



Telecom sector of Pakistan: Potential, challenges and business opportunities



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ABSTRACT

Pakistan has exercised major developments recently in the Telecom sector. The main focus is to extend maximum benefits to the general user in terms of having accessibility to the modern services and better quality of service as a result of competitive environment amongst the network operators. The international investors also have directly contributed towards the economy as a result of which further horizons for exploring and improving the broadband market have emerged. In this paper, we have presented the growing telecom access and statistics, investment opportunities in the sector, modern applications and the broadband developments in line with the changing orientation of the telecom industry of Pakistan.

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1. Introduction

The global telecommunication sector has remained outstanding during the last decade, primarily due to technological advancements and growing trend of smart phone usage. In the same manner, Telecom sector of Pakistan has also grown mainly due to trade and investment liberalization, favorable policies and healthy competition ([The future of Pakistan's mobile phone industry: bright or bleak?, 2014](#)). The de-regulation and privatization of *Pakistan Telecommunication Company Limited* (PTCL) in 1997 resulted rapid expansion in network coverage and subscriber base of cellular industry. Government of Pakistan also supported the Telecom sector through tax relief of the activation tax, import duty and regulatory charges on import of mobile handsets. In the period of 2005–2008, Pakistan was ranked as most promising country for telecom growth according to *Business Monitor International* (BMI) ([Key Telecom Growth Market, 2006](#)). The huge investments by some successful telecom giants like Orascom, Etisalat, Telenor, China Mobile and Singtel vindicate this perception.

Due to rapid advancement in Mobile and telecom technologies, the lifecycle of personal communication is changing. The concept of using a utility on any device, anywhere by any network is rising. More and more GSM and internet enabled Tablet PCs and other mobile devices will be used during the next 10 years. According to PTA "Vision 2020", the competitiveness in Telecom sector would be measured by improved *Quality of Service* (QoS) in the Telecom system ([Telecom sector remains a potential window for FDI, 2011](#)).

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2. Telecom growth potential

The telecommunication sector has brought significant fiscal, social and economic benefits to Pakistan during the last decade. Its subscriber base has skyrocketed, reaching 137.7 million in April 2014, from only about 0.3 million in 2000 and 34.5 million in 2006. The Cellular teledensity is also grown up to 75.6% from that of 22% in 2005–06 as illustrated in Fig. 1 (Telecom Indicators, 2014).

Pakistan has been an investor's heaven especially in Telecom sector for the last few years. The telecommunication sector attracted more than USD 7.14 billion *Foreign Direct Investment* (FDI) between 2003 and 2012 while the telecom investment was more than USD 15.14 billion, generating revenue of USD 29.62 billion as well as thousands of jobs (PTA Annual Report, 2013, page 14). The graph shown in Fig. 2 illustrates the FDI and telecom investment data during the past decade (Telecom Indicators, 2014).

Telecom sector is one of the highest contributors to the National Exchequer. During the fiscal year 2012–13, Telecom sector contributed Rs.124 billion to the National Exchequer. *General Sales Tax* (GST) forms the major part of the contribution with Rs. 57.78 billion collected by *Federal Board of Revenue* (FBR) from Telecom sector. A huge sum of Rs. 53.52 billion has been paid by the telecom operators under various heads such as duties, withholding tax, fees etc. PTA has also received Rs. 6.8 billion from the operators under various regulatory heads and deposited into the National Exchequer till March, 2013 while Rs. 7.52 billion was collected under the Activation Tax head (PTA Annual Report, 2013, page 15). The major driving factors for this development were:

- Privatization of Pakistan Telecom Corporation into PTCL.
- Investment of cellular companies like Warid, Telenor and China Mobile.

The international research companies still consider Pakistan as an attractive market having huge portion of unmet demand in many areas that have business potential. Content service providers, Banks and Telecom operators are eager to introduce latest technologies like mobile banking and other 3G services in Pakistan (Telecom sector remains a potential window for FDI, 2011; Malik et al., 2009).

3. Challenges

Following the boom period, FDI continuously fell in the later years and at the closing of FY 2010–11; it was standing at merely USD 79.1 million and now it is on the negative side for the past 2 years. The continuous decrease in FDI for the last 4 years is primarily due to saturation in mobile market. The cellular operators have already invested in their infrastructure and now they are trying to just reap what they harvested. Political uncertainty in the country has also kept away the foreign investors to invest in Pakistan (PTA Annual Report, 2013, page 16).

The negative FDI of USD 408 million during the FY 2012–13 can possibly be turned around by conducting 3G/4G spectrum auctions to introduce new technology and resultantly bringing substantial foreign investment into the country. Currently, there are almost 1.876 billion 3G subscribers worldwide, which is about 26.6% penetration. Pakistan, with around 132.3 million mobile subscribers is amongst the top 10 countries that have more than 100 million mobile subscribers, as illustrated in Fig. 3. All of the other countries in that list have already implemented 3G services but Pakistan is yet to finalize the decision

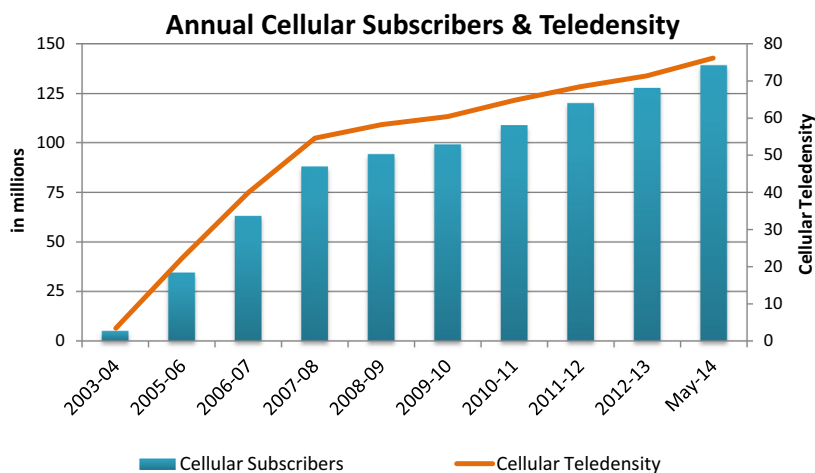


Fig. 1. Annual growth of cellular subscribers and teledensity.

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