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FICCI
CMSME
EXPLORING POTENTIAL OF
E-COMMERCE FOR RETAIL
EXPORTS OF INDIAN MSMEs
IN MANUFACTURING SECTOR
KNOWLEDGE PARTNER
clusterkraft
grooming growth

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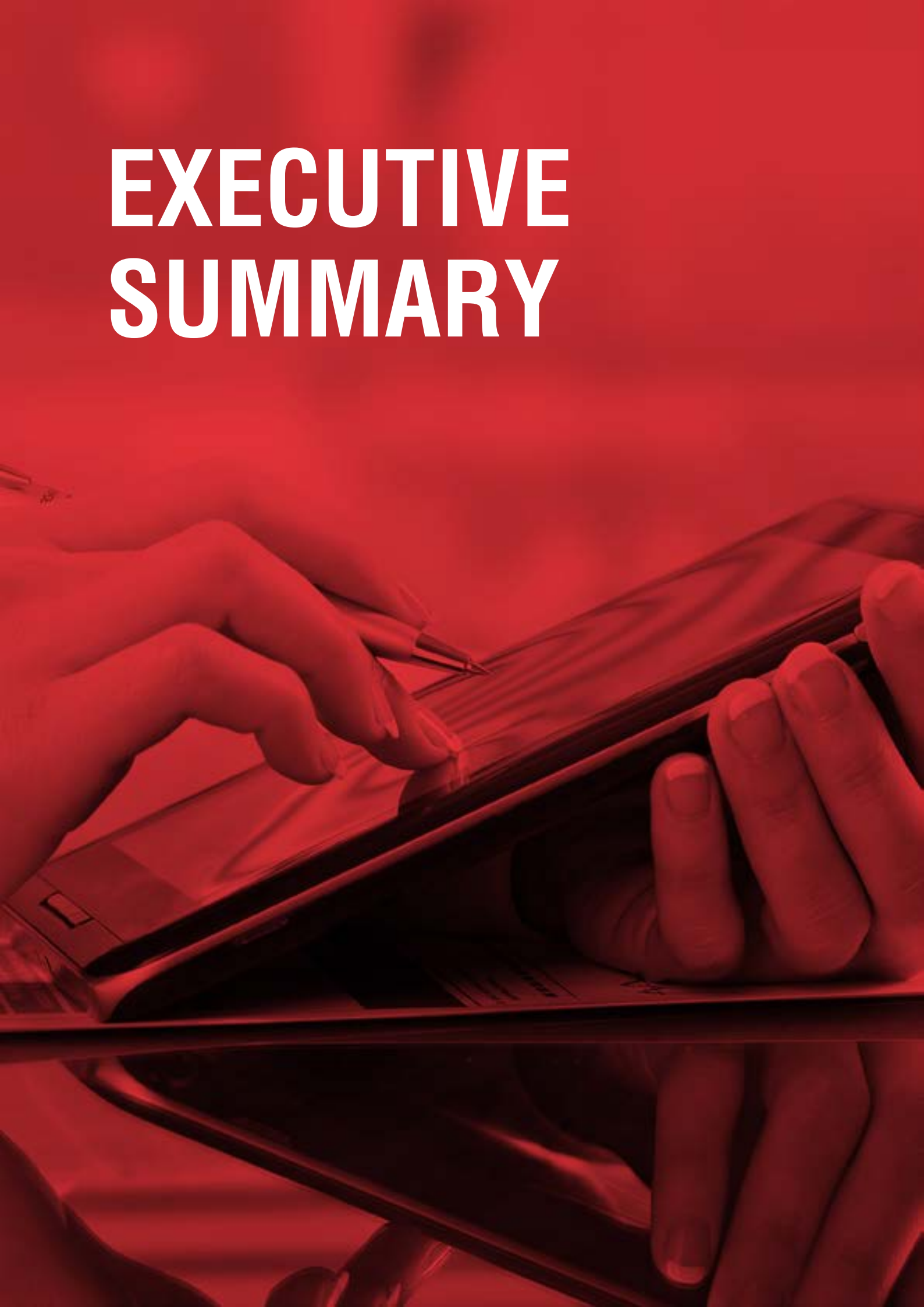
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EXECUTIVE SUMMARY



EXECUTIVE SUMMARY

The impact of e-commerce is briskly changing the mechanism of global business. Though the e-commerce phenomenon is more than 25 years old[1] today, it has become significantly popular in the last five years. According to the Global B2C E-Commerce Report, 2016 by the E-Commerce Foundation, in 2015 China accounted for the largest volume of B2C e-commerce sales, followed by the United States of America (USA) and the United Kingdom (UK). Online retail has become a common practice in developed countries contributing towards 10 percent to 13 percent of the retail transactions.

This brings an unequivocal opportunity for Indian MSMEs, both for existing as well as potential start up export units, to capture a portion of the rapidly expanding B2C e-commerce via marketplace giants such as eBay, Amazon and Alibaba. Although, B2C e-commerce sales in India stood at USD 25.5 billion, putting it at the ninth position followed by Russia as the tenth-ranked country, yet the Indian online retail surprisingly constitutes less than one per cent of India's total retail market. This is also reflected through poor Cross-Border Trade (CBT) via e-commerce (B2C) amongst Indian MSMEs, which are still in the embryonic[2] stage.

The overall export potential arising out of MSME products amounts to USD 302 billion, contributed by 93 product categories and is exported to 159 countries. There are numerous clusters in India that hold promising potential for MSME products that can be exported to various countries in North America (USA), Europe (UK, Germany, Italy and France), Australia and South East Asian countries (Thailand, Singapore, Philippines and Malaysia). Although products like petroleum, machinery, iron and steel, etc. cannot be addressed through B2C e-commerce exports, nevertheless the addressable retail export through B2C ecommerce is only worth USD 52 billion, contributed by only 20 product items like gems and jewellery, finished leather goods, handloom products, handicrafts, auto accessories etc.

Hence forth, it is visible that India is not yet grasping



[1] The first e-commerce transaction on a commercial website was recorded in 1995 on AuctionWeb, the predecessor of eBay, for US$ 14.83 when a broken pointer was sold

[2] When demand and supply exist in isolation

full evident advantages of the at-hand e-commerce opportunities. Considering the rapid rise in the number of internet users, culminating in increased buying and selling of goods and services from Business to Consumers (B2C), the online international trade is flourishing. This is something that MSMEs can benefit from directly. Therefore, there is a dire need to understand the status, challenges and opportunities of e-commerce exports from India, which depends on the e-commerce readiness of the Indian MSMEs and the limiting factors within the retail CBT sector via e-commerce from India.



The study, therefore, brings forth the huge potential for Indian exports through an online mode; an immense opportunity, which currently has not been exploited to its fullest due to lack of conducive policy environment. Appreciating the fact that this paradigm shift from offline to online exports would bring forth a challenge, not only for the Indian policy makers but also for the MSMEs, the study, therefore, lists recommendations for the Indian Government through modifications in the current Merchandise Exports from India Scheme (MEIS) policy under Foreign Trade Policy of India (FTP 15-20) on one hand and strategies to motivate Indian MSMEs to migrate towards an e-commerce platform, while ensuring high profitability on the other.

The strategy developed, is based on the understanding that Indian e-commerce success is dependent on twin factors -

(i) internal discrepancies and
(ii) conducive policy environment.

Hence, the study involves an in-depth primary survey in the major MSME clusters[3] through structured questionnaires supported by a detailed secondary research.

The primary survey brings forth internal discrepancies that pertain to ICT infrastructure; e-payment and logistic from the respondents across MSME sectors, like apparel, leather, handicraft, gems and jewellery. Other problems include - inadequate supply capacity to cater to the export orders, supply not of international quality standards, weak logistics, product unsuitability to

[3]A cluster is defined as geographical concentration of manufacturing units of the similar product

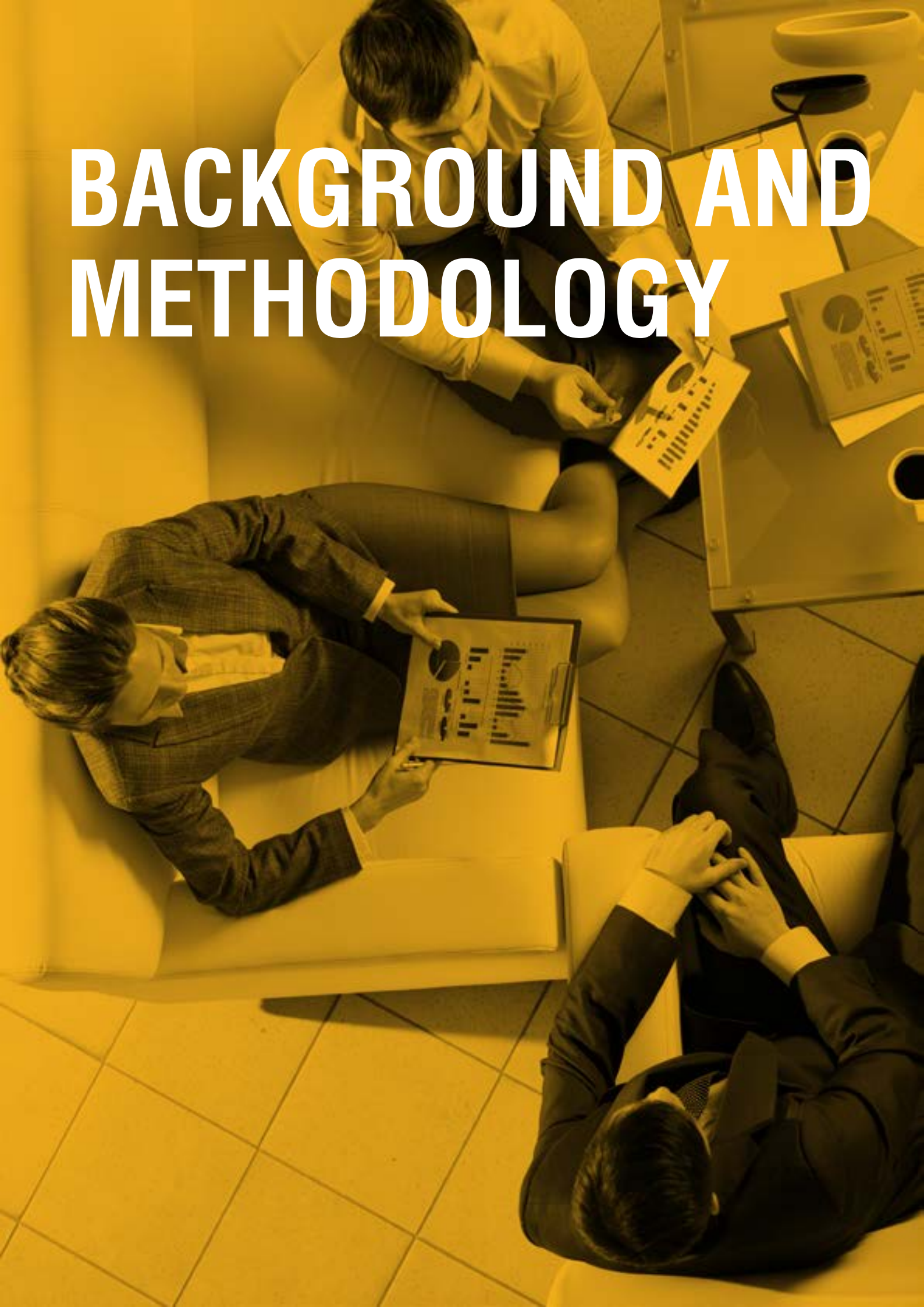
international markets and poor infrastructure. Respondents have also added poor Information and Communication Technology (ICT) low bandwidth, speed, and reliability of the network, and power failure in rural areas as factors that add to the obstacles. Perception issues of technical complexities, faster offline recovery, and so on, prevail, which motivate Indian MSMEs to stick to traditional modes of trade. Also, lack of availability of skilled workforce, privacy and security concerns, and inaccessibility to finance are some of the roadblocks, preventing Indian MSMEs transition to e-commerce avenues. These discrepancies inhibit MSMEs from e-commerce CBT retail market who finally lose the means to reach foreign buyers, despite having the potential to do so.

On the external front, while global platforms like eBay, Amazon and Alibaba are engaging with MSMEs to push their products in the global markets, by helping them list on their respective platforms, the discrepancies still pertain to various policy related issues required to provide a fillip to MSME exports through e-commerce. For instance, there is an urgent need for the government to recognize retail e-commerce exports as an industry and work towards removing regulatory barriers, including reviewing of the FTP policy in terms of its limitation to certain categories and of a limited amount (like in the case of gems and jewellery), simplifying customs duty procedures and allowing exporters to claim duty drawbacks. The challenges, include customs duty levy on return of goods, absence of refund on value-added services (VAT) or Service Tax, lack of provisions for commercial shipment in the CN-22 form, absence of support for small-value single item shipment in the current courier shipping bill etc. needs to be addressed on immediate basis.

This study, thus, is an initiative to promote the global reach of Indian MSMEs and enhance the export competitiveness of 'Made in India' products.

Policy recommendations towards integrating "Make in India" and "Digital India", through facilitating ease of selling Indian products online, will enable access to new geographies and market diversification for the Indian MSMEs, without spending on market research. This paradigm shift in policy focus creates a new business vision, since it is expected to increase CBT via e-commerce (B2C) revenue from existing USD 500 million to USD two billion by the year 2020, which will be almost 10 percent of the total addressable retail category potentially which can be exported from India.

BACKGROUND AND METHODOLOGY



BACKGROUND AND METHODOLOGY

The Indian economy has consistently shown signs of proliferation, with the average Gross Domestic Product (GDP) growth rate at 7.5 per cent in 2015-16. The retail sector is currently demonstrating signs of rapid expansion at 11 per cent compound annual growth rate and is expected to grow from an estimated prevalent size of USD 600 billion to USD one trillion in the year 2020. Though, e-commerce spends in India is around one per cent of the total retail spending, e-commerce has become a key driver to create new markets in erstwhile unreachable geographies. Micro Small and Medium Enterprises (MSMEs) account for more than 98 per cent of the total industrial units in India. However, only limited numbers of MSMEs have the potential and readiness for Cross-Border Trade (CBT). To capitalize on the benefits from specific target customer base, there is a case for clusters to be classified as export-oriented in the selected category of products. There are few CBT categories like textile, apparel, leather, handicraft, gems and jewellery concentrated in clusters. It is, therefore, essential to map e-commerce (CBT) readiness to be able to attain focused and project based targets for CBT among MSMEs.

The Right Time for India's CBT Digitisation

A new trend of boom in digitization amongst Indian MSMEs is on the rise. Indian MSME units, particularly those with second and third generation entrepreneurs in the business are relatively quick to adopt technology, thus witnessing enhanced business efficiency. Such firms connect with customers digitally, trading globally through the e-commerce platform. This has further resulted in tremendous opportunities for MSMEs that earlier had limited marketing options and can now directly connect with the buyers across global markets. The encouragement to MSMEs towards diversifying from offline to online mode also comes from intimations under the new foreign trade policy 2015-20 towards e-commerce exports.

Approach and Methodology

The text below outlines the approach and methodology employed for the purpose of this study. This included undertaking secondary

Scope and Objective of the Study

The scope and objective(s) of the study are as below:

- Exploring untapped potential of e-commerce exports from India.
- Identifying focus products and markets for e-commerce exports.

research on e-commerce trends and diagnosis of the export potential of MSMEs, as well as primary research aimed at identifying export potential of MSME manufacturing clusters, e-commerce readiness in such clusters and challenges faced by the clusters in order to go digital.

SECONDARY RESEARCH

Data Analysis On

1. Important trends of high e-commerce growing countries.

2. Diagnosis of export potential sector's present online and the possibility of missing to initiate online boarding.

PRIMARY RESEARCH

WHAT?

1. Clue on export potential of MSME Clusters for identified products.
2. Clue on e-commerce readiness of identified clusters.
3. Clue on challenges faced by the cluster/ firms to go digital.

STAKEHOLDERS

1. Steering Committee of heads of sectoral Export Promotion Councils
2. Industry Association at Cluster Level
3. Individual firms across MSME Clusters

METHODOLOGICAL TOOL USED

STEP ONE: The clusters based on their CBT potential were identified via secondary research including extensive trade data analysis substantiated with inputs from the different Export Promotion Councils of India.

STEP TWO: Based on the export potential sectors/ products identified in first step, MSME clusters were shortlisted for primary survey to evaluate the readiness of the MSME clusters at three levels -

(i) IT readiness
(ii) Export readiness and
(iii) E-commerce readiness.

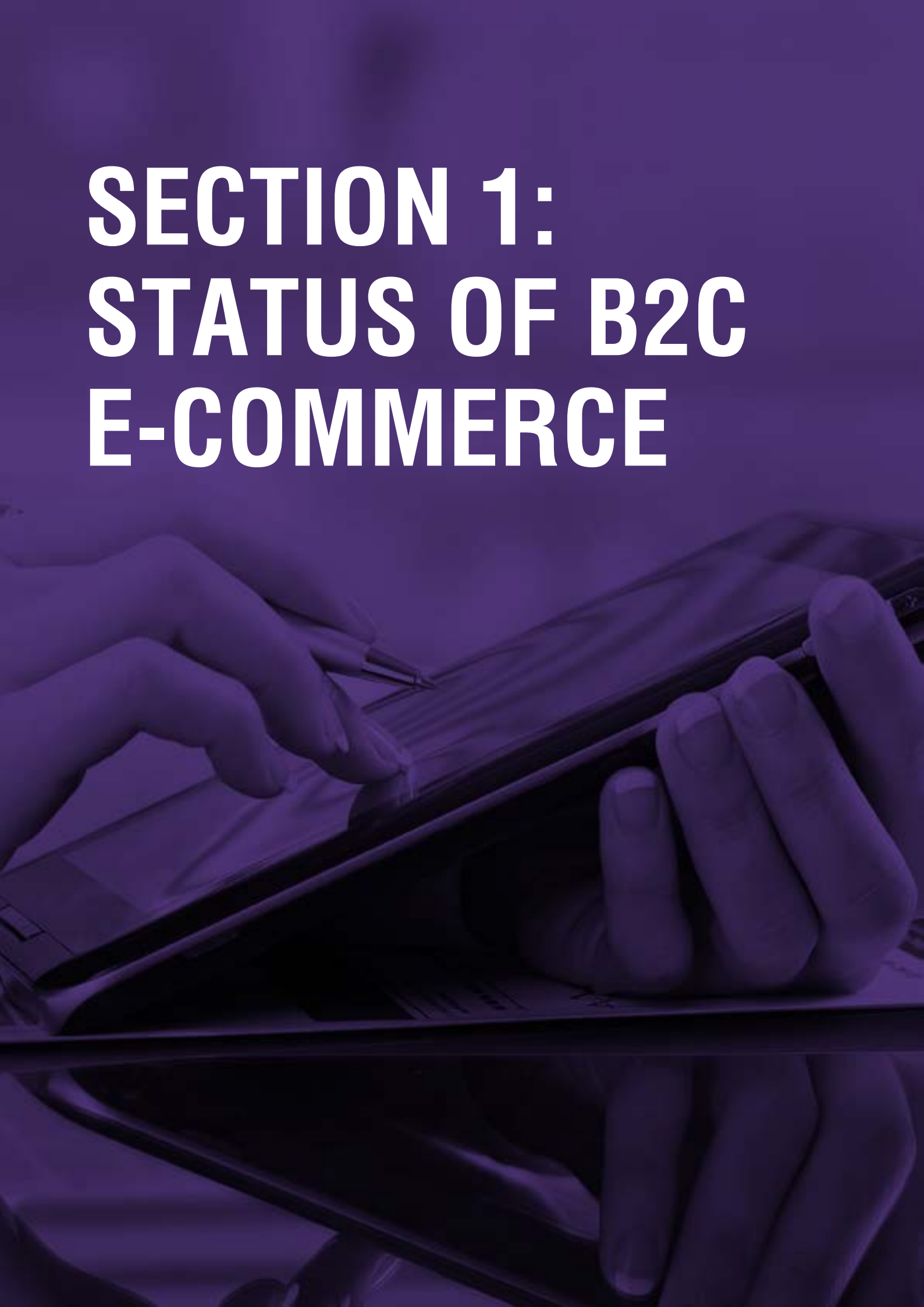
This was done through an extensive questionnaire that was designed to cover the various aspects needed to get the MSMEs on-board.

Step Three: Based on our primary and secondary research, a roadmap was developed to promote e-commerce amongst Indian MSMEs by recommending solutions both to the government in terms of changes in policy and regulatory structure as well as addressing cluster specific challenges faced by MSMEs.

For the next stage i.e. the implementation stage, strategy and recommendations have been put forth to get capable MSMEs on-board.

- Capturing salient features of the e-commerce MEIS policy.
- Evaluating the intensity of the usage e-commerce amongst Indian exporters.
- Checking e-commerce readiness of the export oriented clusters; and
- Strategizing enhancement of efficacy of the MEIS e-commerce scheme.

SECTION 1: STATUS OF B2C E-COMMERCE



SECTION 1:
STATUS OF B2C E-COMMERCE

INTRODUCTION

This section reviews the status of the global and the Indian e-commerce industry. The purpose of this analysis is to gain an insight into the factors that encourage high e-commerce retail growth, learn about the best practices followed by leading countries and comprehend the hidden potential for Indian MSMEs to trade online.

Due to the presence of Indian MSMEs that form the backbone of the Indian economy, India has a treasure of promising scope and potential to capture a substantial portion of the global e-commerce retail market.

Before we delineate the opportunities for the Indian MSMEs in the global e-commerce market, it is vital to understand the current status of the global and Indian e-commerce retail market and the e-commerce models presently available. To capture a coherent state of the Indian e-commerce, an amalgamation of primary and secondary research was conducted. The same will be examined in the following section in detail.

1.1 GLOBAL E-COMMERCE TRENDS

Overview: Global E-commerce Industry on an Upturn

Digital link is an essential component of the new age globalization and retail e-commerce especially, B2C e-commerce has become the choice for retail trade all over the world. Until a decade ago, traditional B2B and B2C was the primary mode of Cross-Border Trade. However, today e-commerce CBT is becoming a preferred choice for B2C trade with over 2 billion consumers worldwide.

Despite, e-commerce B2C retail being the preferred means of trade, the distribution of market share is highly skewed. According to the Global B2C E-Commerce Report 2016 by the E-Commerce Foundation, China accounted for the largest volume of B2C e-commerce sales at USD 766.5 billion, followed by the United States of America (USA) at USD 595.1 billion and the United Kingdom (UK) at USD 174.2 billion; whereas South Korea CBT e-commerce sales stood at USD 64.8 billion and India was at USD 25.5 billion. The trend analysis indicates a stark difference in the market share of e-commerce B2C of USA, UK and China to be much larger when compared to countries such as India and South Korea. Here, China and the USA together account for 60 per cent of the global e-commerce sales.

The Global Retail E-Commerce Index ranks the top 30 countries based on their e-commerce potential, taking into account several variables that provide information on a country's current market situation and its growth potential.

As per the Global Retail E-Commerce Index Report, 2015, USA ranks number one as the most attractive market, due to its online market size, followed by China and the UK, whereas Argentina and Ireland were the lowest rank holders. To improve India's ranking in the index or to be there on the list by

being present in the top-30 countries, there is a need to develop an appropriate strategy reviewing current market trends and adopting best practices from countries with highest global retail e-commerce index.

It is fundamental to identify the point of difference(s) between the e-commerce CBT strategies of countries that hold higher ranks in the Global Retail E-commerce Index Report as compared to those that hold a lower rank. The strategies of developing and developed country e-commerce Domestic and Cross-Border Trade are different on many accounts; for instance - in developing countries, the consumer's attitude is distinct from that of a developed country's consumer, mainly in terms of what they demand - such as the quality of goods, customer services, and brand value amongst others.

Countries that hold a larger portion of the CBT e-commerce market share, either have had an early start in the market or have had adopted an appropriate business strategy that has widely contributed towards their rapid growth in e-commerce. Another component that must be altered as part of the business strategy is the attention of e-commerce giants towards ever changing consumer preference. Moreover, challenges such as infrastructure, e-payment, logistic and policy issues were tackled early on.

1.2 INDIAN E-COMMERCE: TRENDS AND SCOPE

Business strategies need to be complemented with appropriate management task force with the resilience to adapt to nuances of varied markets. The traditional mode of B2B Cross-Border Trade has been the preferred way for the Indian exporters primarily accruing to the traditional mind-set of the Indian Medium, Small and Micro Enterprises. India's Overall export is estimated at USD 302 billion. Here, USD 53 billion amounts to B2B exports, under approximately 20 product categories exporting to countries such as UAE, USA, Singapore, UK, Japan, EU and South Africa amongst others.

The B2B Cross Border Trade has largely contributed towards India's economic growth but has had to face multitude of hindrances, chiefly cross-border payment process, money transfer issues, high fee for international payments and numerous parallel policy challenges.

FIGURE 1:
INDIA OVERALL EXPORT SIZE (INCL. B2B) US$ BILLION

Source:
DGFT and Compiled by research Team

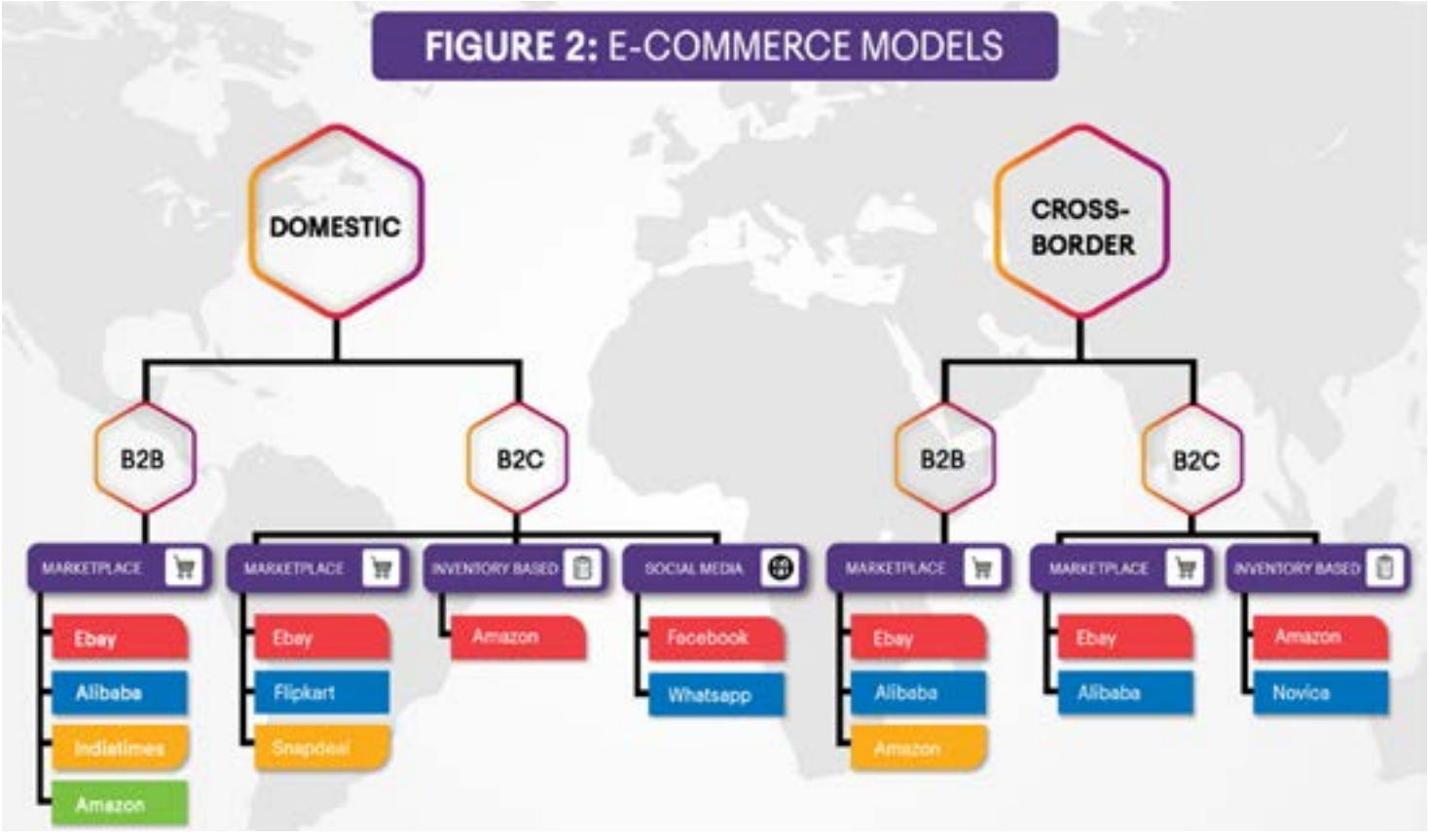


India's MSMEs cater to the B2C retail sector primarily at the domestic level, where the domestic consumer widely influences demand and supply chain management. However; e-commerce Cross Border Trade has opened gates to an international consumer base with a distinct consumer preference all over the world.

Cross-border e-commerce B2C has given an opportunity to the Indian MSMEs to cater to a larger market (US$ 53 billion) and engage with the international consumers directly that will further facilitate MSMEs to assess the international sales structure. The direct MSMEs access to a large consumer base due to B2C e-commerce , especially those located in isolated geographically regions that earlier exported via traders and buying houses, will help reduce the transaction cost, eliminate cross-border payment issues via e-payments, contribute to creating brand value, increase profit margin - to name a few. E-commerce sector is fast emerging as the key enabler for establishing new market segments in India. Given the growth potential for Indian MSMEs in B2C e-commerce CBT, e-commerce is an appropriate platform, where the MSMEs can expand and scale up their market outreach via CBT as it facilitates a level playing field for an otherwise skewed traditional export market.

It is crucial that the Indian MSMEs recognize this opportunity and adopt business strategies that are away from traditional means of trade. To ensure a successful absorption of e-commerce that will help Indian MSMEs develop an international reputation, expand outreach, reduce market research cost and leverage e-commerce ecosystem, there is a need to put in place a mechanism that will equip MSMEs to be CBT ready. E-Commerce in India can be broadly categorized as - Domestic and Cross-Border, B2B and B2C, Marketplace and Inventory based and lastly, Single brand and multi brand. The advent of technology enabled innovations such as Digital Payments, Hyper-local Logistics, Analytics driven Customer Engagement and Digital Advertisements have enabled the e-commerce industry to grow at a much faster pace. Other Government initiatives such as Digital India, Skill India, Startup India and Make in India are contributing to the growth of the e-commerce industry.

FIGURE 2: E-COMMERCE MODELS



The Indian e-commerce sector has become highly competitive with the presence of international marketplace players in India like Amazon, eBay and the local players, such as Flipkart and Snapdeal. There are inventory led e-tailers that have made India's domestic e-commerce sector highly competitive. Unlike traditional retail, trade entry barriers in this sector are fewer and several e-tailers have successfully established product specific online stores. The traditional retailers such as Shoppers-stop, Reliance, Croma etc., have also embraced e-commerce as another channel to increase sales and their digital footprints.

India also make international purchase from USA of products like automotive, baby supplies, toys, clothing, footwear, accessories, jewellery, watches, cosmetics, health products, digital entertainment and educational services which are some of the leading categories for cross-border B2C e-commerce.

In order to tap B2B e-commerce market in India, leading B2C companies have started to build their own platforms for small business owners and traders. Companies and MSMEs are increasingly buying and selling online and plan to shift procurement transactions via internet soon enough. Understanding this untapped potential of the B2B e-commerce industry, the government has allowed 100 per cent FDI in B2B e-commerce, which has enabled globally successful B2B e-commerce companies, such as Walmart and Alibaba show an avid interest in the Indian B2B e-commerce industry. The Indian B2B e-commerce market potential is expected to reach USD 700 billion by the year 2020.

Due to a rapid boom in digitization, B2C e-commerce is the most favourable mode of trade for the Indian MSMEs. Digitization by consumers and enterprises in the recent years has created a framework that can benefit even isolated MSMEs. Empirical evidence suggests that ICT has had a transformational effect on the economy worldwide. Use of ICT has completely transformed business operations by substantially increasing the number of transactions. Technological innovations like digital payments, digital advertisement, analytics and customer engagement have helped the Indian e-commerce industry to develop rapidly.

Furthermore, these factors have had a positive impact on attracting private equity and venture capital investments into e-commerce ventures in India. Active participation and initiation on behalf of MSMEs have had a positive impact on attracting private equity and venture capital investments. The e-commerce sector is expected to form a significant part of the Indian internet market with a value close to USD 100 billion by the year 2020.

While many online marketing platforms exist in India, eBay, Amazon, and Alibaba are some of the prominent B2C e-commerce CBT platforms. For Indian MSMEs and sellers that intend to adopt B2C e-commerce CBT as a business strategy it is a simple process of registering onto eBay (e-commerce platform) before scaling up on its e-commerce footprint and can be of utmost help to them so as to better understand the e-commerce platform. Assessments undertaken indicate that there are over 75,000 sellers listed on eBay India across the estimated 100 million listings. Furthermore, Amazon and Alibaba are also gearing up to offer similar CBT platforms to the Indian MSMEs.

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 e-commerce enabled exports for small businesses and small value shipments via couriers and the India post. In the Foreign Trade Policy, announced in April, 2014, the Ministry of Commerce for the first time, provided export incentives to e-commerce exporters up to Rs.25,000 through courier services, for items such as handloom products, books, leather footwear, toys and customized fashion garments, from six ports on a pilot basis. The value of such items shipped through couriers are not captured under regular export data and is often categorized as samples. The scheme is operational at airports and post offices of Delhi, Mumbai and Chennai on a pilot basis.

Indian MSMEs need to take advantage of these marketing platforms to enter foreign markets that bear high e-commerce potential. B2C e-commerce CBT enablers such as eBay, Alibaba and Amazon tend to be profitable as they expedite the process of B2C trade by eliminating certain impediments that MSMEs face via the traditional mode of commerce. E-commerce giants have over 25 million registered customers, such as eBay due to its extensive global market reach and presence. MSMEs consider marketing to be a tremendous amount of investment as a part of their business overheads. This often acts as a deterrent, especially in the case of Indian MSMEs. In contrast, e-commerce enablers most often have separate divisions exclusively for marketing. Thus, such brand marketing enablers absorb the marketing challenges faced by such MSMEs.

E-commerce is an appropriate platform for MSMEs towards expanding and scaling up their market outreach. Indian MSMEs need to recognize this opportunity and adopt business strategies that are transformational rather than being iterative. To ensure that the Indian MSMEs move over to e-commerce, the sector, as a whole, has to develop a positive international reputation, expand outreach, reduce market research costs as well as leverage an e-commerce ecosystem.

To better understand the Micro Small Medium Enterprises opportunities and challenges status, a primary survey was conducted both at the firm and industry level that has been discussed in detail in the next segment.

1.3 ANALYSIS AND ASSESSMENT OF CBT B2C E-COMMERCE FOR INDIAN MSMEs

The business processes of an e-commerce CBT are disparate from traditional medium of trade. In the periphery of international trade, only a limited number of components may be controlled by the MSMEs, such as quality of products and services, rapid technological transformation, up gradation of skill and knowledge. However, there are individual components that are detrimental on external participants of an e-commerce business chain, such as policy and business environment and infrastructure access.

So as to understand the scope and to identify major roadblocks that the Indian MSMEs face via B2C e-commerce in CBT and to identify suitable MSME clusters for export promotion, a survey was undertaken as part of this study that covered various MSME players across the country that deal with different product categories The major highlights of the survey were as under:

Distribution of respondents was as follows: 31 per cent respondents from the apparel sector, 14 per cent from the leather sector, 9 per cent from automobiles sector, 13 per cent from handicrafts sector, 8 per cent from handloom sector and 9 per cent from gems and jewellery sector.

I. Reason for Inability to Export

Supply inadequacies were indicated as one of the most important factors that inhibit MSMEs from exporting. A majority of respondents stated -

1. Inadequate supply capacity to be the foremost factor that acts as a deterrent;

2. The second most common challenge is the absence of known mechanisms to reach out to the foreign buyers despite appropriate supply capacity to export;

3. Third most common challenge is the poor quality of goods and

4. Missing international demand of products due to limited product diversification was another issue that was highlighted.

II. E-commerce Readiness

Nearly all respondents felt that their products were eligible for e-commerce CBT and that they possessed the potential to export, but the restricting factor was the need for an active role to be played by the e-commerce platforms to enhance a cluster's or MSME's export competitiveness.

E-commerce readiness across the clusters was also examined by assessing:

1. The extent of the workforce employing computers with internet connection;

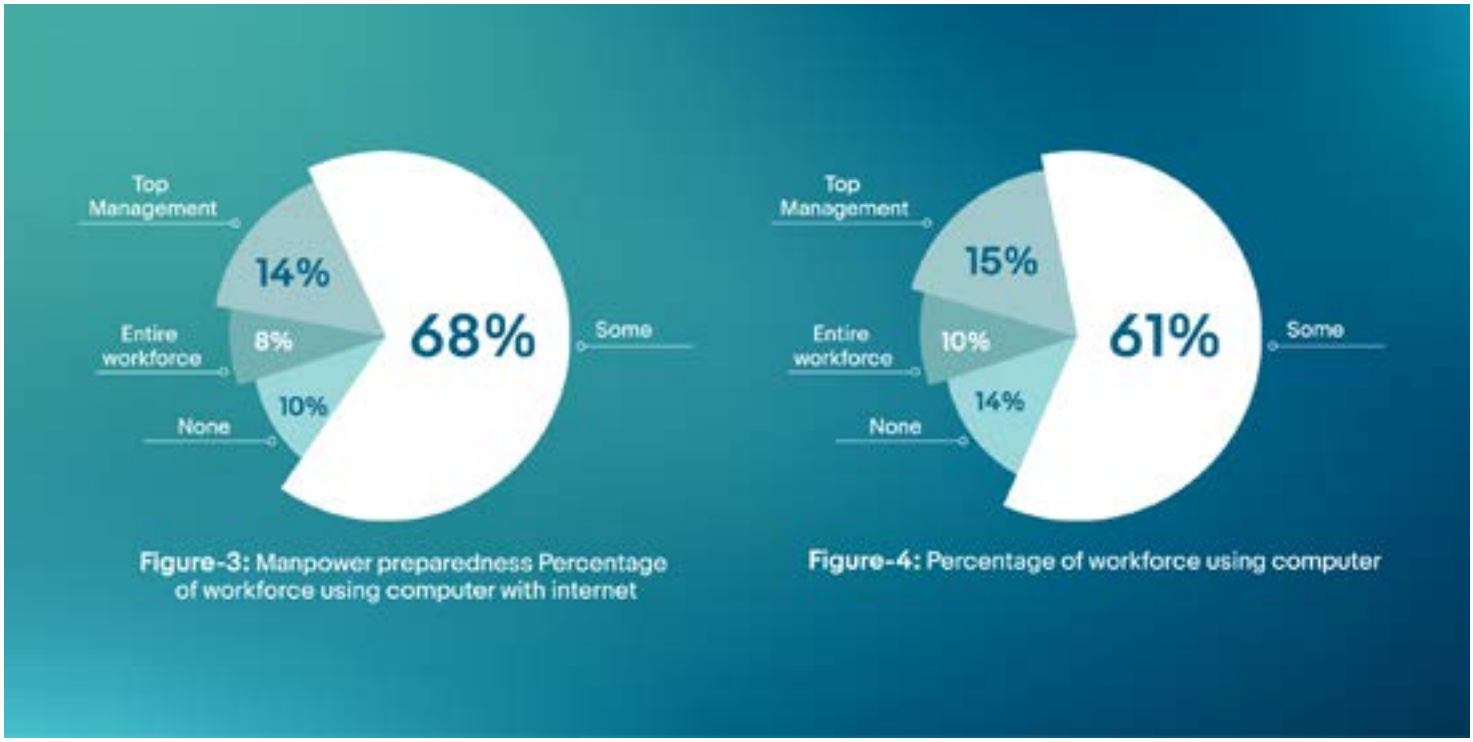


Figure-3: Manpower preparedness Percentage of workforce using computer with internet

Figure-4: Percentage of workforce using computer

2. How the individual units were reaching to their current customers;

3. Type of e-commerce transaction(s) currently being undertaken;

4. Their vision towards adopting e-commerce as a business strategy.

Around 60-70 per cent of the workforce across various MSME clusters was found to have
employed computers (refer Figures 3, 4), and amongst these, a majority confirmed that they had access to an internet connection, thus, stating the feasibility of using e-commerce to widen their reach to foreign buyers.

III. Hard and Soft Infrastructure Readiness of MSMEs

Email was found to be the primary means of communication with the buyers for a majority of MSMEs across clusters. Thirty two per cent of the respondents indicated that while they have a website, it is used only to demonstrate their products without any actual sale transactions happening on the same. Given the current readiness status of the MSMEs, interventions from marketing platforms like Amazon, eBay, etc. which already possess an integrated end to end operation solutions, including logistics and payment, infrastructure support can act as an appropriate medium to instigate online sales for MSMEs. B2B platform, telephones, buyer-seller meets, trade shows, exhibitions, direct linkage with buyers and social media (especially Facebook), personnel acquaintance, shortlisting through directory and research foreign website are some of the other means of connecting with foreign buyers as reported by MSMEs.

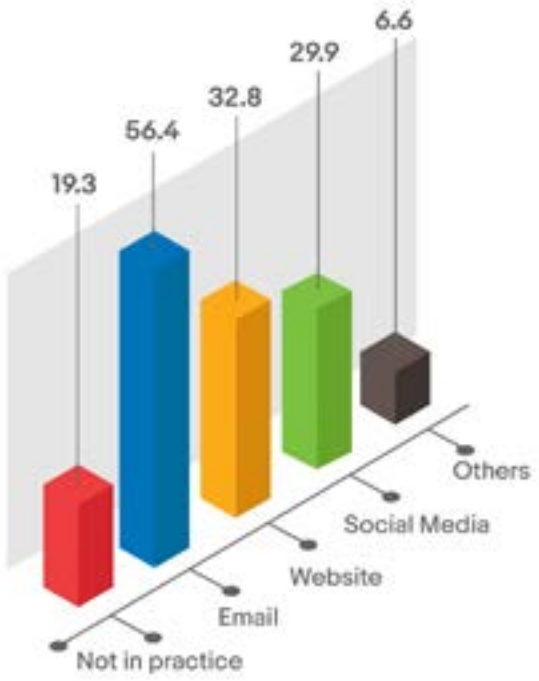
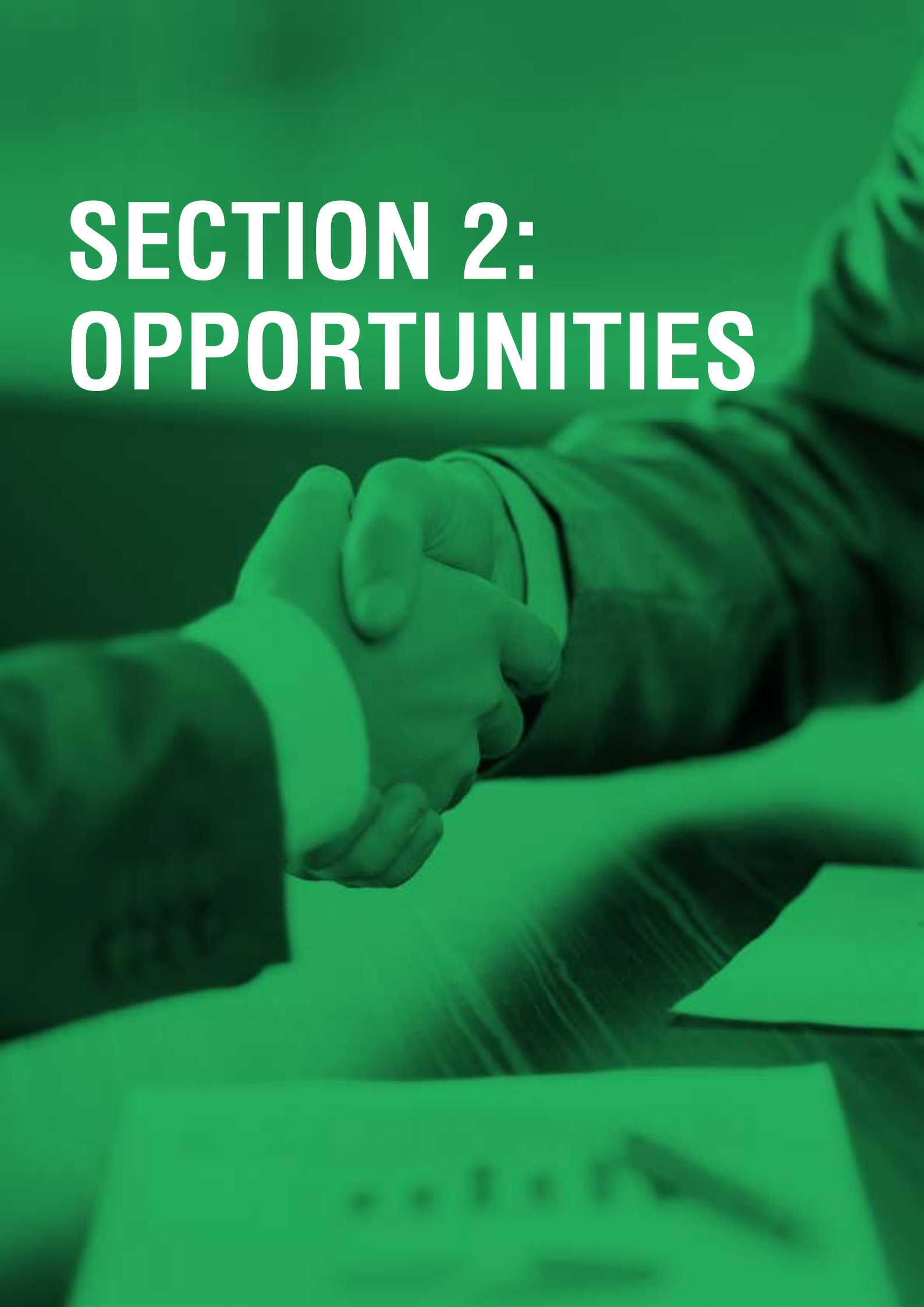


Figure-5: Digital preparedness

E-Commerce is transforming the way business is done in India and the across the globe. Cross-Border E-commerce is delivering plenty of opportunities for the small companies as well, which was so far only available to the large companies. It is clear from the present status that there is a dire need to address respective issues of the MSMEs in order to enable them to adopt e-commerce in a sustainable manner. The following chapters will highlight the opportunities and challenges to participate in the competitive ecosystem of e-commerce by MSMEs.



SECTION 2: OPPORTUNITIES

SECTION 2:
OPPORTUNITIES

INTRODUCTION

This section presents the global opportunities that exist for those MSMEs that are willing to adopt CBT e-commerce as a preferred means for export. The increasing number of digital buyers worldwide, the shift in consumer preferences from offline to online purchase and market diversification, are some of the most considerable incentives for Indian MSMEs to expand their e-commerce outreach.

Even in India, the second largest populated nation in the world, where only two per cent of the population is currently purchasing goods online, there exist huge potential for e-commerce expansion, as the current capacity to gain larger portion of global consumers remains unharnessed. Case studies on Indian e-commerce CBT by eBay and Snapdeal further reiterate the same and discuss numerous benefits that e-commerce exports can accrue for the Indian MSMEs. These include - inter-alia availability of a global market, increase in employment opportunities, direct access to the end customers, diversification and mitigation of risks and improvement in their survival rates.

Moreover, the growth in MSMEs will influence national economic development trends and in addition, expand the e-commerce footprint of the Indian MSMEs. This will further assist MSMEs' tap into new markets, new suppliers and promote additional sales channel for existing exporters

2.1 GLOBAL OPPORTUNITIES

Figure 6 presents the rapidly expanding consumer base of digital buyers worldwide, over 2014-19 period.

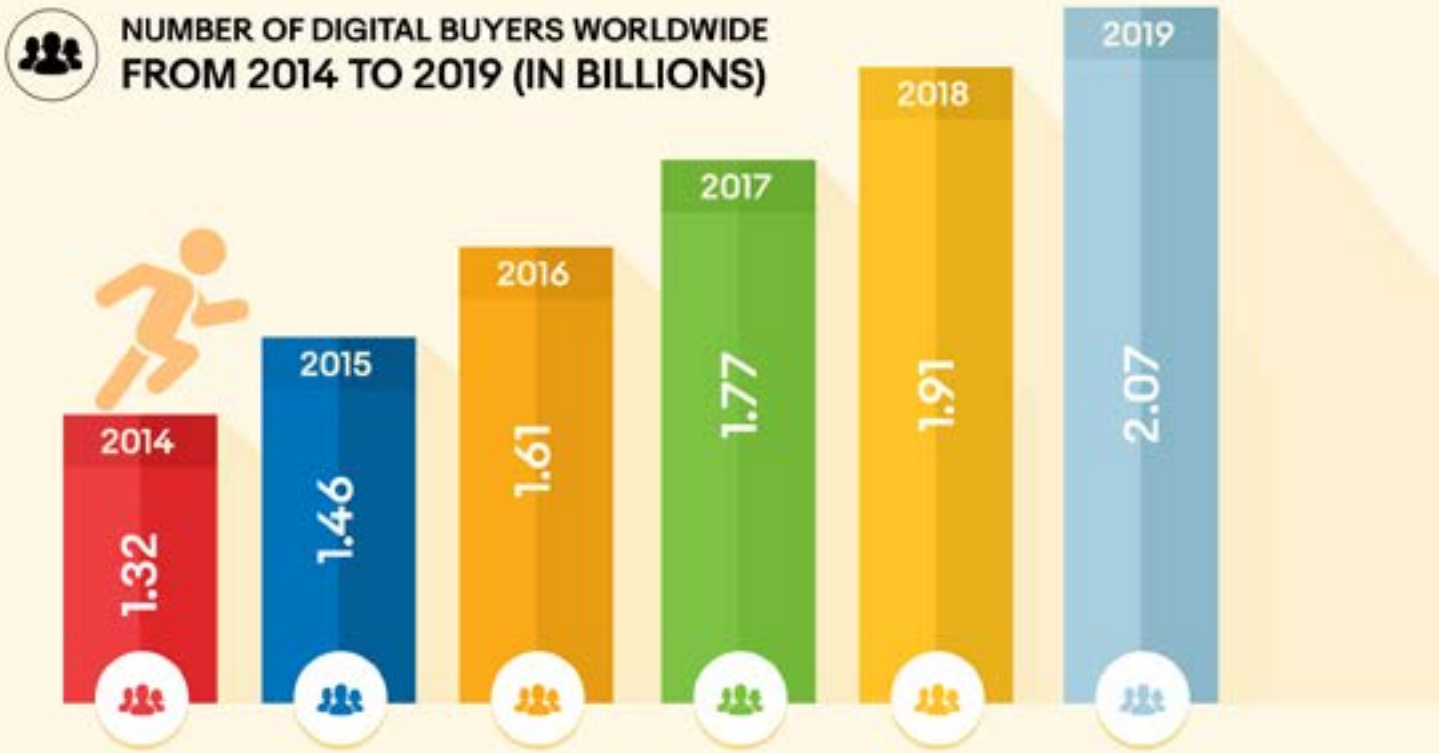


Figure 6: Number of Digital Buyers Worldwide, 2014-2019 (in billions)
Source: www.statista.com

E-commerce shopping is a thriving market and is a rapidly booming business around the globe. Retail e-commerce sales include - products and services (barring travel, restaurant and event ticket sales) ordered via the internet over numerous devices. Retail e-commerce sales worldwide forecasts indicate that the figure is likely to double in the year 2020 as compared to 2016 figures. Here, 41 per cent of the global internet users purchased products online in 2013; around 1.4 billion people made online purchases in 2015 and this is likely to cross the two billion mark in the year 2019.

2.1.1 CONSUMER PREFERENCE SHIFT FROM OFFLINE TO ONLINE GLOBALLY

The need to promote cross-border e-commerce is logical, considering the increasing digitization and IT access for commerce across the globe. The Internet has seamlessly connected buyers and sellers otherwise separated by vast distances. In 2015, the global population amounted to around 7.3 billion people, of which 1.4 billion people purchased goods and/or services online at least once. Altogether, the accumulated amount spent online globally was USD 2.27 billion translating to an average s pending per e-shopper of USD 582. Global e-commerce transaction in the year 2016 was USD 1.9 trillion accounting for 8.7 per cent of the total retail spending worldwide. This is expected to grow to above USD 4 trillion by the year 2020, making up to nearly 15 per cent of the total retail spending.

2.1.2 E-COMMERCE AN OPPORTUNITY FOR MARKET DIVERSIFICATION

One of the reasons for poor presence of the Indian MSMEs in the global market is the high concentration of India's exports to only limited number of international markets.

Nearly 43 per cent of India's exports are limited to Asia, followed by Europe and America. The major export destinations for India are United Arab Emirates (UAE), United States of America (USA), Hong Kong and China.

This is possibly due to its limited reach to foreign buyers attributed to concentration on offline sales. This is clearly visible through Figure 7, where India is absent from the list of global digital players in the retail sector.

2.1.3 COUNTRIES WITH GROWING CBT VIA E-COMMERCE

Cross-border online retail is already a significant part of the total online retail sales. Cross-border online shopping market value grew at a CAGR of over 63.3 per cent in 2015, faster than the 48.8 per cent CAGR growth in the total online retail market during the same period. As per Mintel Research (2016), this is expected to achieve 18 per cent CAGR from 2015 up to 2020, compared with the total retail sales growing at a rate of about 6.3 per cent CAGR over the same period. Therefore, while mapping consumer's preferences of online shopping across

global markets is helpful, it is equally important to analyse consumer purchasing trends across the border digitally. Based on digital growth spending and shopping penetration country-wise, e-commerce potential was identified and is depicted in Table 1. It has been identified that USA, Japan, Germany and UK have huge cross-border e-commerce potential for the Indian MSMEs.

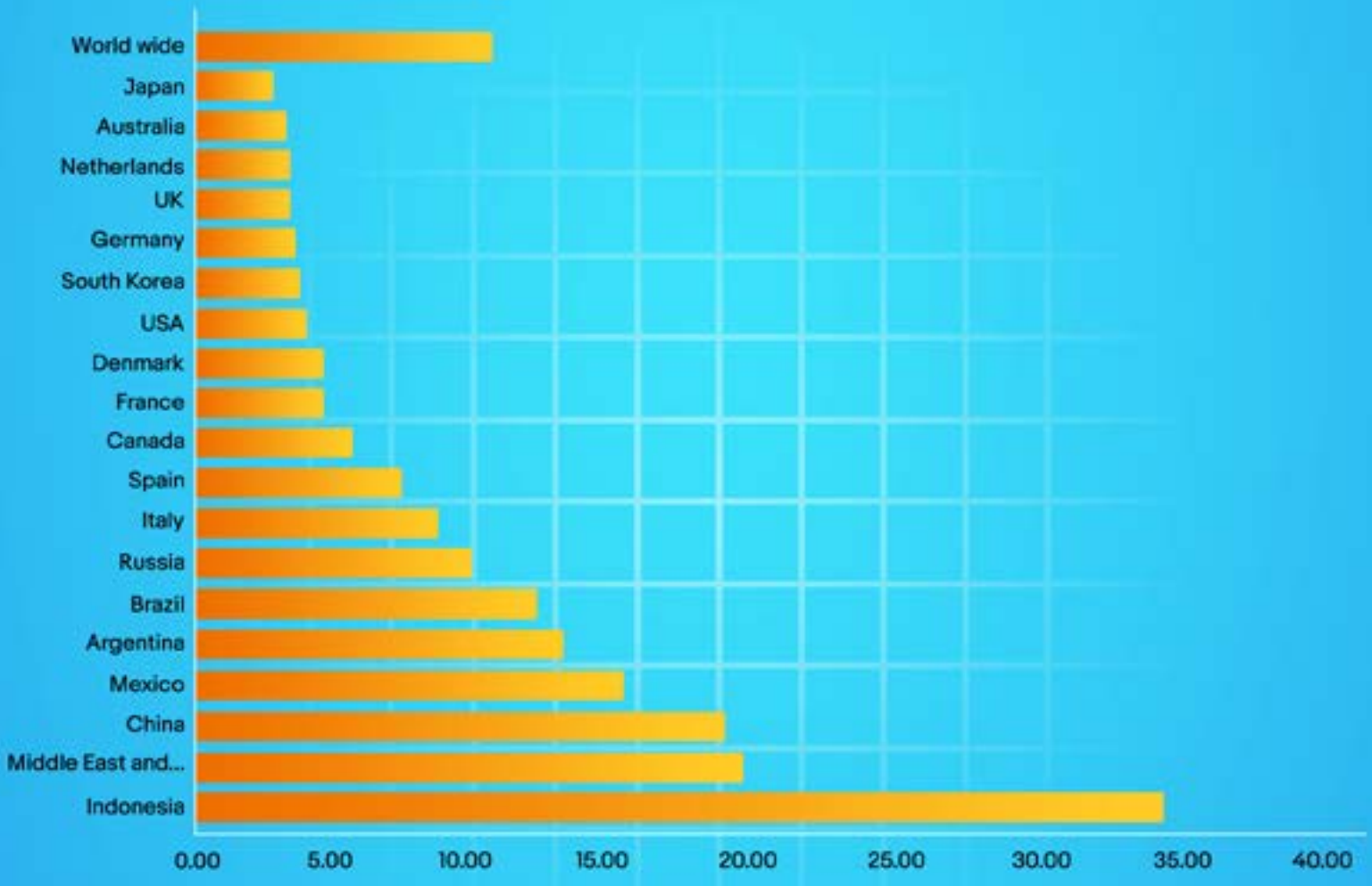


Figure 7: Digital Buyers World-Wide: Percentage Growth During 2011-2016

Source : https://www.statista.com/

Table 1: Country Analysis Based on E-Commerce Potential

Absolute number of Digital buyers by 2017	Growth in Digital buyers (2011-2016)	Average spending per buyer	Online Shopping penetration rate
China	Indonesia	USA	UK
USA	Middle East and Africa	UK	South Korea
Japan	China	Sweden	Germany
Middle East and Africa	Mexico	France	Japan
Germany	Argentina	Germany	USA
UK	Brazil	Japan	UAE
Brazil	Russia	Spain	France
Russia	Italy	China	Canada
France	Spain	Russia	Singapore
South Korea	Canada	Brazil	Australia
Spain	France		Hong Kong
Canada	Denmark		Spain
Italy	USA		Poland
Mexico	South Korea		Malaysia
Argentina	Germany		Thailand
Australia	UK		
Indonesia	Netherlands		
Netherlands	Australia		
Denmark	Japan		

Source: Authors compilation based on data from Statista.com

Table: 2 Export Markets with E-Commerce Potential

Excellent	High	Medium
USA	China	Middle East and Africa
Japan	Brazil	Italy
Germany	Russia	Mexico
UK	South Korea	Argentina
France	Canada	Indonesia
Spain	Australia	Netherlands
		Denmark

Source: https://www.statista.com/

Regions faring well across all 4 parameters.

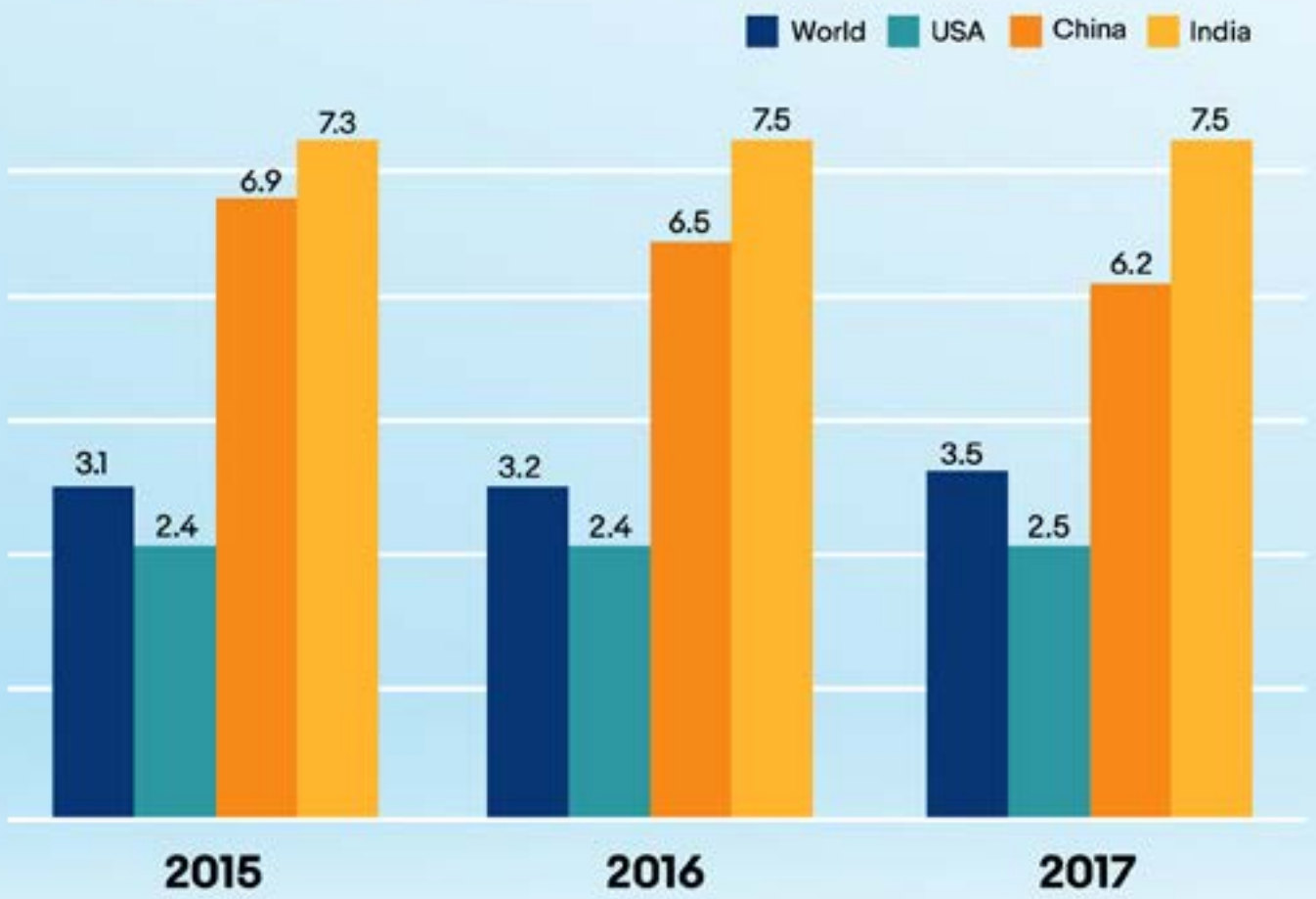
Regions faring well across all 3 parameters.

Regions faring well across all 2 parameters.

2.2 INDIAN OPPORTUNITIES

2.2.1 MANUFACTURING SECTOR: FUTURE OF INDIA'S GROWTH

Figure 8: GDP Growth rates Source: IMF-World Economic Outlook



In 2016-17, India's growth was higher than that of China by 1.3 percentage points.

India is the sixth largest economy in the world in terms of nominal Gross Domestic Product and the third-largest in terms of Purchasing Power Parity. India also topped the World Bank's growth outlook for 2015-16 for the very first time with the economy growth at 7.6 per cent in 2015-16 and is expected to grow at 8.0 per cent or more in 2016-18. The Indian economy has the potential to become the world's third largest economy by the next decade and also become one of the two largest world economies by the year 2050. Here, growth potential for Indian MSMEs' CBT e-commerce, where India's growth rate was higher than China's by 1.3 per cent points, when compared with China's CBT e-commerce market share, makes an evidently inviting case for the Indian MSMEs.

2.2.2 GOVERNMENT INITIATIVES STRENGTHEN THE SUPPLY SIDE OF MANUFACTURING

The Government of India (GoI) has taken up numerous initiatives, which will further act as an appropriate stimulant towards increasing the supply capacity of the Indian manufacturing sector. It is expected that this will translate to an increase in exports in the manufacturing sector. Some promising manufacturing sectors include engineering goods, electronics, textiles, leather, gems and jewellery, handicrafts and so on.

2.2.3 E-COMMERCE INSTRUMENTAL TOWARDS ATTAINING THIS VISION

Despite GoI taking up various measures to boost manufacturing exports, Indian exports face stiff competition in the world market. Chinese exports have been dominating the share of global exports for most leather items, glassware, wooden furniture, metal-ware and ceramic. India is also facing stiff competition from countries like Venezuela, Nigeria, Peru, Argentina, Algeria, and countries in South and Southeast Asia including Pakistan and Bangladesh. Countries like Pakistan, Bangladesh, and Thailand have overtaken India on textiles exports, while China, Thailand, Argentina and Vietnam have overtaken India on export of iron and steel products. One of the low-hanging avenues for India in order to gain global competitiveness is to promote e-commerce based CBT.

2.3 OPPORTUNITIES FOR MSMEs

In India, MSMEs comprise 95 per cent of the total industrial units and contribute nearly 40 per cent to the total industrial output and exports. The MSME sector has a significant impact and can directly enhance the socio-economic structure of the Indian economy by performing efficiently. The numbers of MSMEs in India estimates at nearly 6,000 micro-clusters and 1,157 industrial clusters. The potential for MSMEs to tap new markets in-country and across borders is enormous, but for an enhanced CBT, the Indian MSMEs need to become highly competitive internationally.

The key challenges for the Indian MSME s so as to increase their CBT footprint include - low supply of products that have high international demand and inadequate buyer and market-related information of the global market. The almost non-existent direct market link(s) between MSMEs at the cluster-level and international consumers results in a weaker integration of the Indian MSMEs at the lower tier levels in regional and global value chains. The current export sector thrives on personal contacts, evident from the fact that only one-half of one percent of firms in the MSME sector are actually into direct exports. Traditional MSMEs in India have been able to efficiently facilitate to the huge domestic as well as the local market demand but with the emergence of a new class of young entrepreneurs (mostly second or third generation entrepreneurs) who are aware of modern trends and opportunities, a new vision of augmenting the MSMEs and a technology-oriented outlook is ushering them towards a fast changing commerce landscape for the MSMEs. Such MSMEs are adopting technology to be able to improve their businesses efficiency and target the global market with a bang. Many such MSMEs, including those at the lowest levels in the ecosystem, have benefitted extensively by connecting directly with the buyers around the world.

Traditional commerce, especially exports, is dominated by a small number of very large firms. For citation, in most countries up to 90 per cent of exports are conducted by 5 percent of the largest exporters. Similarly, most of the exports are

from firms that belong to long-established exporters, with newcomers typically accounting for a miniscule 5 per cent of sales. 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[4].

2.3.1 E-COMMERCE INSTRUMENTAL IN TAKING LOCAL MSMEs TO A GLOBAL LEVEL

As per a study carried out by eBay on Indian e-commerce growth, around 98 per cent of MSMEs that use e-commerce as their mode of trade contribute directly to the total exports of the country, whereas only 11 per cent of traditional SMEs contribute towards the total exports. An assessment indicates that e-commerce options allow MSMEs to enter into a level-playing field internationally and enhance their visibility to buyers located across the globe. This has contributed to an increasing number of Indian MSMEs to move to the e-commerce space, but there still remains a huge potential.

Cross-border e-commerce has the potential to stimulate MSME growth by bridging the gap between the buyers and sellers digitally. Thus, minimizing the actual geographical distance and intensifying the number of prospective buyers. Use of internationally reliable and accepted systems of operating can further help Indian MSMEs improve cross-border trade. Clearly, this is a huge untapped global market for new suppliers, while existing exporters can benefit from additional channels of sale.

The GoI has introduced the MEIS Policy to support this. The primary objective of the new FTP: MEIS 2015-20 is to increase exports to USD 900 billion by year 2019-20 from USD 466 billion currently. As small and medium enterprises contribute to almost 40 per cent of total exports of the country, meeting the MEIS target will not be possible until the existing structure/pattern of trade from this sector undergoes rigorous product and market diversification.

Box 1: Policy Initiative by Government of India for MSMEs

Export Promotion Councils (EPCs)
There are 37 Export Promotion Councils (EPCs) in different sectors in India doing hand holding for exports.

Director General of Foreign Trade (DGFT)
DGFT is implementing the Niryat Bandhu Scheme for mentoring new and potential exporter on the intricacies of foreign trade through counselling, training and outreach programmes. Considering the strategic significance of small and medium scale enterprises in the manufacturing sector and in employment generation, 'MSME clusters' have been identified, based on the export potential of the product and the density of industries in the cluster, for focussed interventions to boost exports.

Box 2: Policy Initiative by Government of India for MSMEs

Towns of Export Excellence (TEE)
Selected towns producing goods of INR 750 crores or more are notified as TEE on potential for growth in exports and provide financial assistance under MAI Scheme to recognized Associations.

E-Commerce Exports
(a) Goods falling in the category of handloom products, books / periodicals, leather footwear, toys and customized fashion garments, having FOB value up to INR .25000 per consignment (finalized using e-Commerce platform) shall be eligible for benefits under FTP. Such goods can be exported in manual mode through Foreign Post Offices at New Delhi, Mumbai and Chennai. Export of such goods under Courier Regulations shall be allowed manually on pilot basis through Airports at Delhi, Mumbai and Chennai as per appropriate amendments in regulations to be made by Department of Revenue. Department of Revenue shall fast track the implementation of EDI mode at courier terminals .Most of these units are in agglomeration of industrial clusters, which gives them an opportunity to work in group.

MSMEs Support for Sensitization on Exports
Ministry of MSME has revamped old schemes to support export related activities specially to sensitize on e-commerce related activities.

[4] *eBay, 2014 Commerce 3.0: Empowering Indian Businesses & Entrepreneur*

Table 3: Product Wise Preferences for Online Purchase CBT

Source: Author's compilation based on country surveys & interviews with Amazon, India- CBT head

Sectors/product traded CBT via online	Online preference	Online preference for foreign brands: opportunity for online CBT	Complete absence of online purchase
Clothing and footwear	China, India, Russia	Russia	South Africa
Consumer electronics and computers	Brazil, China, France, India, Turkey	Brazil, India, Mexico	South Africa
Books	China, USA	Australia, South Africa, Brazil	Malaysia, Belgium
Health and beauty	Brazil, China, India	Brazil, India	Germany, Italy, USA
Jewellery	India, Australia	India, Thailand, South Africa	Singapore, Austria, Belgium
Toys	Australia	Chile, Brazil	China
Sports goods	India	Turkey	South Africa
Home accessories	India, Middle East, Turkey, China	China, India, Poland, Russia	South Africa, Australia
Furniture	India, Turkey	India	South Africa
Home improvement	India	Malaysia, India	China, Chile
Grocery	India, Middle East	China, Japan	Canada, Denmark, USA

Table 4: Important MSME Clusters in Fast Moving Sectors

Source: Compiled by the Research team

Sector	Clusters
Gems and Jewellary	Mumbai, Ahmedabad, Jaipur, Rajkot, Chennai, Thrissur
Auto Parts	Gurgaon, Delhi, Ahmedabad, Faridabad, Aadityapur, Pune, Aurangabad, Chennai, Pithampur, Ludhiana
Leather	Chennai, Kolkata, Agra, Musrhidabad, Delhi, Ahmedabad, Raichur, Bengaluru, Vellore, Kanpur
Apparel	Apparel – Tirupur, Ludhiana , Bengaluru, Kolkata, Delhi-Noida-Gurgaon, Mumbai, Jaipur, Indore
Sports Goods	Jalandhar, Meerut, Gurgaon
Handloom and Handicraft	Bareilley, Lucknow, Bhuj, J&K, Jaipur, Chanderi, Maheshwar

Table 5: Categories—B2C Opportunity

Source: Compiled by the Research team

Category	$ Bn
GEMS & JEWELLERY	20.242
FOOTWEAR OF LEATHER	1.3789
LEATHER GOODS	0.9104
CARPET(EXCL. SILK) HANDMADE	0.7488
FINISHED LEATHER	0.7359
COSMETICS/TOILETRIES ETC.	0.569
LEATHER GARMENTS	0.4772
HANDLOOM PRODUCTS	0.3908
HANDCRFS(EXCL.HANDMADE CRPTS)	0.1478
SPORTS GOODS	0.1345
RMG SILK	0.1216
COIR & COIR MANUFACTURES	0.1137
SADDLERY & HARNESS	0.0869
OTHER JUTE MANUFACTURES	0.0685
FOOTWEAR OF RUBBER/CANVAS ETC.	0.0137
SILK CARPET	0.0023
Grand Total	**26.142**

Table 6: Size of B2C Opportunities for MSMEs in Selected Sectors

Source: Compiled by the Research team

Sector	Tentative number of units	Share in exports (%)	Exports (US$ millions)
Apparel	30 Lakh	5	15,000
Leather	1.5 lakh	1.3	4,000
Sports Goods	10 K	.01	8.16
Gems & Jewelry	2.5 lakhs	13.7	41,381
Auto Parts	1 Lakh	11	11,000
Handicraft	70 Lakh Artisans	>1	450
Hosiery	10K	>2	1,500

2.3.2 OPPORTUNITY FOR SELECTED SECTORS FOR MSMES B2C CBT

India's overall export (merchandise) today stands at USD 302 billion, contributed by 93 product categories and exported to 159 countries. However, products like petroleum, machinery, iron and steel, etc. cannot be addressed through B2C ecommerce exports. The addressable retail export through B2C ecommerce is only USD 52 billion, contributed by only 20 product items like gems and jewellery, finished leather goods, handloom products, handicrafts, auto accessories etc.



Figure-9 Addressable B2C E-commerce (Compiled by resaerch team)

There are many clusters in India that have tremendous supply and opportunities for such products that can be exported to countries in North America (USA), Europe (UK, Germany, Italy and France), Australia and South East Asia countries (Thailand, Singapore, Philippines and Malaysia).

Global platforms like eBay, Amazon and Alibaba are engaging with MSMEs to push their products in global markets by helping them list on their respective platforms. However to provide a fillip to MSME exports through ecommerce there is an urgent need for the government to recognize retail ecommerce exports as an industry and work towards removing regulatory barriers including reviewing the FTP policy, enhancing limits for gems and jewellery, simplifying customs duty procedures and allowing exporters to claim duty drawbacks.

Assessments indicate that if India can target around 250,000 MSMEs moving into CBT space in the next four years, it can successfully list at least a 100,000 MSMEs with five million products and can increase four times the existing CBT revenue in B2C category[5].

[5] There are no official figures available on the actual CBT and B2C categories. Informal Discussion with major players suggest that it is around 500 million.

Table 7: Opportunity Estimates for the next four years (source: By Research Team)

Sector	No of MSMEs	Listed accounts	Product Listing	Estimated GMV touched Million US$
Apparel	70000	28000	1000000	350
Leather	12000	4800	120000	25
Sports Goods	5000	2000	25000	25
Gems & Jewellery	90000	36000	2000000	800
Auto Parts	7000	2800	70000	50
Handicraft	50000	20000	1500000	500
Agro and Food Processing	5000	2000	20000	40
Hosiery	15000	6000	150000	50
Others	20000	8000	111500	160
Total Outreach	274000	109600	4885000	2000

2.3.3 E-COMMERCE OPPORTUNITIES FOR INDIAN EXPORTERS IN B2B SEGMENT

Meeting the MEIS target of reaching exports to the tune of USD 900 billion by year 2020 will require extensive product and market diversification to be undertaken. Appreciating the tough international competition, Indian MSMEs will need to move from selling old products to existing trade partners, towards developing a range of contemporary products that target both existing trade partners as well as potentially new ones. Indian MSMEs will also need to support this with expanding from traditional styles of marketing to new ways of doing B2B business via e-commerce to ensure competitiveness.

To facilitate this transformation, import trends of identified markets with high e-commerce potential were examined. Details of the analysis are presented in the following sections including identification of target sectors. Given that current business processes in these sectors are predominantly done in an offline mode, the possibility of shifting towards online B2B and B2C was assumed to be high, considering high internet penetration in these markets. Resultantly, global markets where import demand exist, and where imports from India hold a reasonable share of the total imports in the sector, were prioritized as the most prospective market for Indian e-commerce exports.

Figure 10 presents the conceptual outline of the project diversification model followed. Country-wise product opportunity for B2B top 5 countries has been given in annexure-3

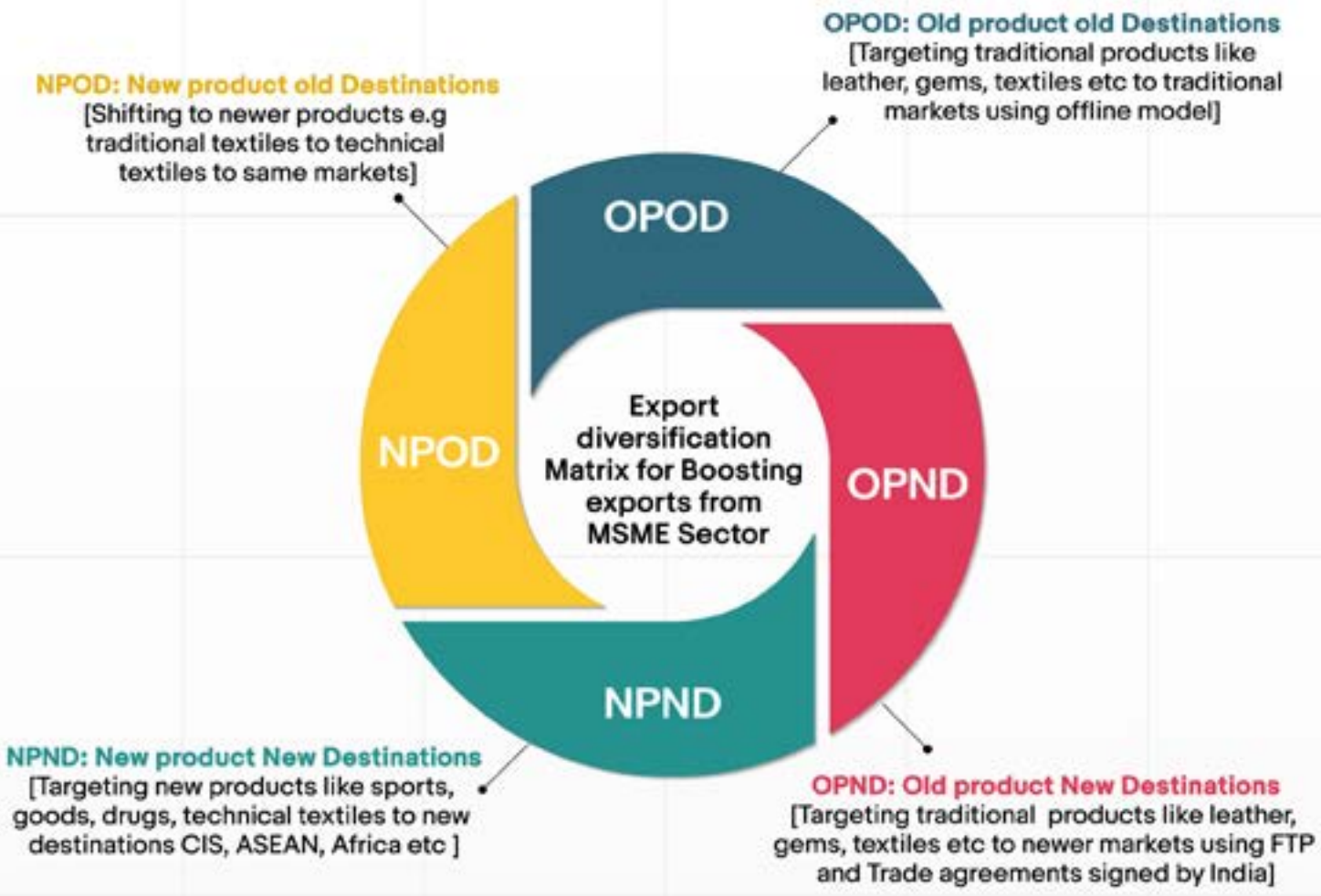


Figure 10: Product Diversification Model

2.3.4 MAJOR CATEGORIES SOLD ON THREE E-COMMERCE PORTALS (B2B AND B2C)

Table 8 presents the sector, where e-commerce has made strong inroads based on a review of the three major e-commerce players and their product sales. Three e-commerce main players in CBT B2C segment sell all kinds of products, from agriculture food to equipment. Alibaba sells more diversified products whereas, Amazon and eBay mainly focus on lifestyle products and jewellery.

Table 8: Major E-Commerce Players and Product Sales Source: Compiled by Research Team

Amazon	eBay	Alibaba
Computers & Computer Accessories	Audio & Home Entertainment	Agriculture
Sports, Fitness & Outdoors	Automotive	Food & Beverage
Handbags & Luggage	Baby & Mom	Apparel
Cameras, Audio & Video	Beauty, Health & Grocery	Textile & Leather Product
Beauty, Health & Groceries	Books & Magazines	Fashion Accessories
Books	Cameras & Optics	Timepieces, Jewelry, Eyewear
Shoes	Charity	Automobiles & Motorcycles
Clothing & Accessories	Clothing & Accessories	Transportation
Movies, Music & Video Games	Coins & Notes	Luggage, Bags & Cases
Home, Kitchen & Pets	Collectibles	Shoes & Accessories
Jewellery, Watches & Eyewear	eBay Daily	Computer Hardware & Software
Car, Motorbike & Industrial	Games, Consoles & Accessories	Home Appliance
Mobiles & Tablets	Home & Kitchen Appliances	Consumer Electronic
Toys & Baby Products	Home & Living	Security & Protection
Used & Refurbished	Jewelry & Precious Coins	Electrical Equipment & Supplies
	Kitchen & Dining	Telecommunication
	Laptops & Computer Peripherals	Sports & Entertainment
	LCD, LED & Televisions	Gifts & Crafts
	Memory Cards, Pen Drives & HDD	Toys & Hobbies
	Mobile Accessories	Health & Medical
	Movies & Music	Beauty & Personal Care
	Musical Instruments	Construction & Real Estate
	Shoes	Home & Garden
	Sports, Fitness & Outdoors	Lights & Lighting
	Stamps	Furniture
	Stationery & Office Supplies	Machinery
	Tablets & Accessories	Industrial Parts & Fabrication Services
	Tools , Hardware & Electricals	Tools
	Toys, Games & School Supplies	Hardware



[6] Reported by eBay in one to one discussions with the research team

2.3.5 BENEFITS OF EXPORTS VIA E-COMMERCE

Presented below are potential benefits that can accrue to Indian MSMEs if they expand their business activities from domestic to international trade:

1. **Global Opportunity – the World is a Market**
   As per reports from Alibaba and Accenture, the global B2C e-commerce market is envisaged to balloon from USD 230 billion in 2014 to USD1 trillion by the year 2020. MSMEs with high internet and IT usage are likely to grow more than two times faster than MSMEs that do not leverage technology, regardless of the industry.

2. **Payment First**
   Cash flows are vital for any MSME to operate. Exports via e-commerce ensure timely payment of the goods exported. More sophisticated payment systems improve the efficiency of transfer of money.

3. **Diversification and Mitigation of Risks**
   E-commerce firms on an average export to 30 to 40 different economies, in comparison with 3-4 economies for traditional exporters. This ten-fold increase in the number of markets targeted by e-commerce MSMEs diffuses their business risk by decreasing dependence on any one specific market.

4. **High Margins due to Elimination of Middlemen**
   Research carried out by KPMG and Snapdeal on the "Impact of E-Commerce on SMEs in India" highlighted numerous potential benefits of internet enabled trade to the Indian MSMEs including up to 51 per cent surge in revenue, 60-80 per cent decline in marketing and distribution cost and improvement in profit margins to as high as 49 percent.

5. **Positive Externalities**
   Positive externalities include improved access to price information and more competitive markets. Cross-border e-commerce requires firms to operate in an efficient manner that results in up-gradation of infrastructure and internal operating procedures. Cross-border e-commerce also pushes improvements in logistics and supply chain management, while e-commerce can allow firms to source their key inputs at a lower cost.

6. **Increase in their Survival Rates**
   As per the study by eBay and Snapdeal, cross-border e-commerce empowers MSMEs and improves their survival rates. Between 60 and 80 per cent of e-commerce exporters survive their first year in business compared to a 30 to 50 per cent survival rate for traditional MSMEs. Domestic-focused businesses on eBay grew on an average of 58 per cent between 2010 and 2014, while export-oriented companies grew by an average of 91 per cent during that same.

A preliminary comparison of export presence and growth of exports in global markets indicates that the heavyweight Chinese exports have compared to those with India in most sectors, including leather, footwear, apparel and so on, where India has traditionally been indicating its strong export potential. For India to become a global heavyweight and to exploit the potential present in the export sectors, it will need to move towards fostering, motivating and institutionalizing e-commerce export trade systems.

2.3.6 CASE STUDIES

Box 3: Case Study - India

A Study titled 'Commerce 3.0: Empowering Indian Businesses and Entrepreneurs, 2014' carried a research on e-commerce trade by eBay. in. The key findings of the study exhibit the performance of eBay sellers selling across border compared to traditional exporters: only 13% of traditional firms in India export as compared to 98% of commercial eBay sellers in India, national sales as a share of total shares have increased, share of newcomers in exports with respect to eBay sellers in India is 32% and traditional exporters is a mere 5%.

A research carried out by KPMG and Snapdeal to study the "Impact of E-Commerce on SMEs in India". The study depicts that without any time-zone or distance restraint, and with a limited investment worth INR 3000 SMEs can enter into E-Commerce zone. From the study discussed above, the future of E-Commerce trade in India appears to be promising as it provides a level playing field for many SMEs which are lagging behind and are devoid of its benefits. Cross-border e-commerce brings significant benefits to MSMEs.

Box 4: Types of Export Models and Key Features

A study conducted by eBay discussed the two existing export models followed in India.

Prototypical Model of Trade
It is the dominant model of trade where large established enterprises target overseas customers for the exports and eventually develop a multinational supply chain. Large firms which account for less than 1% of companies in US, their exports are reported to be at 66.4% of the total exports. Though small enterprises become a part of the GVC i.e. global value chains as their independent suppliers, despite the evolution of GVCs, their share in exports hasn't risen.

Global Empowerment Network
Parallel to GVC is the new emerging model of exports and SME global commerce driven by the internet, a truly global digital network. When the internet becomes a part of commercial services and the logistics, small businesses can connect to the customers all over as they can open a store online and compete in the global market. However, lack of common language between buyer and seller and the shipping costs are two barriers to cross-border E-Commerce impacting small online businesses.

CASE STUDY - CHINA

Chinese e-commerce giant Alibaba has actively entered the Indian market by launching a range of services for Indian MSMEs selling on their platform through the global reseller's program in partnership with companies like ICICI Bank, Kotak Mahindra Bank, Crisil Rating, Tally, Capital Float Jeena, SGS, and Mypacco. They will provide online lending, credit rating, finance, and transportation support to SMEs.

China, currently, has more than 5,000 cross-border e-commerce platforms. Leading international e-commerce companies have recognized the potential lying unutilized in Indian MSMEs. The time is perfect to get the MSMEs on the various platforms so as to enhance their competitiveness and make them profitable. Cross-border e-commerce has the potential to give MSMEs not only direct access to consumers across the globe but also access to professional international trade, logistics and financial services, capabilities once reserved mainly for multinationals. In 2015, cross-border e-commerce accounted for 19.5 per cent of China's total import-export volume, a figure that is expected to reach 37.6 per cent by the year 2020, according to AliResearch.

2.3.7 PROACTIVE ROLE BY E-COMMERCE PLAYERS TO REACH OUT TO MSMEs

Role of Intermediaries

With reliability and cost of adopting e-commerce posing significant challenges for traditional MSMEs, solutions empowering MSMEs can come from intermediaries that can develop approaches to aggregate cross-border shipments and deliveries, specialize in regional shipments, provide translation skills, international tracking and solutions on overcoming international shipment challenges such as country-specific government regulations, identify means to overcome currency barriers and familiarize with local consumer behaviour. For example, United Courier Service (UCS) specializes in rendering solutions and assistance to companies in the USA shipping online purchases to China. UCS is fully integrated with China Customs (for seamless Customs Declaration/Clearance) and China EMS (for traceable in-country delivery). USA-based MSMEs can utilize UCS as a full-service logistics company to enter a new market and reach new customers throughout China.

In India, a few e-commerce players signed MOUs with Export Promotion Organizations. eBay became the first Indian e-commerce player[7] to sign an MOU with Federation of Indian Export Organisation (FIEO) to help boost e-commerce exports for MSMEs and provided valuable policy inputs. eBay also established tie-ups with various state led institutions, like Gujarat State Handloom and Handicraft Development Corporation and Odisha State Cooperative Handicraft Corporation to enable exports of Indian handicrafts to work as intermediary.

Public-Private Logistics Integration

Encouraging public-private logistics integration between India Post and an international logistic company can be beneficial. For example, to cater to the rapidly growing e-commerce business across Asia-Pacific, Alibaba and Singapore Post have designed new initiatives to increase e-commerce logistic collaboration and build a leading e-commerce logistic platform. In Peru, the Serpost'sExportaFácil program allows MSMEs owners to export goods to the USA and other global markets through a convenient online system by using the website to file forms and to retrieve valuable delivery and pricing options.

There are few similar developments in India, like eBay has partnered with India Post to open dedicated counters for retail ecommerce exporters. 14 India Post locations across 11 cities, including a village near Jaipur today offer dedicated counters for eBay sellers.

Third Party Education Platforms

For traditional MSMEs, moving to cross-border e-commerce is a complicated business. It is vital to educate MSMEs on services available for their assistance. Government websites can be helpful in communicating steps on cross-border e-commerce processes. Some e-commerce players like Flipkart and eBay have already collaborated with the local associations to sensitize MSMEs on prevalent e-commerce issues. eBay worked with Delhi Hindustan Merchants Associations, Maliwada Jewellers Association-Delhi, Jaipur Jewellery Association and EPCH (Export Promotion Council for Handicrafts) to spread awareness and conduct workshops on retail e-commerce for MSMEs at cluster level.

[7] *Reported by eBay in one to one discussions with the research team*

SECTION 3: CHALLENGES AND RECOMMENDATIONS



SECTION 3:
CHALLENGES AND RECOMMENDATIONS

INTRODUCTION

This section presents the challenges and provides valuable recommendations for a dynamic and competitive retail CBT. The purpose is to gain an insight into factors that encourage high e-commerce retail growth, to learn of best practices followed by leading countries and understand better the hidden potential in the Indian MSMEs to move successfully towards sustainable e-commerce.

3.1 REGULATORY CHALLENGES FACED

In recent years, apparel, textile and jewellery exporters (mainly MSME exporters, micro producers, traders, entrepreneurs) have increasingly started using B2C e-commerce to reach new markets as well as end-consumers. Typically, exporters have their own websites or advertise their products through digital channels, where consumers can buy from the exporter and payment is typically made via authorized online payment gateways.

However, using e-commerce for expanding exports can have multi-fold benefits for Indian exporters as it removes intermediaries, leads to better value realization, allows instant payment and receipts and penetrates into new markets/ consumers at a very low transaction cost. Given that preferred mode of shipment of the product to the consumer is via courier service, exporters can in exchange use airline-based shipments as the low value single item shipments have a high speed of delivery. In addition, tracking shipment online is also an added feature, which gets enabled in this case, and is widely preferred by the consumers.

The sector is still at a nascent stage in India compared to international competitors and thus, employing e-commerce will act as an appropriate medium to enter the overseas markets. However, in order to smoothen the transformation from B2C traditional trade to CBT B2C e-commerce, there are a number of challenges that need to be addressed and have been outlined below.

3.1.1 ISSUES RELATED TO CUSTOMS[8]

Limitations under Courier Regulations:
In e-commerce exports, the preferred mode of shipment is via courier as shipments are of low value and consumers often require tracking number upfront as confirmations. The Courier Imports and Exports (Clearance) Regulation 1998 indicates that on the export side (sub-regulation clause (e) (v) of Regulation (2)), regulations shall not apply to value of good where the value of consignment is above Rs.25, 000 and transaction in foreign exchange is involved.

[8] *Inputs from FIEO included*

1. For certain categories of goods, courier is the best option available, keeping in view the product profile and small nature of business (bridal wear, lehnga, etc.), but the goods' value is above INR 25,000, the cargo mode increases their transaction costs and delivery time making them less desirable due to increased competition. The Reserve Bank of India (RBI) has realised the importance of e-commerce and to facilitate such transactions, allowed repatriation of export remittances, facilitated by Online Payment Gateway Service Providers (OPGSPs) for values of goods of USD 500 vide its circular (AP DIR Series) Circular 17, dated 16th Nov 2010. Realizing the emerging trends, RBI has raised this limit to USD 10,000 (Rs.6.6 lakhs approx.) in 2015. Hence, there is an urgent need to revise the existing limit of INR 25,000 to at least INR 2-3 lakhs to facilitate e-commerce companies use courier mode for high value shipments as well...



USA has increased de minimis values from USD 200 to USD 800 last year. There is a need to support Indian e-commerce players/small exporters to take advantage of this opportunity



Foreign exchange is a critical aspect of promoting exports. However, regulations do not apply to transactions where foreign exchange is involved. Although, in exports using e-commerce, foreign exchange is received by OPGSPs, who transfer the amount in Indian Rupees to the exporter's bank account, but such changes could create difficulties for small exporters, who receive forex payment via bank transfer and wish to export via courier.

Procedure for Exports using E-commerce: Upon announcement of FTP 2015-20 and notification of Appendix 3-C for MEIS for e-commerce exports, Customs through its Notification 62 of 17.6.2015 amended the Courier Imports and Exports (Clearance) Regulation 1998 to cover export of goods notified in Appendix 3-C of FTP 2015-20 under MEIS. Further Customs Notification 142 dated 29.11.2016 notified CSB-V for goods specified in Appendix 3C of FTP. This was in addition to the CSB III (Form G: for export of documents) and CSB-IV (Form H: CSB IV for export of goods).

There lacks a clarity whether CSB-V is applicable only for such e-commerce shipments which are notified under Appendix 3-C or it is applicable to all exports using e-commerce. This is because it has columns to confirm e-commerce export and MEIS separately. Hence, it could be Yes in one and No in the other column. There is an urgent need to look at policies and procedures for exports through the e-commerce lens in general and not limiting it to benefits under the MEIS.

1. **Uniform guidelines.**
   Courier exports in India are is still done on a manual mode. For clearance of the small consignments, Customs sometimes requires a No Objection Certificate (NOC) of organizations like Wildlife Department, which delays the whole process of sending shipments. In absence of any clear guidelines for such cases, a small exporter is left with the

only option to wait and track their consignment on websites of courier companies. Such agencies should have fixed time lines for clearances as exporters are required to meet strict timelines to meet customer expectations. Exemption for NOCs from Textile Committee may also include key markets of readymade garments i.e. USA and Hong Kong.

2. **Immediate need to move on electronic data interchange (EDI)**
   Movement of exports to the EDI platform allowing use of courier services on an electronic mode is important. This will allow exporters to file their documents in a user friendly and smooth manner mostly on self-declaration basis. Customs examination should also be risk-based and minimal for faster clearances.

3. **Treating e-commerce exports at par with low value exports**
   Small exporters, as well e-commerce exporters, mostly send small-value consignments via courier. The difference between the two is payment realization: in case of e-commerce, it is received through OPGSPs, and in other cases via bank transfer. Small value exporters face a challenge with banks as they have to declare the purpose of remittance as exports, as banks insist on shipping bills as proof of exports to match their payment or else show an outstanding balance for such transactions. Hence, small value exporters are forced to define purpose of forex which are other than exports. Such foreign exchanges do not contribute to India's exports figures... Therefore, there is an immediate need to facilitate such transactions so that they can be recognized as exports.

4. **Return of goods back to India sold through e-commerce**
   The RBI permits debit charges back to the overseas importer where the Indian exporter has failed in discharging his obligations under the sale contract. The procedures followed in Customs in the case of return of goods or re-export needs clarity. As e-commerce gains traction, there is a need for uniform procedures on these areas. Like the USA, India could consider opting for some de minimis limit for such cases.

3.1.2 ISSUES RELATED TO DGFT

Policy for e-commerce irrespective of MEIS benefit.

The MEIS lays down terms for e-commerce only for cases where the exporter is intending to claim benefits under the MEIS. Under FTP e-commerce, exports under courier are allowed manually through airports at Delhi, Mumbai and Chennai only for a limited number of products.

There is a need for clarity on e-commerce exports as a whole not limiting for purpose of the MEIS only. This must follow the approach taken in case of normal exports, where a separate policy guides

movement and the MEIS procedures are restricted to a limited set of product group identified under the MEIS. Present procedures lack clarity on various aspects. Given that most shipments are of low-value, any process/ procedure is an added cost to the exporter. Procedures, therefore, need to be clear, consistent and seamless to attract more MSMEs into e-commerce based exports. This is also likely to help include e-commerce exports in the overall merchandise exports.

Limited locations:
At present, the facility of courier clearance under the manual mode is available at Customs airports in Mumbai, Delhi, Chennai, Calcutta, Bangalore, Hyderabad, Ahmedabad, Jaipur, Trivandrum, Cochin, Coimbatore and Land Customs Stations at Petrapole and Gojadanga. However, the FTP for the purpose of MEIS has restricted such benefit for exports from Delhi and Mumbai only, which further needs to be expanded to all Customs airports.

Clear and simple procedures for claiming MEIS:
In normal exports, two documents are required for claiming export benefits, namely proof of export from customs, and proof of payment from Bank.

1. For proof of export: Customs have recently notified CSB-V under which courier companies are required to mention details like IEC of the company, Airway Bill no. given to exporter, irrespective of it is e-commerce or if MEIS is being claimed or not, and so on. Customs issues a let export order (LEO) on this shipping bill filed by Courier companies. As Customs gives the Shipping Bill no. and LEO on CSB-V, this document should be sufficient to confirm as proof of export and for claiming MEIS benefits.

2. For proof of payment: In normal exports, e-BRC is considered as proof of payment which the exporter's bank issues as foreign exchange, and is directly received by them. However, in exports using e-commerce, the payment in foreign exchange is received by OPGSP which remits the payment in Indian rupees to the exporters' bank account, which thereafter credits the account of exporter in Indian rupees.

Presently for claiming MEIS benefits, exporters have to approach their bank for Foreign Inward Remittance Certificate (FIRC) who in turn approach OPGSP for the same, which increases the transaction time. Moreover, exporters have to pay in advance amount of Rs.150-200 for each FIRC increasing the transaction cost for low-value consignments. This in turn reduces international competitiveness of Indian exporters.

Since OPGSP is recognized by RBI, payment for each e-commerce export in foreign exchange, generates a Transaction ID. For ease of doing business, Transaction ID of OPGSP should be considered at par with e-BRC and the exporter should be allowed to claim MEIS benefits based on

the same. In addition, an application should be developed which allows exporters to access all their Transaction IDs on similar lines of PayPal, where exporters can log into the website and can generate a statement of all payments received by PayPal against its e-commerce exports.

A suitable provision should be made available to exporter online where CSB V and Transaction ID can be linked for claiming MEIS for exports using e-commerce. It should be done on self-declaration. Correlation and/or verification can be done at the back end.

3.1.3 REFUND OF TAXES UNDER GST REGIME

Presently, the e-commerce exporter can purchase goods against Form C with 2 per cent duty incidence, which is absorbed in the costing. In the proposed GST regime, exporters may have to absorb 18 percent additional costs, which could make his product uncompetitive in case it is not refunded. Moreover, the exporter will end up exporting taxes. Given this the refund policies and regulations of taxes under GST regime need to be exporter-friendly. For e-commerce, customs notify the CSB-V, which is a proof of exports and also captures the invoice value in Indian rupees. The GST regime should setup a mechanism where exporters using e-commerce can get refunds of the input taxes based on this.

3.1.4 ISSUE RELATED TO BANKS

As shipping bills are not generated in case of exports using e-commerce, and payments are received via OPGSPs, banks do not issue e-BRCs to the exporters when they receive payments from the buyers. There is a need to link the transaction ID of OPGSPs as proof of payment for exports made using e-commerce options. In addition, normal payments received from abroad for small-value export orders other than e-commerce payments are scrutinized and sometimes rejected by banks as the exporter is unable to demonstrate that the purpose of transaction was export remittance as they do not have shipping bill for exports made via courier. Such transaction related issues at the Bank side need to be reviewed and simpler and lighter procedures need to be put in place.

3.1.5 SELECTION OF SECTORS UNDER MEIS E-COMMERCE POLICY: HOW RIGHT IS THE CHOICE?

The following six commodities have been notified for being eligible for reward under the MEIS Scheme:

1. Handicraft Products
2. Handloom Products
3. Books/Periodicals
4. Leather Footwear
5. Toys
6. Customized Fashion Garments

The rationale for placing these six sectors for e-commerce trade may be justified if they would have proved to be beneficial for the Indian exporters in two scenarios:

(i) when the global demand of the above sectors is substantially high, which indicates attractive possibilities of B2B trade and

(ii) when consumer preference to buy these products online through CBT mode in export markets is at its peak, indicating the possibility of

trading these in B2C mode via an e-commerce marketing platform. Government policies play a significant role in shaping the economy of any sector.

3.1.6 ABSENCE FOR MECHANISM FOR RETURNED CONSIGNMENT

Ease of return of goods is critical to be competitive in the global markets, as returns are an important part of retail experience. In the current environment, providing cross-border return options is challenging for technology-enabled businesses. This is because in case of return of goods that have been supplied through online modes, the 'imports' are reassessed for duties and taxes. In such a scenario, MSMEs have two choices: either to allocate their administrative resources to reclaim those amounts or to absorb it themselves. Both mean a rise in business cost, which would put Indian exporters at a disadvantage compared to their international competitors. Some additional critical questions are:

1. **Is the limit of INR 25,000 per consignment sufficient for the Indian exporters?**
   MEIS e-commerce Policy states that Indian exporters will now be eligible for MEIS benefit if they export their goods through courier or foreign post office using e-commerce up to the Freight On Board (FOB) value of INR 25,000 per consignment. If the value of exports using e-commerce platform is more than INR 25,000 per consignment, then MEIS reward would be limited to FOB value of INR 25,000 only.

   This benefit of MEIS as indicated earlier comes as duty credit scrip at 3 per cent of the FOB value. This means, with each consignment sold online with an FOB value of INR 25,000, an Indian exporter would benefit by Rs.750 under MEIS. Given the extent of documentation to be handled being the same for large B2B offline orders and B2C retail sales, this limit of INR 25,000 does not seem to offer much incentive to exporters.

   This limit also seems to be quite less to handle returned products, especially for leather and customised fashion garments sectors. This limit will also be insufficient if new sectors like gems and jewellery, auto components, organic chemicals, among others, are brought under the gamut of the MEIS e-commerce benefit scheme. Maintaining a low de minimis[9] negatively, impacts small e-commerce based businesses in India, especially those geared towards international markets (such as those trading on eBay). On the other side of the table, the government earns less on account of these restrictions than it spends on enforcing them.

2. **Loss of Opportunity for E-Commerce Players in RTA Markets**
   The threshold of MEIS benefit for INR 25, 000 loses the opportunity in export markets, where India has signed an RTA (Regional Trade Agreements). This includes MERCOUR (Brazil, Peru, and Argentina), ASEAN (Singapore, Brunei, Malaysia, Cambodia, and Indonesia), Japan, Korea, etc. These are high e-commerce active markets, where Indian exporters could supply their products at zero per cent duty rate (in FTA) and preferential duty rates (in PTA) despite the fact that de minimis is low in these markets.

   For countries where de minimis levels are low as in China, Mexico and Canada, a rise in the

[9]De-minimis threshold refers to a valuation ceiling for goods, including documents and trade samples, below which no duty or tax is charged and clearance procedures, including data requirements, are minimal (UNECE, 2012")

MEIS e-commerce limit above INR 25,000 will help Indian exporters gain better access and traction in these markets. Low de minimis would mean that once Indian exporters cross these notified volume of import limit, they would lose the benefit of duty free access and will have to pay designated import duties, which will increase their cost of business. On the other hand, for sectors where India has a digital presence, MFN (Most Favoured Nations) rate of duty across most of the high e-commerce active markets is reasonable.

3. **Multiple Copies of Invoice**
   A private courier carrier requires close to seven copies of invoices (self-declaration), and India post requires three copies of invoices for a single product shipment. If a bulk shipment is made, for instance that of 100 units, then the exporter is required to print nearly 700 copies of invoices resulting in wastage of time and resources raising transaction costs and reducing incentives for scaling-up operations in terms of volume.

4. **No Refund on VAT or Service Tax**
   Exports sent through India Post using CN22 or through any other commercial courier mode are ticked as samples or gifts. As per VAT authorities, such custom-stamped documents are not recognised or acknowledged by them, and they do not support any commercial shipment despite proof of a forex receipt.

5. **Absence of Provision for any Commercial Shipment in CN-22 Form**
   Customs CN22 form available at India Post Office does not contain any option for commercial shipment. Options available are only gifts, samples and documents.

6. **No Support for Commercial Small Value Single Item Shipment in CSB 2 or Current Courier Shipping Bill**
   Current CSB-2 Form has multiple fields requiring detailed information to be furnished even for small value single items, making it a hugely cumbersome process. Rationalization of the CSB-2 Form needs to be considered.

7. **Factors Preventing Foreign Market Access**
   Absence of right information on quality, buyer and market about the importing country. Despite having the capability to move aggressively towards e-commerce based CBT, Indian MSMEs suffer from lack of competitiveness in the international market due to exposure to foreign competition and competition with imports, presence of 'National Treatment', TRIMS, SPS & TBT, and phasing out of subsidies provided to the sector, TQM, etc. agreed to as a part of WTO commitments. Also, Non-tariff barriers prevent MSMEs from accessing foreign markets. Barriers are not just limited to quotas but also include excessive documentation. Requests for irrelevant propriety information, arbitrary laws barring items and products for import that contain certain materials, are some of the other examples. More often than

not, these barriers require long hours of paperwork to be done and impede the growth opportunities for MSME cross-border e-commerce.

8. **Prevalence of FTA of Competing Countries in the Target Markets**
   A Free Trade Agreement (FTA) is an agreement that encompasses reduction in import quota, tariffs and any other trade barrier and is signed between two or more countries to expand the trade between them. For Indian MSMEs, exporting goods online to a target country, which has a FTA with a competing country, increases the level of competitiveness.

"Various major initiatives introduced by the Government of India like Digital India, Skill India, Make in India, Start-up India, are gaining momentum which is indispensable in driving the growth of e-commerce industry in the long run."

3.2 E-COMMERCE READINESS CHALLENGES

The major obstacles, in terms of readiness for a MSME wanting to enter into e-commerce, are - adoption of new business models that require knowledge of digital marketing, website designing and order fulfilment. Those MSMEs that succeed in making the transition to domestic e-commerce face additional challenges to make the jump to cross-border e-commerce. GoI should explore ways in which MSMEs can be trained and technical support services can be extended to them to make the transition process easier, especially for MSMEs with limited capabilities. It is essentially important to increase awareness of e-commerce options and its benefits, and GoI programs among the MSME population.

3.2.1 ICT INFRASTRUCTURE CHALLENGE

Box 5: ICT Infrastructure Issues	
Cost	Lack of Skilled Manpower
Lack of Awareness on Benefits of Technology	Privacy & Security
Poor Physical Infrastructure	Wrong Perception Issue
	Low Accessibility to Finance

Information and Communication Technology (ICT) use has advanced multi-folds in the recent times in MSMEs, which are keen on exploring the e-commerce route. The challenges raised by such MSMEs have traditionally been addressed by the government, but this needs further development. The Internet is a pillar of any e-commerce operation. In June 2016, internet penetration in India was only 36.5 per cent, whereas in China, it stood at 52.3 percent[10]. Clearly, higher internet penetration, supported by boost in allied infrastructure, is an essential requirement for India to actively penetrate the global market space. Indian MSMEs also need to adopt ICT tools and techniques for enhanced cross border trade. Studies have shown that a move to web-based services is likely to fetch 50 percent more revenues compared to traditional means of marketing and commerce. Despite this, only a limited number of MSMEs are actively adopting e-commerce as their primary marketing tool. Commonly faced barriers to technology adoption in MSMEs to become e-commerce ready are noted below:

[10]http://www.internetworldstats.com/

1. **Cost**
   A pressing challenge against adoption of technology is its high cost. The cost of hardware items (computers, LANs, peripheral, etc.) is high and recurring, while software costs and working process are intensified, thereby hindering the rapid adoption of IT in traditional MSMEs.

2. **Lack of Awareness on Benefits of Technology**
   Low levels of awareness amongst a large number of MSMEs of the value of e-commerce is a critical factor. Resistance to shift to new techniques in business, lack of knowledge of
   (a) best practices adopted internationally,
   (b) new business models, and
   (c) government and third parties facilities available also pose a great challenge.

3. **Poor Physical Infrastructure**
   Poor internet availability/connectivity has led to dampening of spirits of MSMEs wanting to move to e-commerce options. Poor broadband and connection reliability, inadequate bandwidth, limited coverage, low internet access speed are the key concerns to be addressed on the supply side. Continual power disruption in rural areas along with Tier 1 and Tier 2 cities are further compounding the problem.

4. **Lack of Skilled Manpower**
   The absence of skilled workforce remains a huge stumbling block for MSMEs in order to avail the potential benefits of technology. As per National Skill Development Council of India Report, by the year 2022, there could be an incremental shortfall of skilled labour by 240-250 million people in 20 high-growth sectors. Low ICT knowhow also makes it very difficult to determine the best technologies that an exporter should look at. Another challenge is a lack of easily available technical skills to perform e-commerce transactions making migration from offline to an online platform very difficult.

5. **Privacy & Security Concerns**
   Concerns of data privacy, data security, data backup, as storing them on CDs or hard drive expose them to damage risks and resultant data loss, act as key barriers for technology adoption.

6. **Low Accessibility to Finance**
   Lack of adequate access to finance available to a large number of MSMEs limits their ability to migrate to e-commerce as they are unable to meet the seed capital requirements. Need for financial institutions catering to this target group is critically important.

7. **Wrong Perception Issues**
   Various perception issues plague merchants while considering the move to e-commerce solutions: high technical complexities, e-commerce is a privilege for large scale industries only per say, online transactions will invite greater scrutiny by audit, and so on.

3.2.2 E-PAYMENT CHALLENGES

Box 6: E-Payment Issues	
Poor knowledge and Awareness	Privacy and Security of Transactions
Entrepreneur Characteristics	Costly and Time consuming
Lack of Financial Inclusion	E-Payment Transaction Failure
Difficulty to Part with the Traditional Mode	Lack of Usability

E-commerce export trade entails an electronic payment setup. E-payment, i.e., electronic payment is the financial payment taking place over the internet. The emergence of e-payment has paved the way for many MSMEs to bank on digital opportunities available via e-commerce to expand their customer reach, compete in the global market, accumulate higher revenues, enter new products and enhance their productivity by becoming further efficient. However, since traditional Indian MSMEs are trapped in their cash ecosystem, there are numerous factors that act as impediments to their e-payment acceptance. Some factors identified are as follows:

1. **Poor Knowledge and Awareness**
   A majority of MSMEs' workforce, especially in the rural region, is illiterate and ignorant when it comes to the use of internet. Surprisingly, a majority of urban population suffer from lack of functional knowledge of undertaking online businesses.

2. **Entrepreneur Characteristics**
   Age, type of skills and level of education of an entrepreneur play a pivotal role in migration to e-commerce options. Lack of skilled workforce also inhibits the transition from traditional payment methods to online payment methods.

3. **Lack of Financial Inclusion**
   Despite the schemes being designed to cater to financial needs of the MSMEs, still a majority of MSMEs lack arranged transactions with bank accounts indicating the lack of awareness on their part. There is a need to raise awareness on finance-related issues to make MSMEs pro e-commerce.

4. **Difficulty to Part with the Traditional Mode of Trade**
   The traditional method of trade involves a real-time transfer of fund between the consumer and MSMEs, making it a preferred way of trading, whereas the online payment system is considered complicated and risky. In an offline B2B transaction, the preferred mode of payment is credit. The payment is made 30 days after the receipt of goods. In contrast, in e-commerce, payment options for upfront payments are readily available.

5. **Privacy and Security of Transactions**
   MSMEs that possess the knowledge of e-payment methods still don't prefer trading via this method owing to the need of keeping the information private and lack of security of payment methods.

6. **Costly and Time-Consuming**
   Since online payment methods demand a

bigger than business-as-usual setup, infrastructure and tends to have higher management cost due to higher skill requirements, many traditional MSMEs consider this mode of payment as costly and time-consuming.

7. **E-payment Transaction Failure**
   On account of low-speed bandwidth and recurring snags in payment gateway technology, the e-commerce industry has witnessed high transaction failure rates as compared to other countries, resulting in low acceptance of e-payment options.

8. **Lack of Usability**
   E-payment system entails an enormous amount of transfer of information from end-users and makes transactions complex as they demand personal information and details in a web format.

3.2.3 LOGISTIC CHALLENGES

As expressed earlier in the report, logistics is one of the leading challenges in promoting cross-border e-commerce in India. Express delivery is usually the preferred mode opted by most international purchasers, which India Post is unable to deliver. One cannot continue to ignore logistics, if India seeks to enable MSME growth in the e-commerce Cross-Border Trade. According to some MSMEs, it is the number one barrier to their export growth waiting to be addressed. The ability to develop an end-to-end logistics system will define the future direction of the cross-border e-commerce growth in India. As trade volumes grow, India Post and other international logistics company need to look for innovative ways to reduce costs and improve the delivery process. Barriers to having a competitive e-commerce logistics are as below:

1. **Long Distance**
   Delays in sending products to customers over a long distance, due to poor logistic systems, results in the reduction of competitiveness of Indian MSMEs in the international market. As per some MSME owners, the increase in cost over poor logistics system in India makes their product way more expensive than the actual cost.

2. **High Shipping Cost**
   The high cost of shipping makes it a challenge for the MSMEs to remain competitive in the international market.

3. **Problems in Tracking the Foreign Goods**
   Some business owners think that the lack of tracking options creates trust and confidence issues for many cross-border e-commerce consumers.

4. **Volume of Goods very small in E-Commerce Export**
   The rise of e-commerce and cross-border shopping has changed the traditional cross-border logistic requirements. E-commerce volumes are not yet large enough to make business profitable to depend exclusively on global logistic firms like DHL, UPS, FedEx, amongst others.

5. **Weak and Inefficient Local Supply Chain Infrastructure**
   Approximately 60 per cent of the Indians reside in the rural areas of the country. Poor infrastructure, per say roadways and courier facilities make it a challenge for e-commerce products to reach such far-flung places.
   Moreover, due to lack of trust and financial insecurity among consumers, the Indian e-commerce has to rely on 'cash on delivery' payment options, an option that is not preferred by the MSMEs.

A major challenge that prevents CBT, is the lack of credibility of the Indian business on the supplier's side. In the past, due to concerns of poor reliability of products in international markets, there has been a credibility issue in the international market of Indian products. This perception needs to be changed and for that it is necessary to create a more structured and information-driven process, alongside creating awareness in the international market. 'India needs to learn from the success of other countries such as the USA and the UK. The major factors responsible for the significant growth of e-commerce in their countries include quick adoption of Information and Communication Technologies (ICT) by the general public. While India has seen an increase in internet penetration, this increase has not percolated to the MSME segment, especially in comparison to neighbouring countries like China.

Box 7: Miscellaneous Challenges

1. Lack of Market Intelligence
2. Branding and Marketing
3. Improper Infrastructure
4. Resistance to Change
5. Geographic Location
6. Lack of Trust
7. Standardization, Quality Issues
8. Ignorance about Government Policies
9. IPR Issues
10. Little Access to Necessary Information and Consultancy Services
11. Failure and delay in receiving payments resulting in Secondary Financial Insolvency
12. Low level of Export Readiness

3.3 RECOMMENDATIONS TO BOOST MSMEs EXPORT PRESENCE

Time is changing as new technologies are transforming the way people buy and sell. E-payment mechanisms combined with new electronic trading platforms open an avenue for unparalleled growth in international trade. Internet-enabled trade in India is increasing at a high rate with a huge potential that is yet to be unleashed.

The use of internationally acceptable and reliable mechanism can help to improve Indian MSME Cross Border Trade in the global market.

1. **Implementation of Digital Single Window System**
   Global trade is now digital. To enable continued growth of a digital economy - standardization, simplification and digitization of the customs processes should be the central goal of the government. Since, small businesses are disproportionately affected by cumbersome customs procedures, harmonization of customs procedures will considerably reduce the number of factors that MSMEs need to take into account while trading. Modernization through the inclusion of technological solutions also reduces barriers to customs process and the costs for small businesses. Through the introduction of Digital Single Window System, goods can move faster through the customs, thereby, cutting down the delivery time. Actions, such as lessening and rationalizing paperwork, overcoming the physical in-queue waits to get through to customs and so on can be made less time-consuming and more user-friendly by making the entire process electronic. As in the case of Japan, import processing time has fallen from 25.7 hours to 13.4 hours through the introduction of a digital Single Window system in 2010.

2. **Incentives for Formalization of Enterprises**
   Since, a major chunk of MSMEs in India is unorganized, the policymakers should focus on these informal firms that have a deep
   interest and exhibit the required potential for growth. Simplification of tax procedure and financial inclusion, of such enterprises is imperative in order to harness their capability to export.

3. **Local Industry Association**
   Mainstreaming local industry associations into digital commerce is essential. It is imperative to devise steps to create the relationship with Industry Associations and local/cluster level organizations for better mobilization of the MSMEs. Associations need to use channels like publications, to reach out to a larger audience and reach as far as the global audience.

4. **Local Support Organizations**
   Strategy needs to be devised for linkages with technical and support organizations for product diversification and quality. Identification and outline of a strategy for strategic linkages with major CBT institutes and organization for wider policy impact will also be a part of the study.

5. **Identification of Small and Medium Enterprises (SMEs) in Technology- Enabled Trade**
   Recognition of SMEs engagement in the international trade market and numerous unique barriers faced by them, is an imperative primary step to overcome the obstacles that many SMEs face. As India has Free Trade Agreements with many countries, a special provision could be introduced to recognize the global nature of internet enabled trade. To enjoy the benefits of e-commerce, FTAs should be developed by adding certain specific requirements by the

government to remove policy barriers affecting technology enabled SME trade.

6. **Network Neutrality**
Small business entities are most likely to be discriminated against or blocked because they do not have any leverage against Internet Service Providers (ISPs). Maintaining an open playing field on the Internet, where every actor on the network has an equal opportunity to access a consumer, will bring clear benefits to MSMEs' Internet businesses.

7. **Raise the De Minimis Threshold**
Expanding the de minimis threshold is likely to boost trade opportunities for MSMEs by considerably reducing the cost, time and the uncertainty involved in the movement of packages across borders. In February 2016, the USA increased the de minimis level on international shipments from USD 200 per shipment to USD 800 per shipment. The limit of INR 25,000 towards availing MEIS benefit also seems to be archaic in light of opportunities missed by the Indian exporters so as to target duty free access in foreign markets. If the limit of INR 25,000 for MEIS benefit is increased to INR 50,000, Indian exporters can exploit a greater e-commerce potential.

Such export opportunities lie in most of the markets, where MEIS identifies them under Category B focus markets including Georgia, Azerbaijan and Armenia in CIS; Honduras, Ecuador and Columbia under Latin America; and Australia, Singapore and Brunei in APEC region.

If duty free volume of imports is meagre, crossing the de minimis level of imports will not bother Indian exporters in the light of low import duties, except in case of China, where WTO MFN rate of duties range between 10-20 per cent for products sold on e-commerce market platforms. Hence, a rise in the current limit of INR 25,000 as MEIS benefit makes business sense for Indian CBT players.

8. **Possibility of New Additions in the MEIS Policy**
Based on trends of consumer preferences across the globe, especially in economies

Box 8:
Raising the DMT Creates an Advantage for Online Retailers

Returns are really table stakes at this point for ecommerce globally," she says. "And when returns coming back from U.S. and international buyers are re-assessed for duties and taxes, the small or medium-sized business has a choice: Either they can allocate precious administrative resources to reclaiming those amounts, or they can just eat those amounts... which means their cost of doing business is higher than their competition in key markets."

Maintaining a $20 de minimis, Stairs says, negatively impacts Canadian small businesses, especially businesses geared towards international markets such as those trading on eBay; Canadian consumers, who are at a disadvantage should they try shopping on the international online marketplace; and the government, which currently earns less from the rules than it spends to enforce them.

Read more: http://www.itworldcanada.com/article/why-ebays-leading-the-charge-to-increase-canadas-de-mini-mis-threshold/390868#ixzz4brzSMzlJ or visit http://www.itworldcanada.com for more Canadian IT News

which are target destination for India-based MSME e-commerce, it is recommended that the MEIS policy benefits are expanded to other sectors, including consumer electronics, textiles and pharmaceutical. Although the overall import demand for Gems (HS code 71) seems to be declining, but it still makes sense to explore the possibility of extending MEIS benefits to imitation jewellery and pearls as well.

9. **IP Provision for the Returned Goods**
MSMEs should not be burdened with payment of duties on cross-border returns. Section 74 of custom rule indicates that if the exports made from India are retrieved back within 2 years of the date of shipping bill, it will not be treated as imports and no import duty will be charged on the same. Although, the custom rule exists, however, the practical implementation needs to be strengthened to promote B2C exports through an e-commerce mode. As of now there is no specific means of identification of returned goods at the Indian Customs.

   Another recommendation, towards attending to duties on returned e-commerce goods, is to increase the de minimis value of import limit for India. As of now, the de minimis limit assigned by India is INR 9,806, which means that if the value of imports is within the limit of INR 9806, no import duty will be charged to bring it into India and this should be considerably higher as per recommendations.

10. **Modernization of Indian Postal System**
Development of postal services can prove to be extremely beneficial for MSMEs that export, as they can utilize the postal service to move their goods around the world. The Indian postal service shall suggestively try to improve their cross-border logistic management by partnering with private logistics companies, move to adoption of IT enabled services that leverage efficiencies in scale and aggregation to provide volume discounts and work more closely with other countries in order to harmonize shipping platforms between them. Finally, the India Post could collaborate with the private sector to create interoperable tracking systems that both the public and the private sector can utilize. Creating interoperable tracking systems would enable merchants and consumers to keep a track on their packages throughout the shipping process and will also improve reliability of delivery.

11. **Comprehensive National E-Commerce Strategy**
There is a strong need to develop a comprehensive e-commerce strategy by the government. The strategy should identify the gamut of policy areas that affect technology-enabled trade like ICT, customs, tax policy and payment policy. It should highlight opportunities present in the e-commerce sector and define a strategy to improve the situation and promote a stronger digital economy.

Box 9: Recommendations – a Snapshot



CONCLUSION



CONCLUSION

E-commerce and cross-border e-commerce is not a zero-sum game. It is not simply the switching of one business model for another. The positive impact of technology, expanded reach, lower transaction costs and efficiency improvements lead to real economic gains. Consumers are better off with greater variety and more competitive prices. Global value chains are enhanced as they incorporate world-class specialists at all stages. MSMEs can experience greater stability, increased reach and better competitive dynamics that drive innovation. Whether economies are quick or slow to harness the positive impact that depends directly on the political will and vision of the policy makers and whether they invest in the needed ICT infrastructure and make regulatory changes that eliminate impediments to growth in e-commerce or not. Simplification of domestic policies and processes to enable Internet-based businesses are a vital first step. Strong, efficient and highly competitive domestic e-commerce markets are essential for developing globally competitive MSMEs. To achieve all the above-stated benefits in the form of results, we need to bring all the stakeholders together by actively involving them in the activities. The study will help to put special emphasis on creating synergies with numerous export promotion programs and schemes by the government and their agencies. This will help in on-boarding of a large number of sellers and more exports per seller.

The differences in global e-commerce trade of Indian and Chinese MSMEs highlight that there is limited knowledge among international customers about Indian domestic manufacturing environment. This legacy shortcoming needs to be overcome with active communication and information flows. There is a dire need for the Indian MSMEs to link with reliable market places. International e-commerce companies in India, like eBay[11] and Amazon[12] are helping out Indian MSMEs to capitalize on the credibility and reliability of B2C cross-border trade. A reliable cross-border marketplace can help as an ice breaker for international buyers. It can prove to be a win-win solution for both International buyers as well as Indian suppliers. The marketplace can help provide a strong sense of security to the international buyers with the existing institutionalized logistics supply chain offered by international e-commerce companies and also offer safe modes of receiving the payments from International buyers for India MSMEs. Such a CBT marketplace can also help in understanding tariffs, licensing and other compliances for global market access.

The business processes of an e-commerce CBT are separate from that of traditional medium of trade. In international trade, only a limited number of components may be controlled by MSMEs, such as quality of products and services, rapid technological transformation, up gradation of skill and knowledge, amongst others. However, there are individual components that are detrimental on external participants of an e-commerce business chain such as policy and business environment and infrastructure access, which require urgent attention.

[11] EBay acquires Bazee.com in 2004; www.ebay.in established in India. eBay India is among India's largest online marketplace souring products from over 777 cities, towns & villages in India including MSMEs

[12] The company took its first steps into the Indian market in February 2012 when it launched Junglee.com, a site which allowed customers to compare prices online but not purchase items directly.

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ANNEXURE – 1 DE MINIMIS THRESHOLDS

(SOURCE: WCO Study Report on Cross-Border E-Commerce, MARCH, 2017)

Country/ de minims	Customs Duty	Taxes (VAT/GST)	Gift	Commercial Samples	Simplified Declarations	Goods exempted from de minims threshold
Australia	$ 1 000	$ 1 000	$1 000	$1 000	Below $1000, SAC	Excise goods
Bhutan	$100	Sales tax levied on Fob	$100	Current law is silent on commercial samples	Declaration is the same as for any other normal import and export procedures	Gifts only twice a year
Bulgaria	150 EUR / 45 EUR	Above 22 EUR	45 EUR	N/A	Consign-ments below de minims	Excise goods
Canada	$ 20	$ 20	$ 60	$ 1	$ 2 500	Excise goods
Chile	No de minims value	No de minims value	No de minims value	No de minims value	N/A	No de minims value
China	No Customs duty will be collected for import goods that fall into the category of “cross-border e- com-merce retail goods”[13]	For import goods that fall into the category of cross-border ecommerce retail goods, VAT and GST will be collected with a lower rate	Cross-border ecommerce retail goods do not include gifts	Cross-border ecommerce retail goods don’t include commercial samples	Manifest Clearance	N/A
Colombia	N/A	N/A	N/A	N/A	N/A	N/A
Croatia	150 EUR / 45 EUR	Above 22 EUR	45 EUR	N/A	Consign-ments below de minims	Excise goods
Denmark	150 EUR / 45 EUR	Above 22 EUR	45 EUR	N/A	Consign-ments below de minims	Excise goods
Dominican Republic	$ 200	$ 200	$ 200	$ 200	FOB value of 200 to 2000 USD	Restricted goods

[13] “Cross-border e-commerce retail goods” should be no more than 2000 RMB per person each time and no more than 20000 RMB per person each year.

Fiji	Fiscal duty rate: 32% or 15% or 5% and 0% or specific rate of duty. Import excise duty 15% or 10% or 5%.	9%	$400 FJD	$500 FJD	Facilitate the clearance of personal and small consign-ments	> $1000
Finland	150 EUR / 10 EUR	Above 22 EUR / 5 EUR	45 EUR	No specific rules / normal revenue collection	Consign-ments below de minims	Excise goods
France	150 EUR / 45 EUR	Above 22 EUR	45 EUR	N/A	Consign-ments below de minims	Excise goods
Germany	150 EUR / 45 EUR	Above 22 EUR	45 EUR	N/A	Consign-ments below de minims	Excise goods
Hong Kong, China	N/A	N/A	N/A	N/A	N/A	N/A
Hungary	150 EUR / 45 EUR	Above 22 EUR	45 EUR	N/A	Consign-ments below de minims	Excise goods
India	INR. 1000	INR. 1000	Rs.20,000 for imports which are not subject to any prohibition or restriction and which do not involve transfer of foreign exchange	Rs.10,000 for imports which are not subject to any prohibition or restriction and which does not involve transfer of foreign exchange	N/A	-
Indonesia	Customs officers set the tariff at the highest level if the consignment goods consist of more than 3 types of item.	10 %	$ 50	$50	For consign-ments sent via express carrier company and/or post office, the simplified declaration cannot be used.	The exemption from import duties and taxes is based on the value of the cosignment, not the quantity of goods.
Ireland	150 EUR / 45 EUR	Above 22 EUR	45 EUR	N/A	Consign-ments below de minims	Excise goods
Islamic Republic of Iran	N/A	N/A	N/A	N/A	N/A	N/A
Italy	150 EUR / 45 EUR	Above 22 EUR	45 EUR	N/A	Consign-ments below de minims	Excise goods

Japan	10,000 JPY	10,000 JPY	10,000 JPY	Samples imported for soliciting orders will be Exempted from Customs duty.	Consign-ments below de minims	Beet sugar, rice, cane, etc.
Latvia	150 EUR	Above 22 EUR	45 EUR	N/A	N/A	Excise goods
Lithuania	150 EUR / 45 EUR 150 -700 EUR Above 700 EUR	Above 22 EUR	45 EUR	Council Regultion No. 1186/2009 - exempt from duty. Article 40 of the Republic of Lithuania's Law on VAT - exempt from VAT.	Consign-ments below de minims	Excise goods
Luxembourg	150 EUR / 45 EUR	Above 22 EUR	45 EUR	N/A	Consign-ments below de minims	Excise goods
Maldives	De minims value does not apply to Maldives, as the legislation provides that any amount due as duty needs to be collected by Customs. However, for courier and express consign-ments imported for own use, the President's Decree allows for duty exemption up to 6 000 MVR.	N/A	N/A	N/A	N/A	N/A
Malta	150 EUR / 45 EUR	Above 22 EUR	45 EUR	N/A	Consign-ments below de minims	Excise goods
Mauritius	2000 MUR	2000 MUR	2000 Rs	2000 MUR	3000 MUR	N/A

Mexico	For courier operations: $287.10 pesos.	For Postal operations: No taxes on goods valued up to 300 USD. Tax rate of 16% on goods valued up to 1,000 USD, excluding alcoholic beverages and tobacco. For courier operations: If the value of the goods does not exceed 50 USD, they are excluded from payment of the General Import Tax (IGI) and VAT, provided that the goods are not subject to non-tariff restrictions and regulations and that the Customs processing fees (DTA, to use the Spanish acronym) are paid.	N/A	Samples are not considered as goods, and therefore won't be taxed. They need to be identifiable as samples in the Customs declaration. A sample's value may not exceed 1 USD. In the case of samples of toys, the unit value can be up to 50 USD, and up to two samples of the same model of toy may be imported.	Consign-ments below 3,000 USD	Goods subject to tariff regulations and restrictions. Also, new or used products for personal use, which as a result of their nature and quantity can be subject to trade. Also, goods which are difficult to identify be-cause of their presentation in powder or liquid form, or as pharma-ceuticals such as pills etc., that require physical and/or chemical analysis to know their composition, nature, origin and, hence, their tariff classification. Goods prohibited by international Agreements on postal matters.
Montenegro	150 EUR	150 EUR	45 EUR	2000 EUR	3000 EUR	N/A
Netherlands	150 EUR / 45 EUR	Above 22 EUR	45 EUR	Defined by regulation as negligible value	Not in use	N/A
New Zealand	$ 60	$ 60	$110 (except tobacco products)	No threshold. Duty and tax free if temporarily imported.	< $100	Excise goods

Norway	Norway charges duties on some agricultural goods for textiles (for textiles, the rate of duty is from 5.6% to 10.7%).	VAT rate of 25%, with the exception of food which has VAT rate of 15%.	1000 NOK	Samples may be imported free of duty and VAT if the goods are of insignificant value.	Under certain strict conditions the declarant may apply for a preliminary declaration. Simplified declaration will only be granted in cases where there is a question of life and health or where there are major economic cons quences. A complete Customs declaration must be presented within 10 days.	Excise goods
Peru	0%, 4%, 6% and 11%	18%	**Category 1 and 2:** 0% from US$ 0.00 to US$ 200.00 **Category 3:** 4% + 18% from US$ 201.00 to US$ 2000.00 **Category 4:** 0%, 6% or 11% + 18% + ISC according-ly, from US$ 2001.00 upwards, and for other cases such as restricted goods.	**Category 1 and 2:** 0% from US$ 0.00 US$ to US$ 200.00 **Category 3:** 4% + 18% from US$ 201.00 to US$ 2000.00 **Category 4:** 0%, 6% or 11% + 18% + ISC according-ly, from US$ 2001.00 upwards, and for other cases such as restricted goods.	**Category 1 and 2:** 0% from US$ 0.00 to US$ 200.00 **Category 3:** 4% + 18% from US$ 201.00 to US$ 2000.00 **Category 4:** 0%, 6% or 11% + 18% + ISC according-ly, from US$ 2001.00 upwards and for other cases such as restricted goods.	**Category 3:** 4% + 18% from US$ 201.00 to US$ 2000.00 **Category 4:** 0%, 6% or 11% + 18% + ISC according-ly, from US$ 2001.00 upwards and for other cases such as restricted goods.
Poland	150 EUR / 45 EUR	Above 22 EUR	45 EUR	N/A	Consign-ments below	Excise goods

Russian Federation	200 EUR For personal use: 1000 EUR in one calendar month to one consignee, total weight not exceeding 31 kg.	N/A	N/A	N/A	N/A	N/A
Slovenia	150 EUR / 45 EUR	Above 22 EUR	45 EUR	N/A	Consign-ments below de minims	Excise goods
Sri Lanka	N/A	N/A	N/A	N/A	N/A	N/A
Sudan	N/A	N/A	N/A	N/A	N/A	N/A
Sweden	150 EUR / 45 EUR	Above 22 EUR	45 EUR	N/A	Consign-ments below de minims	Excise goods
Switzerland	5 CHF	5 CHF	100 CHF	100 CHF	<= 1000 CHF and <= 1000 kg	Goods brought in by tourists
Thailand	1 500 baht	1 500 baht	1 500 baht	1 500 baht	No specific procedure	No specific procedure
The Former Yugoslav Republic of Macedonia	When the consignment is sent from an individual to another individual, the Tariff rate is 15%. For consign-ments sent from an individual to a legal entity, the tariff rate is calculated according to the Law on Customs Tariff.	Above 22 EUR. If the value of goods is from 22 to 45 EUR, they are exempt from Customs duties but the person is obliged to pay VAT. Goods whose value exceeds 45 EUR are subject to payment of import duties and VAT (Rate of VAT is 18%).	45 EUR	Samples of goods are exempt from import duties and VAT.	Not practiced	Excise goods
Timor-Leste	10	10	10		N/A	Excise goods

Turkey	Imported goods valued below 75 EUR are exempt from all Customs duties as well as from VAT	Imported goods for personal use valued above 75 EUR but not above 1500 EUR and weighing under 30 kg are subject to a fixed rate duty, based on Customs value, of 18% for goods originating and departing from an EU Member state, and 20% for all other goods.	There is no specific exemption from Customs duties and taxes for gifts. Gifts are evaluated in the same way as other goods.	Commercial samples are exempt from Customs duties and taxes, regardless of their value.	N/A	Excise goods
United States of America	De minims $800 (set in the U.S. Trade Enforcement and Trade Facilitation Act of 2015)	N/A	$100 or $200 if from insular possession	N/A	N/A	Alcoholic beverages, perfumes that contain alcohol, cigars, cigarettes, goods subject to U.S. Partner Government Agency (i.e. U.S. Government Agencies for which U.S. Customs and Border Protection implements laws and regulations at the border) requirements
Uruguay	Express mail consign-ments: 200 USD Non-express mail consign-ments: 50 USD	Postal consign-ments: 200 USD	The previously mentioned Customs procedures are applied.	50 USD	Not in use	N/A



Figure 11 Sector wise preparedness

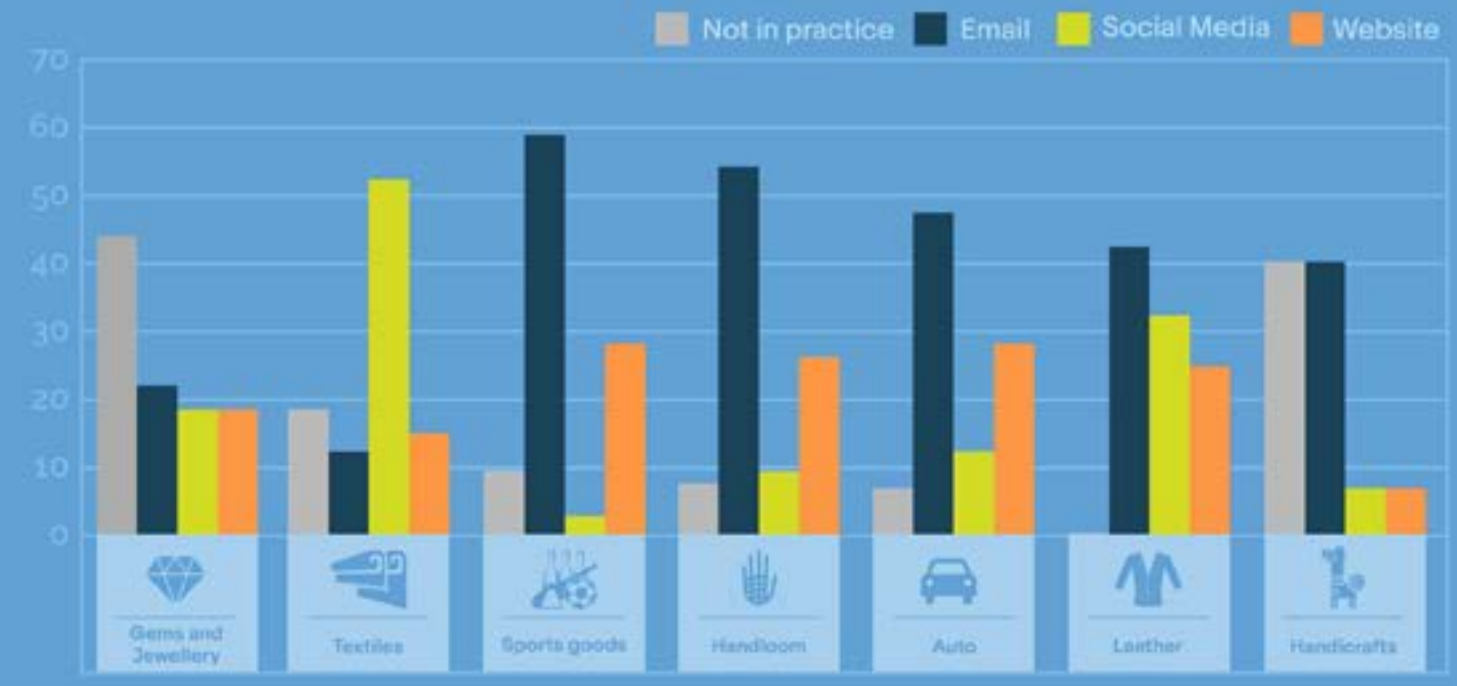


Figure 12 Sector wise Digital Influence

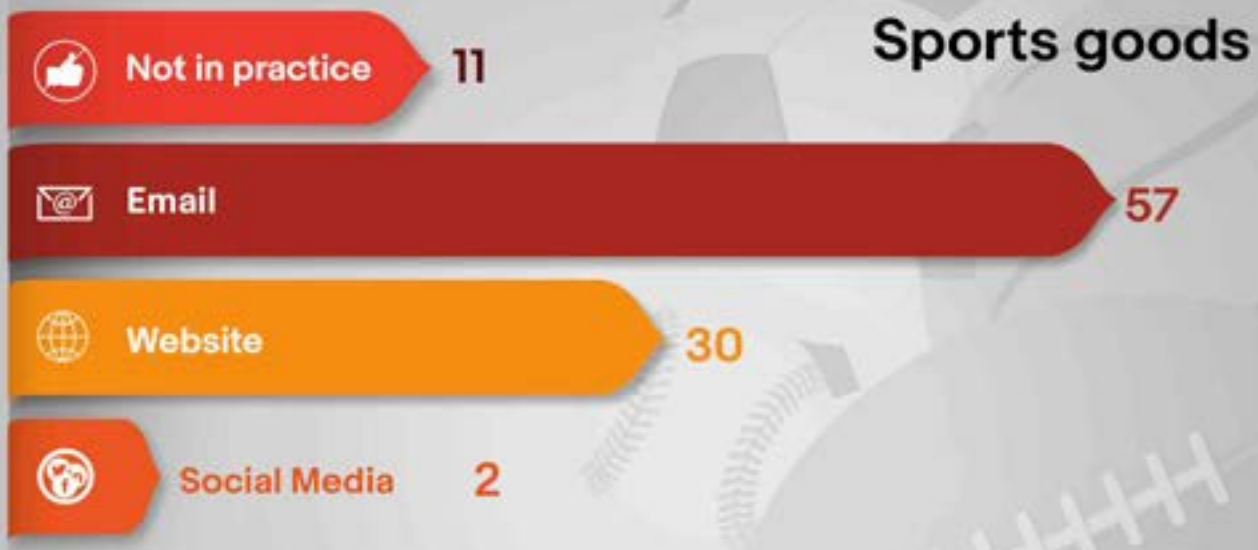


Figure-13: Digital Indulgence of Indian MSMEs in Sports Sector

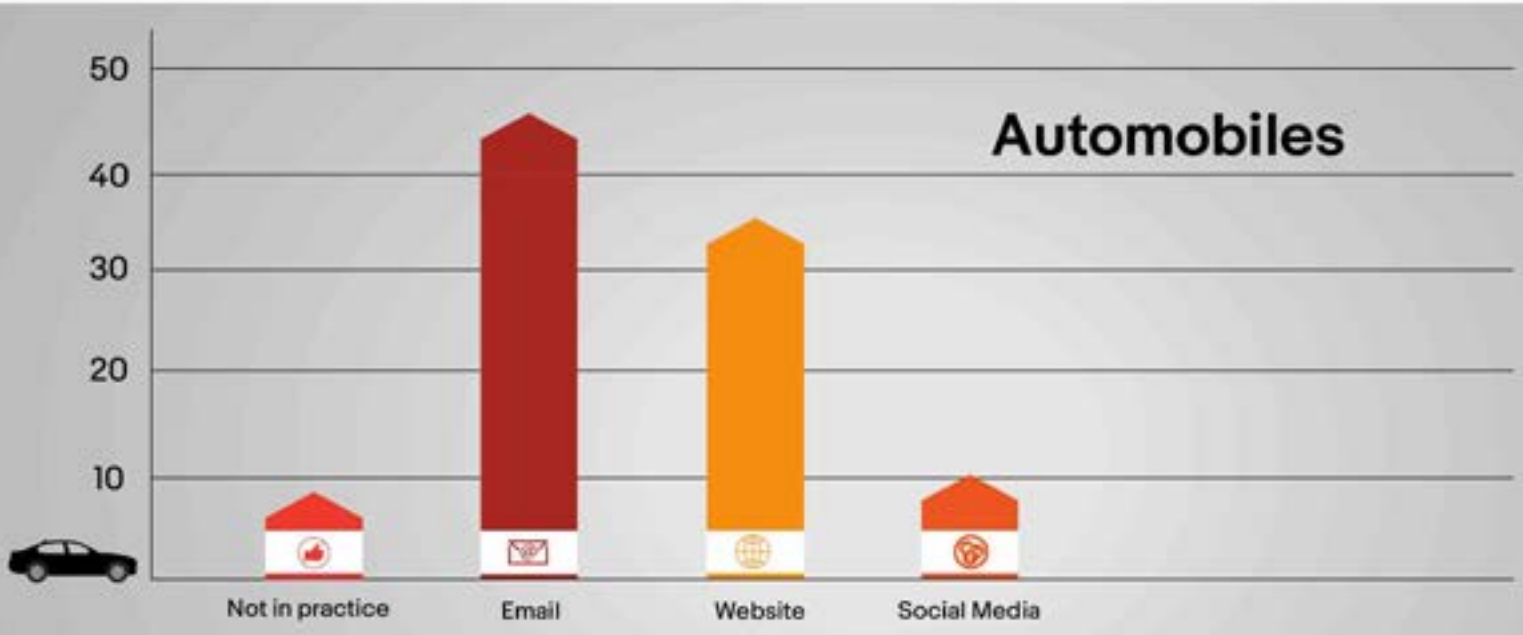


Figure-14: Digital Indulgence of Indian MSMEs in Automobile Sector

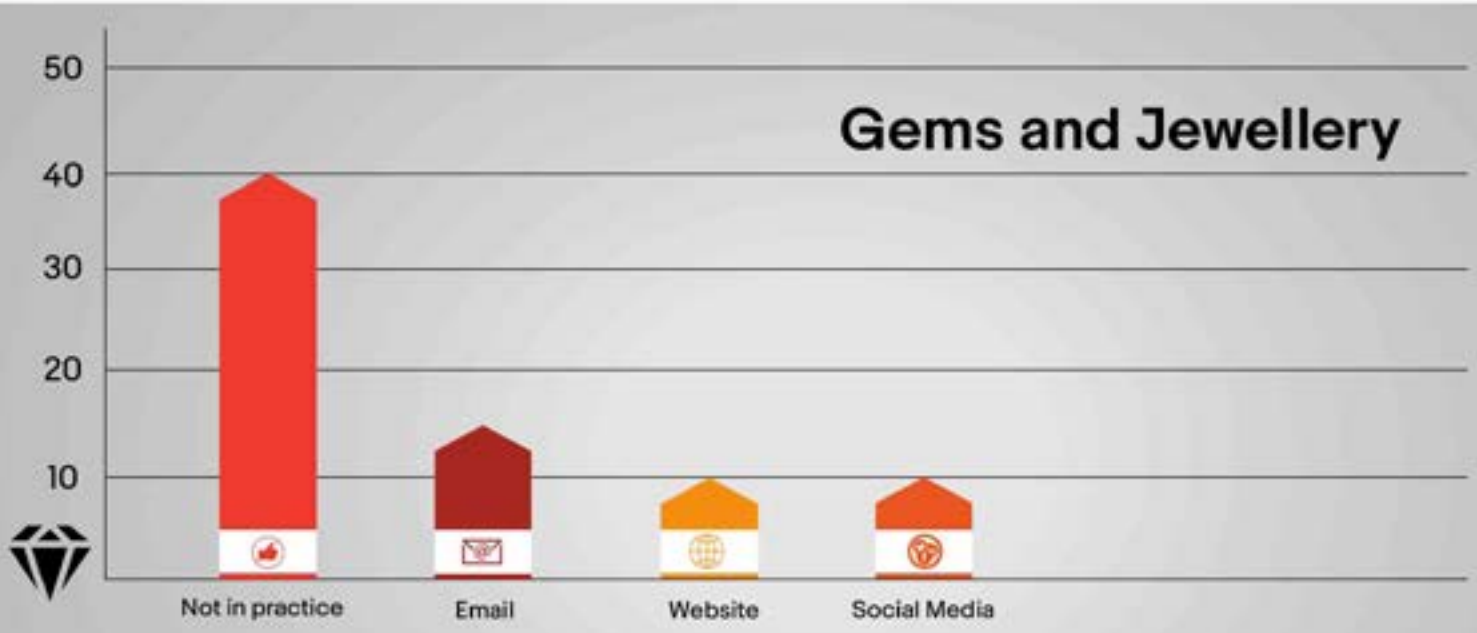


Figure-15: Digital Indulgence of Indian MSMEs in Gems and Jewellery Sector



Figure-16: Digital Indulgence of Indian MSMEs in the Handicraft Sector

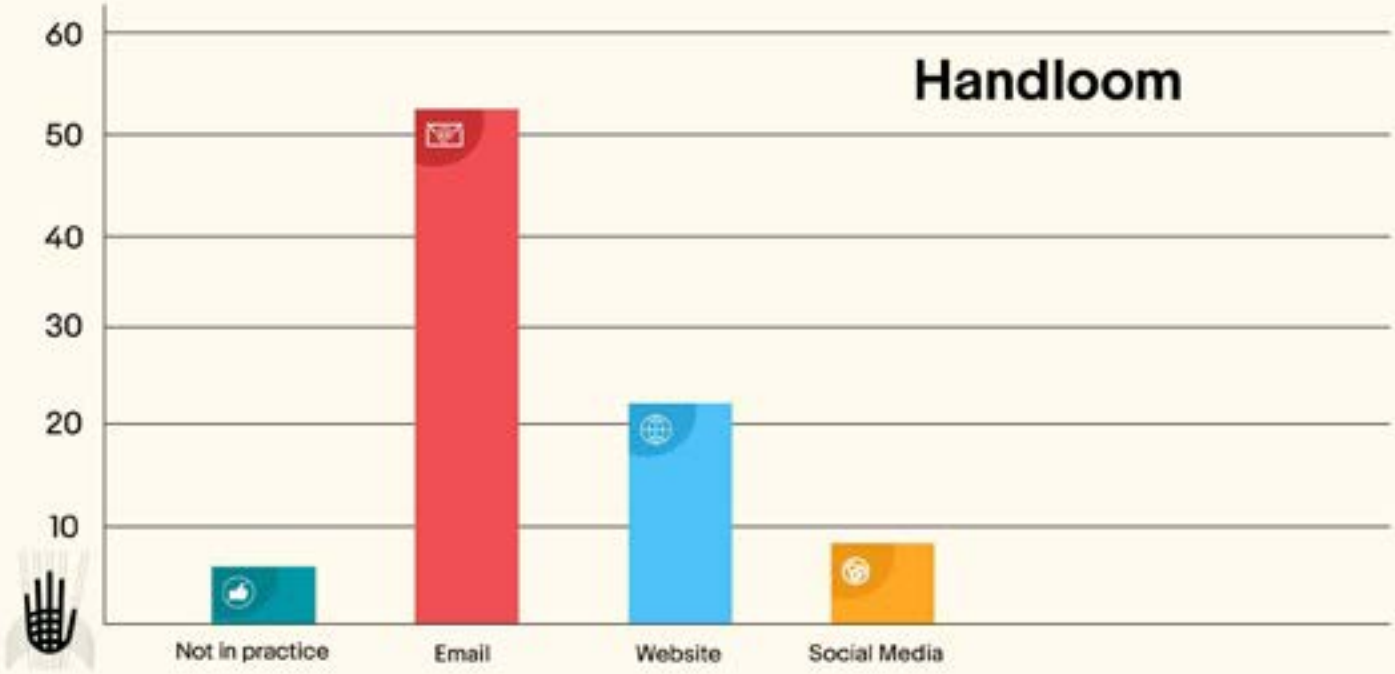


Figure-17: Digital Indulgence of Indian MSMEs in Handloom Sector

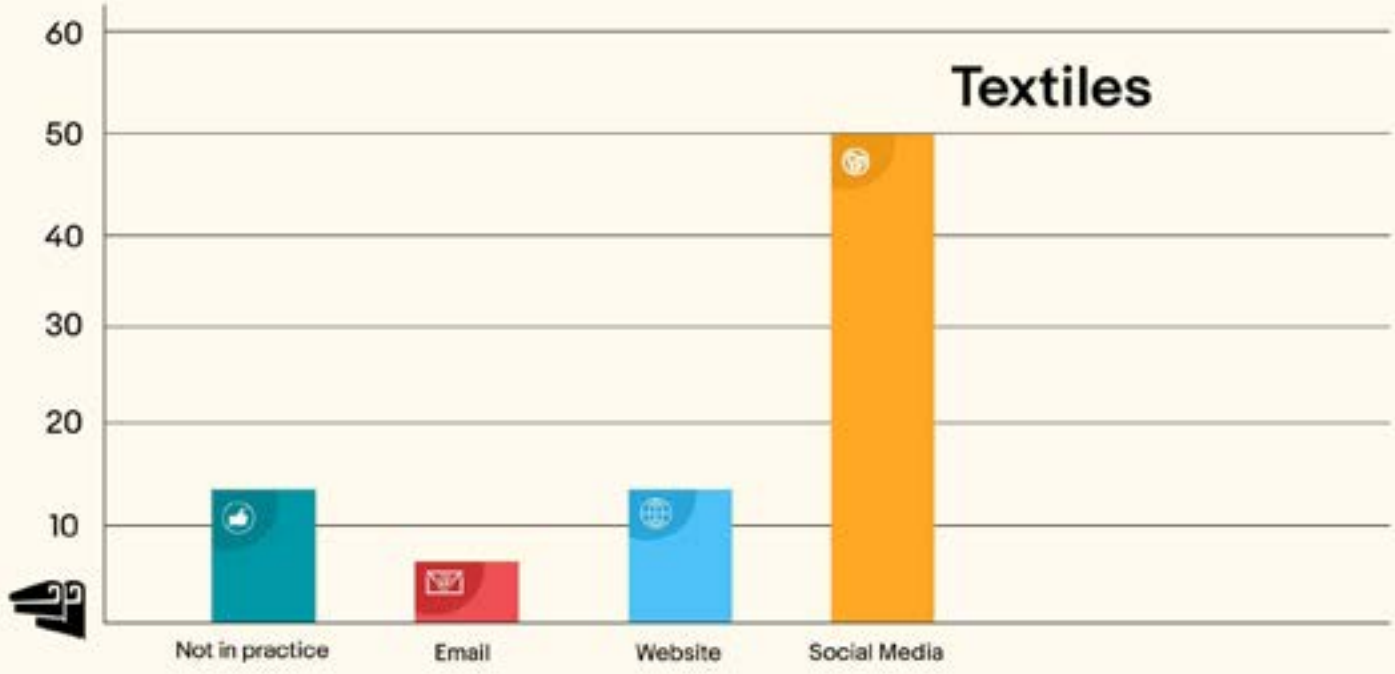


Figure-18: Digital Indulgence of Indian MSMEs in Textile Sector



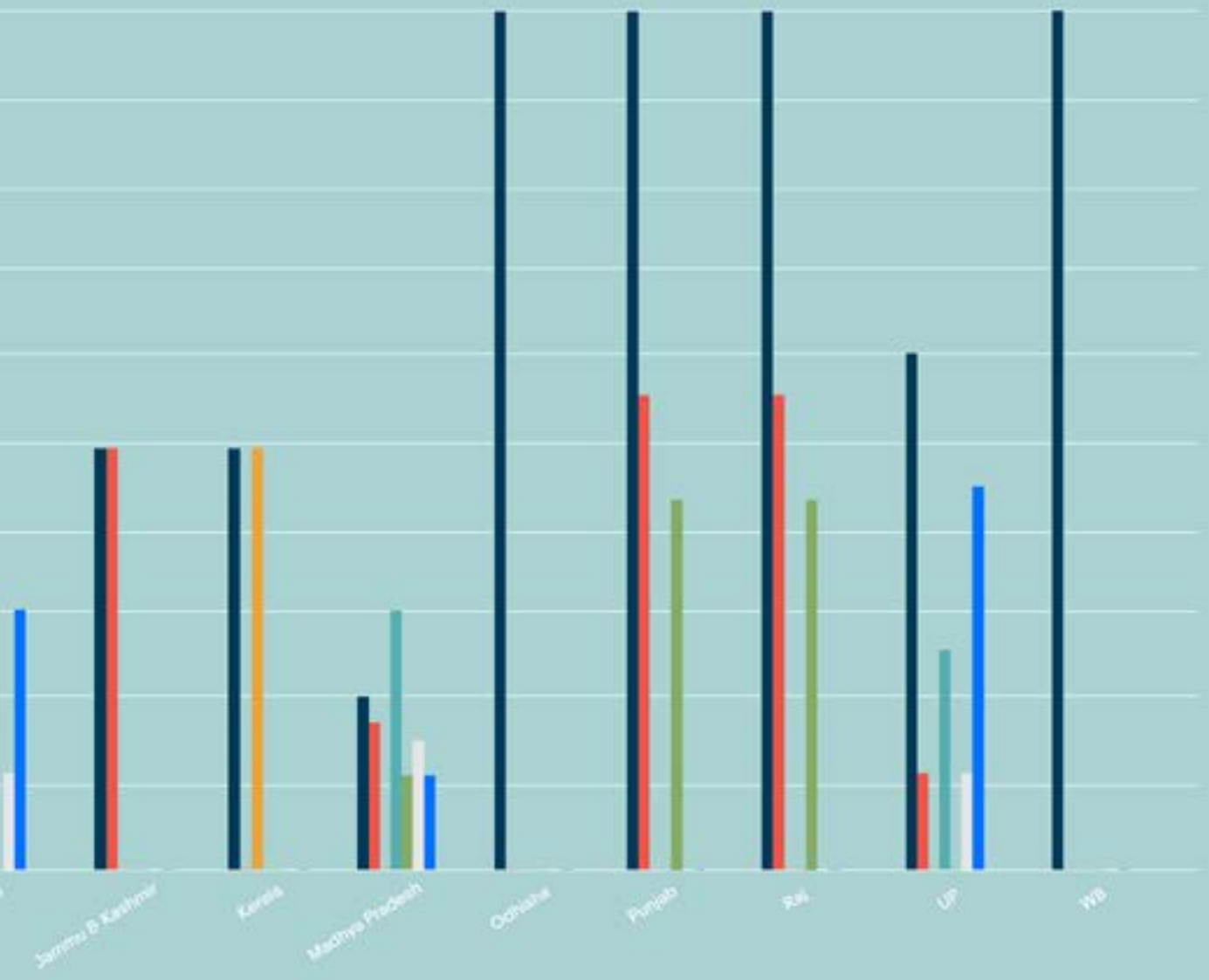
Figure 19: Key Challenges

roduct unsuitable for e-commerce

Poor logistics infrastructure

issues

Poor support by the Government



s faced by MSMEs going online

ANNEXURE-3 OPPORTUNITIES IN IMPORTANT GLOBAL MARKETS

Table 9: Product for B2B market in the USA

CONSUMER GOODS		INDUSTRIAL GOODS		AGRO AND PROCESSED GOODS	
HS code[14]	Product description	HS code	Product description	HS code	Product description
'85	Electrical machinery and equipment	'84	Machinery, mechanical appliances, nuclear reactor	'22	Beverages, spirits and vinegar
'30	Pharmaceutical products	'87	Vehicles other than railway or tramway rolling stock		
'94	Furniture; bedding, mattresses	'27	Mineral fuels, mineral oils		
'71	Natural or cultured pearls, precious or semi-precious stones	'29	Organic chemicals		
'61	Articles of apparel knitted or crocheted	'73	Articles of iron or steel		
'62	Articles of apparel, not knitted or crocheted	'40	Rubber and articles		
'95	Toys, games and sports requisites	'76	Aluminum and articles		
'64	Footwear, gaiters				
'63	Other made-up textile articles				
'42	Articles of leather				
'97	Works of art, collectors' pieces and antiques				
'57	Carpets and other textile floor coverings				

Table 10: Product for B2B market in Japan

CONSUMER GOODS		INDUSTRIAL GOODS		AGRO AND PROCESSED GOODS	
HS code[14]	Product description	HS code	Product description	HS code	Product description
'30	Pharmaceutical products	'27	Mineral fuels, mineral oils	'02	Meat
'62	Articles of apparel not knitted or crocheted	'44	Wood and articles of wood;	'03	Fish and crustaceans
'61	Articles of apparel knitted or crocheted	'76	Aluminum and articles thereof	'10	Cereals
'94	Furniture; bedding, mattresses,	'28	Inorganic chemicals	'12	Oil seeds
'64	Footwear			'24	Tobacco
'42	Articles of leather			'22	Beverages, spirits and vinegar
'95	Toys, games and sports			'13	Lac; gums, resins

[14]The Harmonized System (HS) codes is an international method of classifying products for trading purposes. The Harmonization Code System (HS-Code) is a system of progressively more specific identifiers for a commodity.

Table 11: Product for B2B market in Germany

CONSUMER GOODS		INDUSTRIAL GOODS		AGRO AND PROCESSED GOODS	
HS code[14]	Product description	HS code	Product description	HS code	Product description
'94	Furniture; bedding, mattresses	'27	Mineral fuels,	'08	Edible fruit and nuts
'62	Articles of apparel not knitted or crocheted	'29	Organic chemicals	'22	Beverages, spirits and vinegar
'61	Articles of apparel , knitted or crocheted	'72	Iron and steel	'07	Edible fruit and nuts
'71	Natural or cultured pearls	'76	Aluminum and articles thereof	'12	Oil seeds
'61	Footwear	'44	Wood and articles of wood	'20	Preparations of vegetables
'95	Toys, games and sports	'47	Pulp of wood	'09	Coffee, tea, maté and spices
'42	Articles of leather	'23	Residues and waste from the food industries	'19	Preparations of cereal
'63	Other made-up textile articles	'34	Soap	'03	Fish and crustaceans
'49	Printed books	'68	Articles of stone		
		'69	Ceramic products		

Table 12: Product for B2B market in UK

CONSUMER GOODS		INDUSTRIAL GOODS		AGRO AND PROCESSED GOODS	
HS code[14]	Product description	HS code	Product description	HS code	Product description
'61	Articles of apparel knitted or crocheted	'87	Vehicles other than railway	'08	Edible fruit and nuts
'62	Articles of apparel not knitted or crocheted	'84	Machinery, mechanical appliances	'02	Meat and edible meat offal
'64	Footwear, gaiters	'85	Electrical machinery	'16	Preparations of meat
'33	Essential oils	'27	Mineral fuels	'07	Edible vegetables
'95	Toys, games and sports	'39	Plastics and articles thereof	'20	Preparations of vegeta-bles
		'94	Furniture; bedding,	'23	Residues and waste from the food industries
		'73	Articles of iron or steel	'19	Preparations of cereal
		'48	Paper and paperboard	'16	Preparations of meat, of fish
		'40	Rubber and articles	'03	Fish and crustaceans
		'76	Aluminum and articles		
		'28	Inorganic chemicals		

Table 13: Product for B2B market in France

CONSUMER GOODS		INDUSTRIAL GOODS		AGRO AND PROCESSED GOODS	
HS code[14]	Product description	HS code	Product description	HS code	Product description
'85	Electrical machinery	'84	Machinery, mechanical appliances	'08	Edible fruit and nuts; peel of citrus fruit or melons
'90	Optical, photographic,	'27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral	'02	Meat and edible meat offal
'62	Articles of apparel not knitted or crocheted	'87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	'03	Fish and crustaceans
'61	Articles of apparel knitted or crocheted	'39	Plastics and articles thereof	'20	Preparations of vegetables
'94	Furniture; bedding	'29	Organic chemicals	'04	Dairy produce; birds' eggs; natural honey
'64	Footwear	'73	Articles of iron or steel	'19	Preparations of cereals
'95	Toys, games and sports requisite	'40	Rubber and articles		
'42	Articles of leather	'28	Aluminum and articles		
		'34	Inorganic chemicals		
		'74	Copper and articles		

Table 14: Product for B2B market in China

CONSUMER GOODS		INDUSTRIAL GOODS		AGRO AND PROCESSED GOODS	
HS code[14]	Product description	HS code	Product description	HS code	Product description
'85	Electrical machinery	'84	Machinery, mechanical appliances	'08	Edible fruit and nuts; peel of citrus fruit or melons
'90	Optical, photographic	'27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral stock, and parts and accessories thereof	'02	Meat and edible meat offal
'61	Articles of apparel not knitted or crocheted	'39	Plastics and articles thereof	'20	Preparations of vegetables
'94	Furniture; bedding	'29	Organic chemicals	'04	Dairy produce; birds' eggs, natural honey
'64	Footwear	'73	Articles of iron or steel	'19	Preparations of cereals
'94	Toys, games and sports requisite	'40	Rubber and articles		
'42	Articles of leather	'76	Aluminum and articles		
		'28	Inorganic chemicals		
		'74	Copper and articles		

ABBREVIATIONS

B2B :	Business to Business
B2C :	Business to Consumer
Bn :	Billion
C2C :	Consumer to Consumer
CAGR :	Compounded Annual Growth Rate
CBT :	Cross Border Trade
CD :	Compact Disc
COD :	Cash On Delivery
CSB :	Courier Shipping Bill
E-Commerce :	Electronic Commerce
EDI :	Electronic Data Interchange
EMS :	Express Mail Service
E-Payment :	Electronic Payment
FOB :	Freight on Board
FTA :	Free Trade Agreement
FTP :	Foreign Trade Policy
GDP :	Gross Domestic Product
GVC :	Global Value Chain
ICT :	Information and Communication Technology
INR :	Indian Rupee
IPR :	Intellectual Property Rights
ISP :	Internet Service Provider
IT :	Information Technology
MEIS :	Merchandise Exports from India Scheme
MSME :	Micro Small and Medium Enterprises
SME :	Small and Medium Enterprises
SMILE :	Small and Medium Industries Leveraging Export
SPS :	Sanitary and Phytosanitary Measures
TBT :	Technical Barriers to Trade
TQM :	Total Quality Management
TRIM :	Trade Related Investment Measures
UAE :	United Arab Emirates
UCS :	United Courier Services
UK :	United Kingdom
UPS :	United Parcel Service
USA :	United States of America
USD :	United States Dollars
VAT :	Value Added Tax
WTO :	World Trade Organization

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