

A Study On The Impact Of FDI Policy In E-Commerce In IndiaAnkur Tiwari¹Priya Kumari²¹[E-mail-ankurtiwari459@gmail.com](mailto:ankurtiwari459@gmail.com), ²[E-mail-priyasinghcreate@gmail.com](mailto:priyasinghcreate@gmail.com)**Abstract:**

Foreign Direct Investment (FDI) is a major driver of economic growth and a source of non-debt finance for the economic development of the country. Government has put in place an investor friendly policy on FDI, under which FDI up to 100%, is permitted on the automatic route in most sectors/ activities. In the recent past, the Government has brought FDI policy reforms in a number of sectors viz. Defence, Construction Development, Insurance, Pension, Other Financial Services, Asset reconstruction Companies, Broadcasting, Civil Aviation, Pharmaceuticals, Trading etc.

Key words: FDI, E-commerce

Introduction:

On January 10, 2018, the Indian Cabinet gave its approval to a number of major amendments to the Foreign Direct Investment (FDI) Policy of India, to further liberalize and simplify the same. This is to increase the ease of doing business in the country, and continue to attract much needed foreign capital to fuel India's growth. The constant overhauling and opening of sectors is a clear indication that the Indian Government is constantly aiming at easing the investment process in India. This latest liberalization is the fourth major amendment in FDI Policy in the past three years. It is evident that the reform juggernaut is rolling, and further changes might be on the horizon. These policy changes will certainly make the investment climate more conducive to foreign investors, and help India become one of the largest markets for foreign investments globally. Foreign Direct Investment (FDI) in India is expected to grow significantly following the implementation of recent Government of India (GOI) initiatives, including the Goods and Services Tax (GST) related reforms, enactment and implementation of the Insolvency and Bankruptcy Code (IBC), demonetization, and other ease of doing business reforms rolled out recently by the central government. These reforms have boosted India's image as a preferred destination for foreign investment, with many sectors being fully available to foreign investors for making investments without any restrictions. These reforms resulted in India, for the very first time, figuring in the top 100 in the World Bank's 'Ease of Doing Business' global rankings, on the back of sustained business reforms by the Narendra Modi-led government. The World Bank's report also recognizes India as one of the top 10 improvers in last year's assessment, having implemented reforms in eight out of 10 'Doing Business' indicators. On the "distance to frontier metric," India's score has also witnessed a significant jump, which reflects improvements in India's business regime in the last year itself. The upcoming foreign direct investment policy (FDI policy) 2018 presents another such opportunity to further boost investor confidence.

Propelled by rising Smartphone penetration, the launch of 4G networks and increasing consumer wealth, the Indian e-commerce market is expected to grow to US\$ 200 billion by 2026 from US\$ 38.5 billion in 2017. Online retail sales in India are expected to grow by 31 per cent to touch US\$ 32.70 billion in 2018, led by Flipkart, Amazon India and Paytm Mall.

During 2018, electronics is currently the biggest contributor to online retail sales in India with a share of 48 per cent, followed closely by apparel at 29 per cent.

The ongoing digital transformation in the country is expected to increase India's total internet user base to 829 million by 2021 from 560.01 million as of September 2018. India's internet economy is expected to double from US\$125 billion as of April 2017 to US\$ 250 billion by 2020, majorly backed by ecommerce. India's E-commerce revenue is expected to jump from US\$ 39 billion in 2017 to US\$ 120 billion in 2020, growing at an annual rate of 51 per cent, the highest in the world

Literature review

Marimuthu KN (YEAR) "AN OVERVIEW OF FOREIGN DIRECT INVESTMENT" his paper attempted to make an analysis of FDI in India and its impact on growth. It also focuses on the determinants and needs of FDI, year-wise analysis, sectoral analysis.

Zafar S M T (YEAR), in his analytical Study on Foreign Direct Investment (FDI) and Its Relative Impact on Indian Economy found that to attract foreign investor's government of India has introduced amendments in existing FDI rules and regulations and permitted FDI in 12 areas of operations in 2013. Under this new policy of FDI 2015-16, limits in retail trading, teleports (unlinking hubs), telecommunication, pharmaceuticals, insurance sector, infrastructure, defense, aviation sector, CICs, animal husbandry, plantation, has been increased.

Rao C, Dhar B found out that awareness that the essence of FDI is not capital per se but technology and other intangibles it brings along⁵ was evident even during the early years after independence. This was in spite of the prevailing adverse sentiment against foreign capital. Prime Minister Nehru had reasoned that "Indian capital needs to be supplemented by foreign capital not only because national savings will not be enough for the rapid development of the country on the scale we wish, but also because in many cases scientific, technical and industrial knowledge and capital equipment can.

Aggarwal S, Singla A Et al., (2012) observed from the analysis that the sectoral level of the Indian economy, FDI has helped to raise the output, productivity and employment in some sectors especially in service sector. Indian service sector is generating the proper employment options for skilled worker with high perks. On the other side banking and insurance sector help in providing the strength to the Indian economic condition and develop the foreign exchange system in country. So, we can conclude that FDI always helps to create employment in the country and also support the small scale industries also and helps country to put an impression on the world wide level through liberalization and globalization.

Azhar S, Marimuthu KN, (2012) attempted to make an analysis of FDI in India and its impact on growth. It also focuses on the determinants and needs of FDI, year-wise analysis, sectoral analysis and sources of FDI and reasons. One of the economic aspects of globalization is the fact that increasing investments in the form of foreign direct investments. In the recent times due to the global recession most of the countries have not been able to pull investments. India has been able to attract better FDI's than the developed countries even during the crisis period also. Especially in the recent years the FDI in India has been following a positive growth rate. Since 1991 the government has focused on liberalization of policies to welcome foreign direct investments. These investments have been a key driver for accelerating the economic growth through technology transfer, employment generation, and improved access to managerial expertise, global capital, product markets and distribution network. FDI in India has enabled to achieve a certain degree of financial stability; growth and development to sustain and compete in the global economy.

Anitha R (2012). FDI plays an important role in the long-term development of a country not only as a source of capital but also for enhancing competitiveness of the domestic economy through transfer of technology, strengthening infrastructure, raising productivity and generating new employment opportunities. India emerges as the fifth largest recipient of foreign direct investment across the globe and second largest among all other developing countries (World Investment Report 2010). The huge market size, availability of highly skilled human resources, sound economic policy, abundant and diversified natural resources all these factors enable India to attract FDI. Further, it was found that even though there has been increased flow of FDI into the country during the post liberalization period, the global share of FDI in India is very less when it is compared to other developing countries. Lack of proper infrastructure, instable government and political environment, high corporate tax rates and limited export processing zones are considered to be the major problems for low FDI into the country. To overcome this situation, the Government should revise the sectoral cap and bring more sectors under the automatic route. Further, India should sign the agreement of Double Taxation treaties with other countries in order to increase bilateral trade. Therefore, there is an urgent need to adopt innovative policies and good corporate governance practices on par with

international standards, by the Government of India, to attract more and more foreign capital in various sectors of the economy to make India a developed economy.

Research Objective And Methodology

Objective of study

the core objective of the study is to examine and evaluate the recent amendment and policy initiatives in FDI and its overall impact and contribution on e-commerce. In addition, for better future and overall growth and development of e-commerce will suggest rational and strategic approach to increase FDI inflow which can leverage nation's GDP and long term growth.

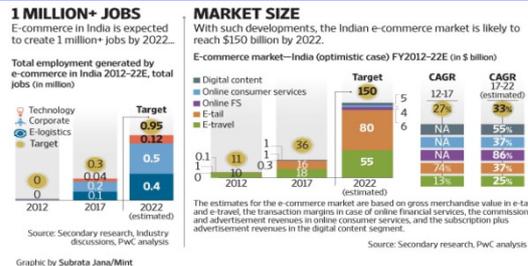
Methodology

The present study is exclusively based on secondary data and is carried out to examine and evaluate the impact of FDI on e-commerce growth. For the purpose of study secondary data and reports are been used, which are collected from published reports of nations premier economical and commercial institutions, magazines, RBI annual report, DIPP reports and notifications, research articles and financial institutions websites. After judicious evaluation of FDI and strategic relationship between FDI and economic growth suggestions and recommendations are made. The outcome of the study depends on the selected period by the researchers which may differ from other analysis.

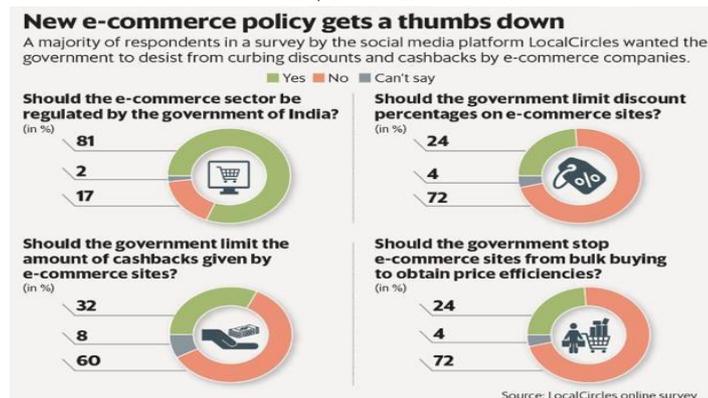
Recent Amendments and Policy Initiatives:

- An entity providing ecommerce marketplace ("Marketplace Entity") shall not exercise ownership or control over the inventory which it intends to sell
- Any ownership or control over inventory shall convert it into an inventory based model which cannot receive FDI
- A Marketplace Entity will be deemed to control the inventory of a vendor if more than 25% of the purchases of such a vendor are from the Marketplace Entity or its group companies
- A vendor shall not be permitted to sell on the marketplace owned by the Marketplace Entity if such Marketplace Entity or its group companies own any stake in the vendor or exercises control over the inventory of such vendor.
- Marketplace Entity will not influence directly or indirectly sale price of goods or services sold over the marketplace by the vendors and shall maintain level playing field for all vendors.
- Any services provided by the Marketplace Entity or any other entity in which Marketplace Entity has an equity stake to the vendors on the marketplace shall be provided on arm's length basis and in a fair and non-discriminatory manner.
- Such services will include fulfillment, logistics, warehousing, advertisement/ marketing, payments, financing etc.
- Cash back provided by group companies of Marketplace Entity to buyers shall be fair and non-discriminatory.
- A Marketplace Entity will not mandate any seller to sell any product exclusively on its platform only.
- An ecommerce marketplace entity will be required to furnish a certificate along with a report of statutory auditor to Reserve Bank of India, confirming compliance of above guidelines, by 30th of September of every year for the preceding financial year.

Tabulation and interpretation:



This report was published by the livmint stating the ecommerce growth in India and its benefits. This data was published before the reforms of FDI policy which was implemented on 1 Feb 2019. Due to heavy discounts provided by ecommerce giants like Flipkart and Amazon people preferred to buy things online instead of going and buying in offline stores. Due to this the market has grown rapidly and has estimated to reach \$150 billion dollar.



This is taken from the local sources online survey which has made clear the thinking of people that they agree with government for a regulatory body for ecommerce platforms but they hesitate to agree with government limiting or reducing discounts and cash back provided by the ecommerce players.

According to daze info, "India ecommerce market growth is estimated to miss the market expectations as e-commerce juggernauts which was earlier going full throttle seems to have slowed down ever since the new FDI rules kicked in on Feb1, 2019. Morgan Stanley, the US-based banking and financial services expert, has revised its estimates for the Indian e-commerce sector, citing a number of reasons for doing so. It now expects the Indian online retail market to touch the USD 200 billion mark only in 2027, as against its initial estimate of 2026. The retail ecommerce market in India touched \$32.7 billion in 2018. In the next four years, by 2022, the market would record a phenomenal growth to reach \$71.9 billion. The revenue growth for ecommerce majors in India has been adversely affected by the uncertainty prevailing in the market. The revenue figures which were earlier registering a growth of 25%-30% might get halved to 15% in the coming months."

Analysis:

Impact Of Changes On Indian Ecommerce

Ecommerce giants like flipkat and amazon are likely to have a large impact in their core business as they have either directly or indirectly stake in their preferred vendors like Cloudtail and WS retail. The customers buying products sold by these vendors are usually given additional benefits in terms of pricing, fast delivery and cash backs etc. By virtue of overall control, they could provide large discounts, better user experience and quality control. Here the exclusive tie up with the brand owners is also eliminated so that the products are available to others so that the monopoly competition thing can be reduced. Eg: The Oneplus brand has exclusive tie up with the Amazon for their smart phones and their accessories, which means that the customer if want to buy the Oneplus phone and its accessories has to either have to buy it from Amazon or have to get it from OnePlus offline stores which are not much in India despite its craze.

These changes though has some disadvantages for the ecommerce giants, it has given the opportunity to the MSME a chance to compete these giants. The Indian retail giants like future giants

will now be able to compete with the others with their discounts, offers and cash backs as well as the instant delivery option can be facilitated.

The government earlier accused Flipkart and Amazon of violating disrupting marketplace by offering deep discounts. Customers on ecommerce websites mainly the electronics appliances from mobile phones to digital camera since they were offered at heavy discount prices. But after the FDI policy changes the prices of these goods are going to rise up. Flipkart, Amazon and Snapdeal etc., these players used to buy the products in bulk from the manufacturers and since they bought it at bulk they used to get at very cheap price and was stored at their preferred vendors and later showed at very less price, waiving off the delivery charges and also providing various offers like gift vouchers, cash backs thereby attracting customers at a large scale Amazon pay can be one of the example of the cashback offers.

Conclusion:

Online shopping platforms likely to take deep sales knock The move has already caused a shakeup in operations of Wal-Mart-owned Flipkart and Amazon, even though both companies have either denied commenting on the issue or "welcomed" the FDI policy wearily. A draft analysis by analyst firm PwC suggested that the new e-commerce policy could lead to a \$46 billion or over Rs 3.2 lakhs loss terms of sales by 2022. While both e-commerce outlets are busy adhering to fit in to the new structure, customers should know that the major players have removed a large volume of products from their website. By the end of February, sweeping changes in prices could be observed apart from changes in pricing strategy.

Rise of physical stores likely The new rule could create a situation favorable for offline retail stores in the country.

While deeper internet penetration and mobile use led to a rising number of online platforms, a number of customers shop online only to get products at a cheaper rate. With product prices set to become almost uniform across all selling channels, customers may favor physical stores.

Nothing can be confirmed at the moment but there is a huge possibility that online customers would look to shop more from physical retail stores. These are some of the major possibilities that may arise out of the fresh FDI rules for e-commerce firms in the country. While nothing major changes in online shopping pattern, customers will certainly feel a pinch of product prices without deep discounting.

Meanwhile, millions of small-scale and physical retailers in the country have cheered the new FDI policy for e-commerce. The government's move is likely to propel its image among traders ahead of the crucial 2019 Lok Sabha elections. Amazon and Wal-Mart have both made bold bets to tap India's booming e-commerce market, which Morgan Stanley had estimated, before the latest government move would grow 30 percent a year to \$200 billion in the 10 years up to 2027. The companies have targeted a growing population of tech-savvy shoppers in India, luring them with deep discounts on everything from dishwashers to smart phones.

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