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AN EXAMINATION OF INDIA'S FDI POLICY ON B2C ECOMMERCE

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Abstract
Government's decision on FDI in B2C Ecommerce has sparked a debate and views appear to be divided. Against this background, this conceptual paper examines the current scenario of FDI in Indian Ecommerce sector. An attempt has been made to examine the benefits, disadvantages and the reasons behind government's decision with regard to FDI in B2C Ecommerce.

Keywords: Foreign Direct Investment, Ecommerce, Policy, B2C, Government

INTRODUCTION

India is one of the fastest growing economies of the world and with recent FDI policy measures, has become the most attractive investment destination. The relaxation of FDI policy by the government has boosted the economy and the top 10 sectors that received healthy FDI inflow according to Department of Industrial Policy and Promotion (DIPP) data as on June 2015 are the telecommunication sector which stood at US$ 2.83 followed by services (US$ 2.64 billion), automobiles (US$ 2.04 billion), computer hardware and software (US$ 1.30 billion) and pharmaceuticals sector (US$ 1.25 billion)[1].

The government currently allows up to 100% FDI under the automatic route in computer consultancy, software development and supply, data processing, market research, business and management consultancy services, technical testing and analysis services. Driven by choice, convenience and low prices, the Indian Ecommerce market is poised to grow at a compound annual growth rate (CAGR) of 80 percent over the next six years but for that to happen, the government needs to relax the policy against foreign Ecommerce companies and permit foreign direct investment in online business-to-consumer or B2C retail.

India at present allows 100 percent FDI in business-to-business or B2B Ecommerce but not in business-to-consumer or B2C Ecommerce companies that sell directly to consumers. Lots of speculations were doing the rounds that government might allow foreign Ecommerce companies to operate in India in the B2C segment. The government held multiple rounds of discussions with key players and industry associations including Snapdeal, Flipkart, Amazon and industry associations like FICCI, CII, NASSCOM etc. and decided to close the doors on Foreign direct investment (FDI) in B2C Ecommerce on 10th June, 2015. Government's decision on FDI in B2C Ecommerce has sparked a debate and views appear to be divided.

OBJECTIVES OF THE STUDY

Against this background, the main aim of this conceptual paper is as follows.

1. To examine the current scenario of FDI in Indian Ecommerce sector and the reasons behind government's decision with regard to FDI in B2C Ecommerce.
2. To analyze the benefits of Ecommerce and its disadvantages with reference to Indian context.

CURRENT SCENARIO OF FDI IN INDIAN ECOMMERCE SECTOR

Ecommerce activities refer to the activity of selling and buying by a company over an electronic network, primarily the Internet and can be classified as C2C (Consumer to Consumer), B2B (Business to Business) and B2C (Business to Consumer) models. Started in India in the year 1996, with the introduction of B2B portals, the cap on foreign equity in single brand retail trading (SBRT) was removed initially by relaxing the FDI policy in 2012 in trading sector, thereby allowing 100 per cent foreign ownership. Same year, FDI up to 51 per cent was allowed in multi brand retail trading but retail trading in any form, by means of e- commerce, was not permitted for companies with FDI, engaged both in single brand retail trading or multi brand retail trading.

Modi's government decided to review and reassess India's policy on foreign direct investment on Ecommerce and then declared in May 2105 that 100 per cent FDI will be allowed in business-to-business e-commerce only but prohibited in business-to-consumer segment. India's US$13.5 billion[2] Ecommerce sector is divided on the matter, debating on

[1] *India: An Attractive Destination for FDI, June 20, 2015, Ministry of External Affairs, Govt. of India.*
[2] *Report by IAMAI and IMRB International*

government's decision as to whether FDI should be allowed, or to what extent the sector can be opened to foreign investment. The NDA government as of now has firmly decided not to reconsider its decision as it strongly believes that B2C is against the consumer's interest. Further the government opines that FDI in Ecommerce would face attack from small retailers and the market would be flooded with imported goods. The NDA government is taking aggressive measures to promote the 'Make in India' campaign and in a representation to the DIPP, the Chambers of Commerce & Industry Associations has made recommendations that foreign companies should be allowed only after Indian Ecommerce players had acquired the strength to take on the competition. The chamber has also sought safeguards for Indian companies like privacy, local sourcing, safety against tax evasion and e-wastage monitoring. Some players strongly opposed the government's decision while the others favoured it.

There has been a lot of interest and debate around permitting FDI in B2C Ecommerce. While its proponents perceive enormous benefits, there is no dearth of people who have serious apprehensions to this proposition.
The following paragraphs will examine both the advantages and disadvantages of B2C Ecommerce.

BENEFITS OF B2C ECOMMERCE

The proponents of B2C Ecommerce perceive the benefits discussed below.

1. Opening up FDI in B2C Ecommerce is likely to have a major impact on the overall economic development. This will pave the way for global retailers to bring in knowhow that will drastically restructure the industry supply chain and lead to competitive pricing.
2. Manufacturing activity will take a new dimension which will in turn contribute to "Make in India Movement" as it will bring in efficiencies in the sale and distribution of products and services.
3. The transaction cost will also be lowered by reducing the need for middlemen.
4. The customers will be empowered and will get wide variety of choices and enhanced shopping experiences. The level of customer service is also likely to improve.
5. Relaxing the policy would help the small businesses and entrepreneurs to scale up their business activities and help them to seek investments to support business operations.
6. FDI in B2C model will also give the required financial support to the budding entrepreneurs to scale up their operations and improve their processes.
7. It will also boost the ancillary industries like warehousing, logistics, online advertising etc.

DISADVANTAGES OF B2C ECOMMERCE

Some of the serious apprehensions to this proposition by parties are discussed below.

1. Currently, global giants such as Amazon operate through a marketplace model where third-party suppliers can use their platforms to reach out to customers but allowing them to bring their inventory-based model here and selling them at a discount to consumers will badly affect the business of domestic e-tailing companies.
2. The Indian e-tail giants such as Flipkart, Snapdeal, Myntra and Jabong, among others, are scaling up to compete with the global giants and are not yet market ready to gain a competitive advantage.
3. Opening up of FDI in Ecommerce will literally have a disastrous impact on standalone traders as these global giants will have more bargaining power and this will lead to monopoly.
4. Allowing FDI in B2C Ecommerce will provide global players' enormous geographical reach and this will be contradicting the policy of FDI in multi-brand retail which is limited to cities with more than a million people and these traders will be forced to shut down or sell their business leading to consolidation in the industry.
5. Another major cause of concern is it will facilitate these global players to manipulate and dump products from all over the globe to India which can artificially lower the prices of the products.
6. The current initiatives of the government and the Make India Movement gives the budding entrepreneurs to work on Ideas and relaxing the policy will not give room for experimentation and innovation.
7. Domestic e-tailing companies on the other hand, fear FDI will allow global giants such as Amazon to bring its inventory-based model here, which works on the principle of buying goods in bulk at a low price from small businesses and selling them at a discount to consumers. Currently, these e-tailers operate through a marketplace model where third-party suppliers can use their platforms to reach out to customers.

CONCLUSION AND RECOMMENDATIONS

Ecommerce in India is still at an embryonic stage as the market is yet to attain maturity. Even though many domestic e-tailers and government officials strongly oppose the B2C FDI cap, domestic industry groups, foreign retailers, and some foreign governments are putting pressure on the Indian government to lift the cap. The government needs to have a clear thought as

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to the kind of policy they want to have that drives investments and expansions in B2C Ecommerce. It all finally depends on how the government designs and frames the policy taking in to consideration the interests of the stake holders to contribute positively to the overall economic development of the country. It has to be adequately open and stable enough so as to allow interested parties to come in, and at the same time sufficiently closed to prevent a free run. The aim has to be to create policy that encourages smaller technology players to foray into the market. Some of the key recommendation made keeping in mind the challenges faced by this sector are discussed below.

1. If this sector has to reach its maximum potential, it is essential that both models need to co-exist and grow for the overall benefit of the economy as the industry cannot reach its full potential only with one model of B2B marketplace. Therefore the government has to allow 100 per cent FDI in B2C Ecommerce, as in the case of B2B Ecommerce.
2. The government also has to take utmost care and ensure that there is a level playing field for all the stake holders. This can be achieved by allowing global players to operate only through market place platform.
3. The development and encouragement of MSME sector should be the government’s top priority as this sector is the driving force behind the Make in India vision of our prime minister. Mandatory sourcing from the Indian Manufacturers can also be a route to support this movement.
4. Measures should be devised in such a way that there are no hurdles in the path of Indian entrepreneurs.
5. The government should also consider allowing existing Ecommerce firms to raise capital, in addition to permitting Greenfield project investments.
6. The other government agencies like Enforcement Directorate, RBI should also be involved by the government before finalizing the FDI policy on B2C Ecommerce.

To conclude, the policy should not only protect the interests of consumers by putting in conditions about product authentication and certification but also define and demarcate the risks and rewards of the wholesalers and retailers such that the entire relationship can be established at arm’s length.

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