



The Political Economy of the Digitalization of Indian Economic System :Challenges and Issues

V. P Rakesh

Department of Political Science, NAS College, Meerut

KEYWORDS

There is a broad consensus that to rescue large number of Indians out of poverty and move on the ladder of development, India need to grow at annual rate of 8 to 9 percent for at least two decades, till India raises its GDP from \$1800 to \$8000 (Rangarajan, 2014). In this context, various models are being debated. For example, some experts argue that after China's slippage, India should follow the path of manufacturing led industrialization. The other model being suggested for India is to emulate the export led economic growth model implemented by East Asian Nations. Among these two models although there are strategic differences, the idea is to take advantage of cheap labour available in the country and external market. However, looking at the short term and medium term world economic scenario both the models appear to be less feasible. The recent growth trends of some important economies of the world indicate that global economy may experience asymmetric stagnation marked by slower growth in emerging market economies and stagnation in developed economies. The other important issue that militates against these models is the increasing economic tensions between Emerging Market and industrialized economies (Palley, 2011). Moreover many countries in terms of low-cost-labour-intensive manufacturing are in competition with India. It is true that the labour cost in India is lower than in China but is far higher than in countries such as Bangladesh and many other countries of Africa. The democratic system and market orientation of Indian economy does not allow India to adopt many tactics which gave competitive edge to China like restrict the right to form union labour, restriction on movement of people, restriction of choice of family size and manipulating the foreign exchange value of currency etc., etc. Committed to democracy, India can not suppress the voices of dissent and overlook the pressure groups. The other important issue in the choice of the paradigm of development is, the contours of world economy are changing radically since the great recession (2008). The world economy especially the developing world is recovering very slowly from the recession and there are meagre chances in near future that it will again attain the pre-world financial crisis 2008 status. The great recession of 2008 and its aftermath has demonstrated that despite several utterances the benefits of globalisation have not adequately percolated down to the masses. The workers of the developed world are putting stiff resistance to outsourcing activities. The movement of finance is also being questioned. These are the indications that the process of globalisation, though will not revert but for sure its speed will slow down considerably. As BREXIT has shown that the demand for protectionists in the near future will become more vociferous. The demographics of the developed world indicate that it is ageing, therefore these economies will have less demand in general than they witnessed earlier. These changes reduce the feasibility of export led growth models. The other noticeable change is taking place in developed economies in general. Keeping these facts into consideration many countries, specially the large one like China and others are seriously contemplating for domestic demand led growth in which economic activities are driven by modern technology – in which of course, and the business size organization will be kept small for efficient management of knowledge workers and world economy in particular.

The economic structure of India, which is constantly undergoing changes, some of which have been summarized below also suggest that future growth model of India will also be essentially based on domestic consumption, service led and will be dominated by small firms. The structural changes that have been ushered by economic reforms resulted in the decisive break from the slow growth rate of Indian economy. The recent policy changes especially the economic reforms measures like improving ease of doing business, GST, and emphasis on infrastructure and digitisation of economy will further consolidate the growth process. It is expected, that with increasing GDP growth rate and slowing population growth rate, per capita income will accelerate. For instance, for first forty years (1950-51 to 1990-91) the per capita income grew at an average annual compound growth rate (AGGR) of 1.91 percent, and which in the decade 1990-91 to 2000-01 increased to 3.47 and further accelerated to 5.73 percent between 2000-01 to 2010-11. At the other end the population growth rate has declined from 2.3 percent per annum in 1971-81 to 1.33 percent in 2001-11 (The World Bank, 2016). This increase in per capita income will create huge demand. This demand will not only be of basic commodities but of services as well and that to be of better quality like education, health, sanitation, financial services, communication etc. Another significant change is that although commodity producing sector though growing but its share in GDP is constantly declining. The share of service sector is increasing to the extent that it is now around 60 percent of GDP. Within the service sector there have been structural changes now, the activities which require advanced technology, IT and digital, for example, insurance and services are growing much faster than any other sector. With economic reforms initially the consumer goods industry registered high growth rate viz-a-viz capital goods industries and others but gradually the growth rate of capital and basic goods have also picked up. The contribution of commodity producing sector but that agriculture and industry sector has grown much less than it was in 1950s and 1960s, but their contribution in growth rate has also come down and that of services has gone up considerably.

The share of private sector in the economy is steadily growing for example in early 1990s, it was around 74 percent which has increased to about 80 percent in 2011-12 and this trend will increase a little further (RBI Statistical Handbook on Indian Economy, 2016). Indian agricultural sector is also undergoing a rapid transformation and gradually shifting to the commercial products like milk, meat, sugarcane, tobacco etc. and gradually understanding the fluctuations of the market and adjusting to it. Private sector companies like ITC are encouraging its transformation and link with digital economy. The above analysis indicates that Indian economy is increasing transforming into service led economy which by and large transforms itself into knowledge economy and eventually into knowledge society, which is essentially, a society in which knowledge and innovation is not a privilege of few but premeats in cross section of society. For knowledge economy skill formation and return for which digitalization is the key.

However it is worth to mention that development of knowledge economy faces serious shortage of skills in all the three sphere of skill development i.e. access, equality and quality. Access relates to expanding the gross enrolment rate which is still lower than other countries. For example, in India Gross Enrolment Ratio (GER) in higher education is just 21 percent. Equity is important so that vulnerable groups can enter higher education. However the GER of Scheduled caste (SC (and schedule tribe (ST) is about 15 and 11 percent respectively. The GER of girls in general (19 Percent) is less than boys (22 percent) but in case of SC and ST the enrolment of Girls is just about 14 and 10 percent vis-à-vis GER of boys being 16 percent and 12 percent GER, respectively (MHRD, 2016). As far as quality is concern no tangible data are available but large number of entrepreneur feel that most of the graduates are unemployable. For example, the Earnest and Young (2012 p.2) report quoting the World Economic Forum indicates that only 25% of the total Indian professionals are considered employable by the organized sector (Ernst & Young and FICCI, 2012). And the size of organized sector is not very large as it employs about 6 to 10 percent of the total workforce. The Talent Sprint estimated that by 2020 only 27% of 7.5 million fresh graduates will be employable. A tragedy indeed and huge waste of human and financial resources. Therefore this issues need to be addressed on priority.

Digitisation at the most basic level is the process of converting analogue information into a digital format. In a broader context, it is the capacity to use digital technologies to generate process, share and transact information. Rapid progress in electronics, telecommunication and satellite technologies, permitting high-capacity data transmission at very low cost, has brought about the quasi neutralization of physical distance as a barriers to communication and as a factor in economic competitiveness. Digital information, it is argued that can create a level playing field between haves and have-nots, between rural and urban. Like wise there are evidences that transparent accurate and accessible information enables individuals to make better decisions and impact their economic wellbeing. Digitization allows governments to operate with greater transparency and efficiency – specially can target the beneficiaries of government programmes accurately, share information with stakeholders in transparent manner and at lowest possible cost and effectively monitor and evaluate various policies.

Indian economy as mentioned above is steadily transforming in to a knowledge economy with third largest technical manpower in the world after US and China. The process and level of digitization by virtue of its all pervasive impact is bound to be an important determinant of this transformation process to knowledge economy. Digitisation is adopted in India like any where else, is in vogue at three levels (a) Utilized by individuals, economic enterprises and societies. (b) Embedded in processes of delivery of goods and services. (c) Relied upon to deliver public services. (Katz, 2015)

As far as penetration of digitization is concerned, mobile phone and its uses can be an important indicator in this regard. Across globe there are more than 5.2 billion mobile phone in use, in this way mobile phone became 'universal' product. Out of these total, about 1 billion, which is about 20 percent, mobile phones are in India. The tel density i.e. number of connections per 100 population are 81.35 in India. (INDIA, 2016) As far as is the story of internet penetration with nearly 451.5 million internet users in 2016. With this figure, India has become the world's 2nd largest market next only to USA. The internet penetration is expected to grow at an annual compound rate of 7.09 percent and by 2021 it will become 635.8 million (www.trai.gov.in, 2016). The third component is growing use of Smart phone. It is estimated that about 25 million smartphones are sold every quarter. The expected annual compound rate of growth of smartphone sale in India is 26.51 percent and by 2019 it will reach 256 million (KPMG in India Analysis, 2016). Presently about 120 million Indian are using internet on their mobile. The process of digitization of Indian economy has come to this level that it

is expected that by 2025 each and every citizen of India will have its own digital identity. It will facilitate authentication and delivery of payments as well as access to government services. The effectiveness of this system can be gauged from the fact that it is estimated that Aadhaar system can authenticate 100 million transactions per day, in real time. Smart phones with integrated Aadhaar compliant Iris recognition has now been developed and could be used commercially. The financial inclusion and social security programmes being initiated by government of India will give boost to digitization process. It is expected that the Goods and Services Tax network (GSTN) will be developed soon and it will process nearly 5 billion invoices every month. Likewise Bharat Bill Pay System (BBPS), and Electronic Toll Collection System (ETC) will be integral to digital development process.

Conclusion:

Despite the progresses there are severe constraints in the process of transformation of India into a knowledge economy. One of the major issues is that India has a poor human development record in terms of health, education, sanitation etc. This slows down technological adoptive process and creates digital divide. The second important issue is that the vocational training in India is also at a very low level. As a result there is a dearth of technical manpower which of course leads to greater attention. Coupled with these problems is the inadequate technical infrastructure which frequently appears in news headlines as menace of call-drop and poor connectivity of internet because of low broadband penetration.

Moreover, there are serious spatial gaps in tele density of India which needs to be corrected. One instance to this is sufficient enough. The average tele density of India is 83.32, but eight telecom circles (Bihar, Assam, Madhya Pradesh, Uttar Pradesh, Orissa, Jammu and Kashmir, West Bengal and North East) have tele density much less than the national average. For instance, lowest is in Bihar which is 54.54. In other states like Rajasthan, Haryana, Andhra Pradesh it is close to national average. In Maharashtra, Gujarat, Karnataka and Kerala either it is 100 or near to 100 but in Tamil- Nadu (118) and Himachal Pradesh (129) it is sufficiently high than the national average. It is only Delhi (234.72) which has a highest tele density almost 2.5 times than the national average. This skewed distribution has to be corrected to make the digitization process inclusive.

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