classification as amended by notification No.27 (RE-2007)/2004 dated September 7, 2007 issued by DGFT.

However, these hurdles have not been proven a disincentive but been taken on stride as a security concern. The industry gets its impetus from the policies like - no industrial license required for setting up manufacturing units for Equipments, automatic approval of 100% foreign equity, technology fee up to US $2 million, royalty up to 5% for domestic sales and 8% for exports in telecom manufacturing projects and full repatriability of dividend income and capital invested in the telecom sector – These steps have helped in making India one of the world's most attractive markets for Equipments.

Conclusion

Recently, GOI has decided to make it mandatory for all imported Equipments gear to get a security clearance from the Testing Centre. After repeated demands from intelligence agencies, GOI has cleared the three-year-old proposal to create national test for all foreign network Equipments before they can be sold to service providers in the country. The DOT in December 2009 had made it compulsory for all telecom operators to get security clearance on all networks Equipments before it is deployed. The DOT's technical arm called the TEC will undertake this project.

Irrespective of policy snags, the Equipments market is growing rapidly, though the local participation is encouraging, it has been captured by foreign investors. The shift in the policy of GOI is noticeable which aims to make India a hub for telecom manufacturing by facilitating more and more telecom specific demarcated manufacturing areas and helping in quadrupling production in 2010, securing pre-eminence of India as a technology solution provider, establishing a comprehensive security infrastructure for telecom network and doubling the Equipments R&D from present level of 15% by the end of this year. Driven by the diverse policy initiatives, the Indian telecom sector witnessed a complete revolution in the last decade. It has achieved an exceptional growth during the last few years and is poised to take a big leap in the future as well. The Equipments segment has emphatically also facilitated this growth story.

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