

India places curbs on Amazon's sales

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New restrictions will make foreign-owned web retailers more like eBay

BY VINDU GOEL

On Friday, Indian consumers will wake up to an emptier, more expensive version of Amazon's shopping service.

Gone will be iPhones and cheap jumbo packs of Pampers diapers. Fewer varieties of Maybelline cosmetics will be available, and Amazon's own Echo smart speakers will vanish entirely.

In all, more than 400,000 items that account for nearly a third of Amazon's estimated \$6 billion in annual sales in India will probably disappear at least temporarily from the local version of the company's service, as Amazon tries to comply with new e-commerce rules imposed by the Indian government.

The American online retail giant, which had structured its operations carefully to adhere to a 2016 revision to the country's e-commerce rules, said it had asked the government to clarify the new policy and give it an additional four months to comply. "We remain committed to be compliant to all local laws, rules and regulations," Amazon said in a statement.

Barring a last-minute reprieve, Amazon's leading rival in India, Flipkart, which effectively became a subsidiary last year of another American retail giant, Walmart, will also be forced to remove thousands of products from its service, particularly in the apparel category, where it sells many clothing items made by affiliated companies. Flipkart could lose as much as a quarter of its sales in the short term, according to Technopak, an Indian consulting firm.

A spokesman for Walmart, which spent \$16 billion for its controlling stake in Flipkart, declined to comment on the new policy or its potential effects.

The change underscores the risks American companies face in India, which ranked No. 77 globally in the World Bank's most recent survey on ease of doing business.

With a population of 1.3 billion, the country would appear to be an attractive market. But it poses many challenges, including bad roads, low per capita incomes, a cacophony of languages, and a consumer economy that runs largely on cash.

India's millions of shopkeepers and small traders wield tremendous power in votes and campaign donations. And its large corporations, many of them closely tied to the government, are eager to wrest Indian consumers from the

embrace of foreign companies like Amazon, Facebook and Google.

Prime Minister Narendra Modi traveled to Silicon Valley in 2015 to urge tech companies to invest in India.

But with national elections looming in May and growing disenchantment with Mr. Modi's policies, his government has recently championed a vigorous economic nationalism, passing or proposing policies to rein in the power of foreign financial firms like Visa and Mastercard and tech companies like Facebook and Google.

Just after Christmas, it was the retailers' turn. Mr. Modi's administration announced that, effective Feb. 1, foreign-owned e-commerce services like Amazon and Flipkart could not sell goods through affiliated companies. Direct sales to consumers had been banned earlier, but each of the two companies had set up a complex array of related companies to indirectly offer products at low prices with fast delivery.

To continue operating, Amazon and Walmart will now have to turn their sites in India into digital bazaars for independent merchants, becoming more like eBay, which charges for certain services but sells nothing itself.

"People have started to buy China's viewpoint: We need to build domestic assets and domestic companies," said Ankur Bisen, an analyst who leads the retail division at Technopak.

Ashwani Mahajan, a leader of the Swadeshi Jagran Manch, an economic self-reliance organization affiliated with Mr. Modi's political party, praised the new policy, saying it was essential to help small shopkeepers survive against the economic might of global companies that can afford to offer deep discounts.

"I know my next-door shopkeeper," Mr. Mahajan said, echoing arguments heard in the United States when Walmart was battling Main Street retailers. "I know his family. I don't know who is Amazon, who is Flipkart. For the survival of these two entities, I can't put the livelihood of my country at risk."

Snapdeal, an Indian online marketplace that was hurt by earlier price wars with Amazon and Flipkart, also cheered the policy changes while urging the government not to grant the companies more time to comply.

Indian consumers may pay a price for such protectionism. A survey of common products currently available on Amazon's Indian site suggests that after sales by its affiliated companies are banned, many products will disappear and others will become more expensive because they will only be sold by small merchants who lack the clout to negotiate low wholesale prices.

Senior officials of the commerce ministry, which issued the new rules, did not respond to requests for comment.



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An Amazon order and collection point in Tumakuru, India. About 400,000 items will probably disappear from the company's website in the country because of new rules.