

# REFORMING INDIA'S DIGITAL POLICY

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Foreign Capital, Foreign Trade & BOP

With COVID-19 continuing to extend its reach globally, economic growth has plunged, and the competition for foreign investment is intensifying, spurred on by national campaigns to shift supply chains and the urgent necessity to reverse recessionary trends. Foreign direct investment (FDI) is falling and the immediate picture for many countries is not looking pretty. The United Nations Conference on Trade and Development just released its latest World Investment Report and projected that FDI to developing Asian economies could drop by as much as 45%.

One sector that is expected to buck this trend is digital services. Now more than ever, it is clear that digital services have become critical to every 21st century economy. Quite literally, digital services are filling gaps when national or global emergencies interrupt more traditional modes of commerce. Digital services enable access to and delivery of a wide array of products across multiple sectors, from healthcare to retail distribution to financial services.

Even in the midst of the COVID-19 pandemic, investments in digital services continue to flow at record levels globally, outpacing investment in nearly every other sector. India is an ideal destination for increased FDI flows in the digital services sector and offers undeniable potential for innovative homegrown start-ups not least because of its huge and increasingly digitised population. However, Indian government policies will be key determinants in how quickly and at what level the Indian economy attracts new investment, fosters Indian innovation, and expands its exporting prowess.

Currently, there are three pending reform measures under consideration that are likely to affect India's growth trajectory in digital services for years to come — the Personal Data Protection Bill (PDPB), the e-commerce policy, and the Information Technology Act Amendments. Approaches in these regulatory reform efforts seem to emphasise a focus on protecting the domestic market for domestic companies and prioritising government access to data. It may be difficult to reconcile these approaches with India's strong interest in promoting data privacy, protecting its democratic institutions, and encouraging FDI and India's position as a global leader in information technology. Understandably, there is uncertainty about when these changes will be completed and implemented.

Also, the course of the India-U.S. trade relationship is uncertain, as signs of progress are continually interrupted by setbacks in the form of new restrictions.

The bilateral relationship is an important factor in realising the potential for greater trade and investment in digital services. The strategic relationship has been growing, reflecting how their historic ties have evolved over time. Where the relationship has lagged is with respect to trade. India and the U.S. are yet to conclude negotiation on a bilateral trade agreement that could address some digital services issues, and the U.S. just initiated a "Section 301" review of whether digital services taxes in 10 countries constitute "unfair" trade measures, including India's equalisation levy.

As India resumes its efforts to put into place a new architecture for digital services and as it pursues opportunities to attract new investment, the government and stakeholders might consider the full range of implications for the long-term. How might new policies affect India's ability to attract foreign investment? How might these policies promote innovation through

increased competition and create an environment that is friendly towards homegrown start-ups? Ultimately, what policies can best advance the objective of becoming a \$5 trillion economy?

India will be host of the G20 nations in 2022, and it appears clear that post-COVID-19 international cooperation and approaches to good governance in the digital sphere will be top-priority initiatives. The steps India takes now could well establish itself as a true global leader.

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