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INDIAN TELECOM EQUIPMENT INDUSTRY: CONSTRAST WITH CHINESE COUNTERPART



Sakshi Jindal

ABSTRACT:

The Indian telecom equipment industry is not that developed and its growth also does not show a positive trend as compared to that of telecom service industry. But China, on the other hand, was able to achieve a well performing telecommunication equipment industry. The present paper looks into the reasons behind this stark contrast between two nations.

KEYWORDS: Indian telecom equipment industry , telecom service industry , telecommunication .

INTRODUCTION:

The liberalization of India's Telecom Service Industry gave private players an opportunity to be a part of this sector, which was earlier reserved for the public sector. This led to increase in private investment in telecom infrastructure. As new players were allowed to enter the industry, the competition among the service providers resulted in lower tariffs and better service quality. Hence, the rising share of the private networks signifies remarkable efforts of the Government towards more liberal environment. But, growth in telecom equipment manufacturing industry was very limited. Some scholars pointed out that Indian industrial development had not been of the correct form, so that it can survive or be competitive enough to fight in world market of manufacturing products. On the contrary Chinese telecom equipment industry was flourishing at the same time.

INDIAN MANUFACTURING SECTOR COMPARED WITH CHINA

This situation was not specifically with only telecommunication industry of both the nations. The overall picture of manufacturing capabilities also depicts the same trend. In the year 1992, immediately after liberalization, 50% of India's import from China was manufactured goods. At that time India's export of manufacturing products to china was also relatively high. But there is noticeable change in merely two decades. A paper by Sudip Chaudhari (2015) mentioned that

"Imports of manufactured goods from China has gone up from 47.3% in 1992 to 78.9% in 2008 but exports of manufactured goods has gone down from 36.8% in 1992 to 11.3% in 2008. Trade relations with China now exhibit a colonial pattern - India exporting primary goods and minerals and importing processed manufactured goods. In 2008, 38.6% of India's exports to China was minerals and 48.3% primary goods."

The above mentioned trade figures represents that how important is it for Indian industry to compete with the Chinese industry for better future development of its own. Chinese origin mobile

handsets have a significant share in overall mobile handset products. Therefore, an India-China comparison will certainly help us to understand where India stands today in contrast to its neighbour. The following points remark the difference between the two nation's market conditions.

Backward linkage industry- In China, electronics industry has come up as one of the country's leading industries. Telecom equipment manufacturing is a part of larger electronics industry. The Chinese telecom equipment manufacturers find components relatively cheap due to well established large electronics industry. Except for semiconductors which are mostly imported, other components are readily available in Chinese market. In contrast, the required strength to support telecom equipment manufacturing was absent in India's electronics industry.

Competitive market structure- Competition brings efficiency. Similarly, a healthy competition among firms promotes industrial development. Chinese market structure is more competitive. It has homogenous firms as it is difficult for a firm to achieve a dominant position in the market. On the other hand, The Indian market structure is not homogenous as it is concentrated within hands of few players. Thus, India is unable to enjoy the positive aspects of competition.

Barrier to entry- the presence or absence of barriers to enter in an industry is a very important feature of any industry. Barrier to entry have been relatively low in China. In 1980s, Chinese local governments set up firms and in addition to that there were many firms which have transformed from defence industry to communications and electronics market. Whereas there was presence of barriers for the local new entrants in India, it is considered that partial liberalization gave incumbents and large-scale firms some preferential position in the industry which acted as a kind of entry barrier. These barriers also limited competitiveness of telecom industry.

Tax incentives – tax incentive is one of the important variables affecting supply side of an economy. Tax incentive reduces production and distribution cost and lead to favourable condition for profit generation. China has lower tax rate, which lead to lower production cost and made member of these industry more competitive. China has world-class industrial parks that provide tax incentives to firms located therein, which reduces their production cost and make them more competitive. The corporate tax rate in China is lower than that applicable in India and many other nations.

Labour cost – The availability of labour at cheaper cost adds to the stream of positive points which are experienced by China. China's hourly manufacturing labour rates are far below the rates in Japan and Taiwan. When we compare the labour rate in India with labour rates in China, we came to know that India has a slightly lower labour rate than that of China. But India's low labour productivity nullifies this advantage to a large extent.

Foreign direct investment- There is a strong relationship between foreign investment and economic growth. Larger inflows of foreign investments are needed for the country to achieve a sustainable high trajectory of economic growth. In India, the foreign direct investment policies are such that the actual inflow is attracted more towards telecommunication service industry rather than the manufacturing equipment industry. similarly, this trend is spread over many countries.

Structure of the country - The structure of both the nations are different. If we look from the point of view that which sector contributes maximum towards Gross Domestic Product (GDP). India is a service-driven economy with services sector contributing approximately 60 percent share in country's GDP. In comparison, China with its huge base in manufacturing is known to be the factory of the world. Thus 'engines of growth' are different for India and China. There is also a difference between introduction of economic reforms in these two nations. In China, economic reforms started in late 1970s, whereas India adopted full liberalization policy only during 1990s. No doubt economic reforms have played a key role in promoting growth in both the countries. But its impact on industry and overall

economy differ significantly between these countries due to differences in nature, speed and duration of reforms. The fact that the ratio of secondary industry including telecom and electronics to the whole economy in China is much higher than that of India, also reflects the same difference among nature of two nations.

The above mentioned points symbolise that it is not the case that China is exogenously better than India. These two countries differ from each other on many different platforms.

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