



FDI in E-Commerce in India: A Policy Perspective

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Abstract

The article explores a relatively new policy of FDI in multi-brand retail in India, which is constantly evolving. In this context, the article focuses on the recently introduced e-commerce policy in India. The study is significant because it examines the responses of primarily unorganized retailers in India, who are vital to the policy-making process in the Indian economy. The article aims to analyze the highly competitive and contested e-commerce space in India, particularly the entry of FDI into the e-commerce domain and the broader debates it generated. In general, the retail FDI policy has raised concerns that the entry of foreign firms like Amazon into India would adversely affect unorganized retailers. Those supporting the policy in India, however, stated that the entry of foreign retailers into the market will provide greater consumer choice and improve the Indian economy in the long run. The article tries to ask two major questions. What are the repercussions and debates of the new FDI in e-commerce policy? What are the responses of the unorganized retail sector in India concerning the entry of FDI in the vast, emerging, and economically lucrative e-commerce space in India? Hence, the primary agenda of the article is to analyze the FDI in e-commerce policy and to understand the responses and debates it has generated.



Received: 23.02.2026

Accepted: 03.06.2026

Published: 15.06.2026

CJHSSC, Volume: 2

Issue: 1, June 2026

Page: 143 - 157

DOI: <https://doi.org/10.5281/zenodo.20719367>

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Published by: Seth Soorajmull Jalan Girls' College,
Kolkata, West Bengal, India.

Available at: www.ssjalangirlscollege.org.in/journal.php
Email: confluence.sjgc@gmail.com

Keywords: E-commerce, Policy, Unorganized Retailers, Foreign Direct Investment.

Introduction

This article primarily focuses on the recently announced changes to India's FDI in e-commerce policy, particularly the economic implications of the critical changes introduced by the Government. The study is significant because there is much academic literature on public policy in sectors such as Telecom, Education, Health, and Welfare programs; however, little attention is paid to FDI, particularly its use in the e-commerce retail sector. Public policy analysis is central to the discipline of political science (Mathur, 2013). If one looks at studies of various economic policies, one can see that they have focused mainly on the design of choices and less on the way policy decisions were arrived at (Mathur, 2013). What was lost in this approach was the recognition that policy-making involves bargaining and compromise; in short, it is about politics. Building on this notion, one can say that political dynamics and contestations have persisted to this day. In this backdrop, it is significant to analyse the issue of the Government's recently announced e-commerce policy (Mathur, 2013).

As the eminent economist, Sukhamoy Chakravarty, stated, 'issues that bear upon India's developmental prospects are inevitably very complex' (Mathur, 2013: Introduction). 'Moreover, they cannot be devised by technocratically inclined civil servants.' (Mathur, 2013: Introduction) If one examines the study of the country's policy process, one finds that it has been largely overlooked by scholars in academia today. In retailing, one finds a pre-eminent position in the economics of all modern societies, and it is undoubtedly true that the pace of development within retailing appears to be increasing. The organised retail sector in India has also been witnessing changes over the last couple of years, particularly in the e-commerce domain (Kumar, Patwari & Ayush, 2008). It is mostly economists who have discussed this field, but the politics of the policy-making process by various governments in this area and its impact have not been adequately addressed.

If one looks at the unorganised retail sector in India, it is the small, independent Kirana stores that are the second-largest employer after agriculture, accounting for around 42 million jobs and 14 percent of GDP. These stores primarily use their family labour. So, any policy changes that affect the structure of grocery retail in India are invariably linked to development and poverty reduction (Dufey, Grieg-Gran & Ward, 2008). In this analysis, a political economy perspective on reforms is critical because politics and institutions intervene between policies and outcomes (Mukherji, 2014). Hence, it is important to understand that politics and contestation remain embedded in our country's policy-making process, and public policies also depend on

responses from its various stakeholders. The questions also highlight that the issue of FDI in the retail sector remains controversial, and there is ongoing resistance among several stakeholders to its entry, particularly in the e-commerce space. Regarding the FDI in the e-commerce sector policy, one can also see that interests, conflicts, and stakes are at play, which will significantly shape the understanding of the policy's future impact. Hence, the impacts and interests of various stakeholders in India, particularly unorganised retailers, need to be taken into account to draw a comprehensive sketch of the FDI in e-commerce policy.

Sources and Methodology

This paper aims to analyse the potential consequences of the recently introduced e-commerce policy on the Indian retail sector. The primary research question guiding this paper is, how is the recent policy of 100% FDI in the e-commerce sector in India expected to impact the Indian retail sector? (Shah, 2018). What are the responses of the unorganised retailers regarding this policy? Hence, it is important to investigate the potential impact of this recent policy. (Shah, 2018)

Since the policy is a recent development, its impact cannot yet be measured, but it is important to analyse its consequences to get a sense of where the policy change is leading (Shah, 2018). The data for this study are drawn from secondary sources. These sources include publications and reports by intergovernmental organisations, newspaper articles and other media publications in print and/or online, and media discussions and analysis by industry experts and government advisors (Shah, 2018). The lack of secondary sources for a relatively new policy is also a limitation of this paper.

FDI in E-Commerce in India

The term 'Foreign Direct Investment' refers to capital transferred from one nation to expand production in another nation. According to the OECD, FDI is an investment that involves a long-term relationship and shows a long-term interest and control by a resident entity in one economy in a business that is based in a different economy than the resident entity (FDI enterprise or affiliate enterprise or foreign affiliate) (Rajappa, 2022). The literature generally agrees that the Government plays a critical role in determining a country's FDI policies, as these policies will guide how a country advances with incoming and outgoing foreign investment. The Government can influence this by either imposing restrictions and strict laws on certain sectors or by relaxing laws and providing incentives for foreign investors to invest in those sectors of the

host country's economy (Shah, 2018).

Over the past half-century, governments of developing economies have tended to liberalise their laws, regulations, and rules governing the admission and establishment of foreign investment projects in their countries (Shah, 2018). Foreign direct investment brings certain benefits and costs with it for the home (source) countries and host (recipient) countries. Concerning job loss, investments made abroad by MNCs lead to a loss of jobs in the domestic economy and take away potential job creation scenarios with them. This is especially the case when FDI is seen as a substitute for domestic production (Shah, 2018). The host country can also discourage foreign investment by imposing import tariffs and high tax rates. On the other hand, governments can also adopt a more lenient approach in their foreign policy and open certain sectors of the economy to foreign investment. This can be done by giving tax benefits, grants, subsidies, and investment incentives to foreign investors. It is within that realm that e-commerce, in particular, has come to occupy an important position, especially in developing nations worldwide (Shah, 2018).

An e-commerce activity is defined in the existing FDI policy as 'an activity of buying and selling by a company through an e-commerce platform' (Banerjee, 2016, p. 21). Companies and individuals may purchase and sell products and services online, which is known as e-commerce. E-commerce platforms are today more important to the success of businesses as they compete for customers who prefer to shop online. The rise in popularity of online shopping may be attributed to the fact that doing so is not only easy but also quite convenient. Because shopping online was so convenient, consumers could complete their purchases at their leisure (Rajappa, 2022). Since its inception in the 1970s, e-commerce has undergone substantial development. It claimed worldwide popularity during the late 1990s and early 2000s when it experienced a period of extreme growth in the importance and usage of the internet by businesses and consumers (Shah, 2018).

The advent of e-commerce has indeed transformed the way business is done in India. Today, the sector has reached approximately US\$20 billion in value. Moreover, according to a 2016 Morgan Stanley research report, the Indian e-commerce sector is expected to grow to US\$120 billion by 2020 and hit US\$200 billion by 2026 (Shah, 2018). According to recent reports, domestic Indian companies such as Flipkart, Snapdeal, Paytm, and the MNC Amazon India were the largest e-commerce companies in India, with a combined market share of 90% (Shah, 2018). The unorganised retailers, however, stated that these e-commerce retailers have

begun to exploit the market, which is affecting the local retailers by maintaining aggressive discounts, ownership control, and market shares (Rajappa, 2022). This recent introduction of policy reforms in the e-commerce sector has raised fears among industry experts that the policy has the potential to have negative implications in the Indian market. (Shah, 2018)

The e-commerce policy in India

Looking at the policy, the Department of Industrial Policy and Promotion (DIPP) issued fresh foreign direct investment (FDI) guidelines in March 2016 through a press note (PN3/16) for the e-commerce sector. These guidelines were incorporated into the Consolidated FDI Policy, 2016 (Banerjee, 2016). Recently, the Government issued new guidelines for FDI that permitted up to 100% in e-commerce activities. Before reviewing the policy, key terms associated with retail trading need to be reviewed to understand the FDI policy.

There are primarily four key e-commerce market segments: B2B (business-to-business), B2C (business-to-consumer), C2C (consumer-to-consumer), and C2B (consumer-to-business) (Rajappa, 2022). The FDI in e-commerce policy, however, covered only B2B trade, not retail trade in B2C. (Business-to-Consumer in e-commerce is a transaction between an enterprise and end consumers.) B2C trading, however, was permitted in limited ways, such as when a manufacturer in India could sell online (Sharma, 2015).

The e-commerce business is primarily divided into two major categories:

- (i) Marketplace model and
- (ii) Inventory-based model (Sharma, 2015).

A marketplace-based model of e-commerce involves an e-commerce entity providing an information technology platform on a digital network to act as a facilitator between buyers and sellers. The inventory-based model of e-commerce is one in which e-commerce entities own the inventory of goods and services and sell them directly to consumers (Shah, 2018).

Looking at the FDI in retail policy until 2016, FDI in e-commerce was not allowed for single-brand or multi-brand retail companies. The Government only allowed 100% FDI in B2B e-commerce but not in B2C e-commerce. Since B2C e-commerce was not allowed, Amazon, Flipkart, ShopClues, etc., had to change their business models to operate as B2B marketplaces in India (Gulati, 2020). However, that changed in March 2016 when the Department of Industrial Policy and Promotion (DIPP) introduced new reforms, which allowed 100% FDI in B2C e-commerce under the automatic route in the marketplace-based model of e-commerce. This included a faster clearance window and no prior approval from the Foreign Investment

Promotion Board (FIPB) for foreign investors (Shah, 2018). However, it was in 2019 that the Government announced major changes to the foreign direct investment policy for the e-commerce sector to appease domestic trade bodies in India. The changes to the policy were effective from 1st February 2019. Under the policy, certain restrictions were placed on e-commerce firms. Primary among them was the Government barring online marketplaces like Flipkart and Amazon from selling products of companies in which they hold stakes, and also banning their exclusive marketing arrangements that could influence product prices. The policy also stated that all firms had to offer equal services or facilities to all their vendors without discrimination (*The Economic Times*, Dec 26, 2018).

According to the policy, an e-commerce entity could also not allow more than 25% of the sales transacted on its marketplace to come from a single vendor or its group companies (*The Economic Times*, Dec 26, 2018). Hence, as per the policy, Flipkart and Amazon could not exercise ownership or control over inventory. They had to provide services such as warehousing, logistics, and advertising to all sellers fairly. The new FDI rules clearly stated that an online marketplace could not sell products from a vendor in which they have a stake. For example, Amazon and Flipkart purchased goods in bulk at cheap rates from manufacturers through their wholesale entities, Amazon Wholesale and Flipkart India Pvt Ltd, and sold them on the marketplaces through their preferred sellers, which generally were companies in which the e-commerce company or a group entity may have had an equity stake (Anand, 2019).

The responses to the policy were mixed. Flipkart co-founder Binny Bansal criticised the revised framework for foreign investment in the Indian e-commerce sector, saying small startups and early-stage companies were being adversely hit by the new rules (Sharma, 2019). Bansal stated that big companies would be able to navigate through the new policy as they have access to capital, but smaller startups would suffer in the long run (Sharma, 2019). There was opposition in the government quarters as well. Former Niti Aayog chief executive Amitabh Kant stated that the Government should not focus on micro issues such as discounts and pricing, but instead on attracting investments and creating jobs in the retail sector (*The Economic Times*, Aug 15, 2018). Hence, strongly supporting a competitive e-commerce sector, Kant stated that India needed a progressive and forward-looking e-commerce policy that would promote startups, investment, and growth, and create new jobs (*The Economic Times*, Aug 15, 2018). Confederation of All India Traders (CAIT) welcomed the move; however, they stated certain underlying problems remained. The domestic trade bodies stated that, despite guidelines given in the policy, the growing advent of the e-commerce sector, especially international giants like Amazon, had

begun to exploit the market, which in turn was affecting the local retailers by maintaining aggressive discounts, ownership control, and market shares (Rajappa, 2022).

Hence, one can say that the introduction of the recent e-commerce policy has significantly changed the market conditions in the retail sector in India. Though the recent changes that the Government made in the e-commerce policy showed signs of reducing predatory pricing, and raised hopes of achieving a level playing field in the Indian retail market, the policy, however, could not eliminate the negative implications, like the reappearance of fraudulent transactions, and the continuous violation of rules that the foreign retailers were engaging in. In the end, despite the Government's best efforts, it could not pacify the unorganised retailers in India (Shah, 2018).

The Response: Unorganised Retailers

The E-commerce sector in India today has become a new battleground between brick-and-mortar retailers and online players. Looking at the data according to a report from property consultant Knight Frank India Pvt Ltd and Retailers Association of India (RAI), the share of e-commerce retail was a meagre 2% of the total retail market in 2014, however, it was expected to grow to 11% by 2019, while the share of organised traditional retail is expected to shrink from 17% to 13% in the same period (Shah, 2018).

Many scholars, such as Yadav and Jauhari (2012), stated that the perceived consequences of increasing the FDI threshold in the Indian retail sector 'will lead to widespread closure of small and traditional retail outlets, a sharp decline of the non-formal sector, and undermining of livelihood and employment opportunities' (Shah, 2018, p. 30). It was also noted that FDI would cater only to the needs of the wealthy, with adverse effects on employment in this industry (Shah, 2018). Lakatos and Fukui (2014) also analysed the effects of opening up multi-brand retailing to foreign investment in India in their research study. They deduced that 'the unilateral reduction of barriers to FDI in distribution services in India benefits the economy as a whole, consumers, and foreign producers but hurts domestic distributors.' (Shah, 2018, p.30)

However, the major opposition to international e-commerce retailers came from Indian traders' bodies. Industry bodies raised concerns about what they say are the unregulated and unethical practices of e-commerce and quick commerce companies in India. In particular, they objected to 'predatory pricing' and 'deep discounting' by these companies, which they said violated FDI regulations. (*The Economic Times*, April 22, 2025)

The Problems

The retail lobby of the unorganised retailers in India, such as the CAIT and the Swadeshi Jagran Manch, stated that e-commerce websites were adopting unfair means to grow their business, which, in turn, was resulting in the diversion of their customers to the e-commerce market (*The Economic Times*, Sep 23, 2017). Praveen Khandelwal, CAIT secretary general and Member of Parliament said that e-commerce and quick commerce platforms were more focused on boosting their valuations than doing genuine business. (*The Economic Times*, April 22, 2025). ‘Quick commerce companies have received over Rs 54,000 crore in FDI, yet only 2.5% has been invested in infrastructure’ (*The Economic Times*, April 22, 2025). ‘The majority of the funds have been diverted towards covering losses, predatory pricing, deep discounting, and subsidised services for a few preferred sellers,’ he said. (*The Economic Times*, April 22, 2025)

Trade bodies such as Swadeshi Jagran Manch and Confederation of All India Traders (CAIT) stated that the foreign players were using the e-commerce route to circumvent rules to monopolise the Indian market. The entry of foreign retail giants such as Amazon and Flipkart would ultimately eliminate small and medium businesses and the small neighbourhood shops (Guruswamy, Sharma, Mohanty, & Kohra, 2005). Unorganised retailers, in particular, stated that they had been suffering losses of nearly 50% during the festive season, due to discounts offered by groups such as Amazon and Flipkart. According to estimates by the All India Mobile Retailers Association, more than 30,000 brick-and-mortar store traders have shut shop since the 2019 festive season due to pricing pressure, which, according to the trade bodies, was killing offline trade (Lochab, 2020). There were also various complaints from domestic trade bodies about the abuse of market rules by e-commerce retailers.

Retail lobbies in India also stated that foreign MNEs were violating Indian laws. The Delhi Vyapar Mahasangh (DVM), an affiliate of the CAIT in 2020, had approached the CCI alleging abuse of market dominance and competition law violations by Flipkart and Amazon. The petitions alleged that these platforms encouraged the sellers to become red vendors and only promoted these preferred vendors on their platforms, which impacted non-preferred sellers. It also alleged that e-commerce platforms such as Amazon and Flipkart owned stakes in these online vendors on their platforms, which was not allowed under foreign investment rules on e-commerce (*The Economic Times*, May 31, 2022).

CAIT secretary, Praveen Khandelwal, stated that FDI in e-commerce would eventually act as a backdoor entry for global retailers to bypass restrictions in multi-brand retail, as there

were no geographical restrictions in e-commerce. Similarly, Swadeshi Jagaran Manch (SJM) co-convenor Ashwani Mahajan also disagreed with the move, saying that the policy reforms would allow e-commerce entities to legally engage in predatory pricing and other business malpractices. The traders' body stated that this move would ultimately reward online companies rather than punish them for their unfair business practices (Shah, 2018). There were also concerns about the large-scale foreign acquisition of e-commerce firms. As stated earlier, the unrest primarily started against the foreign retailers after the Walmart-Flipkart deal. US retail giant Wal-Mart acquired a 77% stake in Flipkart in its biggest takeover to date. The deal valued the 11-year-old Indian e-commerce firm at \$20.8 billion (*The Economic Times*, May 29, 2018). The Wal-Mart-Flipkart deal raised concerns among unorganised retailers regarding the possibility of predatory pricing and small enterprises going out of business.

An objection petition was also filed by the Competition Commission of India (CCI) against the Wal-Mart-Flipkart deal by the CAIT (*The Economic Times*, May 29, 2018). In response, Walmart had also filed caveats in multiple high courts across the country to pre-empt trade organisations, the Confederation of All India Traders and Swadeshi Jagran Manch, from obtaining any interim order against the US retailer's \$16-billion acquisition of e-commerce marketplace Flipkart, without it getting a chance to present its side. Traders' body CAIT also filed a complaint with the Competition Commission of India against retail giant Amazon, accusing the e-commerce major of committing fraud while seeking approval of More's retail takeover in India (*The Economic Times*, January, 25, 2022). Amazon and Samara Alternative Investment Fund were buying up the retail supermarket chain in a ₹4,200 crore deal (*The Economic Times*, January 25, 2022).

The Confederation of All India Traders claimed that the CCI was also misled in the case of the takeover of Future Retail in India. 'It amply exposes the sinister designs of Amazon to control Indian retail companies fraudulently to capture the physical retail trade and inventory-based e-commerce in India, causing enormous harm to the traders' (*The Economic Times*, January 25, 2022), the trader's body alleged. CAIT Secretary General Praveen Khandelwal also stated that by placing large advertisements in the media, companies were attempting to address consumers directly, which was also a violation of the FDI guidelines (*The Economic Times*, Sep 23, 2017). The unorganised retailers also showed that the Chinese e-commerce companies were trying to circumvent the Indian laws. Swadeshi Jagran Manch (SJM) also protested against the new market for Chinese e-commerce apps, stating that they are making inroads into India discreetly. The SJM also assessed that Chinese e-commerce firms bagged an estimated 2 lakh orders per day

from Indian shoppers, and they were delivering goods via couriers and postal shipments, bypassing and evading a range of Indian laws on payment gateways, customs duties, and GST (Vishnoi, 2018).

Besides these issues, there is another important aspect of food retail and e-commerce in India. One knows that food retail accounts for a substantial share of e-commerce players due to the high demand for daily staples and groceries. Hence, unorganised retailers in the country sought regulation of food retail in the e-commerce sector. It was not at all addressed in the e-commerce policy. If one looks at Amazon particularly, it has recently expanded its wholly owned food retail business, Amazon Retail India, as the main seller of food and grocery products on the marketplace's online supermarket, Amazon Pantry. Amazon Pantry has markets with Amazon Retail India as the seller for staples like pulses, rice, atta, edible oil, biscuits, instant noodles, snacks, and savouries (Mukherjee and Anand, 2019). Hence, many traders in India have taken exception to Amazon's expansion in the food retail sector in India and stated that it should also come under the revised guidelines of the new e-commerce policy. However, the Government clarified that companies with foreign direct investment (FDI) in food retail could continue to sell through e-commerce. Hence, food retail would be outside the purview of the curbs in the e-commerce FDI policy, according to a clarification issued by the erstwhile Department of Industrial Policy and Promotion (DIPP). 'There is no change in the FDI policy on food product retail trading, which permits 100% FDI under the approval route, including through e-commerce, in respect of food products manufactured and/or produced in India' (Mukherjee and Anand, 2019).

Hence, despite certain regulations and restrictions in the e-commerce space, the domestic trade bodies, such as CAIT and the Swadeshi Jagran Manch, are protesting against the abuse of power by foreign retailers and still have their demands unfulfilled.

Conclusion

Policymakers in India are wary of making changes involving the retail sector that might harm small businesses, which could adversely affect employment. Nevertheless, at the same time, they are also seeking ways to promote greater efficiency and productivity in a growing sector of the economy that presently accounts for 37% of the country's gross domestic product (GDP) (Kohli and Bhagwati, 2011). While attempting to meet the latter objective, the infusion of foreign direct investment across all segments of the retail business is presented as the most significant step. Therefore, policy changes are being proposed to invite global retailers into India.

The last few decades have seen significant changes in the international investment landscape, and foreign direct investment (FDI) has remained an integral part of it. Since the turn of the century, with an increase in the importance and usage of the internet by businesses, the digital platforms of e-commerce have transformed the way firms conduct business across international borders. However, the developing economies of the world face an important decision today: whether to limit the competition from foreign companies and, eventually, their negative effects. Although some consensus exists on the positive impact of FDI on the host country's economy, many scholars have also been critical of FDI in terms of its negative impact on domestic economies and societies (Shah, 2018).

As noted earlier, one of the major drawbacks of allowing FDI in a host country's economy is the increased competition in the market for local companies from foreign MNCs, thus resulting in an unstable market, small-scale local companies going out of business, and foreign MNCs monopolising the market (Shah, 2018). Additionally, studies by Haddad and Harrison (1993), Encarnation and Wells, Jr. (1986), and Wasow (2003) provided further supporting results that FDI had a negative net contribution to the host country's economy and that it failed to show a significant beneficial impact on the host country's economy and its domestic companies (Shah, 2018).

Foreign direct investment (FDI) has emerged as an integral part of the international investment landscape over the last few decades. It has become an important component of the development strategies of developing countries (Shah, 2018). It was found that the introduction of the new policy in the e-commerce sector has enabled various forms of anti-competitive conduct in the market. The overall implications of this policy have the potential to have negative economic effects on the Indian retail sector, which could also spill over to other sectors of the Indian economy (Shah, 2018). It is also true, and there is evidence in India and worldwide that large retailers could obtain favourable terms from manufacturers and other suppliers due to their financial clout and technological capacities. There is also evidence today that foreign firms are trying to gain a foothold in India through mergers and acquisitions, as well as slowly entering the food retail sector.

The recent takeover of Flipkart by multinational giant Walmart is further proof that the Indian Government needs to strengthen its FDI policies in the e-commerce and retail sector to safeguard its domestic companies. The global war between Amazon and Walmart has entered the boundaries of India, and the domestic Indian companies in this sector are at risk of either getting

acquired by powerful foreign MNCs or running out of business (Shah, 2018). The abuse of dominant positions by some companies is taking a toll on the sector, and such practices need to be brought under control with stronger policy frameworks in the e-commerce sector (Shah, 2018). One can see that the issue of FDI in multi-brand retail, particularly in the e-commerce sector, is a contested space. Even though the Government has tried to pacify unorganised retailers with policy modifications, who also continue to hold significant vote share in the Indian context, they remain sceptical and hostile to the influx of retail giants such as Walmart and Amazon into the e-commerce space in India. The issue of food retail remains to be addressed. Hence, regarding the FDI in the e-commerce sector, the Government should proceed with extreme caution and keep in mind the interests of the unorganised retailers of our country, who are a significant contributor to the country's economy.

There is no doubt that constant abuse and violation of rules, and problems of heavy discounting, exclusivity agreements, and fraudulent transactions have become prevalent in the e-commerce sector with the introduction of new policy reforms. While some of these issues also existed before, and the new policy reforms were introduced in part to address these issues, there is doubt that it will succeed in the future in putting a stop to these practices (Shah, 2018). Hence, the state should ensure that there is a certain level of playing field between the large e-commerce entities and the unorganised retailers by ensuring that predatory pricing and circumventing the rules of the country by foreign e-tailers are prevented. Unorganised retailers should also have access to advanced technological capabilities at affordable rates and to loans.

One should understand that reforms in any form are not merely about engaging with the world; they are about promoting and providing welfare for all (Mukherji, 2014). Though the Government attempted to provide certain safeguards for unorganised retailers in India, it has failed to provide any safety net for them in its e-commerce policies. The influx of foreign retailers into the e-commerce space indeed poses a threat to the millions of labourers engaged in the unorganised sector. It is imperative that the retail space be safeguarded from large MNCs, and that Indian policy-making reflect the interests of unorganised retailers.

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