

COMMERCE 3.0: EMPOWERING INDIAN BUSINESSES & ENTREPRENEURS

2014



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MESSAGE FROM LATIF NATHANI MANAGING DIRECTOR eBay INDIA



India is the world's greatest representation of the successful intersection between technology and small businesses. Its entrepreneurs, many of whom have had humble beginnings, are known the world over.

With the advent of the Internet, barriers to entry for businesses seeking to trade across borders have been lowered, the playing field has levelled and, increasingly, transactions are being made on mobile devices.

Statistics point to the sheer scale of this revolution. India's consumer-facing market for Internet-enabled commerce grew at a compound annual growth rate of 49% from 2007 to 2011, to reach a market size of USD9.9 billion¹.

India has the potential to double its economic contribution from the Internet in the next three years, from 1.6% of GDP to 3.33% by 2015².

Based on an empirical study conducted by the global law firm Sidley Austin LLP, our report demonstrates that 98% of commercial Indian eBay sellers export, and eBay commercial exporters reach an average of 31 markets. An astounding 15% of eBay entrepreneurs experience growth rates of more than 100% year on year³.

These are exciting times for India's businesses and entrepreneurs.

Through eBay and PayPal, we are hopeful we can enable them to grow further and succeed.

Latif Nathani
MANAGING DIRECTOR
eBay INDIA

¹ Ernst & Young, Rebirth of eCommerce in India, 2013, [http://www.ey.com/Publication/vwLUAssets/Rebirth_of_e-Commerce_in_India/\\$FILE/EY_RE-BIRTH_OF_ECOMMERCE.pdf](http://www.ey.com/Publication/vwLUAssets/Rebirth_of_e-Commerce_in_India/$FILE/EY_RE-BIRTH_OF_ECOMMERCE.pdf).

² McKinsey, Online and upcoming: The Internet's impact on India, December 2012, http://www.mckinsey.com/locations/india/mckinseyonindia/pdf/Executive_Summary_Online_and_upcoming_The_Internet_impact_on_India.pdf.

³ eBay India Online Business Index 2013.

EXECUTIVE SUMMARY

New technologies are revolutionizing the way people buy and sell. eCommerce platforms, combined with new payment mechanisms, allow for Internet-enabled trade in unprecedented ways. This report provides detailed insights into such trade, how it is already happening in India, and how it differs from traditional (offline) commerce. Using data from eBay and PayPal, we show how these tools allow small retailers to reach global markets.

eBay makes it possible for retailers all over India to reach customers nationally and globally. Even small commercial sellers often sell goods to consumers in many states in India, and practically all of them sell abroad, often to many countries. Yet only 13% of traditional firms in India export.

A key component of successful online trade is secure and efficient ePayment mechanisms. Only through these can commerce happen on a large scale, especially when trade is conducted across borders and through different currencies. It also opens access to the benefits of commerce for these businesses and customers for whom traditional payment mechanisms are not available.

The report sheds light on the use of eBay and PayPal in India from a variety of perspectives. Our research shows how eBay and PayPal link Indian retailers to international markets, how new technologies create a level playing field between small and large sellers, how eCommerce boosts national trade in India and how it can increase consumer welfare.

The benefits of commerce cannot be taken for granted, because entrepreneurs need a conducive policy environment to thrive. The report concludes with proposed reforms that India could undertake to further promote Internet-enabled trade, thereby ensuring success for businesses and entrepreneurs.

SNAPSHOT
OF KEY
FINDINGS:

Russia and Australia are experiencing the
LARGEST EXPORT GROWTH
on eBay India.

141

consumers in India
import items on eBay
from retailers from
141 countries.

200

eBay entrepreneurs and small
businesses in India sell to
customers from **around 200**
countries. PayPal Indian
sellers receive payments
from 180 countries.

98%

share of commercial
eBay sellers in India
that export.

67%

estimated percentage-of-GDP welfare
increase based on a hypothetical
scenario under which all international
trade is conducted in the same
frictionless way as trade on eBay.

32%

of eBay sales are made by newcomers whereas the
corresponding figure for traditional sales is 5%.

13

average number of
countries reached by
commercial PayPal
sellers in India.

**THE
UNITED STATES**

is India's main trading partner
on eBay and PayPal.

31

average number of
countries reached
by commercial eBay
exporters in India.

19

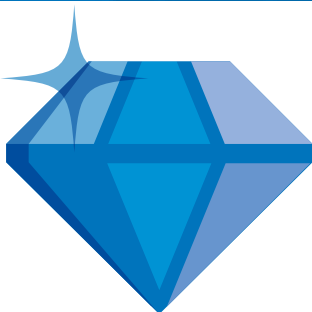
average number of Indian
states and union territories
reached by commercial
eBay sellers.

AN OVERVIEW OF EBAY AND PAYPAL TRADE IN INDIA



Exporters on eBay sell to around
200 countries

and consumers in India import
through eBay from 141 countries.



**Jewellery and watches
dominate exports.**

The United States is the main
export destination.

Internet-enabled trade is expanding at an astonishing pace, and payment flows into India via PayPal have also grown rapidly.

Overall, small businesses in India employ 60 million people⁴. eBay India retail exporters employ an average of 5.3 full-time staff and 2.2 part-time staff. This is projected to increase to 6.1 full-time staff and 2.6 part-time staff in 2014⁵.

India is currently the 13th largest non-cash payments market in the world, but has the potential to grow significantly⁶. PayPal's growth matches India's payment volumes, which are expanding at around 10% a year as the National Payments Corporation of India (NPCI) continues to drive infrastructure improvements and the development of cheap and efficient ePayment instruments⁷.

Total eBay sales from Indian sellers, including national sales, have grown even faster than exports. The growing importance of national sales for Indian sellers will be analyzed in more detail in this report⁸. National sales as a share of overall sales conducted by commercial eBay sellers based in India has grown, indicating Internet-enabled platforms also boost national trade.

The main export markets for Indian eBay sellers are the United States, United Kingdom, Australia and Canada. These exports are mirrored by PayPal export proceeds into India. Among markets that are growing fastest are Russia, Australia and the United States for eBay exporters and Vietnam, Mauritius, Russia and some countries in the Middle East for PayPal sellers. This is shown in Figure 1.

The main products sold by commercial eBay sellers in India – either to national customers or abroad – are listed in Figure 2. The product categories are the broadest classification used by eBay, with around 40 categories in total (the table shows the 7 most important product categories). Whereas national sales are dominated by high-tech goods and electronics (cell phones, computers, cameras), the items most frequently exported are jewellery and watches, and fashion such as clothes and shoes. This shows that platforms such as eBay help to promote exports of a very diverse range of products.

FIGURE 1: MAIN MARKETS, AND FASTEST-GROWING MARKETS

TOP 10 TRADING PARTNERS		TOP 10 GROWTH MARKETS	
INDIAN EBAY SELLERS	INDIAN PAYPAL SELLERS	INDIAN EBAY SELLERS	INDIAN PAYPAL SELLERS
United States	United States	Russia	Vietnam
United Kingdom	United Kingdom	Australia	Mauritius
Australia	Australia	United States	Russia
Canada	Canada	Canada	Israel
Germany	Germany	United Kingdom	Kuwait
France	Israel	Switzerland	Saudi Arabia
Russia	France	Germany	Sri Lanka
Italy	Singapore	Belgium	Qatar
Spain	Netherlands	Italy	New Zealand
New Zealand	Russia	Austria	China

Source: Sidley Austin calculations based on eBay and PayPal data. The columns on the left reporting on top 10 trading partners are based on 2012 data. For the top growth markets (columns on the right), Sidley Austin consider 2008-2012 data for eBay and 2010-2012 data for PayPal. Only markets with turnover of at least USD100,000 in 2008 (eBay) or 2010 (PayPal) were considered.

FIGURE 2: MAIN PRODUCT CATEGORIES FOR EXPORTS AND NATIONAL SALES (2012)

NATIONAL SALES	EXPORTS ⁹
Cell phones & Accessories	Jewellery & Watches
Consumer Electronics	Clothes, Shoes & Accessories
Computers & Laptops	Home Furnishing
Cameras & Accessories	Collectibles
Jewellery & Watches	Health & Beauty
Health & Beauty	Books & Magazines
Clothes, Shoes & Accessories	Business, Office & Industrial

Source: Sidley Austin calculations based on eBay data from 2012 in relation to eBay commercial sellers.

4 Federation of Indian Micro and Small & Medium Enterprises.

5 eBay India Online Business Index 2013.

6 Capgemini & RBS. World Payments Report 2012.

7 Capgemini & RBS. World Payments Report 2012.

8 Currently not possible to use PayPal for domestic transactions within India.

9 For exports electronics and accessory related products not included. This does not impact the highest categories of jewellery & watches, and clothes, shoes & accessories.

HELPING INDIAN BUSINESSES AND ENTREPRENEURS REACH GLOBAL MARKETS

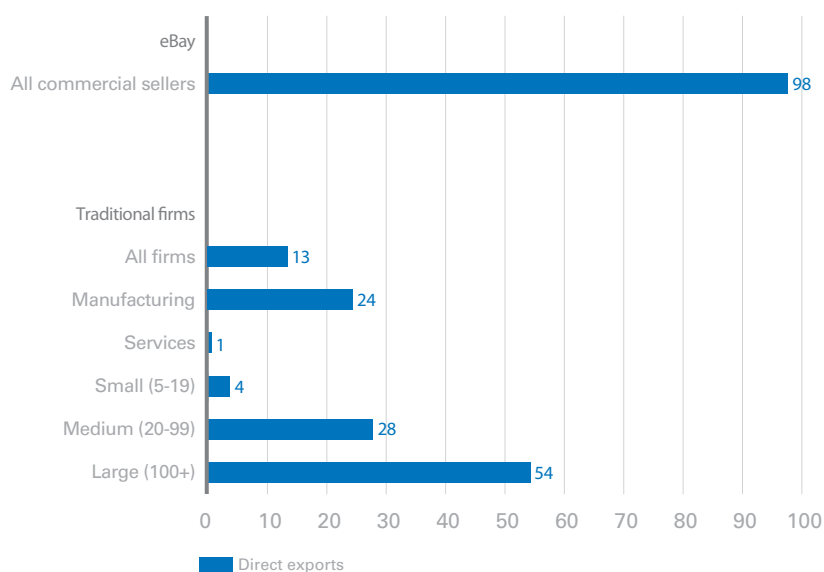


New technologies allow entrepreneurs, including small retailers, to reach global markets directly in a way that is unprecedented in economic history. In traditional commerce, most small, medium and even large firms sell only locally or regionally. Even if they reach international markets, they normally sell to very few of them. In this section, we will demonstrate that the scenario is entirely different for sellers using the eBay platform. Even small eBay sellers tend to export, and they do so to many international markets. Similarly, an analysis of PayPal transactions shows that PayPal also allows users to connect to business partners or customers in a wide range of international markets.

The World Bank provides results of a representative survey of businesses that is undertaken regularly in many countries, including India¹⁰. It reveals that around 90% of Indian firms only sell nationally and the rest export directly. On eBay, the picture is different. As Figure 3 demonstrates, 98% of commercial eBay sellers based in India reach international customers. That means that even among the smallest commercial sellers¹¹, almost all export.

Take Indian manufacturing firms. One may assume that they are more likely to export. However, as shown in Figure 3, only 24% of manufacturing firms export, far fewer than the 98% of Indian eBay commercial sellers that do so. Comparing small and large firms, the World Bank survey reveals that even among larger businesses with 100 or more employees only about half export (see lower bars in Figure 3), even though such firms are certainly much larger (in terms of employees or revenue) than practically all commercial eBay sellers in India.

FIGURE 3: **SHARE OF TRADITIONAL INDIAN FIRMS AND INDIAN EBAY SELLERS THAT ARE EXPORTING**



Source: eBay data for 2012 (for commercial eBay sellers only) and latest World Bank Enterprise Survey data for India (2006) for traditional firms. Note that the World Bank survey defines as exporters only those that sell at least 1% of their sales abroad. For World Bank data, direct and indirect exports have been combined.

10 World Bank Enterprise Surveys, www.enterprisesurveys.org.

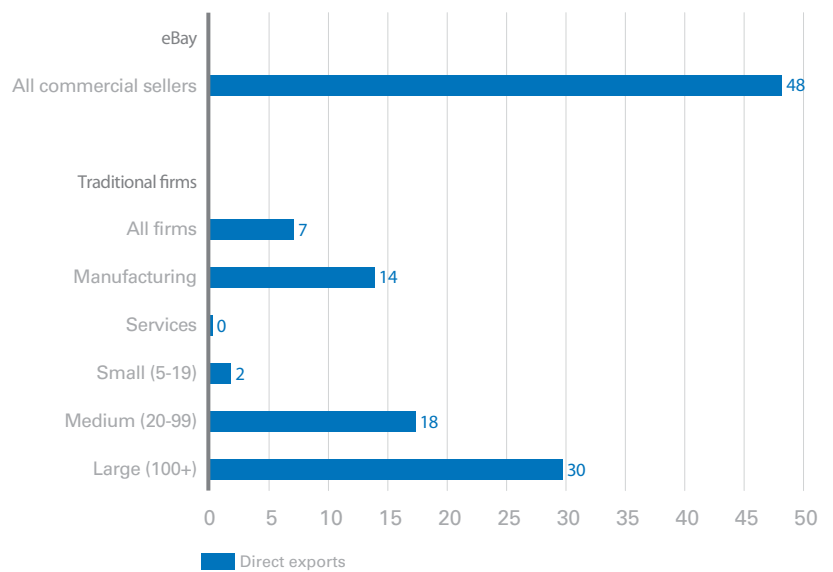
11 Threshold for defining "commercial sellers" in the analysis was USD 10,000, which was around Rs 520,000 in 2012.

Commerce entrepreneurs that use the eBay platform not only export much more frequently, they sell more abroad than their counterparts engaged in traditional (offline) trade. Using the same World Bank survey, we have compared the average share of sales that is exported. On eBay, commercial sellers based in India on average sell 48% abroad (by value). Among traditional firms, even the largest sell on average only around 30% to international customers. This is summarized in Figure 4.

Overall, Indian eBay sellers export to most global markets, as illustrated in Figure 5. These entrepreneurs reach almost 200 countries and territories. Similarly, commercial PayPal sellers in India received payments from around 180 countries in 2012.

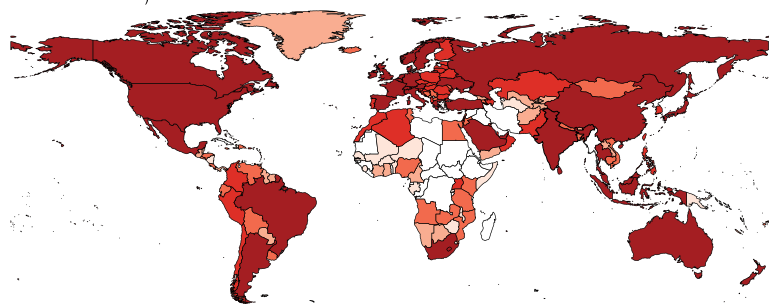
An even more profound result is that *individual* exporters making use of online marketplaces reach far more markets than traditional businesses. On average, commercial eBay sellers are shipping items to around 21 countries. When commercial eBay exporters are taken into account, the average number of destinations increases to 31. Commercial PayPal sellers receive export proceeds from 13 countries on average.

FIGURE 4: **SHARE OF SALES EXPORTED AMONG TRADITIONAL FIRMS AND EBAY SELLERS IN INDIA**



Source: eBay data for 2012 (commercial sellers only) and latest World Bank Enterprise Survey data for India (2006). For World Bank data, direct and indirect exports have been combined.

FIGURE 5: **DESTINATIONS REACHED BY INDIAN EBAY SELLERS**

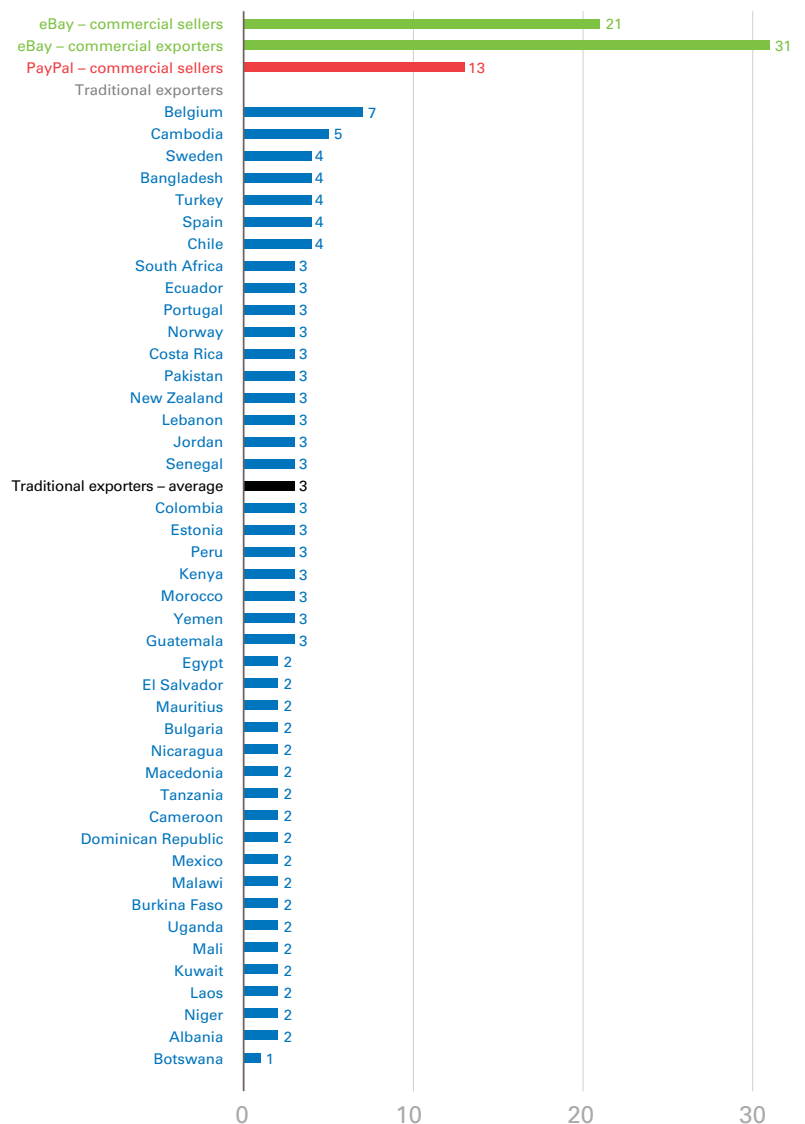


Source: eBay data for 2012 (commercial sellers only). Exports range from dark red (highest level of exports) to light red (lowest levels of exports). Countries with no eBay exports from India appear white.

Traditional exporters are reaching customers in very few markets. Figure 6 provides a direct comparison between eBay sellers and PayPal users based in India with traditional exporters based in 43 other countries for which the World Bank has collected such data. In sum, even small eBay entrepreneurs with a low turnover manage to reach customers all over the world, while traditional commerce is shaped by few large firms exporting to a small number of markets.

Traditional exporters typically reach customers in only three markets. The corresponding figure for those using eBay or PayPal is many times greater. Internet-enabled commerce allows small retailers to become “micro-multinationals,” small businesses with global customers.

FIGURE 6: EXPORT DESTINATIONS – EBAY & PAYPAL VERSUS TRADITIONAL EXPORTERS



Source: eBay data for 2012 and World Bank Exporter Dynamics Database (World Bank, 2012).

Note: The chart shows the average number of foreign markets reached by commercial eBay sellers in India (with annual sales of at least USD10,000) and commercial exporters (with annual exports of at least USD10,000), as well as commercial PayPal sellers based in India (with annual receipts of at least USD10,000).

MAKING THE WORLD 'FLAT' FOR INDIAN EXPORTERS

eBay and PayPal

make the world "flatter".
Geographic distance has almost no
effect on trade volume.



Internet-enabled trade helps overcome the tyranny of distance and makes the world “flatter” with fewer barriers to business, as commerce on eBay demonstrates. A previous analysis of eBay data revealed that distance matters around 65% less on eBay than for traditional trade, and India is no exception¹². Technology has demonstrably helped Indian sellers to overcome geographical distance.

An empirical method to test whether technology “shrinks” the world is the so-called gravity regression, in which one empirically tests the degree to which geographic distance between trading countries reduces the volume of trade¹³. Intuitively, countries that are further apart trade less with each other, even after controlling for other factors that may affect trade volumes (the size of the respective economies, or whether two countries speak a common language, have signed a free-trade agreement or share a common border).

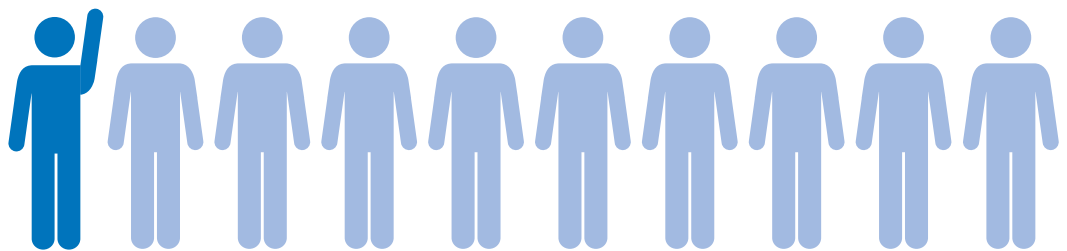
Yet distance becomes less important for trade conducted through platforms such as eBay. An empirical analysis of India’s exports reveals that while traditional exports are significantly lower to countries far away from India, there is no such effect of distance on exports conducted through eBay. A similar finding can be made for PayPal. PayPal-supported international transactions actually increase for larger distances. In other words, after controlling for other non-distance related variables, there are more PayPal flows to India from distant countries than from those nearby. However, as was the case for eBay transactions, the distance effect is negligible.

¹² Lendle, Andreas, Marcelo Olarreaga, Simon Schropp & Pierre-Louis Vézina (2012). *There Goes Gravity: How eBay Reduces Trade Costs*. Mimeo. CEPR Discussion Paper No. 9094.

¹³ The term “distance” is a proxy for many types of transaction costs that impede trade between market participants: cross-border costs (e.g., transportation costs, trade barriers, communication issues), institutional costs (e.g., different legal systems across countries), information asymmetries and matching costs, and issues of trust and enforcement.

CREATING A LEVEL-PLAYING FIELD BETWEEN SMALL AND LARGE ENTREPRENEURS

32% of **eBay** sales are made by **newcomers**



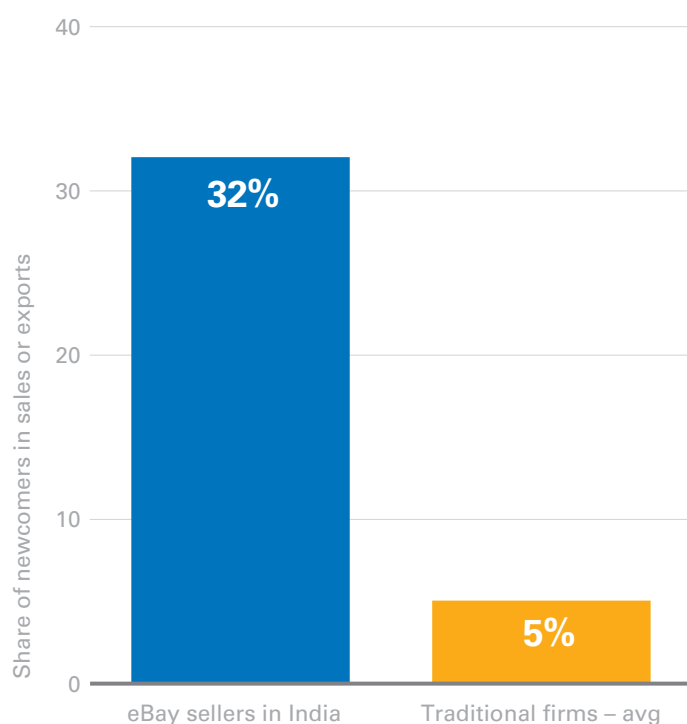
whereas the corresponding figure for **traditional sales is 5%.**

Traditional commerce, especially exports, is dominated by a small number of very large firms. For example, in most countries up to 90% of exports are conducted by the 5% of the largest exporters. Similarly, most exports are from firms that are long-established exporters, with newcomers typically accounting for 5% of sales only. On eBay, the degree of concentration is much less. While small and large sellers use eBay technology, the largest do not dominate the entire market as much as they do in traditional trade.

Traditional commerce is heavily dominated by established firms, whereas Internet-enabled commerce through eBay or similar platforms is driven by new entrepreneurs to a much greater degree.

The evidence therefore clearly shows that Internet-enabled trade helps to provide a level-playing field for small entrepreneurs. National and export sales are less dominated by the largest firms, and new firms have fairly high shares in overall sales. This is because entry barriers for Internet-enabled trade are lower, which makes it easier for newcomers to enter the market. Thus commerce platforms such as eBay have a pro-competitive effect.

FIGURE 7: **SHARE OF NEWCOMERS – EBAY VERSUS TRADITIONAL EXPORTERS**



Source: eBay data using only sellers with sales of at least USD10,000 (around Rs 5 lakh in 2012), average for 2008-2012. Data for traditional commerce, taken from World Bank (2012), relates to exporters across 45 countries and refer to the most recent year for which such information is available.

TESTIMONIALS



RANDEEP SINGH ARORA

Amritsar (punjab)
National seller (eBay India)
Category: Tech – smart phones
Seller ID: randeep_singh_arora

I started selling on eBay India in 2009 with 3G data cards, modems and Micromax phones. From day one, I have had a fantastic response. When I was in the distribution network, I used to face a lot of problems as retailers would never pay up on time. However, on eBay, if one has delivered the item as specified, then no one can stop the payment.

Furthermore, I also do not face any pressure from any mobile company in terms of sales targets. Today, I only sell online and my business is booming like never before. Due to increasing demand, I have gradually moved from selling low-end mobile and modems to high end smart phones and other gadgets.

eBay is a fantastic platform for entrepreneurs and I will encourage everyone who is looking at setting up something of their own to use eBay as a platform. It not only gives you access to customers in India but also enables you to sell globally.

My moment of pride was when there was an announcement made for me at the Delhi airport and a co-passenger recognized me from my eBay store.



JYOTI BANSAL

Delhi
Retail export seller
Category: Vintage sarees
Seller ID: sanskriti india

I started selling on eBay India in order to supplement our household income. I knew a few sellers who encouraged me to set up shop on eBay India. The setting up process was a lengthy affair, however, I received excellent support from the eBay India team who handheld me through out and within three days my store was up and running.

In my initial days, I did a lot of research on the site and found my niche in selling vintage fabric, particularly sarees and saree borders. Also, customer feedback helped me strengthen my business.

Over the past couple of years, we have been able to grow the business from selling 4-5 products a day to over 80 products a day. I am amazed at how we have managed to scale up to this level. Today, I sell my products to customers living in countries such as US, UK and Germany too. I now also have a support staff to help ensure that the business is running smoothly.

I still remember the time when one of my regular customers from Europe was so happy with my products that she sent a gift for my daughter on her birthday along with a special note to my team. Setting up my shop on eBay was one of the best decisions I have taken and I hope to expand my business even more using this platform.

INTERNET-ENABLED TRADE BOOSTS NATIONAL TRADE



**eBay boosts
inter-state
trade in India.**

19

**average
number
of states
and union
territories**

reached by commercial **eBay** sellers.

Commercial eBay sellers, as well as commercial PayPal sellers are spread all over India. To illustrate this, Sidley Austin has analyzed the location of sellers based on their postal codes, which was subsequently matched with India's 28 states and 7 union territories. Figure 9 illustrates domestic eBay activity with a map, showing how the numbers of commercial eBay sellers are distributed across India. The ten largest states, in terms of sales by commercial sellers, are listed in Figure 8.

Almost all, 97% of commercial eBay sellers that sell domestically ship to other states, selling on average 83% of their sales to other states. The average commercial seller thereby reaches customers in 19 different states and territories. eCommerce tools, support the domestic economy and bring remote sellers and buyers closer together.

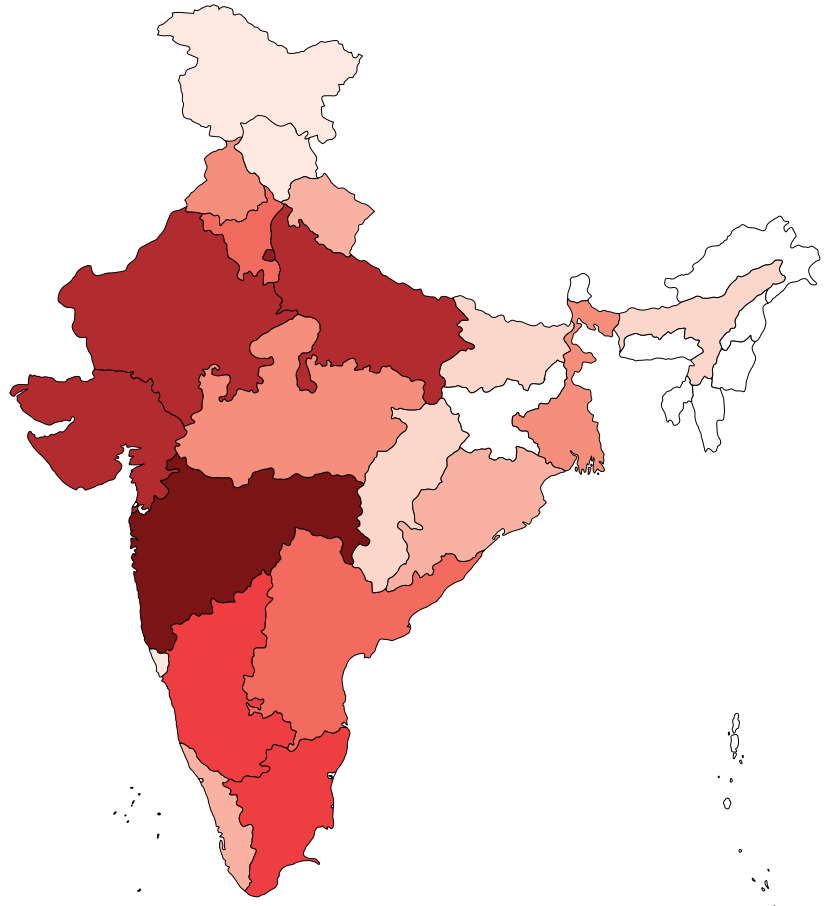
Sellers located in Delhi and Maharashtra by far dominate as the largest net exporters within India and there are much more eBay sales to other parts of India than purchases from other states. For Kerala, Karnataka and Andhra Pradesh, the opposite is true. These are the largest "net consumers" within India on the eBay platform. The five largest inter-state trade flows, which are from Maharashtra to neighbouring Karnataka as well as to Tamil Nadu, followed by flows from Delhi to Karnataka, Maharashtra and Tamil Nadu.

FIGURE 8: MAIN STATES AND TERRITORIES BY SALES

MAIN STATES BY EBAY SALES	
1. Maharashtra	6. Karnataka
2. Delhi	7. Uttar Pradesh
3. Tamil Nadu	8. Haryana
4. Gujarat	9. Chandigarh
5. Rajasthan	10. West Bengal

Source: Calculations using eBay data for 2012 (commercial sellers only).

FIGURE 9: COMMERCIAL EBAY SELLERS IN INDIA BY STATE



Source: calculations using eBay data for 2012 (commercial sellers only). The shades indicate the number of commercial sellers (white = no commercial sellers, light red = few commercial sellers, dark red = many commercial sellers).

ECOMMERCE BOOSTS CONSUMER WELFARE



Internet-enabled trade can
**boost
consumer
welfare.**

67%

estimated percentage-of-GDP welfare increase based on a hypothetical scenario under which all international trade is conducted in the same frictionless way as trade on eBay.

Internet-enabled trade enhances competition and reduces prices because it offers businesses very low market entry barriers. Easy entry is a key condition for competitive markets, which otherwise are dominated by incumbents. Consumers in remote or rural areas benefit most in these markets, where competition is traditionally weaker because there are fewer suppliers.

Lower prices also lead directly to welfare gains because a high level of competition, allowing buyers to compare prices from a variety of retailers, helps bring prices down.

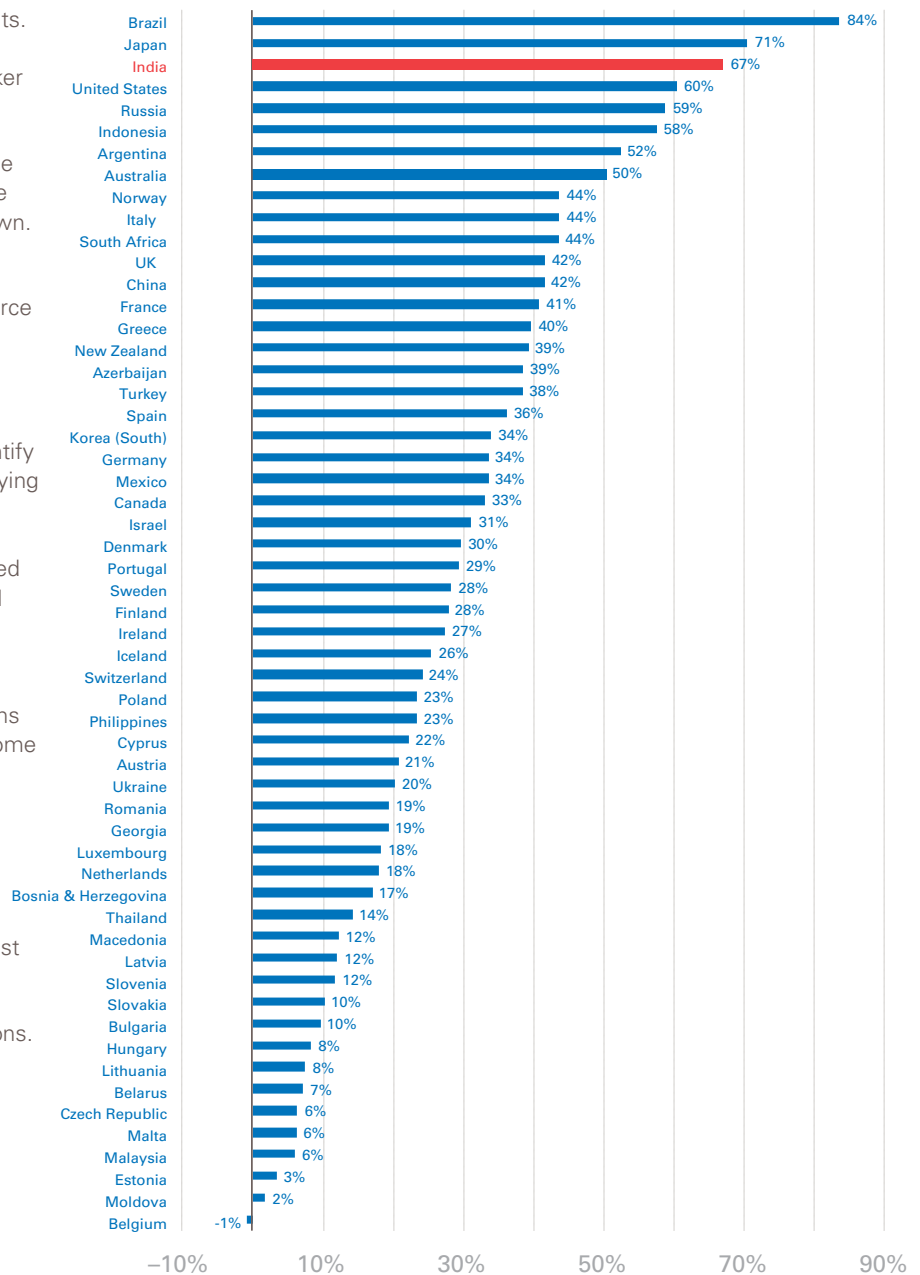
Another key source of welfare gains derived from Internet-enabled trade is access to products. eCommerce platforms reduce search costs and make products tradable that were otherwise not sold. This directly benefits sellers and consumers.

A previous eBay report by Sidley Austin helped to quantify welfare gains from Internet-enabled eBay trade¹⁴. Applying a gravity regression to eBay trade among 56 major trading countries¹⁵, the report estimated welfare gains for consumers that such trade created. They constructed a hypothetical scenario that assumes that all traditional (offline) trade is conducted as efficiently as on eBay or other online platforms – unimpeded by geographic distance, which is a proxy measure for many trade-impeding costs. The report then calculated welfare gains that would prevail if *all* international trade were to become Internet-enabled under this scenario.

The calculations, which have also been explained in other work¹⁶, reveal estimates of very significant welfare gain. These range from -1% (a small loss) to +84%, with an average gain of 29%. For India, the welfare gain was estimated to be 67%, the third highest among countries for which estimates were provided.

The estimates are based on a wide range of assumptions. Nevertheless, the results demonstrate, again, that technology can lead to significant welfare gains.

FIGURE 10: WELFARE GAINS BY COUNTRY



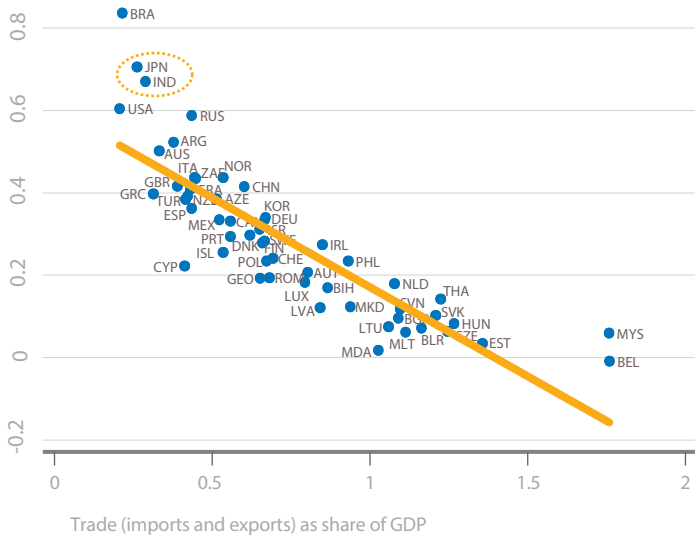
Source for welfare gains: Lendle et al. (2012), calculations based on eBay dataset for 56 countries. The chart shows hypothetical welfare gains as a percentage of GDP for a scenario in which all global trade is conducted in as “frictionless” a way as it is currently done on eBay.

14 eBay, Commerce 3.0: Enabling Australian Export Opportunities, <http://www.ebaymainstreet.com/sites/default/files/AU-Commerce-3-0.pdf>.

15 These are the results of a gravity regression, referred to above.

16 Lendle, Andreas, Marcelo Olarreaga, Simon Schropp & Pierre-Louis Vézina (2012). *There Goes Gravity: How eBay Reduces Trade Costs*. Mimeo. CEPR Discussion Paper No. 9094.

FIGURE 11: WELFARE GAINS VERSUS TRADE/GDP



Sources: Sidley Austin calculations based on eBay dataset for 56 countries, using trade data from the World Integrated Trade System (WITS) database (www.wits.worldbank.org) to measure trade/GDP (average 2004-2007). Note that (trade = exports + imports). Similar results can be found when using exports/GDP or imports/GDP.

BREAKING DOWN BARRIERS TO INTERNET ENABLED TRADE

POLICIES THAT HELP FURTHER BOOST
INTERNET-ENABLED TRADE



Competitive
shipping rates.



Encouraging
a less cash-reliant economy.



Simplified
customs
procedures.



Liberalizing of trademark
exhaustion regimes.



Better
Internet
connectivity.

This report has shown that Internet-enabled trade can provide a wide range of benefits to entrepreneurs and consumers alike. However, its full potential has certainly not yet been reached. Technological advances, especially in relation to improved access to the Internet and mobile networks, will play a key role in the future exploitation of this potential.

Internet-enabled trade needs an *enabling* policy environment. It is currently subject to a wide range of restrictions and faces trade barriers, especially for cross-border transactions. This applies, for example, to trade barriers that affect small transactions in particular.

We briefly summarize five policy measures that could remove barriers for consumers, businesses and retailers using technology platforms.

BETTER INTERNET CONNECTIVITY

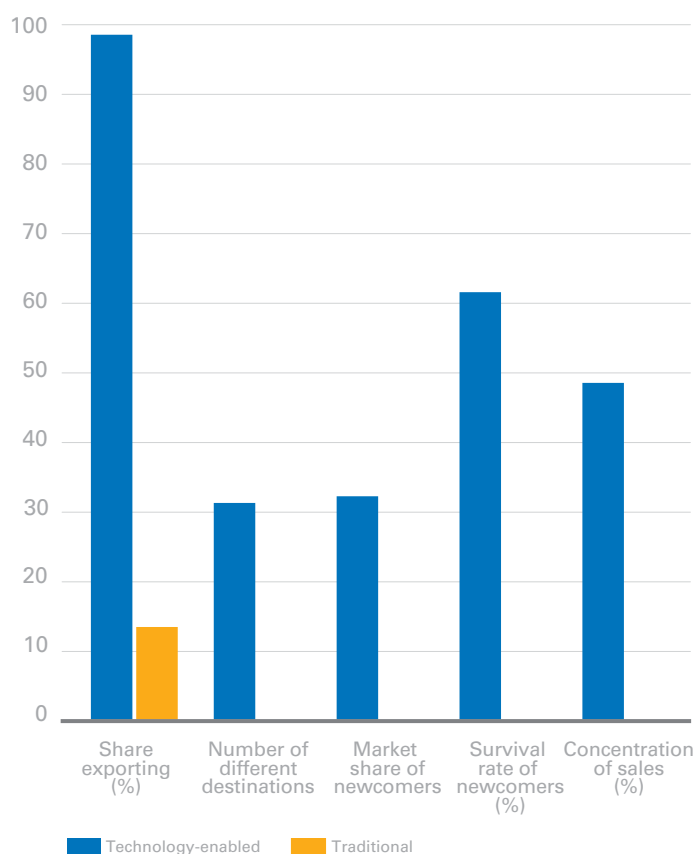
According to digital analytics company comScore¹⁷, India is the world's third-largest Internet user after China and the United States, and its users are significantly younger than those of other emerging economies.

Yet Internet penetration by global standards is low – estimated to be around 16%, or around 205 million users.¹⁸

The Government of India approved in October 2011 the setting up of the National Optical Fiber Network (NOFN) to provide broadband connectivity with adequate bandwidth to around 250,000 Gram Panchayats¹⁹ (GPs) in the country at a cost of USD2 billion. This is to be achieved by utilizing existing optical fiber and extending it to the Gram Panchayats. NOFN has the potential to transform millions of lives via video, data, Internet and telephone services in areas such as education, business, entertainment, the environment, health and eGovernance services.

In the last decade, India has significantly liberalized and opened up its telecom sector through broadband wireless to private sector companies. In 2013, the government allowed foreign direct investment in the telecom sector to 100%. Positive policy steps in recent years have resulted in a fast-growing mobile telephony and data market with around 870 million subscribers and one of the lowest tariffs in the world. Mobile Internet users in the country

FIGURE 12: EBAY INDIA TECHNOLOGY ENABLED TRADE



Source: Commerce 3.0 for Development: The promise of the Global Empowerment Network.

¹⁷ comScore, India Digital Future in Focus 2013.

¹⁸ Internet and Mobile Association of India, Internet in India 2013

¹⁹ Local self-government at the village or small town level in India.

are expected to grow from 4.1 million in 2009 to 164.8 million in 2015, representing a compounded annual growth rate of 85%²⁰.

An overwhelming majority of eBay sellers (74%²¹) say that coverage and reliability of mobile Internet is one of the major factors impacting future growth.

This area requires further focus and investment.

ENCOURAGING A "LESS-CASH" ECONOMY

More than a third of the world's population is excluded from the financial sector. Yet according to organizations such as the Better than Cash Alliance²², ePayments deliver significant benefits including cost savings, transparency, security, financial inclusion and access to new markets.

According to the World Bank²³ the share of population with access to credit or debit cards in India is only 8% for debit cards and 2% for credit cards.

It is therefore not surprising that the Indian market has a sizeable cash-on-delivery (COD) system, in which consumers pay a courier once they have received the product.

An issue with cash-on-delivery is that it creates a delay in payment. Courier companies can hold the money for up to two weeks, which means eCommerce businesses and entrepreneurs have to restock inventory before payment is received from the last sale. It also typically results in higher product return rates by consumers who changed their mind or could not be reached at home.

On eBay India, however, an overwhelming majority of payments are through electronic systems such as PaisaPay.

The Indian government is well aware of the benefits such systems can deliver. It has, for instance, worked to accelerate financial inclusion and less reliance on the cash economy with implementation of the Direct Benefit Transfer (DBT) anti-poverty program, linking it with the

citizen identification number system Aadhar which has now 400 million people enrolled. This will allow millions with unique Aadhar ID to receive their subsidies, pensions, entitlements and scholarships directly into their accounts, reducing "leakages" and time delays.

The Reserve Bank of India's (RBI) Payments System Vision document 2012 states:

*The overall regulatory policy stance is towards promoting a less cash/less paper society, the "green" initiative, and hence the increased emphasis on the use of electronic payment products and services that can be accessed anywhere and anytime by all at affordable prices. Embracing new technology and innovation to unveil a bouquet of simple low cost, easy to use modern payment products and services would be the corner stone of this endeavour.*²⁴

This is an extremely positive statement because ePayments empower consumers and improve security.

It is important that ePayment methods continue to evolve to meet the needs of consumers. At the same time, a regulatory policy that encourages a shift to ePayment methods will ensure that eCommerce in India continues to thrive and expand.

SIMPLIFIED CUSTOMS PROCEDURES

In June 2012, the Ministry of Commerce and the Director General of Foreign Trade in its foreign trade policy supplement, for the first time recognized the importance of eCommerce enabled exports for small businesses and small value shipments via couriers and India post.²⁵ eBay and PayPal then worked with thought leaders like the Federation of Indian Export Organizations to create seminars, incentives, and best practices to help encourage adoption of this new and powerful channel for small businesses and large exporters alike.

20 The Times of India, Mobile internet users in India to touch 164.8m: KPMG 25 September 2013, http://articles.timesofindia.indiatimes.com/2013-09-25/internet/42392337_1_active-internet-users-social-media-brand-building.

21 eBay India Online Business Index 2013.

22 Betterthancash.org.

23 World Bank Global Financial Inclusion Database, <http://data.worldbank.org/topic/financial-sector>.

24 Reserve Bank of India, Payment System Vision Document 2012-2015, <http://rbidocs.rbi.org.in/rdocs/PublicationReport/PDFs/VDBP270612.pdf>.

25 The Economic Times, Federation of Indian Export Organisations to enter into MoU with eBay and Paypal, 6 April 2012, http://articles.economicstimes.indiatimes.com/2012-04-06/news/31300142_1_fieo-indian-export-organisations-paypal.

To implement that commitment, the government should consider procedural reforms to simplify export processes for small value shipments through Internet enabled exports for small businesses. Currently export clearance, notifications, Value Added Tax (VAT), services taxes, and valuation are all issues faced by online retail exporters in India. Addressing these challenges through simplified procedures reduce the costs of transactions and make Indian exports through this channel even more competitive in the global market.

COMPETITIVE SHIPPING RATES

Businesses and entrepreneurs in eCommerce have identified shipping as one of the most significant impediments. Around 54%²⁷ of surveyed eBay India sellers are of the view that more competitive shipping rates should be offered.

This is because they must use different carriers for different regions of the country. For orders sourced outside major cities, individual couriers must often be hired to make last-mile deliveries from drop-off points by bicycle. The difficulties and unreliability of the carriers has forced some businesses to develop their own logistics arms to handle deliveries²⁸.

LIBERALIZE OVERLY STRICT TRADEMARK EXHAUSTION REGIMES

Many countries apply restrictive rules that allow trademark owners to prevent parallel imports of products that have been legally sold in another country – so-called exhaustion regimes. Such imports, when possible, can increase national competition and make it more difficult for brand owners to charge different prices across countries. In a recent case, the Delhi High Court indicated that the

international exhaustion principle may be applicable in India²⁸. This would mean that products sold anywhere in the world by the trademark owner could then be exported to and legally sold in India. Exhaustion regimes in other countries can still affect Indian exporters, who can be prevented from exporting to certain markets even if the products have been sold legally in India.

Removing barriers to eCommerce can help to further boost Internet-enabled trade, which will greatly benefit Indian entrepreneurs, consumers and the wider economy. It will help to link even more small enterprises to global markets.

26 The Hindu Business Line, eBay seeks 'exporter' status for retailers selling its products abroad, 18 September 2013, <http://www.thehindubusinessline.com/industry-and-economy/info-tech/ebay-seeks-exporter-status-for-retailers-selling-its-products-abroad/article5142000.ece>.

27 Forbes, The Growing Pains of Indian E-Commerce: What You Need to Know, 24 January 2013, <http://www.forbes.com/sites/morganhartley/2013/01/24/the-growing-pains-of-indian-e-commerce-what-you-need-to-know>.

28 World Trademark Review <http://www.worldtrademarkreview.com/daily/detail.aspx?g=64535f09-c13b-4909-bf76-cfe0f60e0981>.

CONCLUSION

This paper has outlined how the Internet is helping to empower Indian businesses and entrepreneurs on the global stage.

Opportunities for increased growth are significant, and can be further supported by policies that encourage Internet-enabled trade.

eBay and PayPal are committed to contributing to the evolution of commerce and payments in India, and improving the lives of millions through Internet-enabled trade.

DATA SOURCES

The analytical results shown in this paper are based on two datasets analysed by Sidley Austin LLP: a detailed anonymised dataset of all eBay transactions involving buyers or sellers based in India, and a similar dataset for PayPal transactions. For the most part, the analysis considered only eBay sellers with annual sales of at least USD10,000 (around Rs 5 lakh in 2012), referred as “commercial sellers”. To allow for comparisons with the “traditional” world, such as offline companies, a number of other datasets have been used:

- For direct comparison with traditional exporters, a new database developed by the World Bank has been used that contains information on all exporters based in a number of countries²⁹. While India is not covered in that database, it includes indicators for 45 other countries of varying sizes and stages of development. Results for the indicators of interest (for example, information on the average number of countries to which exporters sell, or the level of concentration of exports among exporters) are often quite similar across the countries contained in the World Bank dataset, despite a large variation in geography, development and trade integration. It has therefore been assumed that such “offline” indicators are also similar for India.
- The World Bank Enterprise Surveys in India have also been used. These are representative surveys conducted among a selection of firms³⁰. The key variable used in these is information on the share of Indian firms that are exporting.
- For the gravity analysis, data on “traditional” exports from each country, taken from the UN Comtrade database, has been used³¹.

²⁹ World Bank Exporter Dynamics Database, <http://econ.worldbank.org/exporter-dynamics-database>.

³⁰ World Bank Enterprise Surveys, <http://www.enterprisesurveys.org>.

³¹ Lendle, Andreas, Marcelo Olarreaga, Simon Schropp & Pierre-Louis Vézina (2012). *There Goes Gravity: How eBay Reduces Trade Costs*. Mimeo. CEPR Discussion Paper No. 9094.

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- World Trademark Review <http://www.worldtrademarkreview.com/daily/detail.aspx?g=64535f09-c13b-4909-bf76-cfe0f60e0981>.

