

## E-Commerce and Socio-Economic Development

**Pawan Prasad** is an Assistant Professor and Head, Department of Commerce, at Salesian College, Siliguri Campus. Area of interest: working capital management in small scale industries.

### Abstract

Rapid technological progress in information and communication technologies (ICTs) along with their widespread diffusion have led to speculation about "frictionless" economies in which transaction costs are nearly zero, barriers to entry and contestability disappear, and markets clear instantly. Some think that electronic commerce, with producers selling directly to consumers over computer networks such as the Internet, will eliminate existing intermediaries (disintermediation) and drastically reduce transaction costs. These lower production costs will encourage the entry of new businesses and thus increase competition and pressure to pass lower costs on to consumers as lower prices. Since electronic commerce is still at a very early stage in its development, much of this thinking is based on speculation or anecdotal evidence. Through this paper, attempt has been made to explore the benefits of E-commerce in socioeconomic development of any region.

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**Keywords:** Commerce, Internet, Development, Business, Trade Policy.

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### Introduction

Electronic commerce is presently an indispensable ingredient of India's trade facilitation policy. Since 1991, after economic reforms explicitly took place in India as a result of opening of the economy with a view to integrate itself with the global economy, the need to facilitate international trade both through policy and procedure reforms has become the foundation stone of India's trade and fiscal policies. Resultantly, last few years have witnessed a technological revolution accompanied by the wide spread use of the Internet, web technologies and their applications. Electronic commerce (E-commerce) as part of the information technology revolution became widely used in the world trade in general and Indian economy in particular. Adoption of new information technologies, particularly E-commerce, is expected to result in improvements in firm performance, such as reducing transaction costs and closer coordination of economic activity among business partners. As E-commerce continues to grow rapidly, it could have significant effects on the social and economic structures of economy. The impacts of these changes are diverse and may even widen the digital divide among nations, alter the composition of trade, disrupt labor markets, and change taxation.

The buying and selling of products and services by businesses and consumers through an electronic medium, without using any paper documents is known as E-commerce. E-commerce is widely considered the buying and selling of products over the internet, but any transaction that is completed solely through electronic measures can be considered E-commerce. E commerce is subdivided into three

categories business to business or B2B (Cisco), business to consumer or B2C (Amazon), and consumer to consumer or C2C (eBay).

There are advantages of the E-commerce for consumers and for business organisations. Consumers will enjoy reduced prices, global marketplace, 24/7 access of the goods and services being traded. Similarly the business organisations will benefit by achieving increased potential market share, low cost advertising and low barriers to entries. On the other hand, E-commerce scores extremely low on the ability to examine products personally (physical verification), online purchasing security for the consumers, maintenance of website, recurring costs, website stickiness, training and maintenance, customer loyalty. Following are some points by which an attempt is made to elaborate the impact of E-commerce on socio economic development.

### **Social implications of E-commerce**

Although, primarily an economic phenomenon, electronic commerce is part of a broader process of social change, characterised by the globalization of markets. The shift towards an economy based on knowledge and information, and the growing prominence of all forms of technology in everyday life. These major societal transformations are now under way and will probably continue far into the foreseeable future. As both a product and manifestation of such transformations, electronic commerce is being shaped by, and increasingly will help to shape, modern society as a whole especially in the areas of education, health and government services. Societal factors will merit attention from a public policy stand point, both to establish the social conditions that allow electronic commerce to reach its full economic potential and to ensure that its benefits are realised by society as a whole. Two such elements are first, access and its determinants (e.g. income) and constraints (e.g. time) and, second, confidence and trust.

One of the hallmarks of electronic commerce is that, by drastically reducing transaction and search costs, it reduces the distance between buyer and seller, enabling businesses to target very small niches, develop individual customer profiles, and essentially provide a means of marketing on a one-to-one basis. The ability to realise this goal will largely hinge on the climate of confidence and trust that businesses are able to create in their relations with their business partners and customers. Assurances about protection of privacy and personal information play an important role in building that confidence. Both the public and private sectors need a fuller understanding of the requirements for fostering confidence in electronic markets, particularly among consumers. While some studies have shown that E-commerce have positive impact on the social activities and thereby contribute in the process of social development. E-commerce improves the quality and flow of information and communication; there are good reasons to expect that the E-commerce will soon have positive and lasting impact on the society.<sup>1</sup>

1 R. Patterson , E. J. Wilson, "New IT and Social Inequality: Resting the Research and Policy Agenda", *The*

### **Trade policy through E-commerce**

Issues of how to accommodate products bought and sold by electronic commerce in existing trade rules are being analysed.<sup>2</sup> E-commerce will increase international trade, particularly in electronically delivered products, many of which are services which have not yet been exposed to significant international trade but have been 'traded' through foreign direct investment or have operated on a global level only for large corporate clients. This change may come as a shock to sectors that have been sheltered by logistical or regulatory barriers. In addition, it will generate pressures to reduce differences in regulatory standards - accreditation, licensing, and restrictions on activity - for newly tradable products.

### **Competition policies which helps in economic development**

As the ease of forming business networks increases, as traditional market boundaries blur, and as technology undermines the rationale for the monopoly privileges, granted too many service activities, competition policy will have to address new types of anticompetitive practices. Many E-commerce products benefit from non-rivalry. E-commerce reducing sellers' procurement cost.<sup>3</sup> (One person's consumption does not limit or reduce the value of the product to other consumers), network externalities (each additional user of a product increases its value to other users), and increasing returns to scale (unit costs decrease as sales increase). These factors create an environment where producers may seek to engage in practices that permit them to establish themselves as the de facto standard. This can hinder innovation and competition.

Still small in economic terms, E-commerce has the potential to accelerate existing trends and introduce new ways of conducting business, organising work and interacting in society. As with the advent of any new technology that may be widely diffused, there are overly optimistic and pessimistic predictions, which are generally inaccurate for example mail order has not displaced traditional retail trade nor has the VCR displaced teachers. Nor is this the first time that our societies have been exposed to the broad diffusion of information and communication technologies: over the 20-year period from 1874 to 1895, the typewriter, telephone, phonograph, electric light, punch card, hydro-electric plant, automated switchboard, cinema and radio were all invented.

### **E-Business and government policies**

Nearly all parties agree that the Internet and E-commerce will be led by business, with government playing a minimalist role. The dynamism of the E-commerce market would support this view. Nonetheless, it is important to recall that governments have played, and continue to play, a critical role in developing technology for these activities, and

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*Information Society*, USA, Oxford, 2000, 123-135.

2 Vasu Deva, *E-Learning: Search for Excellence*, New Delhi, Commonwealth Publishers, 2003.

3 URL: [http://www.oft.gov.uk/shared\\_oftr/reports/comp\\_policy/oft308.pdf](http://www.oft.gov.uk/shared_oftr/reports/comp_policy/oft308.pdf) (accessed on 02/Jan/2012).

that they have an obligation to pursue broad societal goals. Conventional economic theory would suggest that governments should only subsidize basic research into ICT technologies. However, the experience of the past three decades shows that most of the major ICT innovations like timesharing, networking, routers, workstations, optic fibers, semiconductors (RISC, VLSI), parallel computing, many of which are more applied or developmental in nature, are the result of government-funded research or government programmes;<sup>4</sup> Government procurement and demonstration projects also play an important part. While governments should not intervene excessively in this area, neither should they simply be spectators. Governments will need to work closely with business to maximise the potential of this activity for the economic development of a country like India.

### **E- Commerce contribution to Economic Growth**

A key economic impact of E-commerce today is seen in the reduction of firms' production costs. This is identified as a factor that will urge the use of E-commerce within and between businesses. Although there are measurement problems associated with capturing the quality changes inherent in many of these activities, it is assumed that E-commerce will result in productivity gains. E-commerce is more a way of doing business than a sector, these gains could be distributed widely across OECD (Organization for Economic Co-operation and Development) economies - including in the services sector, which has not enjoyed significant, measurable productivity gains in the past - and could help to enable long-term growth.<sup>5</sup> To find the role of E-commerce in economic development, first it is important to investigate the past contribution of E-commerce to economic growth in developed countries as opposed to developing countries. As E-commerce evolves, it is likely to follow the 'reverse product cycle', in which process efficiency gains are followed by quality improvements to existing products and then the creation of new products. Typically, it is in this final stage that significant economic growth occurs. E-commerce has the potential to be a platform from which significant new products materialize, many of which will be digital and delivered online. New products have a tendency to bring about more new products and processes in a virtuous spiral, just as Edison's electric lamp led to the development of power generation and delivery, which led to other electrical products.

### **Future of E- Commerce in India**

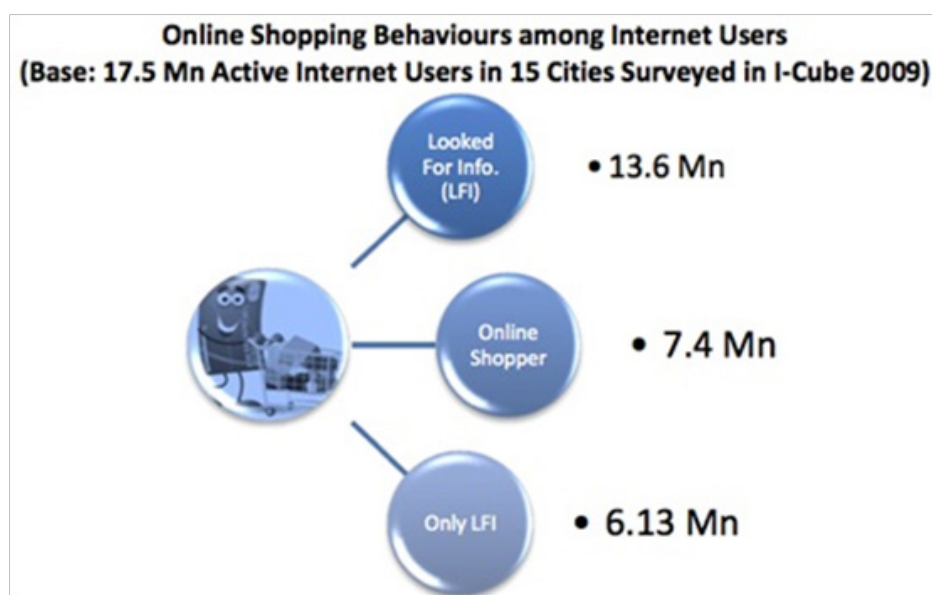
Today, we are talking about E-commerce progress level of India, the seventh- largest by geographical area, the second most populous country and the most populous democracy in the world. The future does look very bright for E-commerce in India with

4 Shirish C. Srivastava and Thompson S.H. Teo, "E-Government, E-Business, and National Economic Performance", *Communications of the Association for Information Systems*, 26(2010). URL: <http://aisel.aisnet.org/cais/vol26/iss1/14/> (accessed on 12/ Aug/2011).

5 Ing-wei Huang and Songsak Vanichviroon, *Chapter X: E-commerce Contribution to Economic Growth: The Case of Thailand*, Assumption University, Thailand. URL: <http://www.irma-international.org/viewtitle/23515/> (accessed on 12/ Aug/2011).

even the stock exchange coming online providing a online stock portfolio and status with a fifteen minute delay in prices. The day is not far when with RBI regulations will be able to observe stock transfer and sale by specialized services.

According to IAMAI,<sup>6</sup> 13.6 million Internet users looked for information (LFI) while planning a purchase online. Of these, only 7.47 million actually purchased a product online. Thus only 50% of the users who look for information online end up buying too.



Source: Indian Online Shoppers.<sup>7</sup>

The shift is gradually taking place where an increasing number of people are making online purchases too. But the majority of the Internet audience is still averse to the idea of making online purchases due to the following reasons:

In 2011 E-Retailing industry was Rs 3600 crore. The number of transaction presently in India is Rs. 10 million, which is expected to increase by Rs. 38 million by 2015. Currently the estimated number of internet users in India is 376 million by 2015. In 2011 E-commerce Ventures Raised around Rs 1622.6 crore of Private Retailer giant Macy's and some others began shipping to India. In 2012, Amazon entered into India with Junglee.com. In 2011 growth in online sale of Tesco recorded was 15.2%. Retail in India is tiny in comparison to \$550 billion market which is unorganized. 12 of ACCEL's

6 The Internet & Mobile Association of India (IAMAI) is not-for-profit industry body registered under the societies Act. 1896. its mandate is to expand and enhance the online and mobile value added services sectors. it is dedicated to presenting a unified voice of the business it represents to the government, investors, consumers and other stakeholders. The association addresses the issues, concerns and challenges of the internet and mobile economy and takes a leading role in its development. The association's activities include promoting the inherent strengths of the digital economy, evaluating and recommending standards and practice to the industry, conducting research, creating platform for its members, communicating on behalf of the industry and creating a favorable business environment for the industry. Founded in January 2004 by leading portals in India, IAMAI is the only specialized industry body in India representing the interests of online and mobile value added services industry.

7 URL: <http://www.scribd.com/doc/62145224/Report-on-Online-Commerce-March-2011-By-IAMAI>

38 investments are E-commerce. Number of employee in Flipkart is 3500, and the same in snapdeal.com

### Share of E-commerce industry wise

The travel industry has 51% of share in the market economy, e-retailing enjoying 40% and Clothiers almost 1% in the global economy today. Besides for all these reasons, the E-commerce industry has shown great signs of growth due to the increasing awareness of the same amongst the net savvy Indians. The online travel industry seems like it will continue to dominate the E-commerce market, but e-tailing and digital downloads is expected to source the highest growth. The increasing number of mobile/digital downloads is in direct correlation to the high proliferation of mobile devices in the country among different users as well as introduction of interactive content over the Internet. Also many retail chains are opening up to embrace the medium to ensure there are sales over the Internet. This ensures reach in Tier-II and Tier-III cities where the early Internet users are being targeted for online purchases as well. The financial services sector is another area that holds promising growth in the future due to the ease and adaptability of online money managing services.

The Internet users in India have time and again adopted the advancements in the online space and are always seeking out to include digital interactions into their daily activities - making purchases and indulging in transactions being one of them. The E-commerce industry on its own is poised to be one of the biggest markets in India. It will be interesting to see how and when the E-commerce industry will shape itself into a mainstream giant being accepted by the masses in the online space.

### Country wise (Sales Data) based on Weighted E-commerce Market Share in CMS<sup>8</sup>

Country	Market Share	
	2012	2016
India	1.6	8.8
Australia	23.2	35.4
Japan	63.9	97.6
China	169.4	356.1

Source: Forrester

The Above table shows the country wise future of the E-commerce as it gives the data of sales within a period for the four year of different countries. There will be more than five times increase in India.

<sup>8</sup> CMS: Content Management System, URL: <http://searchsoa.techtarget.com/definition/content-management-system> (accessed on 25/Jul/2012).

## **Recommendations**

To bridge the gap between E-commerce and traditional commerce, the following can be part of workable plan of action. These recommendations can be considered by the competent authority (policy maker) viz. central level or state or local corporate organizations if they want to increase the use of E-commerce in India.

Firstly, a statistical methodology and apparatus for measuring electronic commerce should be developed. Key areas for future research are the business-to-business segment; electronically delivered products such as software, travel services, entertainment and finance; and country-specific differences in the size and growth potential of electronic transactions.

Secondly, the economy-wide and sector-specific impact of E-commerce on productivity should be assessed, and the notion that this application may lead to a sustained higher level of economic efficiency should be explored.

Thirdly, E-commerce can dramatically reduce some production costs, but it does not offer a "friction-free" environment. Rather, owing to new costs associated with establishing trust and reducing inherent risks, it requires new intermediaries. Widespread 'disintermediation' (producers selling directly to consumers without aid of intermediaries) is unlikely, but the nature of intermediary functions is likely to change. Monitoring of the restructuring of intermediary functions is needed.

Fourthly, while a general assessment of the impact of E-commerce on prices may be premature, sectoral studies on a variety of consumer and business products should be undertaken to measure the impact and identify factors that encourage and inhibit price competition, including the use of intelligent agents. The impact of the structure of price setting and of the frequency of price changes on markets and on measurement also requires study.

Fifthly, in a developing country like India, it is of particular interest whether such benefits can reach to the poor and even help directly or indirectly reducing the deprivations associated with poverty. For example, better access to education, agricultural market, and information or to government services may be relatively more valuable for the poor people who cannot afford to use the traditional methods or communications media, or to pay for the services of traditional facilitating intermediaries.

Finally, E-commerce needs attention in our country where still more than 60% people belong to rural area. They are not yet familiar with use of computer and recent technologies. An attempt should be needed to teach them and motivate them for shopping through E-commerce and use of debit and credit cards.

## **Conclusion**

No doubt, an information based society or knowledge based society is composed of IT products, IT applications in society and economy as a whole. A developing country can become industrialized and modernized if it can extensively apply IT to enhance productivity and develop e-commerce. The role of Government is to provide a legal framework for E-commerce so that while domestic and international trade are allowed to expand their horizon, basic rights such as privacy, intellectual property, and prevention of fraud are to be taken care of by the competent authority. To have information based society, along with policy makers, we also have to motivate ourselves to make online transactions through internet or mobile banking.