

The Ecommerce U-turn*

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Recently Congress President Mallikarjun Kharge quipped that the ‘U’ in UPS (Unified Pension Scheme) stands for U-Turn. While that may be seen as stretching interpretative liberty, he was touching a raw nerve. Whether it be lateral entry into the civil services or the Waqf (Amendment) Bill, the current Modi-led government in which the BJP and the NDA must share power with outside partners, seems to be learning the art of coalition politics on the job. Accustomed to brute majorities that allowed them to ‘bulldoze’ policy change, the inclination of the BJP’s leadership is to push ahead with its preferred policies without considering the views of coalition partners. To their surprise they are encountering opposition from these ‘allies’, which, in the absence of a majority, forces retreat.

But a recent partial U-turn on the part of Union Commerce Minister Piyush Goyal on a public policy statement speaks of more than the need to respect the views of coalition partners. Speaking at an event organized by not-for-profit Pahle India Foundation, to release a report they had prepared on the impact of e-commerce on employment and consumer welfare, Goyal decided to distance himself from the report’s conclusion that e-commerce had significantly boosted employment in the country. Instead, he warned that e-commerce was eating into the retail sales volumes of and displacing small retail business, by taking over the business to consumer delivery market in high margin products which are the backbone of small-retailer profits.

To appropriate that market, large, foreign, e-commerce platforms like Amazon, were resorting to a range of illegal and predatory practices, he declared. Illegal because, foreign e-commerce firms are according to the minister overstepping the limits set on them by FDI policy. They are meant to be platforms to connect vendors and buyers, and not themselves produce and/or stock and sell products to consumers. But, Goyal argued, and there is evidence to back that view, many of these firms are setting up dummy Indian vendors to do the job of selling products for them, and the algorithm confronting the users of the platform drives them to these favoured vendors.

But the effort to gouge the market does not end there, according to Goyal. Consumer choice is sought to be influenced by making available these products at huge discounts covered by capital brought in by these deep-pocketed foreign firms in the name of “investment”. What this does is build a loyal base of buyers at the expense of demand for products sold by small brick-and-mortar retail outlets.

What was interesting was the focus on Amazon in the minister’s take. It had recorded a loss of Rs.6,000 crore last year he said, asking how a mere platform could make such huge losses, if it was not engaging in predatory pricing. To support that, they were bring in resources from abroad, acquiring products and selling them at a huge loss to build customer base. To boot, according to Goyal, “they” paid Rs. 1,000 crore to “professionals”, which he says must be all available senior lawyers being hired to keep them from arguing cases filed against the practices of the company.

What he failed to mention is that in the retail space in general and ecommerce in particular, there are big domestic players, especially the likes of Reliance, that are eroding the market share of small retailers. The issue is not just foreign ecommerce vs domestic small retail, but big organized retail (foreign and domestic) vs small retail. In fact, by combining their deep pockets and centralized organization, with the control of the digital communications and payments space through Jio, and the use of the small retailer as last-mile vehicle of delivery, Reliance is attempting to build a retail behemoth, that few can challenge. The dominance of e-commerce by the likes of Amazon and Walmart-controlled Flipkart is an obstacle to that plan. In the circumstances, an attack on foreign-commerce players like Amazon is also a defence of Indian big business.

But clearly Goyal had gone too far and was possibly pulled up. Hence, soon after the first set of statements, he came out with a clarification that the Modi-government wants to encourage foreign investors, so long as they are “fair” and “honest,” and to embrace the technologies they bring, and that he recognizes that e-commerce brings tremendous benefits to consumers like speed and convenience.

It must be said to the minister’s credit that he was not completely off the mark in his first remarks. Big retail is, as is to be expected, displacing small retail. The points he makes about the functioning of entities like Amazon and Flipkart have been made in the past. Amazon for example was alleged to have used subsidiaries like Cloudtail India and Appario Retail to operate as vendors and managed through them to win for itself a large share of sales on its own e-commerce platform. Interestingly, in 2021, it was the ministry of consumer affairs, then headed by Piyush Goyal, that attempted to rein in these operators through amendments to the Consumer Protection (E-Commerce) Rules. But foreign players found ways, such as diluting their stake in or exiting from formal ownership of firms operating as vendors, to monopolise sales through their own ‘marketplace’.

Given that earlier attack on foreign-controlled online marketplaces, it is surprising that Goyal is still stuck spewing anger at the e-commerce majors. The government can, if serious, through many routes, rein in these firms and keep them in line. But it is constrained by its own multiple objectives. It wants to be seen by international capital as an adherent to neoliberal openness, welcoming foreign capital and relying on foreign investment to convert itself into a manufacturing hub. It wants to promote friendly Indian business groups, like Ambani and Adani, which have a major foothold in the retail space. And it wants to appease a long-term vote bank of the BJP, consisting of small business in a wide range of areas including retail. In the evolution of the policies of BJP-led governments under Narendra Modi, the relative emphasis on each of the objectives changed. It initially moved in favour of being seen as open to foreign capital, while aggressively backing a couple of chosen domestic business groups. But now, with results in the last election showing that it needs to restore the waning support of its vote banks, it has possibly decided to appease the small business interests that have been major losers, especially after demonetization and the introduction of the cumbersome goods and services tax regime.

Driven by that new emphasis, and in his enthusiasm to revive a battle he had earlier partly led, Goyal seems to have gone too far. Hence the U-turn. Riding on the backs

of small retailers to attack foreign firms and, consciously or otherwise, promote the interests of domestic big business, is not an easy task.

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