In Focus: Digital Economy

For Prelims: Digital Initiatives of the Indian Government, **G20**

For Mains: Digital Economy: Significant Impacts, Challenges, Way Forward

Why in News?

Recently, the Ministry of Electronics and Information Technology (MeitY) organised the **second in-person meeting of the** G20 **Digital Economy Working Group (DEWG)** in Hyderabad from 17th -19th April 2023.

- The **first meeting of G20 DEWG was held in February 2023** setting the tone for productive and meaningful deliberations in the future.

What are the Important Things Pointed Out in the Meeting?

- **The Significance and Increasing Scope of the Digital Economy:** The digital economy is gaining prominence and impacting various aspects of economic activity globally. It emphasizes that the digital economy is no longer limited to a specific sector but is permeating every corner of the economy.
- **India's Recognition of the Digital Economy:** India's awareness of the growing importance of the digital economy, is highlighted by its G20 presidency and the meetings held to understand the opportunities and challenges associated with it.
- **The Influence of the Digital Economy on Manufacturing:** It is stated that even traditional manufacturing sectors are being influenced and transformed by the digital economy. This implies that the integration of digital technologies and processes is enhancing and modifying **manufacturing** activities.
- **Three Crucial Aspects:**
    - The importance of developing robust digital infrastructure.
    - The significance of **cybersecurity** measures to ensure the protection of digital systems and data.
    - Need to create and train a **skilled workforce** that can contribute to India's position in the digital economy.

What are the Digital Initiatives of the Indian Government?

- **Major Digital Initiatives:** The Indian government has launched several digital initiatives aimed at promoting the growth of the digital economy. Some of them include:
    - **BharatNet Project:** Aimed at connecting all villages in India with high-speed broadband by 2023.
    - **Startup India Program:** Aimed at promoting entrepreneurship and creating a conducive ecosystem for startups.
    - **The Digital Saksharta Abhiyan (DISHA) Program**: Launched in 2016, aims to make at

least one member of every household digitally literate.

- **E-Rupee and Conditional Transfers:** Recent trend of **e-rupee** and conditional transfers, which are expected to be game-changers for both business and governance.
    - The use of digital vouchers or e-rupee for conditional transfers to **MSMEs (Micro, Small, and Medium Enterprises)** and other segments of the business ecosystem can have a significant multiplier effect on the economy.
- **Financial Inclusion:** About 75% of adults worldwide have access to formal banking services, while in India, this percentage has already reached around 85%. The ability to save, spend, and borrow digitally has macroeconomic implications for a resource-rich country like India, as it allows for tapping into household financial savings and foreign savings to finance deficits for corporations and governments.
- **The** Make in India **and** Digital India**:** These programs have played a significant role in promoting the growth of the digital economy. The Make in India program aims to promote manufacturing in India, while the Digital India program aims to promote the adoption of digital technologies.
    - The two programs complement each other, **with Make in India promoting the production of digital devices, while Digital India promotes the adoption of digital services.**

What are the Significant Impacts of the Digital Economy?

- **Demographic Advantage:** The demographic dividend is also a significant factor in realising the potential of the digital economy to the fullest. For instance, in India, a large population that is proficient in English and technology-savvy has facilitated the adoption of digital systems like the **UPI (Unified Payments Interface)** and **DBT (Direct Benefit Transfer)** leading to positive effects on the economy.
    - **Providing digital content and services in vernacular languages** can enhance **accessibility and inclusivity,** enabling a larger population to benefit from the digital economy.
- **Extension of Various Services:** The digital economy provides an opportunity to re-evaluate and open up the services sector both internally and globally. Many developed countries, including G20 members, have been cautious about liberalizing the **services sector.**
    - However, the digital economy can enable the extension of services like **medical services and educational services.**
    - For instance, the **UMANG mobile app** is a Government of India all-in-one single, unified, secure, multi-channel, multi-lingual, multi-service mobile app.
- **Cross-border Provision of Services:** The digital economy has transformative potential in facilitating cross-border service provision. By leveraging digital platforms and technologies, qualified professionals can offer their services globally, overcoming geographical barriers. This has the potential **to reshape the services sector and bring about significant benefits for both service providers and recipients.**
    - G20 can play a facilitative role in realizing the transformative potential of the digital economy in the services sector. **By encouraging openness and removing barriers** resulting in a more interconnected and efficient global marketplace.
- **Other Significant Impacts:** The digital economy has had a significant impact on the economy and society. It has created jobs, boosted productivity, and **business at the local level,** and enabled more people to access services and opportunities. The growth of the digital economy has also led to the emergence of new business models and industries, such as **e-commerce**, **digital payments**, etc.

What are the Challenges?

- **Addressing Priorities in the Digital Economy:** In the context of the digital economy, there are three priority areas that need to be addressed:
    - **Digital Public Infrastructure**
    - **Digital Skilling**
    - **Cybersecurity.**
- There have been notable achievements in these areas. India has established a robust digital public infrastructure and has made significant progress in digital skilling initiatives. Cybersecurity has also been a focus, although challenges remain.

The **Information Technology Act of 2000** defines Critical Information Infrastructure as a computer resource, the incapacitation or destruction of which shall have debilitating impact on national security, economy, public health or safety.

- **Safety and Security**: However, challenges persist in ensuring the safety and security of digital transactions, particularly in the financial sector. The rapid speed at which transactions occur in the digital realm can be concerning. Correcting errors or addressing fraudulent activities can be extremely challenging due to the swift movement of money.
- **Importance of Skilled Manpower**: Neglecting the development of a skilled workforce in the digital domain can hinder the full potential of digital public infrastructure. Strengthening educational institutions to produce digitally literate workers is crucial to fully leverage the advantages of digital infrastructure.
- **Technological Backwardness**: One of the key challenges is the digital divide, with many people in rural areas still lacking access to digital services. The digital economy has also created new forms of inequality, with some people benefiting more than others.

What can be the Way Forward?

- **Strengthening Transaction Security:** Implementing effective checks and balances is crucial to mitigate these challenges. One positive example is the use of **One-Time Passwords (OTPs)** in India, which provides users with a short window of time to verify their transactions. Such measures help enhance security and provide an opportunity for users to reconsider their actions.
- **Financial Inclusion and Security in the Digital Era:** The connectivity advancements brought about by initiatives like the JAM Trinity **(Jan Dhan Yojana, Aadhaar, Mobile)** have improved financial inclusion, allowing previously unbanked individuals to access digital services. **Internet banking** and ATM transactions have also made banking more convenient.
  - However, each of these advancements carries its own risks, making it essential to ensure that transactions occur in a secure and vigilant manner.
- **Approaches to Enhance Transaction Security:** To address these challenges, various schemes have been implemented. Apart from OTP, some experiments involve changing the layout of the numeric keypad to prevent patterns and patterns on the keyboard, creating an alert for users. Additionally, when transactions exceed a certain threshold or deviate from normal patterns, call centers may reach out to customers for verification.
- **Enhancing Cybersecurity:** Overall, the key focus is to ensure that the digital economy operates with a high level of security, safeguarding the interests of end consumers. Vigilance, proactive measures, and continuous assessment of the challenges associated with the swift movement of funds are vital for a safe digital transaction environment worldwide.
- **Digital Public Infrastructure and Digital Skilling:** Digital public infrastructure and digital skilling are closely connected. They are viewed as two sides of the same coin, where the creation of public infrastructure must be accompanied by a skilled workforce capable of utilizing and benefiting from it.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Q1. Consider the following statements: (2018)

1. Aadhaar card can be used as a proof of citizenship or domicile.
2. Once issued, Aadhaar number cannot be deactivated or omitted by the Issuing Authority.

Which of the statements given above is/are correct?

(a) 1 only
(b) 2 only
(c) Both 1 and 2
(d) Neither 1 nor 2

Ans: (d)

Q2. To obtain full benefits of demographic dividend, what should India do? (2013)

(a) Promoting skill development
(b) introducing more social security schemes
(c) Reducing infant mortality rate
(d) Privatisation of higher education

Ans: (a)

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