A Study of Some Observations of FDI Rules and Policy on E-Commerce in India

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Abstract

Attempts at market-oriented reform occurred on a recurring basis, often in reaction to balance of payments constraints, which prompted governmental responses that included devaluation of the currency and loosening of controls on incoming foreign capital. In my opinion, the development rate of the internet market sector may be aided by liberal models, improved infrastructure workplaces, and comprehensive legislation in IT domain. Research in this research use an OLS regression model to analyses time series data from 2000 to 2016. Since the LPG (Liberalization Privatization and Globalization) New Economic Policy was implemented in 1991, most limitations on private firms were removed, and the state's licence in 2010–11, foreign direct investment (FDI) into India slowed significantly, while it increased sharply into other emerging market economies (EMEs) in Asia and Latin America.

Keywords: E-Commerce, FDI in E-Commerce, India, Governance Issues, Policy Regulations.

1. INTRODUCTION

E-commerce, e-tail, e-retail, dot com, online shopping, retail shopping etc., call it what you want, but they are here to stay. People can now buy everything from luxury products to vegetables online. As the Indian economy expands, consumption is also expected to rise and this sector is expected to grow as well. As the e-commerce industry emerges, relatively little industry specific accounting guidance is available that addresses some of the accounting challenges faced by this sector. E-commerce, e-tail, e-retail, dot com, online shopping, retail shopping etc., call it what you want, but they are here to stay. People can now buy everything from luxury products to vegetables online. As the Indian economy expands, consumption is also expected to rise and this sector is expected to grow as well. As the e-commerce industry emerges, relatively little industry specific accounting guidance is available that addresses some of the accounting challenges faced by this sector.

You may refer to it as "e-commerce," "e-tail," "e-retail," "the dot com," "online shopping," "retail shopping," or whatever else you choose, but it's here to stay. Products as varied as fresh produce and high-end goods are now available for purchase on the web. There will likely be an increase in demand for this service as the Indian economy develops. As the e-commerce business develops, there is a lack of sector-specific accounting guidelines to help with the unique issues it faces. The Indian government's economic policies were marked by planning, control, and regulation over the first four decades following gaining independence from British colonial domination. Attempts at market-oriented reform occurred periodically, often in reaction to pressures on the balance of payments, which prompted governmental responses that included devaluation of the currency and loosening of controls on inflows of foreign capital.

The latter, however, were limited in scope and had little impact on actual inflows, which remained modest. However, many businesses had foreign ownership, in part because they had been established before independence. Furthermore, local enterprises were permitted to participate into technology licensing agreements, which typically required an ownership position, in fields upon which the government placed great importance. The foreign presence in industry, especially in "non-essential" areas like consumer products, was, nevertheless, met with widespread suspicion and hostility. As a result of a confluence of factors, in the late 1970s, key policy choices were made that ultimately resulted in a limit of 40% foreign ownership for enterprises' shareholdings. Many businesses complied, but Coca-Cola and IBM, two industry leaders, were requested to end operations in India after refusing to do so. The Indian government eased its stance on foreign investment in the early 1980s after a severe balance of payments crisis and a significant loan from the International Monetary Fund. This led to a proliferation of financial and technological partnerships between Indian and Japanese automakers in the form of joint ventures. Several years later, Japanese makers of two-wheeled vehicles joined the local market, once again via joint ventures with large Indian manufacturers. Again, the initiatives spawned a web of bilateral agreements with domestic component makers. A more open trade and investment climate was also offered for other critical industries, such as the computer industry.

In 2010–11, foreign direct investment (FDI) into India slowed significantly, while it increased sharply into other emerging market economies (EMEs) in Asia and Latin America. There was cause for alarm since India's current account deficit has grown over the "safe" limit of 3.0 percent of GDP during April–December 2010. Foreign direct investment is widely recognized as the most reliable source of the capital flows essential to cover the current account deficit, therefore this is also significant. It also boosts exports, investment potential, access to cutting-edge technology, and industrial expertise. When comparing India's FDI policy to that of other major emerging market economies (EMEs), it becomes clear that while India's stance towards foreign investment has historically been conservative, it has gradually begun catching up with the more liberalized policy stance of other EMEs since the early 1990s, notably in terms of wider access to different sectors of the economy, ease of starting business, repatriation of dividend and profits, and relaxations re: Over the first decade of the new century, foreign direct investment (FDI) flows into the nation surged roughly fivefold, reflecting the positive effects of this liberalization and the accompanying improvement in macroeconomic fundamentals. The liberal policy stance and strong economic fundamentals appear to have driven the steep rise in FDI flows in India over the past decade and sustained their momentum even during the period of global economic crisis (2008-09 and 2009-10), but the subsequent moderation in investment flows despite faster recovery from the crisis period appears somewhat inexplicable.

2. LITERATURE REVIEW

Kaushik, Vishal et.al (2020). For expansion, any company needs money. Investments from overseas are one method of financing online businesses. With 352 million people using the internet, India ranks third overall. Investments made by a non-resident investor from one nation into a resident company are known as FDI. E-commerce, or electronic commerce, refers to the exchange of products and services through the Internet. To better understand the state of E-commerce in India and predict its future, a thorough academic study has been conducted. It demonstrates the effects of these regulations on big players in the e-commerce market like Amazon and Flipkart. The study delves further into the difficulties of complete FDI in online trade.

Mikhail Klimenko et.al (2017) The increasing volume of online commerce and FDI in e-commerce platforms like Amazon, E-Bay, Alibaba, and La Reroute inspired this article. We use a two-sided marketplaces model to look at how a foreign company and a host country's government feel about two different types of foreign direct investment: de novo entrance (by creating a new platform) and purchase of the local incumbent platform. Transferring technology, cross-group network externalities, and differentiating platform services are essential concepts in the approach. They rate the host country's welfare benefits and the entrant's revenues from the two entrance options as a whole. Asymmetric restrictions on the degree of foreign ownership in e-commerce platforms operating in the host country can induce the welfare-optimal choice of the entry mode by the foreign firm in the case where the foreign entrant and the host country government disagree over the ranking of the entry modes.

Kush Shah (2018) Foreign direct investment (FDI) has remained a crucial component of the worldwide investment landscape despite the many changes that have occurred over the last several decades. Since the turn of the century, the digital platforms of e-commerce have completely revolutionized the manner in which companies do business across national boundaries due to the increasing significance and use of the internet by enterprises. The development of this industry is highly dependent on the regulations that regulate its operations. Indian e-commerce in particular has expanded rapidly over the last several years, contributing to the country's overall impressive development rate. Currently valued at over $20 billion, the industry is projected to grow to $120 billion by 2020. Since 1991, when India's economy was first liberalized, the country's government has actively sought out and welcomed foreign investment across the board, from production to infrastructure to information technology and commercial services. In 2016, India implemented new changes that included easing screening procedures for overseas investors in order to increase their involvement in the country's nascent e-commerce market. Experts in the field of electronic commerce are concerned that the recently implemented legislative changes may have unfavorable effects on the Indian market. This dissertation aims to examine the implications of the new e-commerce policy on India's retail industry. The study's overarching issue is, "How can we anticipate the effects of the Indian government's recent authorization of 100% FDI in the e-commerce industry on the Indian retail sector?"

Singh, Shikha. (2019). Indian economy is one of the top emerging markets of the world. Five years ago, it was considered as part of the fragile five, but no longer. Since 2014, it has emerged as of the one top foreign destination in the world with a significant rise in FDI. The journey of attracting foreign investments started way back in 1991 with New Economic policy and India has unpreventably scaled new heights in the level of FDI during 2000's. The paper focuses on secondary data based Sectoral analysis of the inflow of FDI in India from 2000 to 2018. The paper also aims to look at different facets of positive FDI spill overs in the country

3. DETERMINANT OF FDI IN E-COMMERCE:

Here, the natural log is used for both the dependent and independent variables. The coefficients may be interpreted in terms of elasticity since the model is in log. With internet availability held constant, Table 1's estimated model predicts a 0.4% rise in private equity inflow for every 1% rise in mobile customers. At the 10% level of significance, the result is confirmed to be significant. Similarly, if mobile access remains the same, a 1% increase in internet customers would result in a 0.2% rise in PE. However, statistical testing indicates that the coefficient is not significant.

Table 1: Determinant of FDI in e-commerce: OLS Estimation Results (2000-2016) T = 17 Dependent variable: ln PE

Independent Variables	*Coefficient*	*Std. Error*	*t-ratio*	*p-value*
const	3.40733	0.594927	5.727	<0.0001***
ln_MOB	0.396467	0.196115	2.022	0.0628*
ln_INT	0.163972	0.198436	0.8263	0.4225
Mean dependent var	5.884321		S.D. dependent var	1.503366
Sum squared resid	14.53081		S.E. of regression	1.018781
R-squared	0.598172		Adjusted R-squared	0.540768
F(2, 14)	15.91003		P-value(F)	0.000249
Log-likelihood	−22.78795		Akaike criterion	51.57589
Schwarz criterion	54.07553		Hannan-Quinn	51.82436
rho	0.010636		Durbin-Watson	1.855098

Source: Econometric results based on various sources.

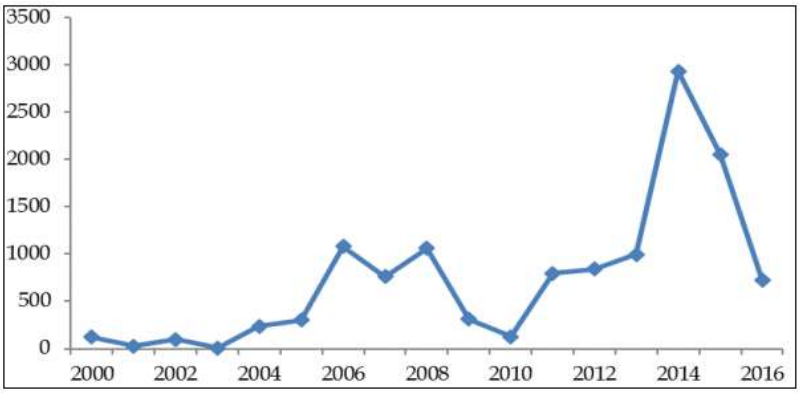
Note: HAC standard errors, bandwidth 1 (Bartlett kernel); * denotes significant at the 10 per cent level. The reported standard errors are robust.

The degree of private equity inflow in India is positively correlated with both cell subscription and internet availability, as shown by econometric analyses. On the other hand, the effect is quite large and noteworthy for mobile customers. With an R2 of 0.6, we may conclude that the chosen independent regressors account for 60% of the observed variance in the dependent variable inside the OLS model. Therefore, the regression model concludes that ICT has a significant impact on outside investment in India's e-commerce industry. In recent years, the rising number of people who have mobile phone plans has been a crucial factor attracting foreign direct investment.

4. TRENDS OF INVESTMENT FLOW AND SHAREHOLDING PATTERN IN THE ECOMMERCE INDUSTRY IN INDIA

The importance of private equity (PE) businesses in the Indian e-commerce market is rising. Between 2007 and 2014, they poured over 400 dollars into it. Private equity companies make up the whole of the industry's domestic and international investment capital. Thirty-one transactions totaling $617 million ($810 million) were made by private equity groups in 2013. In 2017, there were a total of 40 agreements for US$4,402.23 million (S$5,781.67 million) in investment. These funds were dispersed across companies of varying sizes and specializations. In August 2017, the Japanese investor Softbank invested US$2,500,000,000 (S$3,283.40,000,000) in the Indian e-commerce behemoth Flipkart. When online retailer Flipkart put money in, rival Paytm soon followed suit. Figure 1 shows the trajectory of foreign private equity investment in the Indian e-commerce market.

Figure 1: Trends in Foreign Private Equity Investment in Indian E-commerce Sector (2000-2016)



Source: Author’s calculation from Venture Intelligence Database.

Investment from private equity firms has increased year since 2002, with the exception of 2006-2008 and 2014-2016. From 2000 to 2003, private equity investment maintained a consistent trajectory. There was an uptick after 2005, albeit it was not consistent. The numbers skyrocketed in 2013, only to drop precipitously the following year. The cash injection into Flipkart is primarily responsible for this remarkable growth. This massive influx of capital disrupted the investment market as a whole. There was no major investment in 2016, therefore the market returned to its typical state, which led to a decline similar to that seen in 2014. The leading Indian e-commerce companies since 2014 are included in Table 2, together with their significant investors and the total amount of money raised. When looking at the numbers more closely, it becomes clear that e-commerce investments are biassed. Although there was a large influx of cash, it seems that only a select few businesses benefited. The bulk of the funding went to large corporations like Flipkart, Snapdeal, Jabong, Paytm, and Pepperfry.com.

Table 2: Major Investors and Investee firms in Indian E-commerce sector

Year	Amount (Mil US$)	Major Investors	Major Investee
2014	2933.0	Tiger global, Nasper, Accel Partners, DST Global, ICONIQ Capital, Morgan Stanley, Temasek	Pepperfry.com, Snapdeal.com, Jabong.com, FabFurnish.com
2015	2057.00	Temasek, Soft Bank, Kalaari Capital Goldman Sachs	Snapdeal, UrbanLadder.com Pepperfry.com
2016	725.87	Helion Ventures, Bessemer, Ascent Capital,	Furlenco Snapdeal, Industrybuying.com, Big Basket
2017	4402.23	Nasper, Tencent, Soft Bank, Nexus,	Just Buy, Flipkart, Snapdeal, Paytm, UrbanLadder

Source: Deal curry 2013, 2014 Venture Intelligence 2015 onwards. Data includes on e-commerce and mobile commerce under IT and ITES sector

Flipkart received $1 billion (S$1.3 billion) in funding from private equity investors in 2014. The amount raised was among the largest ever in a single funding round for a global IT company. It rivals Yahoo's S$1.3 billion (US$1 billion) investment in Alibaba and is on par with that company's acquisition of a US$1 billion interest in the Chinese e-commerce giant. Facebook's record-breaking US$1.5 billion (S$1.97 billion) deal [prior to its first public offering (which contained a secondary component, so some of the money went to the selling shareholders rather than the firm)] was much larger. But in 2017, Flipkart received another US$2.5 billion (S$3.3 billion) from Japanese investor Softbank, shattering its own record.

5. FDI POLICY IN INDIA: -

Foreign direct investment (FDI) is defined as an investment made in the capital of an Indian company by a non-resident entity or a person resident outside India, in accordance with schedule I of the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000. The Indian Ministry of Commerce and Industry is the Nodal Agency responsible for overseeing and evaluating the country's Foreign Direct Investment (FDI) Policy. Press Releases serve as official notification of the FDI policy. The Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion, periodically releases (DIPP) Except for a small number of industries where permission from the RBI or FIPB is necessary, foreign investors are free to enter the market.

Table 3 Ranking of sectors wise FDI inflow in India (April 2000-2010 Dec)

Rank	Sector	%Of FDI inflow
1	Service sector	32
2	Computer Hardware and Software	14
3	Telecommunication	12
4	Housing and Real Estate	11
5	Construction Activities	11
6	Power	6
7	Automobile Industry	6
8	Metallurgical Industry	4
9	Petroleum and Natural Gas	3
10	Chemicals	1

Source: Fact sheet of FDI – DIPP (2010)

The 2010 AT Kearney FDI confidence Index confirms the widespread optimism in international media about India as a place to invest abroad. This is what the government's "economic survey 2010- 11" said about the retail industry when it was submitted on February 25. Addressing the worries of farmers and consumers might be aided by allowing foreign direct investment (FDI) in retail in stages, starting with major cities, and providing incentives for current retailers to upgrade their operations. Foreign direct investment (FDI) in retail helps bring in technical know-how to build up efficient supply chains that may serve as development models, and relaxing the retail restriction will significantly increase FDI flows into India, which have been rapidly dropping in recent years. Both the store's backend and frontend operations need investment and, as a result, must be developed in a way that is consistent with the store's overall strategy for dealing with increased competition.

6. ONLINE MARKET KEY IMPACT FACTORS OVER INDIAN MARKET:

Indian economy is too vast; it is impacted by many factors. Some significant factors that impact on Indian economy are as follows: -

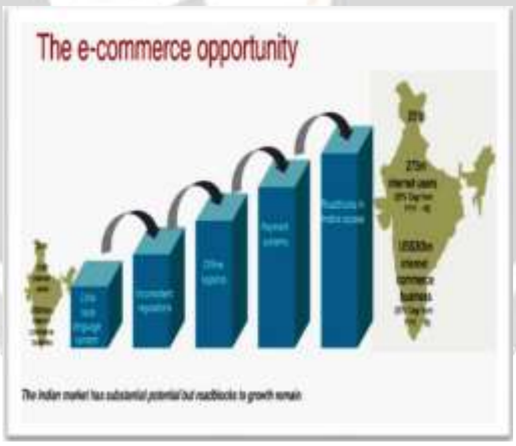
Fig 2

*(Online market Key Impact factors over Indian Market)

Online market Distinctiveness: - The course of progress is altered by newly emerging industry. The emergence of a new company may sometimes be essential in facilitating substantial changes to the overall growth environment. There is historical evidence from the expansion of economies that the introduction of a new idea may have a dramatic effect on existing institutions. With the structural improvements brought about by the online market business, there has been a corresponding rise in people's quality of life. Rentals and purchases are also part of the internet market.

Internet Connectivity: - The convenience of online shopping means that consumers may make purchases at any time, day or night, seven days a week. There is now no longer a temporal barrier to the nation's progress. The network of online marketplace transactions expanded dramatically with the advent of the E-payment system. This feature not only aids in saving money but also boosts competition in the electronic banking industry. Investment in the internet and telecommunications industry is beneficial to society in a number of ways. The telecommunications industry benefits from the public and private partnerships that have emerged.

Fig 3



Source: *http://emerge.nasscom.in/the-great-online market puzzle-do-the-pieces-finally-fit

Rules And Regulations in Online Market Sector: - Value-added tax (VAT) implementation in the Internet Age market is still a crucial job. The union excise charges have been replaced by a central-VAT at the national level. On April 1, 2005, all state governments were required to replace their sales tax with a state-level value-added tax, or state-VAT. In order to assist the online market sector deal with these issues, the government should establish policies and guidelines. Any successful online market would need creative solutions to these problems.

7. CONCLUSION

As the e-commerce business develops, there is a lack of sector-specific accounting guidelines to help with the unique issues it faces. Foreign direct investment is widely recognized as the most reliable source of the capital flows essential to cover the current account deficit, therefore this is also significant. Foreign direct investment

(FDI) will bring in more money and more resources, which will lead to improved decision making, regulations, structure, and organization for the buyer in India. In the last several years, India's e-commerce industry has expanded at an astounding rate. Indian and international firms are fighting in this market. Many private equity investors, both Indian and international, have been drawn to the industry because of its rapid expansion. This research aimed to examine the factors that have contributed to the industry's rapid and sustained expansion over such a short time frame. More specifically, this research aims to determine what drives private equity investment from outside into India's e-commerce market.

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