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# INDIA'S TRAJECTORY FOR A \$6 TRILLION ECONOMY: THE WINGS OF DIGITIZATION

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10/11/2017

*Last week on our "Behind the Markets" podcast, Jeremy Schwartz and I spoke with Arvind Gupta, who heads the Digital India Foundation and is the head of information technology for India's ruling political party, the Bharatiya Janata Party (BJP). Mr. Gupta is the architect of India's various digitization efforts.*

With initiatives ranging from retina scans that provide unique identification for 1.2 billion people to opening a bank account at the swipe of your thumb, *India's attempts to digitize its economy are straight from the 22nd century!*

Mr. Gupta has a humble beginning; he received his undergrad degree from one of India's oldest and most reputed engineering schools, IIT (BHU), Varanasi. He completed his master's in computer science and received an MBA degree from the University of Illinois at Urbana-Champaign before becoming the architect of digital India.

## What Is India's Identification System & How Is It Different?

Mr. Gupta noted that India started its Unique Identification (UID) project in 2010 with an aim to provide a unique identifier called Aadhaar to its 1.2 billion people. In 2017, roughly 1.18 billion people have been linked with a UID. What sets India's UID apart is the fact that it's completely biometric (i.e., fingerprint and retina scan) based.

Mr. Gupta explained that any sort of identification is based on three levels:

- **Level 1:** What you know—password/username, etc.
- **Level 2:** What you have—phone/credit card number, etc.
- **Level 3:** Who you are—biometrics (retina/fingerprint)

*India's UID is based on level 3, making it not only extremely sophisticated but also most robust!*

## A Truly Unified Identification Network

In 2010, nearly 400 million people had no identity information in India, while 800 million people had multiple identities due to noncentralized state systems. This made the economy inefficient; Mr. Gupta said that in 2010, when \$100 left government coffers as a state benefit, only \$15 reached the end person. With UID in place, all those leakages and fake/duplicate claims have been eliminated, making the Indian economic engine more efficient. One dramatic signal of the returns to this digitization effort: The whole digitization project cost India around \$2 billion; however, government

estimates show savings north of \$9 billion by eliminating these leakages alone.

Next, the Modi government launched what's called Jan Dhan-Aadhaar-mobile (i.e., JAM trinity). It essentially links Aadhaar (UID) with Jan Dhan (bank) and mobile accounts. After having a UID, anyone could walk into a bank and open an account with a zero balance. By linking bank accounts to mobile (JAM trinity), even walking to a bank branch is redundant and an account can be opened with a swipe of a thumb on the mobile phone. As of now, India has more than 1 billion bank accounts and 500 million unique account holders.

In India's digital infrastructure, all identity documents are stored on a digital cloud linked to a UID. This digital infrastructure not only makes identity theft difficult, but paperless implementation also brings down the cost of servicing from \$20 to \$0.5 per account.

India's digitization is revolutionizing the way the country does business. It has brought financial inclusivity, eliminated leakages and culled money-laundering shell companies and fake accounts.

### India's Three Layers of Digitization

Mr. Gupta stresses that India is building a digital infrastructure that is:

- **Presence-less**—virtual transactions
- **Paperless**—virtual lockers/paperless lockers reducing costs of servicing
- **Cashless**—mobile-linked banking with UIDs encouraging cashless transactions

*In addition, all of that is done through a native technology developed in India. Mr. Gupta noted that the number of cashless transactions has gone from 100,000 to 13 million transactions per day.*

The government is the biggest beneficiary of digitization, followed by financial and payment services. But most importantly, society in general is starting to see more benefits.

### Biggest Cloud Implementation of Taxes—Goods & Services Tax (GST)

On July 1, India implemented a unified tax regime across the country. There were 17 indirect taxes that varied across multiple different states, making movement of goods and services across the country inefficient. By unifying taxes, the entire country became one marketplace.

*What is amazing about India's implementation of GST is its complete cloud-based technology. All tax invoices are uploaded and settled in the cloud or on the Internet. This digitization of a supply chain makes it extremely hard for tax evaders to cook accounts and evade taxes since no credits are issued or taxes cleared until the system digitally matches all accounting logs.*

### What's Next?

Mr. Gupta said that today in India anyone can open a bank account or get a phone number in less than two minutes, and the process is completely paperless. The Modi government believes that next set of townships and employment hubs would be around fiber optic lines, which are being laid in every corner of the country. *There are around 450 million Internet subscribers in India, and Mr. Gupta expects that number to grow to 1 billion in the next few years.*

India aims for 8% growth and to become the world's third-largest economy. India's digital infrastructure is the foundation for this growth.

India is enjoying strong political stability with a determined leader and trajectory to be a \$6 trillion economy.

WisdomTree is grateful for the time Mr. Gupta spent walking us through the digitization initiatives he pioneered. It's clear to us that India has leapfrogged most of its competitors when it comes to this digital drive, and India should be thankful for Mr. Gupta and his team.

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