

**RELATIONSHIP BETWEEN
DIGITALIZATION &
INDUSTRIALIZATION: A SUB-
NATIONAL LEVEL STUDY**

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ABSTRACT

This study explores how industrialization has influenced the growth of digital financial services across 29 Indian states between 2016 and 2023. While much existing research looks at how digital tools help industries grow, this study focuses on the opposite whether industrial development can drive the adoption of digital financial services. To investigate this, we create composite indices for industrialization, digital financial inclusion, financial inclusion, and infrastructure through Principal Component Analysis. We then use System GMM to estimate dynamic panel models to understand how industrialization affects digital financial inclusion and how together it boosts economic growth. The results reveal three key findings. First, states with stronger industrial bases tend to have higher levels of both digital financial activity and economic growth. Second, digital behavior and economic growth are persistent over time, meaning that past progress significantly influences current outcomes. Third, while the interaction between industrial development and digital financial inclusion shows interdependence, their individual contributions to growth remain significant when considered at average levels. Additionally, while education and financial inclusion play a role, industrial factors have a stronger impact on digital adoption. These findings emphasize the importance of policies that align industrial growth with investments in digital and financial infrastructure. This approach is crucial for ensuring inclusive and balanced development, especially in regions that are still lagging behind.

Keywords: Industrialization, Digital Financial Inclusion, Economic Growth, Panel Data, System GMM, Financial Inclusion, Infrastructure, India, Development Economics, Digitalization, Economic Development

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