Peer Reviewed
Multidisciplinary
International

ISSN:2320-3714
Volume:2 Issue:3
June 2024
Impact Factor: 11.9
Subject: Business Studies

100% FDI IN E COMMERCE- WHAT IT MEANS FOR THE RETAIL BUSINESS

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Abstract

Foreign Direct Investment (FDI) plays a critical role in transforming India's retail sector, particularly in e-commerce retail, by attracting global giants to establish operations, thus creating jobs and business opportunities. This paper explores how FDI influxes stimulate economic growth, enhance infrastructure, and introduce advanced technologies. Despite concerns about monopolistic practices by foreign entities, FDI fosters competitiveness and innovation, benefiting consumers and the economy. The compound annual growth rate (CAGR) of the e-commerce retail market in India from 2015 to 2024 underscores its rapid expansion, driven by technological advancements and increasing consumer demand. The sector's growth is supported by regulatory reforms and government policies like 100% FDI allowance in e-commerce retail and GST implementation, facilitating market integration and efficiency. The retail industry, a significant contributor to GDP and employment, continues to evolve, propelled by strategic FDI investments aimed at sustaining growth and fostering inclusive development.

Keywords: *100% FDI, E-Commerce, Retail Business, CAGR rate, FDI Inflow in India.*

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1. INTRODUCTION

The ability to attract foreign direct investment (FDI) is essential for growth strategies, effective governance, and economic advancement. Transnational companies' foreign direct investment inflows of foreign currency, jobs, cutting-edge technologies, managerial and functional skill development, and increased productivity and efficiency that boosts competitiveness.

In contrast to their forebears, the current generation of consumers places a higher value on the shopping experience and demands a faultless experience at every turn, whether they are shopping at a hypermarket, a store around the corner, an e-commerce retailer, a shopping app on their mobile devices, or over the phone with a customer service representative. The retail sector has changed and the rules of retailing have been rewritten by the new era of technology. The advantages of contemporary technology have produced exceptional prospects across all domains, including supply chain, electronic transactions, inventory management, and customer service. Retailers across the globe are working really hard to gain a competitive edge and are not letting anything slip. They are utilizing a wide range of technologies, including e-commerce, anti-fraud tools, drone delivery (Amazon successfully delivered an order using a drone in England as early as 2016), robotics used by Amazon (more than 40000 robots engaged in warehouses, and different legs of supply chain and logistics). In addition to using RFID sensors to track products in real-time until they reach customers, smart digital assistants like Alexa from Amazon, and grocery-ordering appliances like refrigerators, the company began testing smart shelves that can alert users to low inventory levels.

In the Indian setting, the retail industry rose to prominence as a major economic sector. By 2015, its approximate value was 50,077.56 rupees, having grown at a Compound Annual Growth Rate (CAGR) of 7.45 percent since the year 2000. Based on current projections, it is expected to reach a level of INR 1.3 trillion as early as 2020, growing at a rate of 9.7% CAGR between 2000 and 2020. To attract global firms to the Indian retail industry, the Government of India (GOI) has opened up 100% FDI for internet-based product selling through automatic routes. Recently, the Government of India successfully implemented the Goods and Services Tax (GST). The goal of enacting this tax is to make it easier for items to be distributed throughout India, which will assist national merchants by streamlining their retail operations and benefiting end consumers.

1.1.Objectives of the Study

- To investigate retailing's growth patterns and contributions in India.
- To research how foreign direct investment has transformed India's e-commerce sector
- To assess FDI inflows by sector and the effects they have on economic growth.

2. LITERATURE REVIEW

Bharti, N. (2024) showed that, although e-commerce retailing has had a considerable favorable influence on the country's retail and manufacturing sector's sales overall (on average) between 1989 and 2020, its MSMEs have not seen the same benefit. Although not statistically significant, the impact on MSMEs has been positive, suggesting that the MSME sector still has unrealized potential to capitalize on the expanding e-commerce market. Regarding the impact of the expanding e-commerce retail industry on retail MSMEs' engagement in foreign trade, similar findings apply to the retail sector. The study concludes by highlighting the necessity of "digitalization" in order to get access to the e-commerce channel, which is in line with the social and environmental goals specified in the 2030 Agenda for Sustainable Development. As a result, the results recommend that India establish a thorough regulatory framework for e-commerce in order to guarantee inclusive and long-term growth for the e-commerce and MSME sectors.

Kamble, A. A. (2020) discussed the idea of foreign direct investment (FDI) in general and the relevant research on its potential benefits and drawbacks. The government's decision to use a marketplace model to facilitate 100% foreign direct investment in the e-commerce sector is described in the document. The study also addresses the legal concerns surrounding the actions and laws designed in this regard, potential loopholes that could be exploited for fraudulent activity, and the consequences for governance. In the fiscal year 2020, the Indian e-commerce sector is predicted to surpass $100 billion, as per a recent report from Goldman Sachs. The sector has grown due to factors like increasing internet access, mobile phone adoption, and strong investment. Based on current forecasts, India is expected to become the world's fastest expanding e-commerce market. In an effort to validate the operations of e-commerce enterprises already based in India,

ISSN:2320-3714
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the Indian government recently approved 100 percent FDI in e-commerce retail of products and services under the so-called "marketplace model" through the automatic route. The problem of defending consumer rights comes along with the growing expectations for the Indian e-commerce sector. When making purchases online, customers are exposed to a number of terms and conditions, often referred to as the "fine print," which they may not be aware of or may accept without carefully reading.

Pandey, A. (2019) claimed that e-commerce has emerged as the hot topic, drawing praise and condemnation alike. It has blurred national boundaries, creating a world of possibilities for consumers at the touch of a mouse, and opened up enormous prospects for businesses. Simultaneously, it has overthrown the long-standing, conventional business-to-consumer methods and substituted them with a practical and reasonably priced system. The e-commerce industry is inevitably regulated as governments worldwide attempt to determine which legal frameworks e-commerce companies should adhere to. With this goal in mind, the Indian government is also attempting to regulate a sector whose projected compound annual growth rate is enormous. The research paper that follows discusses the laws governing foreign direct investment that apply to e-commerce companies and the effects that the most recent changes will have on the industry.

Shah, K. H. (2018) examined the impact of the new e-commerce policy on Indian retail. This study asks, “How is the recent government permission of 100% FDI in the Indian e-commerce sector expected to impact the Indian retail sector?” The international investment landscape has changed significantly in recent decades, yet foreign direct investment (FDI) has remained essential. Since the turn of the century, as businesses have become more internet-dependent, e-commerce platforms have changed international business. The rules that govern this sector affect its growth. India's e-commerce market has risen rapidly in recent years. The sector is worth $20 billion and predicted to reach $120 billion by 2020. The Indian government has welcomed foreign investment in manufacturing, infrastructure, IT, and commercial services since 1991, when the economy was liberalized. To attract international investors to e-commerce, India eased screening standards in 2016.

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Batra, G. S. (2017) investigated how FDI has affected organized retailing in India, considering the views of both retailers and customers. Findings show that consumers are aware of FDI's benefits in the areas of technology, society, and the economy. The advantages of technology, economic, social, and store features, as well as product and store attributes, are associated with foreign direct investment in organized retailing of food and groceries and clothing. In contrast to organized retailers, businesses should concentrate on marketing techniques including loyalty programs, free gifts, store image, and festival offers to draw customers. If foreign retailers expand their business in India, there will be a rise in employment and a rise in the level of living. Small conventional retailers can benefit from trainings, new market opportunities, technical support, contract farming, efficient marketing chains, improved packaging, and e-commerce provided by foreign retailers. Retailers may experience some challenges, such as irregular supply and late payments, but the government can handle these difficulties.

3. FDI ROLE IN TRANSFORMING E-COMMERCE IN INDIA

Let's look at an example where a government permits 100% FDI in a sector. This can entice giants to set up shop in India, resulting in the creation of jobs and business prospects. Everyone will see money, which could strengthen the Indian economy. Now think about the consequences: Giants will handle all of the milking, using Indian resources, and India will receive only income from taxes. Whenever an Indian company starts up and needs capital to grow, it will be owned by an Indian, resources will be used for India, it will benefit both India and India, and investors will only receive the money that has been promised.

In India, e-commerce is a rapidly expanding industry that adds value and makes a lot of people wealthy. There are no wealthy oligarchs supporting the e-commerce businesses. Most of them are tenacious start-ups supported by first-generation business owners. This provides a strong motivation for state representatives to create legislation that impedes e-commerce. These rules have the potential to be crafted such that many prosperous businesses appear to be breaking the law, providing bureaucrats and politicians with an excuse to harass these businesses and demand favors.

Developing countries are drawn to the world's greatest outside speculation streams, not underdeveloped or developing countries. Particularly in India, panicked local interests in building nations are being bolstered by remote speculation streams. However, outside speculators are never given a friendly environment to increase their profit. These endeavors satisfied the financial requirements for establishing the essential and foundational need division framework businesses. However, we discover that the highest percentage of FDI—33.05 percent of the total FDI influx to India throughout the study period—went to the financial, protection, real estate, and business administration sectors. In the context of remote direct venture locations, it is a real concern. This filtering is primarily due to the high risk and poor benefit in the areas of concern. Due to the fact that FDI is associated with various risks, it is assumed to provide a variety of connections that contribute to the development of the Indian economy. Nevertheless, there is a rising trend in the distant venture streams, particularly over the study period. Through prompt and deceptive practices, we should create a superior environment for attracting distant ventures. We should welcome foreign investment in a way that will benefit the Indian economy and enable us to achieve our goals, which include quick financial improvement, eradicating poverty, fostering individual differences in advancement, and optimizing our balance of payments.

Table 1: CASG rate for India's e-commerce retail sector from 2015 to 2024

Year	Compound annual growth rate by e-commerce retail market
2015-2016	16
2016-2017	25
2017-2018	40
2018-2019	60
2019-2020	95
2020-2021	140
2021-2022	225
2022-2023	337
2023-2024	507

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Figure 1: CASG rate for India's e-commerce retail sector from 2015 to 2024

The Indian e-commerce retail market has had significant development in terms of compound annual growth rate (CAGR) from 2015 and 2024. With a CAGR of 16% in 2015–2016, the market began to grow quickly, and by 2023–2024, it had reached 507%. The observed exponential development highlights the growing inclination of consumers towards e-commerce shopping, which can be attributed to advancements in technology, increased internet access, and a trend towards digital transactions. The strong compound annual growth rate (CAGR) indicates the industry's durability and potential, emphasizing its role as a primary catalyst for the retail industry's change in India. It has significant prospects for job creation, economic expansion, and improved customer experiences.

4. THE GROWTH TRENDS AND CONTRIBUTIONS OF RETAILING IN INDIA

The retail market in India is estimated to be worth US $500 billion and is expanding at a rate of roughly 20% annually. After agriculture, the retail industry employs the second most people. Over 35 million job opportunities were created by the retail sector alone.

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The retail sector is primarily split into

1) Organized
2) Unorganized Retailing

Trade activities carried out by licensed retailers—that is, those who are registered for income tax, sales tax, and other taxes—are referred to as organized retailing. These include the huge retail companies that are privately held as well as the corporately backed hypermarkets and retail chains.

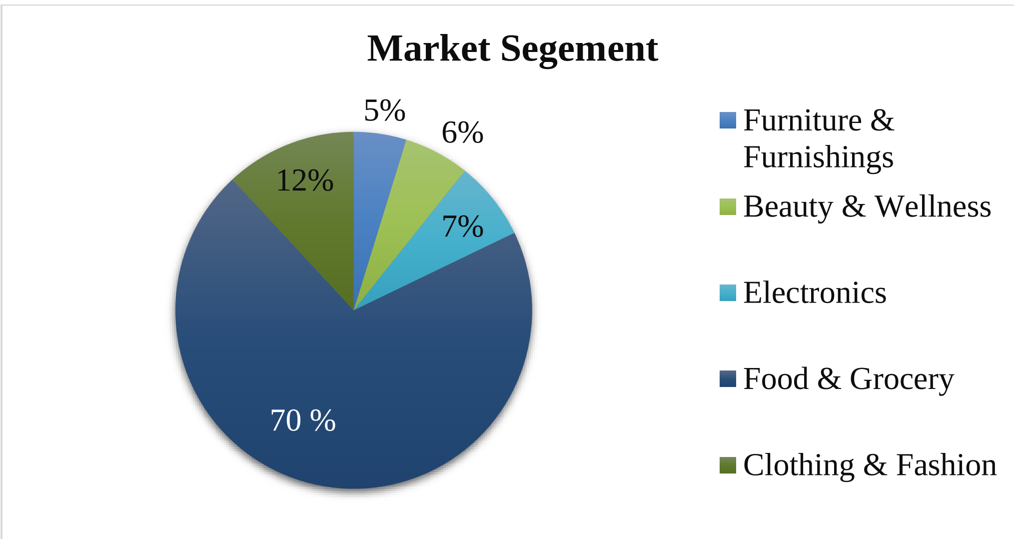

Figure 2: Market Segment

Table 2: Growth and Trend of Indian Retailing

Year	Total Retailing turnovers	Growth rate of total retailing turnover last year, in %	Organized sector turnover	Growth rate of Organized sector last year, in %	Market share in %
2015	23,57,000	11.80	1,80,000	26.0	10
2016	26,42,000	13.12	2,25,000	26.7	12
2017	29,55,000	12.72	2,80,000	26.0	14
2018	32,68,000	11.65	3,50,000	26.45	14

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2019	36,28,000	12.00	4,30,000	24.18	15
2020	39,97,000	11.22	5,35,000	25.9	16
2021	44,97,000	13.54	6,75,000	27.50	17
2022	50,38,000	13.03	8,45,000	26.40	19
2023	56,19,000	15.53	10,55,000	30.04	21
2024	62,45,000	17.33	13,15,000	35.02	23

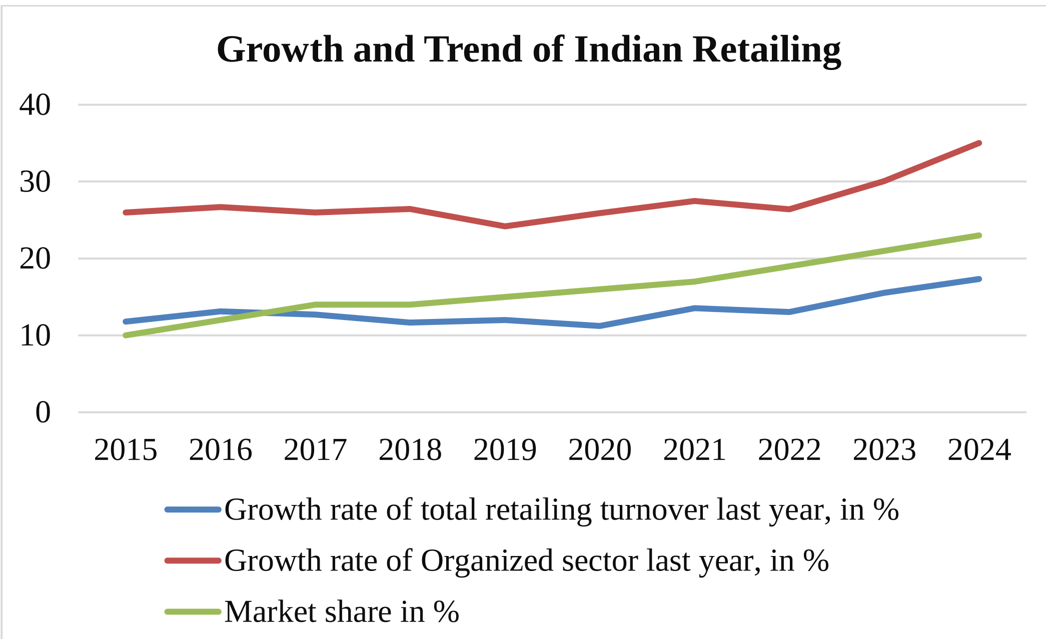

Figure 3: Growth and Trend of Indian Retailing

India's retail sector grew significantly from 2015 to 2024, as seen in table 2. Retail turnovers grew at a CAGR due to rising consumer demand and economic activity. The organized sector—licensed retailers and major corporate-backed entities—grew annually, gaining market share. This development shows the sector's adaptation and resilience, bolstered by regulatory reforms and technology. The increased market share suggests a shift toward organized retailing, driven by improved efficiency and consumer experiences, making the industry a key driver of India's economic growth and jobs.

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Table 3 ranks Indian sectors by FDI share. The service sector receives 35% of overall FDI, demonstrating its importance to GDP and employment. Following closely are Computer Hardware and Software (17%), Telecommunication (15%), and Housing and Real Estate (12%), demonstrating foreign investment interest in infrastructure expansion and technical innovation. Construction Activities score 14% and Power 9%, highlighting investments in key infrastructure and energy. Manufacturing sectors including automotive and metallurgical draw 9% and 7%, respectively, underlining their importance for industrial growth. Petroleum, natural gas, and chemicals make up the rest with 6% and 4%, respectively, reflecting foreign interest in India's energy and chemical sectors. These rankings show smart investments in India's varied sectors to boost economic growth.

Table 3: India's Sector-Wise FDI Inflow Ranking

Rank	**Sector**	**% of FDI inflow**
1	Service sector	35
2	Computer Hardware and Software	17
3	Telecommunication	15
4	Housing and Real Estate	12
5	Construction Activities	14
6	Power	9
7	Automobile Industry	9
8	Metallurgical Industry	7
9	Petroleum and Natural Gas	6
10	Chemicals	4

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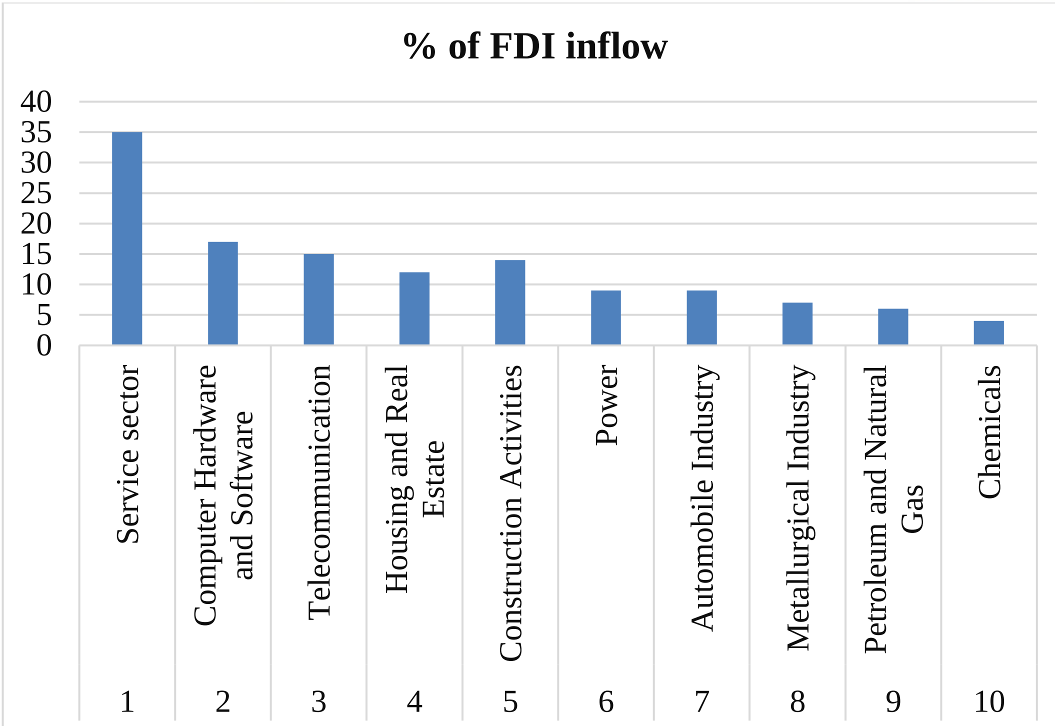

Figure 4: India's Sector-Wise FDI Inflow Ranking

5. CONCLUSION

India's retail industry is growing quickly as a result of advancements in technology and government policies that encourage organized commerce. This is a good step forward for the retail industry. Significant inflows of foreign direct investment (FDI) are propelling the sector's expansion, especially in the retail e-commerce space, which has shown impressive compound annual growth rates (CAGR) over the past ten years. The government has been able to improve consumer experiences, streamline operations, and increase supply chain efficiencies by implementing the Goods and Services Tax (GST) and permitting 100% FDI in e-commerce retail. Future infrastructure spending, regulatory requirements clarification, and the creation of a business-friendly environment will all be important to sustain current economic trajectory and draw in more foreign direct investment. This strategic strategy not only ensures equitable development but also promotes economic growth in the retail sector by fostering employment opportunities and ecologically responsible company practices.

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