

CHAPTER 1

INTRODUCTION

Background and Objectives

The report is based on a group research project where three students of University of California at Berkeley, Hazem Galal, Kevin Palans, Natasha Skok and the writer of this paper of University of Malaya (Tan Kang Yap) were the main researchers.

The group concentrated its efforts on extracting critical information from key Malaysia government officials, competitors and potential telephone service consumers residing in rural Malaysia, to assist in the assessment of cost competitiveness, political receptivity to the product, and end-user demand and ability/willingness to pay for telephone service.

Telecommunication and Economic growth

Malaysia's economic growth has joined the ranks of the

world's newly industrialized economies through the creation of an advanced export-oriented economic structure based on a modern agricultural sector in tandem with a vibrant manufacturing sector. Malaysia now has its sights set on achieving the status of a fully developed nation by the year 2000. Towards this aim, the Government has made high annual growth rates in GDP an overriding priority. In recent years, a free market economy has been promoted where the private sector represents a major engine of growth.

By 2020, the Government estimates that GDP will grow from a current level of approximately RM150 billion to about RM920 billion, at a sustained growth rate of 7% per annum, while per capita income is expected to rise from RM6,180 in 1990 to RM\$26,000 (at the 1990 price level) qualifying Malaysia as a high income country. Clearly, growth and advancement of Malaysia telecommunications is critical to the realization of these advances.

The Malaysian Government has long recognized and openly acknowledged that telecommunications is a catalyst for the development of the nation's industrial and commercial sectors. Accordingly, within the government's strategic plan

for the becoming a fully developed nation by 2020 (officially called Vision 2020), aggressive plans for the rapid proliferation and technological advanced of telephone service in Malaysia have been formulated and formalized in significant detail. The information contained therein provides a wealth of information on current and future governmental policy leanings for telecommunications in Malaysia.

Background on Telecommunications in Malaysia

In 1987, Malaysia restructured telecommunications service provider, Telekom Malaysia, to encourage technological advancement and increase telepenetration through competition. The restructuring included privatization of service operations, with the incorporation of Telekom Malaysia and the establishment of a telecommunications regulatory body known as Jabatan Telekom Malaysia (JTM) within the Ministry of Energy, Post and Telecommunications (ETP). The Ministry of ETP is responsible for telecommunications policy formation, as well as for planning the pattern of growth and long term direction of the telecommunication sector. JTM

is responsible for regulating the telecommunication sector, with licensing and enforcement duties, and encouraging competition. It should be noted that although shares of Telekom Malaysia equity are commonly traded on the Malaysian stock exchange, the government is still the major shareholder in Telekom, with 75% of the total of standing shares. Accordingly, government influence on the business activities of Telekom Malaysia remains quite high.

Despite the introduction of competition and the allotment of several licenses for telecommunications provision, Telekom Malaysia is still the main telephone service provider in the country. As Telekom owns the Malaysian landline telephone service infrastructure, the company continues to enjoy a natural monopoly for basic traditional telephone services: telephone, telegram and telex. (This is set to change when Binariang exercises its option to compete in domestic traditional telephone provision).

The Malaysia Cellular Telephone Competition

The Malaysia government initially opened up the cellu-

lar phone industry to competition by granting a license to CELCOM, a wholly-owned subsidiary and the flagship company of Technology Resources Industries (TRI). At the time, Telekom Malaysia held a 51% equity stake in Celcom. Celcom now represents the country's leading and most advanced cellular telecommunications company. Telekom Malaysia divested its share of Celcom in exchange for a promised license for 800 MHz spectrum to use for a new mobile cellular system (though when the license was finally granted, Telekom Malaysia was only given a 30% share of the consortium formed to operate the new system). The government subsequently awarded two additional licenses for cellular service provision to further enhance competition and penetration of mobile cellular phones. For the past five years, Celcom has had a virtual monopoly in the mobile market, since the only other provider was Telekom with its ATUR 450 mobile system which was first introduced in 1985, the services for which are both more expensive and of inferior quality to either the Art 900 (Celcom) or the Mobifon 800 system, hence ATUR 450 mobile system is clearly on the road to extinction.

The two new cellular service providers will be Mobikom (Mobifon) and Binariang. Mobikom is a consortium of Telekom

Malaysia (30%), PNB (30%) EON (30%), and Sapura Holdings (10%), which started operation of its Mobifon 800 service in July of 1984. Nationwide coverage is scheduled to be achieved by the end of 1994. The system is run on a dual analog/digital TDMA technique to provide a smooth transition to fully digital service and currently being used by some 60% of the world's cellular operators.

In January 1993, Binariang, a locally incorporated private company, was granted the most exhaustive set of licenses of any telecom service provider in Malaysia. A total of four licenses were given, covering all the activities currently performed by Telekom Malaysia. Specifically, the company has been licensed to develop a fixed national and international network, to offer a mobile cellular operators worldwide, to be the first digital system in Malaysia, and to operate a satellite service. The company is expected to attain nationwide coverage by 1996.

Additionally, two companies, Electronics & Telematics and MRCB Telecommunications, have been awarded licenses to provide Personal Communications Network (PCN) service, and Syarikat Telephone Wireless has a trial license

for a experimental cellular technology-based fixed wireless telephone service, which has already been successfully deployed on Pulau Langkawi.