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THE EVOLUTION OF INDIA'S E-COMMERCE POLICY: CONTEMPORARY CHALLENGES AND LEGAL DEVELOPMENTS

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ABSTRACT:

India's e-commerce sector has witnessed exponential growth, necessitating a robust regulatory framework to balance innovation, consumer protection, and fair market competition. This paper examines the evolution of India's e-commerce policy, integrating contemporary legal developments such as the Digital Personal Data Protection Act, 2023, amendments to the Consumer Protection (E-Commerce) Rules,[1] and emerging challenges in digital trade governance. It explores the role of government initiatives, taxation policies, and the impact of global trade negotiations on India's e-commerce landscape.

INTRODUCTION:

The rapid growth of digital technology has positioned India as one of the largest e-commerce markets globally. The integration of artificial intelligence (AI), big data analytics, and cloud computing has revolutionized the retail sector, transforming how businesses and consumers interact. E-commerce, which refers to the buying and selling of goods and services through digital platforms, has gained significant momentum due to increased internet penetration, affordable smartphones, and evolving consumer preferences. From retailing essential consumer goods to offering financial services and digital content, e-commerce has reshaped trade and commerce in India. The sector's expansion can be attributed to multiple factors. India's internet user base exceeds 850 million, making it the second-largest online market globally. The introduction of 4G and 5G, spearheaded by companies like Reliance Jio, has

[1] Astha Srivastava, *The Rise of E-Commerce: Consumer Protection Challenges in India*, LAWFUL LEGAL (March 1 2025, 8:00 P.M.), https://lawfullegal.in/the-rise-of-e-commerce-consumer-protection-challenges-inindia/#:~:text=The%20rapid%20growth%20of%20e,mechanism%20to%20safeguard%20consumer%20rights.&text=In%20e%2Dcommerce%2C%20misleading%20marketing,one%20of%20the%20biggest%20issues.

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ensured high-speed internet access, even in rural areas. Digital payment systems, such as the Unified Payments Interface (UPI), Bharat QR, and mobile wallets, have further fueled e-commerce adoption. Government initiatives like Digital India and Startup India have encouraged entrepreneurship, while the Goods and Services Tax (GST) has simplified tax compliance for online businesses. Additionally, evolving consumer behavior, characterized by increased trust in online transactions and a preference for convenience, has strengthened the e-commerce ecosystem.[2]

Major players like Amazon, Flipkart, and Myntra dominate India's e-commerce landscape alongside emerging platforms such as Meesho and Nykaa. The sector also includes business-to-business (B2B) marketplaces like IndiaMART and consumer-to-consumer (C2C) platforms like OLX and Quikr. The rise of hyperlocal delivery services, such as Dunzo and Blinkit, has further enhanced accessibility, enabling quicker order fulfilment. These developments have not only provided convenience to consumers but have also created millions of direct and indirect employment opportunities in logistics, customer service, and digital marketing. E-commerce has particularly empowered micro, small, and medium enterprises (MSMEs) by offering them a national and international market reach. Initiatives like Amazon's 'Local Shops' and Flipkart's 'Samarth' have supported small businesses, artisans, and rural entrepreneurs.[3]

Despite its advantages, the e-commerce sector faces regulatory challenges, including concerns over consumer protection, data privacy, fair competition, and taxation. The Digital Personal Data Protection (DPDP) Act, 2023, has introduced stricter compliance measures for e-commerce platforms handling consumer data. The Consumer Protection (E-Commerce) Rules, 2020, aim to regulate deep discounting, misleading advertisements, and unfair trade practices. Additionally, taxation policies like the Equalization Levy and FDI restrictions impact the operational models of global e-commerce giants, influencing their market strategies in India. Cybersecurity threats, counterfeit goods, and fraudulent transactions pose additional concerns, necessitating stricter enforcement mechanisms. The future of e-commerce in India will be shaped by technological advancements and evolving regulatory frameworks. Emerging technologies like blockchain, AI, and the metaverse are expected to transform the industry. The government's Open Network for Digital Commerce (ONDC) aims to level the playing field for

[2] Mariyam Jameela, *Understanding the New Rules for E-Commerce in India*, WAREIQ (March 1, 2025, 8:00 P.M.), https://wareiq.com/resources/blogs/unew-rules-for-e-commerce-in-india/.

[3] Aijaj Ahmed Raj & Wazida Rahman, *E-Commerce Laws and Regulations in India: Issues and Challenges*, RESEARCHGATE (March 1 2025, 8:00 P.M.), https://www.researchgate.net/publication/330845555_E-commerce_Laws_and_Regulations_in_India_Issues_and_Challenges.

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small retailers by promoting open digital commerce. As India participates in global trade negotiations,[4] its e-commerce policies will need to balance innovation with consumer protection. This paper examines the evolution of India's e-commerce regulations, their impact on businesses and consumers, and the challenges that need to be addressed for sustainable growth.

Evolution of India's E-Commerce Policy:

Early Regulatory Landscape:

India's e-commerce sector was initially governed by broad legislative frameworks such as the Information Technology (IT) Act, 2000, and the Competition Act, 2002. However, the absence of a comprehensive and dedicated national e-commerce policy led to a fragmented regulatory environment, creating uncertainty for businesses, investors, and consumers. The oversight of e-commerce activities was divided among various ministries and government departments, each handling specific aspects of the industry. The Ministry of Consumer Affairs played a key role in regulating consumer protection, while the Ministry of Electronics and Information Technology (MeitY) was responsible for[5] digital infrastructure and cybersecurity. Additionally, the Department for Promotion of Industry and Internal Trade (DPIIT) managed foreign investment policies and industrial growth in the sector. Due to this multi-agency approach, businesses often faced regulatory ambiguities and overlapping jurisdictions, leading to calls for a more structured and holistic e-commerce policy framework.

The Draft National E-Commerce Policy (2019 & 2021):

To address these regulatory gaps and establish a structured policy framework, the Government of India introduced the Draft National E-Commerce Policy in 2019, which was later revised in 2021. One of the critical aspects of the policy was data localization, which mandated that critical personal data be stored within India to safeguard consumer interests and enhance national security. This move was seen as a step towards strengthening digital sovereignty and reducing dependence on foreign data infrastructure. The policy also placed significant emphasis on consumer protection by reinforcing grievance redressal mechanisms and

[4] Andrew Bloomenthal & Anderson S., *Electronic Commerce (e-Commerce)*, INVESTOPEDIA, (March 1, 2025, 8:00 P.M.), https://www.investopedia.com/terms/e/ecommerce.asp.

[5] *Amazon, Google Face Tough Rules in India's E-Commerce Draft*, INDIAN EXPRESS (March 1, 2025, 8:00 P.M.), https://indianexpress.com/article/technology/tech-news-technology/amazon-google-face-tough-rules-in-indias-e-commerce-draft-6492373/.

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mandating stricter compliance measures for e-commerce platforms to ensure fair treatment of consumers. Additionally, to curb unfair trade practices, the policy sought to regulate market competition by preventing anti-competitive strategies such as preferential treatment of select sellers, deep discounting, and exclusive product tie-ups.[6] Another crucial area covered by the policy was foreign direct investment (FDI) regulation. The government proposed stringent FDI norms to prevent foreign e-commerce firms from engaging in inventory-based business models, thereby discouraging monopolistic control over the market and ensuring that Indian businesses could compete on a level playing field. Despite these progressive measures, the policy has undergone multiple revisions due to concerns from industry stakeholders, particularly regarding its impact on innovation, investment, and ease of doing business in India's growing digital economy.

Contemporary Legal Developments in E-Commerce Regulation:

Digital Personal Data Protection Act, 2023:

The Digital Personal Data Protection (DPDP) Act, 2023, represents a landmark shift in India's data privacy landscape, significantly impacting e-commerce operations and compliance requirements. The Act is designed to protect consumer privacy while ensuring that businesses engage in ethical data processing practices. One of its fundamental provisions is the requirement for consent-based data processing, meaning that companies must obtain explicit consumer consent before collecting or processing any personal data. The Act also introduces regulations on data localization and cross-border data transfers, mandating that sensitive data be stored within India or only transferred to jurisdictions that meet India's data protection standards. Furthermore, the law enforces stronger accountability mechanisms,[7] requiring e-commerce platforms to appoint data protection officers, establish grievance redressal systems, and uphold consumer rights. Non-compliance with the DPDP Act can lead to severe penalties, including hefty fines for data breaches and violations of privacy norms. For e-commerce businesses, this translates into heightened compliance obligations, requiring them to invest in robust data governance frameworks, security infrastructure, and localization strategies.

Amendments to the Consumer Protection (E-Commerce) Rules, 2020:

[6] *Discounting Logic: On E-Commerce Policy*, THE HINDU (March 1, 2025, 8:00 P.M.), https://www.thehindu.com/opinion/editorial/discounting-logic/article24584920.ece.

[7] PIB, https://pib.gov.in/Pressreleaseshare.aspx?PRID=1595850 (last visited March 1, 2025).

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Recognizing the evolving challenges in online retail, the Indian government has made significant amendments to the Consumer Protection (E-Commerce) Rules, 2020, to ensure greater transparency and fairness in e-commerce transactions. One of the key modifications is the regulation of flash sales, which aims to prevent platforms from engaging in manipulative sales tactics that disproportionately benefit specific sellers. These restrictions ensure that all sellers on an e-commerce platform have equal opportunities to participate in sales events. Another important amendment is the enforcement of transparency in online advertising and consumer reviews.[8] E-commerce platforms are now required to prevent the publication of fake reviews and misleading advertisements, thereby safeguarding consumer interests and ensuring informed purchasing decisions. The amended rules also introduce a mandatory grievance redressal framework, compelling platforms to appoint dedicated grievance officers who must acknowledge consumer complaints within 48 hours and resolve them within 30 days. Additionally, the liability of e-commerce entities has been reinforced, making platforms accountable for violations of consumer rights by sellers operating on their platforms. These regulatory changes bring India's e-commerce ecosystem closer to global best practices, strengthening consumer rights while fostering fair competition among market participants.

Competition Law and Regulatory Enforcement:

The Competition Commission of India (CCI) has significantly expanded its role in regulating the e-commerce sector, ensuring fair market competition, and preventing monopolistic practices. Over the past few years, CCI has launched multiple investigations into the business practices of major e-commerce players such as Amazon and Flipkart, scrutinizing allegations of preferential treatment to select sellers and anti-competitive agreements that harm smaller businesses. The regulatory body has also intensified its oversight of mergers and acquisitions in the e-commerce space to prevent market consolidation that could lead to monopolistic control. Another critical area of focus has been pricing strategies, particularly concerns over deep discounting, where platforms offer substantial discounts on certain products to outcompete traditional brick-and-mortar retailers and smaller e-commerce players.[9] Through these regulatory interventions, CCI aims to create a level playing field where all businesses,

[8] PIB, https://pib.gov.in/Pressreleaseshare.aspx?PRID=1575760 (last visited March 1, 2025).

[9] *Draft E-Commerce Policy Moots Conformity Assessment Procedures for Online Platforms*, THE HINDU (March 1, 2025, 8:00 P.M.), https://www.thehindu.com/business/Industry/draft-e-commerce-policy-moots-conformity-assessment-procedures-for-online-platforms/article34074688.ece.

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irrespective of size, have an equal opportunity to thrive. As the e-commerce landscape continues to evolve, regulatory scrutiny is expected to increase further, ensuring that India's digital marketplace remains competitive, consumer-friendly, and aligned with global standards.

Taxation and E-Commerce:

The taxation of e-commerce in India has evolved significantly over the years to ensure fair revenue generation from digital businesses, particularly those operating without a physical presence in the country. These taxation measures aim to create a level playing field between domestic and foreign digital entities while addressing revenue leakages and regulatory challenges.[10]

Equalization Levy and Digital Taxation:

The Equalization Levy, often referred to as the "Google Tax," was introduced to tax foreign digital companies that generate revenue from Indian consumers without having a physical presence in India. Initially imposed at 6% on online advertising revenues earned by non-resident companies, it was later expanded in 2020 to include a 2% tax on foreign e-commerce operators providing digital services to Indian consumers. This move sought to ensure fair taxation between local and international digital businesses, preventing tax base erosion. However, the levy has also led to international trade disputes, particularly with the United States, where major tech giants have argued that such taxation measures unfairly target them. As global discussions on digital taxation progress under the Organisation for Economic Co-operation and Development (OECD), India's approach may undergo further refinement.

Goods and Services Tax (GST) on E-Commerce:

The introduction of the Goods and Services Tax (GST) brought significant changes to e-commerce taxation, ensuring better tax compliance among online platforms. E-commerce marketplace aggregators are now required to deduct a 1% Tax Collected at Source (TCS) before remitting payments to sellers, which helps in tracking transactions and preventing tax evasion. Additionally,[11] online food delivery services like Swiggy and Zomato are mandated

[10] T. Bhalla, *New Draft Policy Widens Scope of E-Commerce Business*, MINT (March 1, 2025, 8:00 P.M.), https://www.livemint.com/news/new-draft-policy-increases-the-scope-of-ecommerce-11615711774647.html.
[11] *E-Commerce Rules*, https://consumeraffairs.nic.in/sites/default/files/E%20commerce%20rules.pdf (last visited March 1, 2025).

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to collect and remit GST, eliminating loopholes that previously allowed restaurants to avoid tax compliance. Cross-border e-commerce transactions are also subject to intermediary taxation rules, ensuring that international sellers contribute to India's tax base. These reforms have strengthened tax administration but have also introduced compliance burdens for smaller players in the e-commerce ecosystem.

Impact of Taxation on Small Businesses and Startups:

While taxation reforms have enhanced transparency and regulatory oversight, small businesses and startups operating in the digital space face several challenges. Complex tax filing processes increase compliance costs and administrative burdens, particularly for micro, small, and medium enterprises (MSMEs) with limited financial and legal resources. Navigating e-commerce tax laws can be difficult, especially for smaller sellers unfamiliar with GST regulations, leading to inadvertent non-compliance.[12] Additionally, taxation on digital services influences pricing strategies, as increased tax burdens may be passed on to consumers, potentially affecting competitiveness. To support India's rapidly growing digital economy, the government must streamline tax compliance procedures and offer incentives or simplifications for startups and smaller e-commerce businesses while ensuring fair taxation across all market participants.

Emerging Challenges in India's E-Commerce Policy:

India's e-commerce landscape is witnessing rapid changes, accompanied by emerging challenges that require regulatory attention. One of the key issues is **global trade negotiations and digital governance**, where India must navigate complex international agreements while protecting its domestic digital economy. As countries push for cross-border e-commerce regulations under trade frameworks, India faces the challenge of maintaining sovereignty over its digital economy while ensuring fair global trade practices.[13]

Another major development is the **role of the Open Network for Digital Commerce (ONDC)**, an initiative aimed at democratizing e-commerce by reducing the dominance of large marketplaces and promoting open, decentralized digital commerce. While ONDC promises a

[12] DRISHTI IAS, https://www.drishtiias.com/to-the-points/paper3/e-commerce-in-india (last visited March 1, 2025).

[13] ENS Economic Bureau, *Draft E-Commerce Policy: Ensuring Level Playing Fields, No Distortionary Effect*, INDIAN EXPRESS (March 1, 2025, 8:00 P.M.), https://indianexpress.com/article/business/companies/draft-e-commerce-policy-ensuring-levelplaying-fields-no-distortionary-effect-5598283/.

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more inclusive ecosystem for small businesses, its implementation and success remain uncertain, particularly in ensuring seamless interoperability among platforms and protecting consumer interests.

The **'Country of Origin' debate** has also gained prominence, particularly in response to geopolitical tensions and consumer demand for transparency. The government has mandated e-commerce platforms to display product origins, aiming to promote domestic manufacturing and reduce reliance on imports. However, ensuring compliance and determining the actual country of origin in complex global supply chains remains a significant challenge.

CONCLUSION AND RECOMMENDATION:

India's e-commerce sector is undergoing significant regulatory transformation to address the evolving challenges of consumer protection, taxation, fair market competition, and data security. With the rapid digitization of commerce, the government has introduced various measures to ensure transparency, accountability,[14] and an equitable business environment. However, as digital trade continues to expand, there is a need for continuous policy refinement to create a regulatory framework that fosters both business growth and consumer trust.

A key area requiring immediate attention is the simplification of tax compliance, particularly for small businesses and startups. The introduction of the Equalization Levy and GST on e-commerce transactions has improved tax collection but has also increased compliance burdens for micro, small, and medium enterprises (MSMEs). Many smaller sellers struggle with complex filing processes, leading to inadvertent non-compliance. To support their growth, policymakers should consider streamlining GST filing requirements, providing tax incentives for digital startups, and offering simplified compliance mechanisms, such as quarterly return filings for smaller sellers.[15] These measures will encourage more businesses to enter the e-commerce space without being overburdened by regulatory complexities.

Another pressing issue is data protection, as digital transactions involve the collection and processing of vast amounts of consumer data. The implementation of the **Digital Personal Data Protection (DPDP) Act, 2023,** marks a significant step toward strengthening data privacy regulations in India. However, further refinements are needed to align India's data

[14] P. Mukul, *Online Shopping Set to Change*, INDIAN EXPRESS (March 1, 2025, 8:00 P.M.), https://indianexpress.com/article/explained/online-shopping-set-to-change-5285358/.

[15] A. Peermohamed, *India's New Draft e-Commerce Policy to Rein in Related Parties*, ECONOMIC TIMES, (March 1, 2025, 8:00 P.M.), https://economictimes.indiatimes.com/tech/tech-bytes/indias-new-draft-e-commerce-policy-to-rein-in-related-parties/articleshow/81502310.cms.

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protection laws with global standards, ensuring that consumer data remains secure while enabling businesses to use non-personal data for innovation. Striking a balance between data protection and digital commerce growth is critical, and future amendments should focus on creating clear guidelines for cross-border data transfers, consent management, and obligations for online platforms regarding user data security.

In addition to taxation and data governance, ensuring fair competition in India's e-commerce landscape remains a challenge. Large marketplace platforms dominate the sector, often engaging in pricing strategies and preferential treatment of sellers that may disadvantage smaller businesses. The government's push for the **Open Network for Digital Commerce (ONDC)** aims to create a more inclusive ecosystem by promoting interoperability between platforms. However, its successful implementation requires addressing concerns related to technological infrastructure, platform adoption, and the standardization of transaction processes.[16] Encouraging the widespread adoption of ONDC among e-commerce players will be crucial to fostering a level playing field in the digital market.

At the global level, resolving international trade disputes over digital taxation is imperative. The **Equalization Levy** has drawn criticism from countries like the United States, where major technology firms argue that India's digital tax unfairly targets foreign companies. In light of the **OECD's global tax framework discussions**, India must engage in diplomatic negotiations to ensure that its taxation policies remain fair and sustainable while maintaining its sovereign right to tax digital businesses operating within its jurisdiction. Collaborative efforts with international organizations and trade partners will be essential to prevent trade conflicts and ensure a mutually agreeable taxation framework.

Furthermore, as emerging technologies such as artificial intelligence (AI), blockchain, and the metaverse reshape e-commerce, India's regulatory framework must evolve accordingly. AI-driven predictive analytics, automated customer service, and personalized marketing strategies are becoming integral to online commerce.[17] However, these advancements raise ethical and legal concerns, such as algorithmic bias, data privacy risks, and consumer protection challenges. Policymakers must work toward formulating AI-specific regulations that govern its use in e-commerce, ensuring transparency in AI-driven decisions while fostering innovation.

[16] A. Kalra, *India's Draft e-Commerce Policy Calls for Equal Treatment of Sellers*, REUTERS (March 1, 2025, 8:00 P.M.), https://www.reuters.com/article/us-india-ecommerce-policy-idUSKBN2B50DT.

[17] Astha Srivastava, The Rise of E- Commerce: Consumer protection Challenges in India, Lawful Legal (March 1, 2025, 8:00 P.M.), https://lawfullegal.in/the-rise-of-e-commerce-consumer-protection-challenges-in-india/.

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In conclusion, India's e-commerce regulations must continue evolving to balance economic growth, consumer welfare, and fair competition. By streamlining taxation for small businesses, strengthening data protection measures, ensuring fair competition through ONDC, addressing international trade concerns, and adapting to technological advancements, India can build a resilient and future-ready digital commerce ecosystem.[18] A collaborative approach involving government agencies, industry stakeholders, and global regulatory bodies will be key to achieving these goals. With the right policies in place, India has the potential to emerge as a global leader in digital commerce while ensuring that its regulatory framework remains inclusive, transparent, and growth-oriented.

[18] Mariyam Jameela, Understanding the New Rules for E-Commerce in India, Ware IQ (March 1, 2025, 8:00 P.M.), https://wareiq.com/resources/blogs/unew-rules-for-e-commerce-in-india/\.

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