E-commerce in India

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2019 is poised to be a transformational year for e-commerce in India. Technology continues to change the rules of engagement, consumers are more demanding than ever, and getting them to notice your brand amid all the noise in the market is an even a greater challenge.

In this publication, we will discuss the biggest trends impacting the industry and highlight how FDI in retail sector and its impact on e-commerce boosted growth in India. The reader will come across how FDI changed the two sectors of the country.

Introduction

India is continually being recognized as a major market globally. While it is important to safeguard the interests of domestic traders and entrepreneurs, it is essential to encourage a market where the consumer is a king and not one where policies prevent access to superior goods and services at a competitive price. Online shoppers in India are not only growing in number but are also making increasingly sophisticated choices and global players have a lot to offer to meet this demand. Thus, measures should be taken to gradually prepare domestic players for foreign competition while the economy is opened up further.

E-Commerce is buying / selling of goods as well as services or transferring of funds and data over an electronic network, primarily the internet. The dictionary meaning of commerce is the activity of buying and selling especially on large platform. This when added with internet gives birth to a new concept which is e-commerce.

Beginning of e-commerce can be traced from the 1960s when businesses started using electronic data interchange (EDI). The use of this method gave rise to many forms of businesses in 1980s. The upsurge of eBay and Amazon from 1990 made a shining change in the world of e-commerce.

The e-commerce segment in India, estimated at approximately USD 20 billion now, has grown at a CAGR of 37% from 2009 and is expected to grow tenfold by 2030. The online market space in the country is burgeoning in terms of offerings ranging from travel, hotel reservations, movies and books to the likes of matrimonial services, electronic gadgets, fashion accessories and even groceries. Although there is a horde of goods and services being offered, there are a few that dominate the market far more than the others. Online travel agencies enjoy a whopping 71% share in the sector, with e-retail in tow at a low 16%. While e-commerce is promoting the birth of creative business models like those of BookMyShow and Paytm, it is also giving a boost to traditional trading businesses.

A continuous increase in the internet using population in the country has given a further boost to the e- commerce industry. India stands to have the third largest internet user base in the world, with a total of 352 million users. According to a recent Goldman Sachs report on internet users in India, the country is poised to see more people join the internet over the next few years than any other, with the number expected to cross the one billion mark fueling the ecommerce market size to an estimated USD 300 billion by 2030.

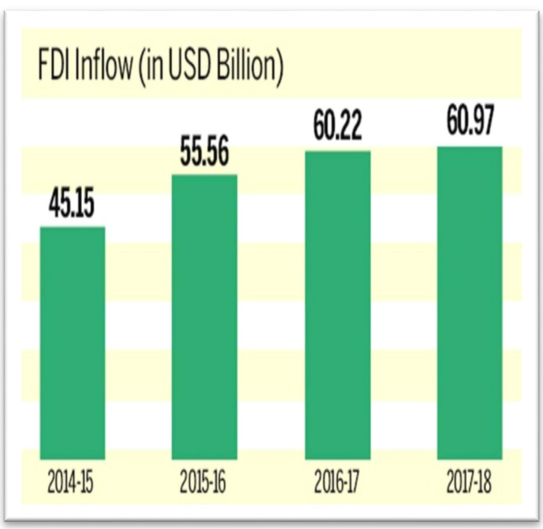
The e-commerce segment is still at a nascent stage and has immense potential to grow. For this, like any industry, it needs capital and quality-enhancing competition. Foreign direct investment (FDI) is one such source which brings in both. So, moving further in our discussion let us understand the concept of foreign direct investment.

Foreign Direct Investment (FDI)

In this modern era, there is a large economic environment and not even a single isolated economy. FDI is capital influx from overseas that invests in the production capacity of the economy thereby facilitating international trade as well as transfer of knowledge, skill and technology. FDI is an investment in a business by an investor from another country from which the foreign investor has control over the company purchased. Foreign direct investment is mostly made to open economies that offer a skilled workforce and above-average growth prospects for the investor. FDI mostly involves more than just a capital investment.

Apparently with rising FDI in the global economic world, another concept gaining importance these days is e-commerce or electronic commerce. E-commerce is a term for any kind of commercial transaction, or a business that involves the transfer of information across the internet. One of the fastest growing e-commerce segment in India is retail sector.

FDI was introduced in 1991 under Foreign Exchange Management Act (FEMA) starting from a baseline of less than USD 1 billion in 1990. India is considered as the second most significant destination for foreign investment. Sectors in which FDI was attracted in India were telecommunications, construction activities, computer software and hardware.



The above graph depicts gross inflows of foreign investment in India from FY 2014-15 to FY 2017-18. The foreign direct investment has displayed its growth as well as increase in absolute number from USD 45.15 billion in FY 2014-15 to USD 60.97 billion in FY 2017-18.

What all regulates FDI in India?

Following agencies regulate FDI in India:

- Foreign Exchange Management Act, 1999 (FEMA)
- Depart of Industrial Policy and Promotion (DIPP)
- Ministry of Commerce and Industry
- Government of India makes policies regarding FDI by press notes and releases. Such policies made by the Government of India are notified by the Reserve Bank of India (RBI).

FDI in retail business sector is one of the key policy decisions at the apex level. It is the most talked about and evolving sector where foreign investors are taking a keen interest these days. Government is designing number of decisions to attract increased foreign direct investment into the country.

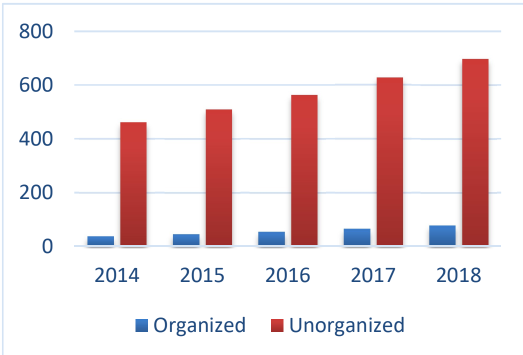
India's Retail Sector

Retailing in India is unarguably one of the largest contributing sectors of the economy and holds 10% of its gross domestic product (GDP). Indian retail trade is not only a form of business but more a mode of earning of livelihood for people in the Country. India is one of the favorite retail destinations in the world and thus attracting the investors. Due to the rise in disposable income of Indian population, their spending habits have changed with a motive to improve lifestyle. The retail sector in India is in upward trend since a long time now. Due to large scope of profit and business many investors are aiming at investing huge capital in India.

Size of Indian retail market – Organized and unorganized

Figure shown below depicts changes in organized and unorganized retail in $ Billion. The organized retail sector (in blue) was $39.26 Billion in year 2014 and moved to

$79.43 billion in year 2018. Whereas unorganized retail (in red) was USD 462.43 billion in year 2014 and moved to USD 697.71 billion in year 2018.



Indian retail market – Organized vs Unorganized (in USD billion)

With the increase in smartphone users and ease of access to internet in the country e-commerce platform is becoming the largest contributory of the economy. Retail industry is moving to this platform, many e-commerce giants are already taking hold of this market.

The policy changes in the garb of clarifications on FDI in reatil have potential to change the dynamics of Indian ecommerce space.

Current FDI Regime for E-commerce

E-commerce has not been defined under any statute, it is generally understood as a method of conducting business through electronic means rather than through conventional physical means. This term takes into account not just the act of purchasing goods and/or availing services through an online platform, but also all other activities that are associated with any transaction such as delivery, payment facilitation, supply chain and service management.

The Consolidated FDI Policy issued by DIPP gives the following understanding of e-commerce for the purpose of FDI. *"E-commerce means buying and selling of goods and services including digital products over digital & electronic network."*

Further, an e-commerce entity is "*a company incorporated under the Companies Act 1956 or the Companies Act 2013 or a foreign company covered under section 2 (42) of the Companies Act, 2013 or an office, branch or agency in India as provided in section 2 (v) (iii) of FEMA 1999, owned or controlled by a person resident outside India and conducting the e-commerce business.*"

The consolidated FDI policy further states "E-commerce entities would engage only in Business to Business (B2B) e-commerce and not in Business to Consumer (B2C) e-commerce."

Under the FDI Policy, FDI can be received by companies under the automatic route or the government route. Under the automatic route, the non-resident investor or the Indian company does not require any approval from government of India for the investment. Under the government route, prior approval of the government of India is required. Proposals for FDI under the government route are considered by the respective administrative ministry or department of the government of India.

The current policy lays down separate provisions for FDI in e-commerce in the B2B segment and B2C segment:

B2B e-commerce

As per the Consolidated FDI policy, 100% FDI is permitted under the automatic route (i.e., without any prior approval of the government) for wholesale trading businesses, inclusive of B2B e-commerce.

B2C e-commerce

Trade: Although retail business has been opened up to foreign investors, with 100% FDI being allowed in single brand retail trading (up to 49% under the automatic route and with prior approval of the government over and above that) and 51% in multi-brand retail trading (with prior approval of the government), these relaxations have not been extended to the e-retail sector. The policy specifically prohibits any amount of FDI in retail trading by means of e-commerce for companies with FDI, engaged in the activity of multi-brand retail trading, limiting the benefits of foreign investment in retail only to brick-and-mortar stores. However, a single brand retail trading entity operating through brick and mortar stores is permitted to undertake retail trading through e-commerce.

Services: An understanding of the above provisions makes it safe to say that these restrictions are only specific to trading of goods. The Consolidated FDI Policy does not impose any restrictions separately on foreign investment in businesses providing services through e-commerce platforms, granting online service providers a visible benefit over goods traders.

Further, the FDI Policy permits 100% FDI under the automatic route in marketplace models of e-commerce. No FDI is permitted in inventory-based models of e-commerce.

FDI barriers & regulations

India has multiple restrictions and conditions on foreign investments into the e-commerce sector placed by Department for Promotion of Industry and Internal Trade (DPIIT). These restrictions are applicable to all entities who receive any FDI.

As stated above, **e-commerce** encompasses not just products traded on digital and electronic networks but includes digital products and services, as well.

An **e-commerce entity** is treated differently from other kinds of entities such as manufacturers, wholesale traders, single-brand retailers, etc. In a B2C market, an e-commerce entity is only allowed to engage in a **marketplace model** of e-commerce, where the e-commerce entity will only act as a facilitator between the buyer and seller and will have no control over the inventory of goods and services. If the e-commerce entity starts owning the products that are being sold on the platform, they are deemed to be an **inventory based model** of e-commerce which has been restricted in India in a B2C market, whereas inventory based model of e-commerce is allowed in a B2B market.

An inventory based model of e-commerce means an e-commerce activity where inventory of goods and services is owned by e-commerce entity and is sold to the consumers directly whereas a marketplace based model of e-commerce means providing of an information technology platform by an e-commerce entity on a digital & electronic network to act as a facilitator between buyer and seller.

As per the FDI policy, FDI up to 100% under automatic route is permitted in Business to Business (B2B) e-commerce. However, FDI in B2C e-commerce is permitted in following circumstances:

- A manufacturer is permitted to sell its products manufactured in India through e-commerce retail.
- A single brand retail trading entity operating through brick and mortar stores, is permitted to undertake retail trading through e-commerce.
- An Indian manufacturer is permitted to sell its own single brand products through e-commerce retail without Government approval.

Another classification one should take care of is, whether the entity is dealing directly with final consumers (Business-to-Customer, B2C) or is simply dealing only with other business entities (Business-to-Business, B2B). The following table summarizes the different kinds of business entities having FDI that may take their businesses online and the major factors to be taken care of are:

Type of Entity	Permitted Activities	Can Keep Inventory?	Permitted FDI / Route
E-commerce entity	Marketplace Model (for goods and services:B2C e-commerce)	No	100% Automatic
Manufacturer	B2B & B2C e-commerce (sells products manufactured in India, through wholesale and /or retail through e-commerce)	Yes	100% Automatic
Cash & Carry Wholesale Trader	B2B e-commerce (sells goods to retailers, industrial, commercial, institutional or other professional business users or to other wholesalers & related subordinated service providers)	Yes	100% Automatic
Single Brand Retail Trader	B2C e-commerce (at least 30% Indian sourcing of products, and must be operating through at least one brick and mortar store)	Yes	100% Automatic
Food Product Retail Trader	B2C e-commerce (retail trading of food products manufactured and/or produced in India)	Yes	100% Government Approval
Services	Sale of services through e-commerce	NA	Automatic (Relevant sectoral cap)

In case an e-commerce entity is operating an 'online marketplace' then it is subject to further restrictions under the FDI Policy (the new changes brought in by Press Note 2 of 2018) which are summarized as follows:

- An entity having equity participation by e-commerce marketplace entity or its group companies, or having control of its inventory by e-commerce marketplace entity or its group companies, will not be permitted to sell its products on the platform run by such marketplace entity.

- Inventory of a vendor will be deemed to be controlled by the e-commerce marketplace entity if more than 25% of purchases of such vendor are from the marketplace entity or its group companies, thus rendering the marketplace an inventory-based of e-commerce.

- Marketplace entity can provide services such as logistics, warehousing, advertisement / marketing, payments, financing etc. could be provided by e-commerce marketplace entity or other entities in which e-commerce marketplace entity has direct or indirect equity participation or common control, to vendors on the platform at arm's length and in a fair and non-discriminatory manner. Provision of services to any vendor, on such terms which are not made available to other vendors in similar circumstances, will be deemed unfair and discriminatory.

- An e-commerce marketplace entity cannot mandate any seller to sell any product exclusively on its platform only.

- Cash-back provided by group companies of marketplace entity to buyers shall be fair and non-discriminatory.

- Entity must not directly or indirectly influence the sale prices of the goods and services and shall maintain level playing field.

- The entity will be required to furnish a certificate along with a report of statutory auditor to the Reserve Bank of India, confirming compliances of the guidelines under Para 5.2.15.2 of the FDI Policy, 2017, by September 30th of every year for the preceding financial year.

Multi-brand Retail in India

Multi-brand retail allows the distribution of different brands under one roof, for example, Big Bazar, Reliance retail, Shopper Stop amongst others. The central government has a standardized policy as far as the implementation of multi-brand retail is concerned and state governments/Union Territories have been given the power to apply their discretion in terms of accepting/ rejecting the policy. As per the latest data, only 12 states/Union Territories have agreed to the central government policy.

There are certain stipulations over the 51% cap, which are explained as below:

- As per the policy, a foreign retailer has to do at least US$ 100 million (about 700 core) worth of investment in India. They are only allowed to open the retail store in an area having a minimum of 10 lakh people residing there.

- It is mandate to invest 50% of total FDI in back-end infrastructure including processing, manufacturing, distribution, design improvement, quality control, packaging, logistics, storage, ware-house, agriculture market produce infrastructure etc. within the first three years of operations.

- Government has made it mandatory for foreign players to source 30% raw material locally from SMES, agricultural co-operatives and farmers' co-operatives.

- Commerce and Industry minister has recently announced that the government would not allow multi-brand retailers to trade by foreign ecommerce companies through ecommerce channel by any means.

- Fresh agricultural and meat produce sold at these multi-brand retail shops can be unbranded.

New FDI Norms for E-commerce

On December 26, 2018, DIPP through a press note (Press Note No. 2) introduced certain changes to the conditions applicable to e-commerce entities under the existing consolidated foreign direct investment policy of 2017. The Press Note amends guidelines for e-commerce entities to receive 100% foreign direct investment ("FDI") under the automatic route subject to some conditions. One of the conditions includes that an e-commerce entity providing a marketplace will not exercise ownership or control over the inventory i.e. goods purported to be sold. Inventory of a vendor will be deemed to be controlled by e-commerce marketplace entity if more than 25% of purchases of such vendor are from the marketplace entity or its group companies.

These guidelines also apply to e-commerce entities with FDI already. Although the original content under the FDI Policy largely remains the same, the Press Note has introduced key changes which will have sweeping impact on e-commerce in India.

New Foreign Direct Investment (FDI) rules in e-commerce intended to provide a level-playing field to Indian brick-and-mortar or physical stores, came into effect since February 1.

The new policy introduced for e-commerce bars companies from selling products exclusively on their online portals. Online entities with foreign investments cannot offer products sold by retailers in which they hold equity stake. With this e-commerce giants such as Amazon and Walmart-owned Flipkart cannot stock a quarter or 25% of their inventory from a single vendor.

The government's new FDI rule intends on debarring such online marketplaces from manipulating the price of products or offer deep discounts. So, let's decode how customers will be affected by the new FDI rules in e-commerce:

No more huge discounts

The new FDI rule aims at uplifting Indian sellers, especially those with physical presence only, but the move is likely to effect the regular online shoppers. The market leader like Flipkart and Amazon were accused of disrupting marketplace harmony by offering heavy discounts on every product listed on their respective websites. These heavy discounts will dip sharply and in fact, some prices have been already revised by the major online marketplaces. New purchases from either Amazon or Flipkart would now cost more as the products will be sold directly via a third-party seller, who is likely to charge more than the existing inventory-based system.

These e-commerce platforms used to buy products at bulk from manufacturers at a heavy discounts and then list the products at very attractive lower prices. Due to this practice the consumers were shifting from buying at brick & mortar to online platforms. The prices were further brought down by waving off delivery charges and finally through various cash back offers, often using their own payment portals. Amazon Pay is one such example.

However, all major online entities now have to restructure their business patterns to accommodate more third-party sellers where they have no stake. Such a move will cause a significant drop in terms of discounts as prices of the actual product and extra delivery charges may also apply.

More options for customers

As per the new FDI rules, e-commerce operators such as Flipkart & Amazon would not be able to sell any product exclusively on their own websites. This move will also help the consumers to buy a single product from different websites

This means manufacturers will have to sell their products to all markets places giving consumer a choice from much wider range.

Online shopping platforms likely to take deep sales knock

Even though the new policies are welcomed by many retailers and other users of e-commerce platform but these have shaken up the operations of Flipkart and Amazon. A draft analysis by analyst firm PwC suggested that the new e-commerce policy could lead to a $46 billion or over INR 3.2 lakh loss terms of sales by 2022.

These e-commerce giants are adapting themselves to these new policies and as a result they have in order to prevent losses have removed a large variety of products from their platforms.

Rise of physical stores likely

The new rules applied on investors arguably are more favorable to the retail stores in the country if the situations are compared. Users of e-commerce platforms, as surveyed by many independent organizations, bought products because of the cheaper prices they are offered. With the product prices are set at par with the physical stores the consumers now are indifferent of their choice of purchasing platform.

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.

Have the new FDI policies really effected the e-commerce platform?

India's e-commerce companies have suffered a big hit due to the new FDI policies introduced by the government in February 01, 2019. But analysts believe this is just a phase.

The e-commerce industry in India is expected to cross INR 7.16 lakh crore (approx. $100 billion) in sales and be between $125 billion and $150 billion by March 2020, CARE Ratings said in a note on February 01, 2019. According to a note by CARE, It is estimated that e-commerce will contribute 12-15% of India's overall retail by March 2020 from just 5.7% now.

These estimates are made taking into consideration the new policies of FDI for the industry. On December 26, the prime minister had announced several restrictive policy changes for online retailers. As discussed earlier, the policy changes include:

- A term where these e-commerce platform providers are barred from entering exclusive deals to sell products at heavy discounts; and
- Also prohibits them from procuring more than 25% of the inventory from a single vendor, especially from sellers in which the companies own a stake in.

As a result of the policy change big players like Amazon and Flipkart were forced to take down several sellers from their platforms. Mumbai-based rating agency CRISIL had projected that Amazon and Flipkart may lose a big chunk of the revenue roughly estimated up to 40% amounting between INR 35,000 crore ($5 billion) and INR 40,000 crore by 2020 due to the new FDI norms.

The biggest support for the growth of online commerce in India is the penetration of mobile internet. Each month around 10 million Indians add to daily active internet users, according to CARE. The internet user base of India is expected to jump from 560 million as of September 2018 to about 830 million by 2021 as per estimates from India Brand Equity Foundation, a trust set up under the Ministry of Commerce and Industry. The leap will mostly come from rural areas.

Other laws and regulations for e-commerce

Irrespective of the fact that whether the entity doing the e-commerce business has FDI or not, there are some legal aspects of the business which are needed to be taken care of by any e-commerce business running entity such as:

- Validity of contracts formed through electronic means per Indian Contracts Act;
- Compliances under Information Technology Act, 2000 including reasonable security practices and procedures and sensitive personal data or information;
- All trademarks and copyrights intended to be used by it must be secured, one must also be mindful to not infringe the trademarks and copyrights of other businesses as well;
- E-commerce entity must qualify as a payment system and shall comply accordingly;
- Labelling and packaging of the products listed on its platform must conform to the labelling and packaging norms set by the regulations;
- Web-platform must display requisite information about the goods displayed on sale, such as, units, dimensions, weight, etc. on product page itself;
- Entity must have in place an adequate policy dealing with sales and shipping of the products, a returns and refunds policy, default provisions relating to the legal incidence of transfer of property in goods, and other aspects of sales such as warranties and conditions, etc. are covered under the Sale of Goods Act, 1930;
- It must have adequate policies to address consumer complaints;
- Entity must be mindful while entering into any arrangements for fixation of prices between sellers listed on the platform and the entity. Exclusive sales agreements, and other practices under the Competition Act, 2002 can be brought under the scrutiny of the Competition Commission of India; and
- All e-commerce operators and sellers/distributors/suppliers who sell through e-commerce to get GST registration in all States where they purport to sell their goods/services.

The premises from which the business is run, and the manufacturing, warehousing, and other aspects of the business will be continued to govern by sector specific laws and local laws as applicable. Due adherence to such laws must also be ensured.

E-commerce sector in India

E-commerce has transformed the way businesses operate in India. The Indian e-commerce market is expected to grow to US$ 200 billion by 2026 from US$ 38.5 billion as of 2017. The growth of the industry has been triggered by increasing internet and smartphone penetration in the country. The ongoing digital transformation in the country is expected to increase India’s total internet user base to 829 million by 2021 from 604.21 million as of December 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%, the highest in the world.

Market Size

India's online retail market, currently led by Amazon and Walmart-owned Flipkart, is expected to grow at a compound annual growth rate of 25.8 per cent to $84.6 billion by 2023 in size from $26.9 billion in 2018.

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%.

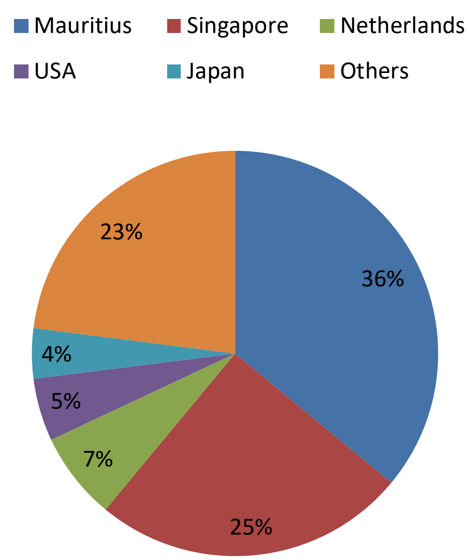
Recent Investment in E-commerce

Due to the rise in purchasing power of Indians the demand of consumer goods such as electronics and home appliances are also on a rise as a result many companies are investing in difference sectors with majority investment in retail sector.

Some of the major developments in the Indian e-commerce sector are as follows:

- Walmart Investments Cooperative U.S has invested INR 2.75 billion (US$ 37.68 million) in Wal-Mart India Pvt. Ltd.
- Flipkart, after getting acquired by Walmart for USD 16 billion is expected to launch more offline retail stores in India to promote private labels in segments such as fashion and electronics.
- Beccos, a South Korean designer brand is set to enter the Indian market with an investment of about USD 14.25 million and open 50 stores by June 2019.
- Paytm launched its bank - Paytm Payment Bank. Paytm bank is India's first bank with zero charges on online transactions with no minimum balance requirement and free virtual debit card.
- Reliance retail is going to launch online retail this year. It has already launched its food and grocery app for beta testing among its employees.
- E-commerce industry in India witnessed 21 private equity and venture capital deals worth US$ 2.1 billion in 2017 and 40 deals worth US$ 1,129 million in the first half of 2018.
- Google and Tata Trust have collaborated for the project 'Internet Saathi' to improve internet penetration among rural women in India.

According to the annual report of RBI on Foreign Direct Investment flows to India, Mauritius was the leading country to invest in India followed by Singapore, Netherlands and so on during F.Y. 2017-18. The pie chart shows a pictorial representation of inflows in India from different countries.

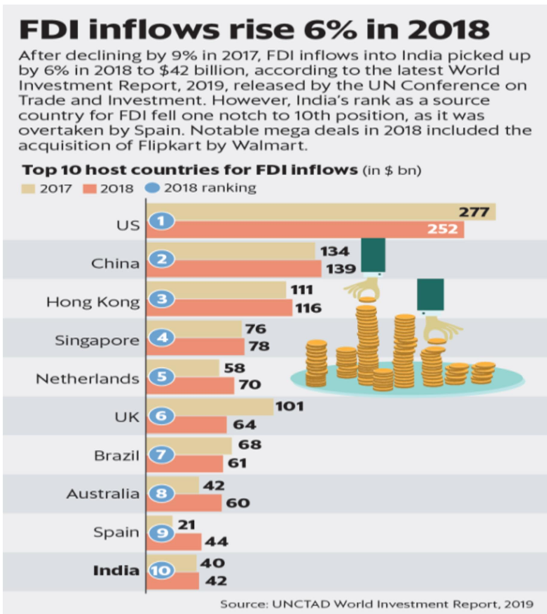


In 2018, India received foreign direct investments worth $42 billion, helped by robust inflows in manufacturing, communication and financial services, a United Nations trade report.

In South Asia, FDI inflows increased by 3.5% to $54 billion, said the United Nations Conference on Trade and Development (UNCTAD) World Investment Report 2019. This meant India was able to attract over 77% of total FDI in South Asian countries.

Investment in India – the sub region's largest recipient – rose by 6% to $42 billion with strong inflows in manufacturing, communication, financial services and cross-border merger and acquisition activities, said the report.

In 2018, India saw an exponential growth in number of cross-border acquisitions and mergers from $23 billion in 2017 to $33 billion in 2018 the credit of which is mostly attributable to retail trade which includes e-commerce and telecommunication ($10 billion).



Government initiatives

Since 2014, the Government of India has announced various initiatives namely, Digital India, Make in India, Start-up India, Skill India and Innovation Fund. The timely and effective implementation of such programs helped in supporting the e-commerce growth in the country. According to the UN's e-Governance index, India has jumped 11 positions to 107 in 2016 from 2018 in 2014.

Some of the major initiatives taken by the government to promote the e-commerce sector in India are as follows:

- In order to increase the participation of foreign players in the e-commerce field, the Indian Government hiked the limit of foreign direct investment (FDI) in the E-commerce marketplace model for up to 100% (in B2B models).
- Government's work in rolling out the fiber network for 5G will help boost ecommerce in India.
- In the Union Budget of 2018-19, government allocated INR 8,000 crore (US$ 1.24 billion) to BharatNet Project, to provide broadband services to 150,000 gram panchayats
- Under the Digital India movement, government launched various initiatives like Udaan, Umang, Start-up India Portal etc.
- Under the project 'Internet Saathi', the government has influenced over 16 million women in India and reached 166,000 villages.

Outcomes of 100% FDI in e-commerce

E-commerce sector has been in focus in the recent times having witnessed exponential growth, unprecedented investment and aggressive valuation. The regulatory position of FDI in the sector of e-commerce got recently cleared by the government of India when they issued Press Note 3 of 2016 (PN3) on March 29, 2016. On April 1, 2016, a bundle of startups in India breathed an air of relief after the government of India announced 100% of FDI in e-commerce through an automated route.

India is continuously recognized as the major market for investments globally. E-commerce segment in India is estimated at approximately US$ 20 billion now, recording compound annual growth rate (CAGR) of 37% from 2009. E-commerce segment is still at incipient stage and has vast potency to grow. For this, like any other part of economy to grow it requires *capital* and *quality*, thereby enhancing competition. FDI is one such source which brings the both.

Below mentioned are the outcomes of 100% FDI in e-commerce:

- Accelerated growth of e-commerce
- Will bring clarity and improve ease-of-doing
- Indian e-commerce competitive landscape will change
- It will prevent marketplaces from acting like retailers

- Deep-discounting will no longer be possible
- Sellers will get a level playing field thanks to the 25% cap on sales and clear marketplace definition
- New investment will benefit consumers, small and medium industries and economy on the whole by creating employment opportunities.

A way forward

The e-commerce industry has been impacting the micro, small & medium enterprises (MSME) in India as they provide means of financing, technology and training and has a favorable ripple effect on other industries as well. The Indian market is growing at an increasing pace and it is expected that it may surpass the US and become the second largest e-commerce market in the world. Technology driven e-commerce startups like digital payments, hyper-local logistics, analytics driven customer engagement, digital advertisements and retail sector startups like that of Amazon & Flipkart will likely support the growth in the sector. This will in turn generate new employment opportunities, increase exports and also increase the tax collection of the country and provide better product and services to the consumers in the long run.

Further, India recently relaxed local sourcing norms for single-brand retailers with foreign direct investment (FDI) and allowed them to sell online even before setting up physical stores subject to the condition that the entity opens brick and mortar stores within two years from date of start of online retail. The move is expected to benefit some of the world's largest retailers including IKEA, H&M and Uniqlo. Thus, the foreign retailers will no more require to procure at least 30% of value of goods from India as part of the local sourcing requirement. This can be met as an average during the first five years, and thereafter annually towards its Indian operations.

Also, the cabinet decided that all procurements made from India by a single-brand retailer for that brand shall be counted towards local sourcing, irrespective of whether the goods procured are sold in India or exported. It has further been clarified that the sourcing of goods from India for global operations can be done directly by the entity undertaking single-brand retail or its group companies (resident or non-resident), or indirectly by them through a third party.

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