India & Global Digital Economy

By :

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The global digital economy crossed an important milestone recently: the number of internet users in and India are 500 million users – surpassed the aggregate number of internet users across 37 OECD countries combined.

In india, users spend more time on the internet than the worldwide average of 5.9 hours per day. They also have room to grow India, with one of the lowest rates of internet penetration in the world, has under 25% of its population online as India is on track to become the youngest country in the world by 2020 and its digital economy is expected to balloon from $413 billion today to $1 trillion dollars by 2025.

There are barriers to entry for foreign players in India however, India is technically, open for business. Top U.S. companies are investing heavily in India — as are Chinese companies, such as Alibaba and Tencent. However, India presents barriers that are less visible. Consider two examples:

Languages: Language poses a high barrier to entry or growth for any company. Less than 100 million out of India's 700 million literate population can read or write English. There are 32 different languages with a million-plus speakers each across India, whereas in China, Mandarin is understood by the majority. In India, 90% of the country's registered publications do not have a website because of language barriers and 95% of video consumption is in local languages. It is essential to crack at least five Indian languages to truly break into this market.

Protectionist policies: India's protectionist agenda is in the form of regulations and red tape. For example, a recently proposed Indian government policy on e-commerce and a similar order from the country's central bank seeks to prohibit data on Indian e-commerce consumers from being stored outside India. Many international players view this as favoring homegrown digital companies and a case of India borrowing from China's playbook, that mandates local storage of Chinese user data considered "sensitive".

Meanwhile, India's government also has ambitious objectives for the country's digital economy. India's authorities have been focused on the fundamentals — on low-cost access to digital tools and on creating an open and inter-operable infrastructure. The country has embarked on a broad Digital India initiative that encompasses everything from broadband "highways" to e-governance to digital literacy. There are also plans to establish 100 "smart cities" across India in collaboration with public agencies and private companies.

India has a citizens' database. The aspirations for such a database were to establish a universally accepted form of identification to promote inclusive access to a variety of services in a country where many are excluded because of a lack of key documentation. As

the core visionary behind this initiative, technology pioneer and Infosys co-founder, NandanNilekani, writes, the essential idea was to "empower users with the technical and legal tools required to take back control of their data."

Nilekani led the initiative that produced such a system, Aadhaar, which has enrolled 1.2 billion citizens. Aadhaar has become the foundation for an "India stack", the world's largest API that allows any enterprise, private or public, to build services and linking them to each individual's unique identity.

In India, Aadhaar had increasingly become mandatory for privately offered services, such as mobile communications, banking and airline bookings as well as government programs, triggering concerns from consumer privacy and advocacy groups. The Aadhaar database itself has not proven to be secure and there were worries about both commercial abuse of data and government surveillance of citizens. As in China, India has also entertained proposals to add facial recognition to the database. The mandatory aspect of Aadhaar was re-visited after being legally challenged and the country's Supreme Court has ruled that while the ID system is constitutionally valid and is required as proof-of-identity for government programs, it cannot be mandated for private services, making it harder for companies to authenticate their customers.

Companies looking to enter either of these markets will need to be prepared to navigate a digital landscape being actively shaped by the government. They will also have to contend with some difficult privacy issues; in China the rules of play on these issues are clearer, while in India the rules can change with political turnover, as well as the outcomes of legal challenges and citizen advocacy.

India is one of the key contributors to the world's growing middle class. There are measures that suggest that India might play a major role in growth of middle class world over. India's middle class (defined as $11 – $110 a day in 2011 purchasing power parity terms) is expected to exceed that of China's by 2030, according to the OECD and Brookings. Simultaneously, India's high growth rate of 7.7% in the first quarter of 2018, continues to maintain its position as the world's fastest-growing large economy. Some India-enthusiasts argue that its demographic advantage and democratic political system will prove beneficial over the long-term in catching-up with state-controlled China.

Going forward, there may be three scenarios,First, if India were to pick up China's momentum, it would reach China's current level of digital evolution by 2029.

Second, if India could achieve 3% growth annually across several drivers, it could achieve a momentum by 2022; these drivers are: physical infrastructure, government facilitation of the ICT sector, digital access, use of digital money and payments, national investment in R&D.

Third, if India could accomplish the following combination of growth rates, it could beat China's current state of digital evolution by 2024.

This analysis suggests that narrowing the digital gap is within India's reach. Investors consider that India's digital economy could even be fastest growing economy in the world.