

Investment in Digital Economy

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PRELUDE:

Breaking new ground by deploying solutions for rapid, sustainable, and resource-efficient growth; a play-to-win approach by young and growing nations seeking a radically different development path; a phrase denoting small steps by millions of people that can culminate in a giant leap forward for their nation; a phrase that citizens, entrepreneurs, business leaders, investors and government leaders associate with a ‘once-in-a-lifetime opportunity’ to lift millions into prosperity; an approach that industry leaders can use to build new capabilities for profitable growth; a state of mind focused on possibilities while recognising roadblocks in solving a wide set of challenges facing a nation.

What is Digital Economy?

Digital economy is defined as an economy that focuses on digital technologies, i.e. it is based on digital and computing technologies. It essentially covers all business, economic, social, cultural etc. activities that are supported by the web and other digital communication technologies.

The term was first coined in a book “The Digital Economy: Promise and Peril in the Age of Networked Intelligence” by author Don Tapscott in 1995.

There are three main components of this economy, namely,

e-business

e-business infrastructure

e-commerce

In the last 15 years, we have seen the tremendous growth of digital platforms and their influence on our lives. Now consumers are influenced by things they see on social media (Facebook, Twitter, Instagram) and other such popular websites (youtubeetc).

So this economy is a way to exploit this opportunity. Now it is integrated into every aspect of the user’s life – healthcare, education, banking, entertainment etc.

Merits of Digital Economy

Digital economy has given rise to many new trends and start-up ideas. Almost all of the biggest companies in the world (Google, Apple, Microsoft, Amazon) are from the digital world. Let us look at some important merits of the digital economy.

1. Promotes Use of the Internet

If you think about it, most of your daily work can today be done on the internet. The massive growth of technology and the internet that began in the USA is now a worldwide network. So there is a dramatic rise in the investment on all things related – hardware, technological research, software, services, digital communication etc. And so this economy has ensured that the internet is here to stay and so are web-based businesses.

2. Rise in E-Commerce

The businesses that adapted and adopted the internet and embraced online business in the last decade have flourished. The digital economy has pushed the e-commerce sector into overdrive. Not just direct selling but buying, distribution, marketing, creating, selling have all become easier due to the digital economy.

3. Digital Goods and Services

Gone are the days of Movie DVD and Music CD's or records. Now, these goods are available to us digitally. There is no need for any tangible products anymore. Same is true for services like banking, insurance etc. There is no need to visit your bank if you can do every transaction online. So certain goods and services have been completely digitized in this digital economy.

4. Transparency

Most transactions and their payment in the digital economy happen online. Cash transactions are becoming rare. This helps reduce the black money and corruption in the market and make the economy more transparent. In fact, during the demonetization, the government made a push for online transactions to promote the web economy.

INVESTMENT AND THE DIGITAL ECONOMY:

The digital economy is a key driver of growth and development. It can provide a boost to competitiveness across all sectors, new opportunities for business and entrepreneurial activity, and new avenues for accessing overseas markets and participating in global e-value chains. It also provides new tools for tackling persistent development problems.. The opportunities and challenges associated with the digital economy are particularly important for developing countries. The digital economy has important implications for investment, and investment is crucial for digital development. The adoption of digital technologies has the potential to transform the international operations of MNEs and the impact of foreign affiliates on host countries. And digital development in all countries, and in particular the participation of developing countries in the global digital economy, calls for targeted investment policies.

The government is on a mission to digitise the Indian economy. Amendments to the Foreign Direct Investment (FDI) policy to increase FDI inflow. Increased smartphone penetration, implementation of biometric identification system (Aadhaar), Goods and Services tax (GST), real-time payment interface - Unified Payments Interface (UPI) along with financial inclusion measures like 'Jan DhanYojna', have been the major pegs of India's digitisation story.

Together, these factors pose a promising opportunity for India to be the third-largest economy in the world with a gross domestic product (GDP) of \$6 trillion [Source: Morgan Stanley studies]. The underlying theme of all the above measures is digital.

The penetration of internet and other breakthrough technologies such as Artificial Intelligence (AI), Big Data and Internet of Things (IoT) into our lives, coupled with the adoption of digital media, has put India on a transformational journey to become agile and be future-ready. Touted as the fourth industrial revolution, this digital shake-up aims to build a future offering an all-pervasive connected experience.

India's digital index rose by 56 percent during 2014-2017, from 18 to 29 on a scale of 1-100. This has placed the country second in terms of growth among 17 emerging and mature digital economies, according to McKinsey Global Institute (MGI). A robust digital infrastructure will help in driving India's digital dream of becoming a trillion dollar digital economy.

India's digital story: Push from the Government - A major enabler

Our country has seen a massive uptake in digital penetration on the back of the Government's three-pronged strategy to pursue the transformational journey. This includes launch of customer-focused initiatives like 'Jan-Dhan', 'Aadhaar', enhanced mobile connectivity, and the availability of data at low price points, thereby involving its people in shaping the future.

Innovation in communication technology has helped in bridging literacy barriers, enabling the neighbourhood kiosk owner to transfer funds into his parents' account in a far-flung village. Low-cost internet and easy internet access has led to rise in the number of internet users and has been a key driver of digital content. The 'Network of Future', 5G will be a massive game-changer with greater speeds and enhanced connectivity.

The tech revolution powered by new discoveries in Artificial Intelligence, the Internet of Things and Machine Learning has opened new vistas of opportunities for India in terms of innovation, digitisation and automation. Entrepreneurs, CEOs/CTOs of large organisations and start-ups are rapidly adopting technologies involving AI, IoT, 3D-printing, advanced robotics and neuroscience, and embedding them into the various sectors such as healthcare, banking, aviation, communication, e-commerce and entertainment. Businesses are tweaking the role of IT functions to develop products and services to stay competitive and relevant in this connected world.

The widespread adoption of digital technologies by the Government has paved a path of unstoppable progress for our country to become a trillion dollar digital economy by the year 2020* (*Reference: Department of Economic Affairs*).

The foundations are in place for a digitally inclusive economy. What the country now needs is institutes that cater to research in AI, robotics, data sciences, and IOT amongst other new age technologies. We need to encourage the development of marketplaces for small and medium businesses (SMEs), and help them to embrace digital.

Sustaining the digital economy - the way forward

In this digital landscape, deep learning, unlearning and adapting to a new normal will hold the key to the success. We need to grow organically and be profitable on a sustained basis. We need to align our resources and energies at a national level to make our mark as a trillion-dollar digital economy by 2022. While we have the infrastructure, technology, funds and talent in place, achieving this goal will require concerted actions from all stakeholders. It will depend on how smartly we can leverage new-age technologies.

Role of Private sector in making India move forward for a Winning Leap

India's private sector—established corporations and entrepreneurial companies alike—can play a key role in developing and deploying Winning Leap solutions. Given their experience with globalisation, these companies are well positioned to learn from and experiment with best practices developed by their global peers. International companies looking to participate in high-growth markets are equally well equipped to develop relevant solutions. This growth journey will also require public-private partnering in its broadest sense. To support progress in a number of sectors, the government will need to continue building national platforms such as improved roads, ports, and physical connectivity as well as better digital infrastructure. If India can achieve a 9% per year growth trajectory, its economy would become the world's thirdlargest in 2034, after the US and China. This achievement would create world-class companies originating in India that develop capabilities essential for other high-growth markets as well. These companies could successfully serve India's already large and growing domestic market while also competing on the global stage. It is anticipated that at least **ten** Indian companies will find a place among the global top 100 by size and scale if the nation can achieve its US\$10tr GDP aspiration. These industry champions will not only demonstrate unprecedented growth themselves but also build new capabilities essential for ongoing innovation of new products, services, and business models.

To foster the emergence of such world-class Indian companies, India's private sector will have to invest more in research and development (R&D), particularly for solutions to challenges facing emerging markets, where India has already established a leadership position. Indeed, our economic model shows that India will require an increase in R&D spending from 0.8% of GDP to 2.4% in 2034. Future of India lies in serving informed and empowered customers as information grows (in both access and volume) and Indian consumers and businesses are more able to apply this information in their decision making, they become more empowered. And with their increased empowerment, they will demand ever more value from the products and services they buy—including greater quality and convenience. Companies will need to rethink their business models and competitive strategies to profitably serve these customers. Creating flexible and adaptive operating models to reach these more demanding customers, where Indian companies must build new kinds of operating models, such as asset-light models; experiment with unconventional sales and distribution channels; and leverage technology in new ways. Drawing on nontraditional resources and partnerships to acquire or build capabilities needed to drive growth, Indian companies can import knowledge and technologies through models such as licensing and forge partnerships with the government and social-sector organisations. Adopting a growth and innovation mind-set, Indian companies must weave a commitment to growth into their corporate DNA by fostering companywide awareness of consumers' needs, investing enough in R&D, and unlocking entrenched organisational structures and attitudes that are inhospitable to new solutions, new business models, and new approaches. Focussing on accountability, integrity, and sustainability To drive rapid growth, Indian companies will need to align their top management and board to make everyone accountable for growth, embed integrity into their organisational culture, and uphold sustainability and social impact as core values of the organization . Large, established entrepreneurial companies in India can play a critical role in developing and deploying Winning Leap solutions. Indeed, the large Indian companies of tomorrow will emerge from the entrepreneurial sector of today.

THE FUTURE AHEAD

“India can create up to \$1 trillion of economic value from the digital economy in 2025, up from around \$200 billion currently”

As of now India is the second-fastest digitizing economy amongst 17 leading economies of the world, according to the report's Country Digital Index, that is based on 30 metrics to measure digital adoption in 17 mature and emerging digital economies, including Brazil, China, Indonesia, Russia, South Korea, Sweden, and the United States. India's inclusive digital model is narrowing the digital divide within the country and bringing benefits of technology to all segments of people.

Half the potential economic value of \$1 trillion in 2025 could come from new digital ecosystems in diverse sectors, including financial services, agriculture, healthcare, logistics, jobs and skills market, e-governance and other areas..

The findings of ‘**India's Trillion-Dollar Digital economy**’, a new report by the Government of India's Ministry for Electronics and Information Technology (MEITY), takes stock of the massive digitally-enabled change that is underway and lays out a vision and roadmap for the coming years. The fact-based report is a collaborative effort, with data and inputs from a wide range of government, business and civil society entities, undertaken over the past year.

Even within India, the digital divide is narrowing fast, as less affluent states leapfrog to catch up with more affluent ones on dimensions such as internet subscriber growth, density of internet infrastructure, and Common Service Centres.

On the back of rapid progress in internet infrastructure and usage, **thirty digital themes can be scaled up nationally to accelerate progress in nine priority areas**. The report lays out a roadmap for Digital India 2.0, and outlines the enablers required in nine strategic areas, ranging from creating 21st century IT infrastructure and software capabilities, to using digital to serve key national priorities, such as healthcare, education and energy for all, doubling farmers' income, Make in India, next-gen financial services, jobs and skills of the future, and e-governance. These themes can help create up to \$1 trillion of economic value in 2025, and empower millions of workers, entrepreneurs, small and large businesses, and consumers in rural and urban parts of the country.

India's digital economy of the future could generate productivity and output sufficient to support 55 million to 60 million workers in 2025.

Digital technologies fundamentally change work and create demand for new types of skills and job roles which results in further augmentation of high productivity, highly skilled jobs. Aside from digital coders and solution providers, many types of work will become digitally-enabled and necessitate workers to be trained as users of digital technologies. For example, delivery personnel and drivers in the logistics and transportation sectors, healthcare workers, or advisory service agents in areas such as financing and agriculture, will all need retraining.

With a strong foundation of digital infrastructure and expanded digital access through Digital India Programme of the Government, India is now poised for the next phase of growth — creation of tremendous economic value and empowerment of citizens as new digital applications permeate sector after sector.

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