

IISP Model G20 Study Guide

Digital Economy & Artificial Intelligence Forum

(Sherpa Track)

Agenda: The aim of the DEAI forum is to shape a safe and inclusive digital space for South Asian countries by addressing problems such as AI-driven misinformation, fragmented digital infrastructure (fake IDs and payments), and exclusion of Small and Medium Enterprises (SMEs). Delegates are to discuss AI safety standards and international and national AI regulations and establish AI testing and watermarking principles, a digital infrastructure roadmap, and an SME digitization toolkit.

Letter from the Executive Board

Dear Delegates,

Greetings from the Executive Board!

It is our honor and privilege to serve as your Executive Board for the Digital Ethics and AI Inclusion Forum (DEAI). This committee promises to give you a firsthand experience of what makes a Model G20 truly dynamic and meaningful.

If you are reading this, you are either eager to explore the challenges ahead or have just received your committee allocation. Either way, you are already part of a journey that will test your ideas, sharpen your thinking, and amplify your voice. We are confident that you have something unique to contribute.

The DEAI Forum is charged with shaping a safe, equitable, and forward-looking digital future for South Asia. From combating AI-driven misinformation to addressing fragmented digital systems and the exclusion of SMEs, the challenges are significant, but so are the opportunities. Together, you will work on establishing AI safety standards, regulatory frameworks, testing principles, digital infrastructure roadmaps, and SME digitization toolkits.

We encourage you to move beyond debate and towards actionable solutions. Bring your creativity, insight, and energy to every discussion, and help make this forum a space where ideas translate into meaningful strategies for the region's digital future.

Sincerely,

Aryan Soniminde & Manan Sharma

Executive Board

Digital Economy & Artificial Intelligence Forum (DEAI)

Overview

The early 21st-century global economy was fundamentally changed by the digital revolution, which has now spread at an unprecedented rate throughout South Asia. More than 1.2 billion people in the region used the internet in 2024, but this quick digitization also brought with it a number of problems that jeopardize economic sovereignty, democratic stability, and public safety. Countries that formerly functioned within discrete digital borders are now entangled in intricate networks of technological dependencies, algorithmic governance, and cross-border data flows.

The digital economies of South Asia were relatively closed and had limited cross-border data exchange prior to the 2010s, when smartphones became widely used and broadband expanded. However, due in part to globalization and the technological boom, the region soon became a battleground for discussions of digital sovereignty.

South Asian countries were able to advance beyond conventional stages of development as artificial intelligence became a dominant technological force. In 2023 alone, 131 billion transactions were processed through India's Unified Payments Interface (UPI), accounting for almost 80% of all digital payments in the nation. Governments also began implementing national digital identity systems; by 2024, India's Aadhaar program will have enrolled over 1.3 billion people, revolutionizing financial inclusion and welfare distribution.

Between March 2020 and December 2022, the COVID-19 pandemic accelerated digital transformation, highlighting the digital divide in South Asia. SMEs struggled with insufficient infrastructure and low technological literacy, while tech giants dominated markets, gaining user data and controlling digital advertising revenue. With an estimated 40% of SMEs lacking basic digital payment capabilities, the pandemic highlighted vulnerabilities in traditional businesses.

International Data Flow: A National Crisis?

1. Unrestricted data flows may lead to technological colonialism, surveillance, or exploitation of personal data. **The Cambridge Analytica scandal** of 2018 highlighted risks to privacy, as 87 million Facebook users worldwide had their data harvested without consent.
2. Governments have sought to protect digital sovereignty. India implemented data localization requirements in 2019, requiring payment system operators to store transaction data domestically. However, events like the **Pegasus spyware scandal** (2021) caused skepticism regarding the effectiveness of these measures.
3. **The Meta-Jio Deal (2020):** Facebook (Meta) invested \$5.7 billion in Reliance Jio Platforms, granting access to Indian consumer data via WhatsApp Pay and JioMart. Privacy advocates warned of potential monopolies and exploitation. Legal challenges were raised, resulting in 23 reported privacy violation cases in 18 months.

AI - The Messenger Not Getting ‘Shot’

Deepfake Election Interference Case of 2024: AI-generated misinformation targeted South Asian elections:

- A deepfake video of Rahul Gandhi in India gained 12 million views in 48 hours.
- AI-generated audio of Bangladesh’s Prime Minister Sheikh Hasina caused misinformation during elections.
- AI videos of Imran Khan in Pakistan created constitutional ambiguity.

Regulatory Failures: International and regional governments lacked investment in content verification and AI safety. Tech platforms avoided watermarking standards, resulting in widespread misinformation that undermined democratic processes.

Consequences of Fragmentation

1. **Tech Industry Perspective**
Tech companies seek interoperable ecosystems but national interests risk fragmented systems, digital Balkanization, and exclusion of SMEs.
2. **SME Impact**
Digital exclusion threatens SMEs’ competitiveness. For instance, Pakistan’s digital penetration rate is 21%, while Maldives’ is 86%, creating massive disparities.
3. **Payment Systems**
Sri Lanka’s 2022 banking collapse and Nepal’s costly remittance systems highlight risks from fragmented infrastructure. Interoperable systems could save billions in transaction costs.

SME Digitization

- **Bangladesh:** Only 14% of textile SMEs had digital inventory systems in 2024, causing \$2.3 billion in lost contracts during the pandemic.
- **India:** ONDC platform adoption by 45,000 merchants (0.07% of SMEs) left most small businesses excluded.
- **Pakistan:** SME Digitization Scheme (2021-2024) reached only 3,200 businesses due to bureaucratic hurdles.
- **Bangladesh a2i Program:** 4,500 rural digital centers provided subsidized cloud services, boosting SME revenue by 34% in eight months.

AI or Not? (Education Sector specific)

- ChatGPT adoption led to 42% AI-generated content in Indian universities by March 2023.
- Pakistan reported a 156% increase in plagiarism cases (Jan 2023-Jan 2024).
- Bangladesh's NEET exam faced AI-assisted cheating affecting 180,000 students.

Challenges: No standardized AI detection systems; inconsistent university policies led to unequal credibility of degrees.

The Need for a New Strategy

South Asia requires a comprehensive digital strategy:

Key Characteristics:

1. Localized bottom-up solutions respecting linguistic, cultural, and regulatory diversity.
2. Nationally-led but regionally-coordinated initiatives with international support.
3. Substantial and sustainable programs, minimizing external dependence.
4. Robust AI safety mechanisms (watermarking, algorithm auditing, regional ethics boards).
5. Pilot programs to ensure feasibility before full-scale implementation.

Cross-Border Data Flow

- Standardized protocols for essential data categories with local governance for sensitive data.
- Harmonization guided by EU GDPR and ASEAN frameworks as precedents.

AI Safety & Misinformation Countermeasures

- Cryptographic watermarking for AI-generated content post-March 2025.
- Rapid Response Digital Verification Centers operational during elections.
- Mandatory digital literacy curricula in secondary schools by January 2026.

SME Digitization Acceleration

- Increase SME-specific digital infrastructure allocations (e.g., India: from 8% - 25% by 2026).
- Streamline processes in Pakistan and expand Bangladesh's a2i model.
- Regional digital public infrastructure interoperability, building on India's UPI model.
- South Asian Payments Highway and Regional Digital Identity frameworks operational by 2026.

Key Questions for Discussion

1. How can South Asian nations balance data sovereignty with the need for cross-border interoperability in digital payments, AI, and e-commerce?
2. What technical and regulatory frameworks can ensure AI-generated content is verified and prevent misinformation while respecting national policies?
3. How can governments support SME digitization equitably to prevent exclusion from regional digital markets and enhance economic resilience?
4. What strategies should be adopted to integrate AI ethics, watermarking, and algorithm auditing across diverse South Asian jurisdictions?
5. How can regional cooperation reduce the digital divide while ensuring that large tech companies do not monopolize access or influence?
6. What role can developed G20 nations and international organizations play in financing and supporting digital infrastructure and SME development in South Asia?
7. How should migrant workers and refugees be included in regional digital identity frameworks without risking surveillance or data exploitation?
8. What short-term measures and long-term reforms are necessary to create a safe, interoperable, and inclusive digital economy in South Asia?

For Further Reading

AI Governance and Regulation

- **UNESCO Reports** - *Recommendation on the Ethics of Artificial Intelligence*
- **OECD Reports** - *AI Principles and Policy Guidelines*

Digital Economy and Infrastructure

- **World Bank Reports** - *Digital Economy for South Asia: Opportunities and Challenges*
- **Asian Development Bank Reports** - *Digital Transformation in South Asia*

SME Digitization & Inclusion

- **UN ESCAP** - *SME Digitalization in Asia and the Pacific*
- **India Ministry of Electronics & IT Portal** - *Digital India Programme: SME Initiatives*

Data Sovereignty and Privacy

- **Data Security Council of India** - *Data Protection and Privacy Frameworks in South Asia*
- **European Union** - *General Data Protection Regulation (GDPR)*

AI Safety & Misinformation

- **Adobe, Microsoft, BBC** - *Content Authenticity Initiative: Technical Standards & Implementation*
- **Taiwan Digital Ministry** - *Countering Disinformation in Elections: Lessons for Asia*

Cross-Border Digital Payments & Identity Systems

- **NPCI** - *Unified Payments Interface (UPI) Annual Report 2024*
- **Estonia e-Residency** - *Digital Identity for Global Entrepreneurs 2024*

AI in Education & Workforce Implications

- **UNESCO** - *AI in Education: Challenges and Opportunities*
- **Brookings Institution** - *AI and the Future of Work in South Asia*

Regional Cooperation & Policy Frameworks

- **ASEAN** - *Framework on Cross-Border Data Flows and Digital Trade*
- **Internet Governance Forum** - *Digital Fragmentation and Regional Policy Recommendations*

