Mains Practice Questions

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Q. As per recent e-commerce rules issued by the government, FDI is not permitted in an inventory-based model of e-commerce. Discuss the impact of these rules on the e-commerce industry, other stakeholders and India as an FDI destination. (250 words)

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Approach:-

- Define e-commerce, type of models.
- Explain FDI guidelines on e-commerce.
- Explain the impact of the rules.

Introduction

- E-commerce is a type of business model, or segment of a larger business model, that enables a firm or individual to conduct business over an electronic network, typically the internet.
- In India, there are three types of e-commerce business model:
  - **Inventory base model of e-commerce:** It means an e-commerce activity where the inventory of goods and services is owned by e-commerce entity and is sold to the consumers directly.
  - **Marketplace base model of e-commerce:** It means providing an information technology platform by an e-commerce entity on a digital & electronic network to act as a facilitator between the buyer and seller.
  - **The hybrid model** is composed of both inventory based and marketplace model

Body

FDI guidelines on e-commerce

The guidelines were issued by the Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry in which:-

- 100% FDI under automatic route is permitted only in marketplace model of e-commerce.
- FDI is not permitted in inventory based model of e-commerce.
- E-commerce entity providing a marketplace cannot exercise ownership or control over the inventory i.e. goods purported to be sold.
- E-commerce entities providing marketplace cannot directly or indirectly influence the sale price of goods or services and shall maintain a level playing field.
- 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.

Impact of the rules

- **Consumers**: They will be impacted as e-commerce sites will shave off the margins being offered as high discounts. This may also see a shifting of the customer base to more pocket-friendly options/ platforms.
- **Small vendors:** New rules are directed at protecting small vendors on e-commerce websites. It seeks to ensure small players selling on the portals are not discriminated against in favor of vendors in which e-commerce companies have a stake.
    - Smaller marketplaces that do not have a stake in any vendors will also be able to now compete with the big firms. It can also boost the Start-Up India initiative of the government.
    - The new norms have the potential to change the dynamics of Indian e-commerce space presently dominated by foreign entities that control the majority of the online retail market.
- **Foreign entities:** The move can be seen by foreign investors as government interference or micro-managing the business environment. Constant policy change gives out the wrong image of the nation to potential foreign investors as an unpredictable and opaque destination to invest.

Way Forward

- Even with stricter norms, there is a need for setting up a mechanism for redressal.
- In the short run, the e-commerce sector may not attract fresh foreign capital, however, the rules will provide level playing field to small and medium enterprise which will set the previous wrongs right, open new job opportunities, and usher in fairness in the market.