How the policies of government affecting the E-commerce business in India

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Abstract

E-commerce sector in India is a recent market which has gained momentum in last five years. The marketplace was largely unregulated and required a regulatory body for the organization and monitoring. The new e-commerce draft policy by the Government of India has changed a lot of rules and regulations to regulate, monitor, and protect the rights of the customers and companies. This paper details the market, companies, customers, and the investments before the policy and afterward. This policy initiates the organization of the marketplace and monitors all the data and financial transactions in the e-commerce sector.

Introduction

E-commerce in India is a huge market. There are different reasons for the growth and stability of this market. The digital transformation that the country is witnessing in the past few years has accelerated the market and the choice of customers. The e-commerce market in India is estimated to reach $200 billion in the next five years, 2025. The size of the market is huge and is only in the top 5 in the world. One of the main factors influencing this market could be the exponential growth of the internet and smartphone usage in the country.

National e-Commerce Policy

Government of India has drafted a national policy for the e-Commerce market. The policy has been drafted and implemented because of the growing size of the market and the contribution towards the national development. The market of e-commerce in India was valued at $38.5 billion in the year 2017 which is predicted to increase 5 folds in the next five years. The B2B market is bigger than the B2C market and is also predicted to grow multiple folds in the next few years. These number promise a great contribution to the economy, however, the market in India is still in its infancy and is very small compared to the retail market which is about $800 billion value. There are policies and rules framed and monitored by the government. However, this policy is an updated version with recommendations from different committees such as Justice Sri Krishna Committee especially in the data and privacy sections of the policy including the rules for digital ecosystem.

Data – The digital data generated is humungous in the recent years. The availability of the internet and digital infrastructure including smartphones has enabled the users to shop online more than ever. The usage has increased, so has the generation of digital data. It is thus important that the government has a strict guidelines and framework that will ensure the data of the customers is secured. The issues of monopoly, competition, fair prices with respect to the e-commerce sector are also included in the guidelines.

The data of millions of customers is stored. This data also includes the private information along with sensitive financial data. The data can be used within limits only with the consent of the individual. The data is mostly shared among the different locations of the company. For example, Amazon is a multi-national company operating in many countries of the world. Therefore, the rules should be framed for the cross-border data flow especially with the private information of the data [4]. The sensitive data should not be allowed to share out of India for any reason. The draft also includes the provision in which the companies should share the data with the government authorities and agencies if requested for any investigative purposes. The company operating e-commerce business in India must have a registered entity in the country.

Physical and Digital Infrastructure – The physical and digital infrastructure required for the market to operate efficiently should be the responsibility of both the companies and the government. The physical infrastructure includes the logistics, transportation, etc. whereas the digital infrastructure involves cloud storage, data centers, internet, etc. Although, the current levels of infrastructure are helping the industry grow at a good pace, it should be improved for the growing market. The domestic digital storage and operational facilities should be recognized and subsidized [1] [9].

The e-commerce market is dependent on investments, policies, and the marketplace itself. These factors should be carefully analyzed before interpreting the growth and future of the e-commerce sector. There are different ways the Foreign Direct Investment (FDI) is allowed in India. With the new policy, FDI is only allowed in the form of marketplace model. The existing method of inventory model is not allowed anymore. The reason for this is to encourage the local employment and also economy. If the FDI is allowed in inventory-based model, then the companies would operate from other countries and does not indirectly contribute in terms of other taxes, employment and local suppliers. Therefore, this new model will improve the sector and the related indirect benefits to Indians. The online market is just a platform which must encourage the domestic suppliers and manufacturers. This change is already witnessed in the recent years where many industries and local manufacturers are focusing and growing because of the online platforms [9]. The small and medium enterprises will also improve in sales and contribute to the economy [8]. This is also a direct blow to the Chinese companies who export to India using loopholes in the laws. The most common method of exporting cheap goods to India is in the form of gifts because they do not attract any customs duty and taxes. This issue has been addressed by banning all the websites that export to India using these loopholes. Prevention of fake products and sellers should be an important role of the authorities [6].

Government of India with its Digital India initiatives has been encouraging the domestic market with several facilities and tax benefits to encourage the domestic retailers. The market is still considered an infant because of its lack of export quality goods. This should be changed and Indian marketplace should be able to sent items throughout the world for which different policies will help the manufacturers and sellers.

Government Encouragement

Offline market – India is a diverse country with limited access to the internet compared to the size of the population and the offline market. The fight between online and offline retailers have been going on since long time. However, as per the government policies are concerned it is extremely important that both offline and online markets are considered and encouraged equally. [2]. Foreign Companies – There are many reasons for the government's hard rules on the foreign firms. Many of the reasons are already discussed. The latest rules on the foreign companies will force the companies to change certain rules to comply with the latest policies. The companies most affected are Amazon and Flipkart. These two companies are the giants in the Indian e-commerce sector and both are owned by the foreign companies [3].

The most affected will be the companies such as Chinese retailer Club Factory because they were using the gift rule to evade the taxes and rules. The existing rule said that the personal items in the form of gifts worth less than Rs.5000. are exempted from tax. The rising number of personal raised an alarm at the customs because thousands of deliveries in the form of gifts were delivered to the same address with lowered value of the item to evade the customs duty. The new policy has changed this route of evading taxes forever. The new policy states that any delivery in the form of gift or otherwise has to be routed through the customs and the company should have a registered entity in India which handles the items. These rules may be hard for the foreign investors and companies. However, this will streamline the entire process and ensure that every item is delivered through the proper channel and government monitoring.

Consumers' perspective – The new policies have forced the customers to familiarize with the standard processes. Some of the customers who were purchasing the items from online shops in different countries may have to pay more. However, this payment will have its significant benefits because the entire process is safeguarded by the government authorities now. The customer will have all the right of the offline customer [2].

The highlights of the new policy can be summarized into the following points.

- The online companies are not allowed to sell the products to the customers through vendors who are also the investors in the company. There are many companies which allow the vendors who have the equity interest to sell the products. The issue with this practice is that the online retailer is not liable for any issues that arise and the seller is not a registered company in India. This rule was profitable for the companies but had not customer protection.

- A new trend of selling the products exclusively on one platform is also banned in the new policy. This practice allowed the agreements between manufacturers and the online platforms to have only one channel of sale. This creates monopoly and did not allow fair competition. This practice is discontinued allowing fair competition and pricing.
- Level playing on the online platform is a new norm to be followed by all the companies. The online platform has all the possibilities of encouraging or discouraging the sellers. This practice discourages the sellers and suppliers to sell online. Companies are not allowed to practice any biased patterns in terms of sellers and also customers as per the new rule.
- The inventory-based model is not allowed henceforth. Thus, the vendor is the sole owner who can sell the products using the online platforms. If the company is allowed to manipulate the vendors' inventory, then the vendor is in control of the company. Thus, this new policy changes the way and vendors are the owners.
- Fair practices of marketing and sales should be practiced by all the companies. Biased marketing and sales practices of any particular brand is disallowed by the policy. Any new perks in the forms of digital features or cashbacks is also disallowed. This form of attracting the customers by fluctuating the prices is not part of the level playing in the industry and is discontinued.
- The companies are also asked to encourage the products and innovations by the budding startups to reach the global market.
- Customer protection – A strict customer protection rule is a necessity when it comes to e-commerce sector. Both the customer and the companies are dynamic and have changing rules with new policies. Therefore, the new protection rules ensure that the customer has fast grievance redressals in case of any issues. The electronic mode of redressals is efficient and fast. The unsolicited attractions of the customers are also discouraged. The first step in this regard is the D0-not-disturb of the tele marketers.
- Tracking – The e-commerce industry is huge and required advanced technology to keep a track of all the transactions, policy violations, and the investments. Therefore, the new policy includes Artificial Intelligence driven technology for monitoring [7].

Conclusion

The e-commerce market in India is big and estimated to grow in future. This paper discussed the details of the new e-commerce policy by the Government of India and how the policy affects the industry. The policy is related to the customers, market, companies, and the investors. This paper details the effects on every party involved in the industry. The policy is determined to encourage the industry and also protect the customers and companies together.

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