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Time for India's Tech Voices to Rise Against Digital Protectionism

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India's quick return to protectionism in goods trade under the Modi government is a calculated political response to the nation's large trade deficit with the world. While economically unsound, the political wisdom behind protectionism is not unique to India. However, India's rising protectionism in services trade—where India is a global champion—will directly undercut a powerful growth engine for the country. The new cabinet must pay prompt attention to the many policy changes adopted recently or under consideration—and balance the nation's security needs while ensuring the vitality of the private sector.

For over two decades after India's 1991 economic opening, the nation was still perceived as protectionist. However, most of these claims reflected a concern that India was opening to the world too slowly. There were relatively rare instances where India adopted new measures to slow imports. As noted in the January "U.S.-India Insight," new concerns about India's protectionism are demonstrably different. Since coming to office in 2014, Prime Minister Narendra Modi has led a steady retreat from trade liberalization. This reflects his desire to stoke a stronger manufacturing economy tied to India's massive goods trade deficit with the world, which has averaged $140 billion over the last two years—among the highest of large nations.

India's services trade has been a bright spot for two decades. And services trade was far more stable than goods trade during this tumultuous Covid-19 period. In April 2020, amid India's first pandemic wave, goods trade dropped 20 percent year-on-year while services trade only dropped around 9 percent. Certainly, services export sectors are not going to have the scale to soak up hundreds of millions of workers. Most of these jobs require a high degree of education. Therefore, the services export economy does not have the political heft to demand a high degree of government policymaking attention.

Twenty Largest Economies	GDP (Real) - USD Billions (World Bank)	2019 Goods Trade Balance Compared to GDP (World Bank)
Saudi Arabia	$804	13%
Russia	$1,710	10%
Netherlands	$1,012	7%
Germany	$4,319	6%
Switzerland	$824	4%
Australia	$1,617	3%
Italy	$2,106	3%
Brazil	$1,491	3%
China	$16,642	3%
South Korea	$1,806	2%
Japan	$5,378	0%
Indonesia	$1,158	0%
Mexico	$1,192	-1%
Canada	$1,883	-1%
Spain	$1,461	-3%
France	$2,938	-3%
Turkey	$794	-4%
United States	$22,675	-4%
India	$3,049	-5%
United Kingdom	$3,124	-7%

KEY DATA

-1.3%

U.S.-INDIA GOODS TRADE, 12-MONTH COMPARISON, PER U.S. CENSUS BUREAU

+52.5%

FOREIGN DIRECT INVESTMENT, 12-MONTH COMPARISON, PER RBI

$36 Bn

FII ASSETS NET FLOWS, LAST 12 MONTHS, PER NSDL

Even if promoting the global services economy is not a political imperative, **the government must renew its attention on potential policy changes that could hobble India's services exports and impair the environment to foreign investors in the services economy.** India's often ad-hoc approach to policymaking, often with little regard to data or real impact, must be well targeted to balance economic interest with national security, localization, and other key factors.

The following are a few of the many issues that could harm India's services exports:

- **Personal Data Protection Bill, 2019 (PDP Bill):** The PDP Bill was introduced to parliament in December 2019 and remains with a specially created joint committee. The legislation as originally drafted would impose domestic data rules on foreigners' information processed in India, with an ambiguous carve out for processors of foreigners' data.
- **Non-Personal Data Governance Framework:** In December 2020 a Ministry of Electronics and Information Technology expert committee released a revised framework for the governance of non-personal data. The committee's report does not directly offer a distinction between foreign and domestic data. Compulsory data sharing of customer or employee information, even if anonymized, would dramatically erode interest in utilizing India as a base for global data operations. As this framework moves toward becoming a formal policy, this distinction is critical.
- **Cross-Border Taxation:** Aggressive tax collection attempts were a key driver of the loss of investor confidence at the end of the 10-year Indian National Congress–led government. The Modi government initially did pretty good work to clear the backlog of cross-border tax cases and set in place tighter processes to block belligerent new cases. But the past "retrospective tax" cases in India continue to fester, and new attempts to tax cross-border transactions, paired with expected growing budget shortfalls in India, indicate a new phase of aggressive collections. Care must be taken to rein in assessors that could further damage India's reputation.

The Indian government has some understandable reasons to pursue these policy changes. Concerns over cyber-hacking and consumer privacy are shared globally. But there are also other reasons for these moves, such as creating space for India's nascent e-commerce firms and data storage companies. Data restrictions directly benefit these firms. The merits of creating space for these firms compared to foreign firms is certainly debatable, too. But data restrictions that harm the operational framework of firms simply using India for foreigners' data processing is a different function and must be treated as such. Per the Reserve Bank of India, services exports alone totaled $128.6 billion for 2019–20, up 9.1 percent from the prior year.

Sectors with large services exports may not be the principal job-creating industries for the common man. But this sector is a key economic engine for the nation, a tax base for the government, and a vital economic link between India and the rest of the world.

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