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1. Why the debate on e-commerce must move beyond FDI rules

- What does India's FDI in e-commerce policy say?
- How are market places seems to have violated India's FDI in e-commerce policy ?
- What is a marketplace and inventory based model?
- What do the new rules on FDI in e-commerce specify?
- What could be the implications of this policy?

GS paper 3 (Effects of liberalization on the economy)

In this video, you can find detailed answers for all the above questions.

The above article has been retrieved from:

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Gurumurthy and Nandini Chami . (2019, January , 7). Why the debate on e-commerce must move beyond FDI rules. Hindustan Times. Retrieved from <https://www.hindustantimes.com/analysis/why-the-debate-on-e-commerce-must-move-beyond-fdi-rules/story-EXARY80i3n0RQJZLiQj6PN.html>

What is the context about?

- In October and November 2018, during the Great Indian Festival season in India, online retail giants — Amazon, Flipkart and Paytm Mall — sold goods worth \$4.3 billion (Rs 29,947 crore), 43% higher than the last year.

- ❑ Traders in physical retail must now reckon with the rather disconcerting reality of e-commerce.
- ❑ The press note issued by the Government of India on December 26 as a ‘review’ of the Foreign Direct Investment (FDI) in e-commerce policy.

What does India’s FDI in e-commerce policy say?

- ❑ At the heart of the matter is the fact that FDI-funded online marketplaces are permitted to be only technology platforms, connecting independent sellers and buyers.
- ❑ The e-commerce policy is explicitly clear that marketplaces cannot be sellers and are prohibited from owning or controlling any inventory. However, foreign companies operating online retail platforms have been flouting the rules all along.

How are market places seems to have violated India’s FDI in e-commerce policy ?

- ❑ Some marketplaces have set up elaborate mechanisms to bypass these restrictions.
- ❑ The evasion starts by marketplaces—through their group entities—buying directly from brands and large manufacturers.
- ❑ These goods are then sold to proxy sellers, who are controlled by the marketplace itself.
- ❑ The marketplace helps by giving higher visibility to such sellers and most buyers end up buying from these sellers.

- ❑ Subsidized logistics, cashbacks through marketplace-owned wallets and selective discounts complete the picture that favours one set of sellers over another.

What is a marketplace and inventory based model?

- Marketplace based model of e-commerce 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.
- 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.

What do the new rules on FDI in e-commerce specify?

The provisions of the rules

- ❑ Vendors that have any stake owned by an e-commerce company cannot sell their products on that e-commerce company's portal.
- ❑ Any vendor who purchases 25% or more of its inventory from an e-commerce group company will be considered to be controlled by that e-commerce company, and thereby barred from selling on its portal.
- ❑ In other words, the provision seeks to deny control by the marketplace entity over vendors.

- ❑ E-commerce firm will not be allowed to influence the price of a product sold on its portal by giving incentives to particular vendors.
- ❑ From February 1, 2019, e-commerce companies running marketplace platforms cannot sell products through companies, and of companies, in which they hold equity stake.

What could be the implications of this policy?

- ❑ The main players to be affected will be group companies and affiliates of the biggest e-commerce platforms, Amazon and Flipkart.
- ❑ The provision that bars companies — in which e-commerce firms have a stake — from selling on their portals will hurt start-ups as well, since many of these will be barred from selling due to minor equity stakes being held by the e-commerce companies.
- ❑ Small vendors will not be as affected because most of them do not purchase more than 25% of their inventory from a single source and so they will be allowed to sell their items on the e-commerce platforms.