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Topics India Stack: How it can promote digital transformation

India Stack, developed and administered by the Indian government, comprises numerous effective initiatives to advance social and economic digital transformation (DX), and the ideas behind it could serve as particularly useful for Japan in its efforts to promote DX at the local-government level.

■ What is India Stack?

India Stack is currently attracting worldwide attention. This is because it presents a solution to achieving the shared objective of every country of accomplishing DX in various fields of society efficiently and in a way that benefits the entire population. In Japan, especially in DX for local governments, India Stack can serve as a useful guide.

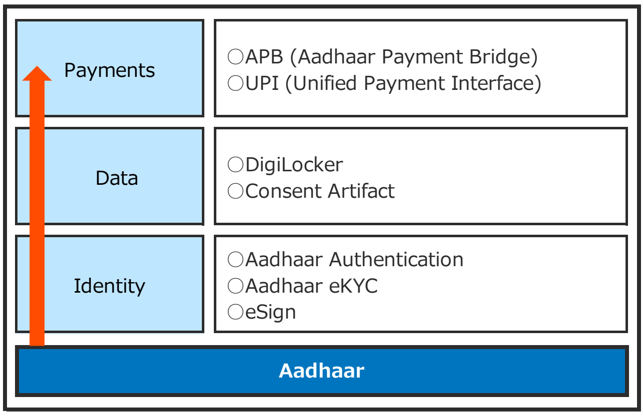
India Stack is a collection of open APIs (application programming interfaces) of various functions that have been developed based on the Aadhaar personal identification number system, which is similar to Japan's "My Number" system. The term India Stack is also often used in practice to refer to the various functions themselves. Each function is developed by the central government, and if there is a function that private-sector companies or authorities such as state governments wish to employ, they can use the relevant API to connect the function with their own application.

■ Features of India Stack

India aims to resolve its myriad social issues and develop its economy through DX. The South Asian giant, which is rich in diversity and has a huge population, naturally has to deal with a wide variety of social challenges. India Stack was thus developed based on the notion that it would be effective for the central government to provide infrastructure for DX first, and for various entities in the public and private sectors to then utilize it and deploy solutions. The reason the central government has taken on the role of infrastructure provider is that if each entity were to develop their own infrastructure independently, it would result in duplicate investments, which would increase the cost to society as a whole. Moreover, separately developed infrastructure might not be interoperable and therefore accessible to a wide range of organizations, which would limit the benefits to society and the economy as a result.

India Stack consists of three pillars, each with its own purpose: (1) reliable identity verification, (2) data management/utilization, and (3) promotion of electronic payments. Multiple functions have been developed for each. The structure is incredibly simple. Each function is dedicated to only one thing, which makes the functions easy to use. Users have no need to deploy them as one package. They can select and incorporate into their organizations only the functions they need. This structure is largely thanks to the deep involvement of iSPIRT, a private think-tank comprised of volunteer IT professionals, in the development of India Stack. By tapping into the insights and ingenuity of IT experts who have honed their skills in the private sector, it has been possible to develop functions that are straightforward to use from the user's point of view.

<India Stack>



Source: Prepared by JRI based on the India Stack website (https://indiastack.org)
Note: APB makes it possible to electronically transfer Government benefits into the Aadhaar-linked bank accounts of the beneficiaries.
UPI is a real-time mobile payments system.
DigiLocker is a digital platform for individuals to store and access documents and certificates online.
Consent Artifact is a machine-readable electronic document that specifies the parameters and scope of data share that a user consents to in any data sharing.
eSign is a digital signature product built atop of Aadhaar.

■ Examples of India Stack utilization

In India, many of the policies that are closely related to daily life are entrusted to state governments, so it is worth looking at examples of how state governments are making use of India Stack.

In India, social security benefits were traditionally disbursed in cash face to face, so embezzlement by intermediaries was rampant. Fraudulent receipt of benefits using fake ID cards or double registration was also frequent. For one thing, a fair number of citizens did not possess any kind of ID card. This meant that despite the enormous amounts of taxpayers' money being spent on welfare, it was difficult to properly provide support to those who truly needed it.

However, with the development of India Stack, state governments have been able to curb fraud and to accurately and efficiently pay benefits using the identity verification function (Aadhaar Authentication) and the bank transfer function (APB: Aadhaar Payment Bridge). Furthermore, in the state of Punjab, for example, more than 70 types of documents can be issued, stored, and shared electronically using an Aadhaar-linked cloud storage service called DigiLocker. Residents of the state can use DigiLocker to submit their high school graduation certificates to universities electronically. They are also able to store their driver's licenses in DigiLocker, and thus do not have to keep their driver's license card with them when driving. They can also receive their electricity bills via DigiLocker.

■ Implications for local-government DX in Japan

The actual components of India Stack will probably be more helpful for emerging and developing countries at similar levels of economic development and facing similar challenges than they will be for Japan. In contrast, what Japan should refer to is the characteristics of India Stack and the ideas behind it.

Underlying India Stack is the recognition that when the aim is to resolve various social issues through DX, it is efficient and also beneficial to society as a whole for the central government to develop the infrastructure and then make it widely available to the public and private sectors. The system design, whereby multiple functions that are simple and interoperable have been prepared and users can freely select and combine them for their own purposes and incorporate them into their own services, is the result of pursuing convenience from the user's point of view. It is up to the user to decide which infrastructure to use and how to use it. The thinking behind this is that innovative solutions can be created only when such freedom is offered.

Japan should also adopt this stance for local-government DX. In Japan, DX by local governments is essential if administrative services are to continue to be provided despite the severe fiscal situation and shortages of local public servants. However, the reality is that a substantial percentage of the more than 1,700 local governments nationwide lack human resources and know-how for DX. Therefore, the Kishida government has put forward its "Vision for a Digital Garden City Nation," and begun to move in the direction of having the Digital Agency procure and build digital platforms/functions required by all local governments, and then make them available to the local governments.

In doing so, it will need to carefully explain to local governments that digital platforms/functions are no more than infrastructure for DX, not a means of competing or emphasizing uniqueness, and that it is therefore better for the national government to develop them. On top of that, it will be important to develop, with the help of the private sector as is the case with India Stack, multiple APIs that offer ease of use and a simple structure from the user's standpoint, and then offer them to local governments. From among them, each local government will be able to adopt those it considers useful, and augment them with distinctive value that reflects the circumstances of its own region and what it is aiming to achieve.

(Kaori Iwasaki)

Topics *Chinese government moves to lure foreign companies*

With the aim of shoring up its economy and preventing Western countries from de-coupling from China, the Chinese government has turned its attention to attracting foreign companies. However, while it is endeavoring to meet the needs of overseas enterprises, it also imposes tight constraints on their business activities, so foreign direct investment in China is likely to remain stagnant.

■ Attracting foreign investment is now a priority policy

At aState Council executive meeting in February, the Chinese government positioned attracting foreign companies as one of its priority policies for 2024. In March, it announced an action plan setting out specific measures to draw in foreign investment. The action plan has three key points:

<Action Plan to Solidly Promote High-level Opening-up, Attract Foreign Investment>

Field	Action
Manufacturing	・Shorten the Negative List and scrap all restrictions on foreign investment
Services	・Expand entry of foreign companies in telecommunications and healthcare fields
	・Relax restrictions on foreign companies' entry to pilot FTZs in Beijing, Shanghai, and Guangdong to permit projects to develop and apply genetic diagnosis and treatment technologies
	・Expand entry of foreign banks and insurance companies and widen the domestic bond market scope accessible to foreign institutions
Improvement of Business Environment	・Enable foreign companies to compete on an equal footing with local firms in areas such as government procurement
	・Strengthen intellectual property rights protection
	・Establish regulations to promote smooth transfer of information across borders

Source: Prepared by JRI based on data from the Chinese government

The first is the total elimination of restrictions on entry into the manufacturing industry. The Chinese government had already been removing manufacturing-related fields from its "Negative List" for foreign investment (i.e., areas off-limits to foreign investors), and the only parts of the manufacturing industry that remained on the list were printing and certain pharmaceuticals, so the total elimination of restrictions this time does not constitute a major change. However, there are concerns among foreign companies that entry restrictions could be tightened again as the U.S.-China confrontation intensifies, and in fact, the Chinese government has been implementing policies to strengthen the production capabilities of domestic companies in high-tech and other fields. It seems that by announcing this total abolition of restrictions, the Chinese government was aiming to assuage these jitters among overseas firms.

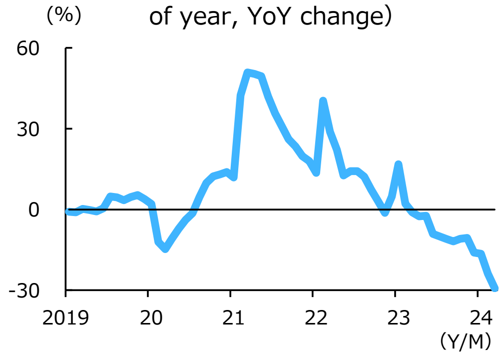
The second is the expansion of the opening up of the service sector. Services have lagged behind manufacturing in being opened up to the outside world, accounting for the majority of the 31 items on the Negative List for foreign investment. There have also been other barriers to entry, such as caps on the percentage stakes that overseas companies can hold. The action plan includes a review of the parts of the Negative List related to telecommunications and healthcare, and will also allow foreign companies that satisfy certain criteria to carry out pilot projects in pilot free trade zones. In addition, the plan sets out a policy of making the financial sector more open to foreign financial institutions.

The third is the creation of a business environment centered on fair competition. Until now, priority has been given to the purchase of domestic products and services in government procurement, and foreign companies have often been forced to compete under unfavorable conditions in terms of intellectual property rights protection. According to the plan, the policy going forward will be to change the environment so that overseas firms can compete fairly with local companies in government procurement and other areas.

■ Aims are economic recovery and prevention of de-coupling from China

The Chinese government has moved to lure foreign companies to boost the economy and halt the trend of de-coupling from China. Even with the abandonment of the zero-COVID policy, China's economy has been unable to extricate itself from its slump, and the government has thus positioned the entry of foreign companies as a catalyst for economic recovery. Yet recently, Western firms have been restructuring their supply chains to reduce their dependence on China, with the objective of diversifying their risk, and year-over-year foreign direct investment (FDI) in China has been substantially negative since last spring. The Chinese government is intent on applying the brakes to this de-coupling trend by proactively enticing foreign companies to invest in China.

<Dollar-denominated FDI in China>
(Cumulative figure since start of year, YoY change)



Source: Prepared by JRI based on data from CEIC

■ Business-related worries are dampening FDI in China

In parallel with the release of the action plan, the Chinese government is stepping up its efforts to address the concerns of foreign companies. An example of this is regular meetings for explaining progress with the measures to attract foreign investment that were instituted in August 2023. These are roundtable discussions aimed at enabling representatives of foreign companies to make requests to the Chinese government for facilitating the development of their China operations, and also allowing the Chinese government to present its own solutions to problems to the overseas firms. Some policies have been reviewed in light of the requests from foreign companies made at these meetings. In March this year, for example, regulations concerning the smooth cross-border transfer of information came into effect, and restrictions on information transfer have been eased for firms that meet certain conditions.

Yet despite these government efforts, foreign companies are still cautious about resuming heavy direct investment in China. There are two main reasons for this:

The first is the Chinese government's tightening of restrictions on the activities of overseas firms. The prime example of this is the Counter-espionage Law, which was amended in July 2023. The Counter-espionage Law first came into force in November 2014, but the revisions have expanded the definition of espionage and strengthened the authorities' surveillance measures. The Ministry of State Security contends that the Counter-espionage Law clearly separates espionage from normal business activities, and that the collection of information for commercial purposes would not fall foul of the legislation. It has also stated that the Counter-espionage Law is strictly enforced, and that the view that it is applied arbitrarily is a misconception. However, there have been a series of incidents involving large numbers of foreigners being detained under the Counter-espionage Law without any detailed explanation of their alleged wrongdoings. Concerns by foreign companies that their personnel could be arrested for engaging in normal business activities have not been eliminated, and due to the opaqueness of post-arrest judicial procedures and treatment, there is a persistent view among them that they cannot take the authorities' explanations at face value.

The second is erosion of expectations of high profits in the Chinese market. In China, overseas firms can no longer count on the same high profitability as before. In recent years, Chinese companies have been becoming more competitive in terms of technology, branding, etc., and now stand as formidable rivals to foreign companies that have entered China. The ratio of ordinary profit to sales of Japanese companies operating in mainland China rose steadily until the latter half of the 2010s, but since then it has plateaued in non-manufacturing sectors and been on a downward trend in the manufacturing sector. China has ceased to be a lucrative market, and foreign companies doing business in China are being forced to compete with Chinese companies for a piece of a limited pie. For this reason, the number of foreign companies judging that it is better to plow their resources into countries such as India and Vietnam, which have promising futures, could increase in the future.

When they take a fresh look at the situation in China, they see a delayed economic recovery, and from a medium- to long-term perspective, they see challenges such as structural oversupply, a declining birthrate, and an aging population. Although the Chinese government is working to solve these problems, the scale and content of the measures are generally insufficient, and there are moves to tighten regulations in ways that undermine industrial and economic revitalization. Foreign companies have lost confidence that China will be able to overcome its economic woes and sustain the high growth it has enjoyed in the past, and their appetite for investing in the country has nosedived.

As long as these concerns about doing business in China fail to be dispelled, the Chinese government may find that its efforts to attract foreign investment are not as effective as expected, and the slump in FDA in China could continue. If the Chinese government puts too much emphasis on ensuring economic security and continues to tighten regulations on companies in parallel with various other policies, the shift to decoupling from China will likely only accelerate.

(Junya Sano)