
“In South India, Amazon Builds Its Largest Office Yet”

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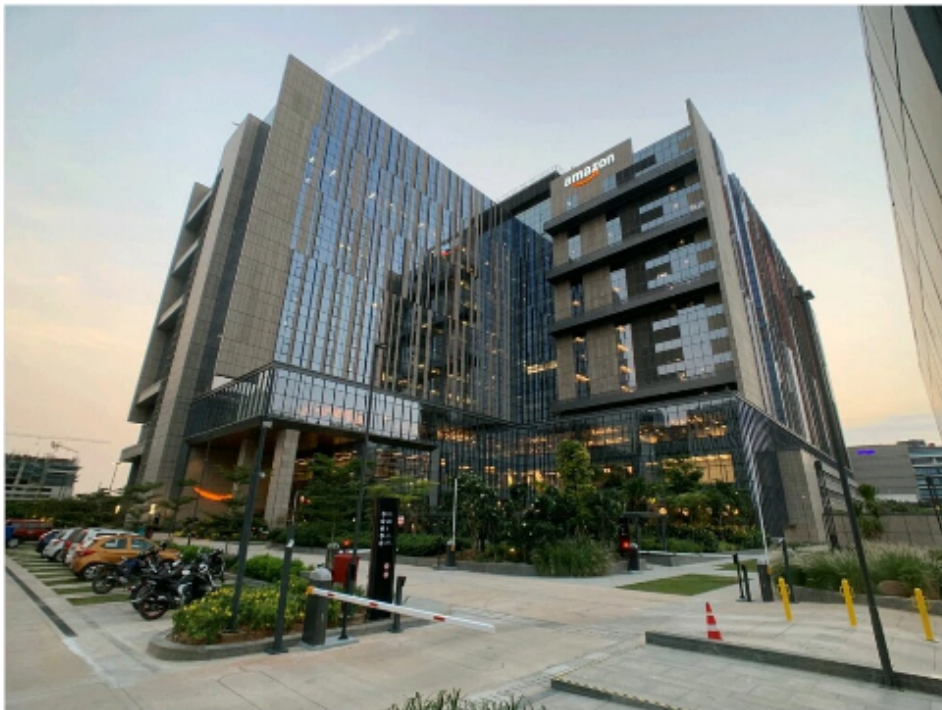
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The Article

* Note that the commentary only focuses on the **highlighted** paragraphs of the article below.

In South India, Amazon Builds Its Largest Office Yet

As Amazon signals its growth in India with its office in Hyderabad, its largest in the world, local business owners are pushing back.



Amazon's new office in Hyderabad, India, is 1.8 million square feet. The office and its campus are equal to nearly 65 football fields. Amazon India Blog



By Geneva Abdul

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The austere building is hardly distinguishable in the landscape of glass and concrete buildings making up Asia's Silicon Valley, as Hyderabad, India, is known. It is one of Amazon's latest developments, the online retailer's largest office building in the world.

With plans to cement its place as the center of gravity around which online retail revolves, Amazon has turned to India, the world's fastest-growing market for internet users. And it has picked Hyderabad, a city of nearly 10 million in India's south, as its base of operations there.

But the project faces challenges, including pushback from local businesses and politicians.

Hyderabad has emerged in a few short years as a technology and financial center and a beacon for young talent. The city, which saw the biggest surge in tech office space last year, is already a base in India for other multinational tech companies such as Facebook, Google, Microsoft and Apple, which spent \$25 million for the development of its offices there.

“Hyderabad is a known software tech talent center, and the government has been an enabler for us to have a campus this size,” said Minari Shah, an Amazon spokeswoman. “This is an important confirmation of how India continues to be important to Amazon.”

Over the last decade, the technology behemoth has woven itself into the fabric of Indian life. And now, four years after construction began, the Hyderabad office, Amazon's first fully owned office outside the United States, joins 40 other offices, 67 shipping centers, 1,400 delivery stations and a work force of more than 60,000 (plus 155,000 contractors) in the country.

The record size of the building — 1.8 million square feet — and the total campus area are equal to nearly 65 football fields. They have come to symbolize a defining feature of India's booming tech industry: the inexorable presence of international tech companies.

When Amazon's founder, Jeff Bezos, visited India in January, he was met with an antitrust case by Indian regulators, who are investigating Amazon and the Indian e-commerce giant Flipkart, which is owned largely by Walmart.

India bans foreign direct investment in retail, a shift from policy in the United States and Britain. By law, Amazon and other foreign-owned e-commerce firms are required to be neutral marketplaces reliant on independent sellers.

But Praveen Khandelwal, founder and general secretary of the Confederation of All India Traders, which oversees 70 million traders and 40,000 trade associations, argues that the firm has hurt domestic trade, resulting in the closure of thousands of homegrown businesses across the country.

Amazon's new Hyderabad office, he said, is merely a way to "push for control and dominance over Indian retail trade in a more structured way." Mr. Khandelwal led protests against Amazon's trade practices this year.

India's retail regulator is investigating Amazon over allegations that it is using deep discounts and preferred sellers, said Satish Meena, a senior analyst for the global technology research firm Forrester.

"There are loopholes they're exploiting; everyone knows that," Mr. Meena said.

The challenges emerging in India echo stories in the United States, where American tech giants have squeezed smaller rivals and business owners. Amazon is facing antitrust charges in the European Union, and Mr. Bezos and other tech titans were grilled by U.S. lawmakers in July about their anticompetitive practices.



Amazon's 15-story office in Hyderabad is home to 7,000 employees out of an expected work force of 15,000. Amazon India Blog

Amazon's 15-story Hyderabad office opened last year. It features prayer rooms, a small synthetic cricket pitch, 49 elevators, a helipad and a cafeteria open 24 hours a day on a campus that, according to the company, is made of 2.5 times more steel than the Eiffel Tower. It's home to 7,000 employees out of an expected work force of 15,000, largely comprising technology teams focused on using machine learning and software development to innovate services — such as Amazon Pay's cash load service for digital transactions in a country with 190 million citizens that do not use banks — as well as customer service workers.

Representatives for Amazon declined to comment on the cost of the development, but revealed to Bloomberg that it cost “hundreds of millions of dollars” to build. (The campus is Amazon's largest, but the company plans to open a second headquarters in Arlington, Va., which could be as large as eight million square feet.)

Amazon and Flipkart bill themselves as e-commerce marketplaces, matching buyers with independent sellers. That has enabled Amazon to sell products by sellers such as Cludtail, at prices lower than independent sellers.

The impact of Amazon's strategy has been noted. For the past couple of years, Satinder Wadhwa has struggled to keep his business alive in Greater Kailash, South Delhi, amid the growth of online retail. His specialty watch store, Time & Style, used to be filled with throngs of locals. Now, Mr. Wadhwa estimates he gets half as many customers.

"People have stopped coming to the market; that means they're buying online," Mr. Wadhwa said. "If they're getting a better price and delivery at home, why will they come to us?"

It's a question many business owners across India are asking. "Amazon is financially strong, their reach is strong," Mr. Wadhwa said.

Since construction on the Hyderabad office began in 2016, Amazon made some promising appeals to locals: It started an Amazon Fresh store for grocery delivery in Bangalore. It also started Prime Reading with books in Hindi and Tamil, and introduced an online pharmacy amid the pandemic.



Construction on Amazon's Hyderabad office began in 2016. It opened last year, joining the company's 40 other offices, 67 shipping centers and 1,400 delivery stations in India. Amazon India Blog

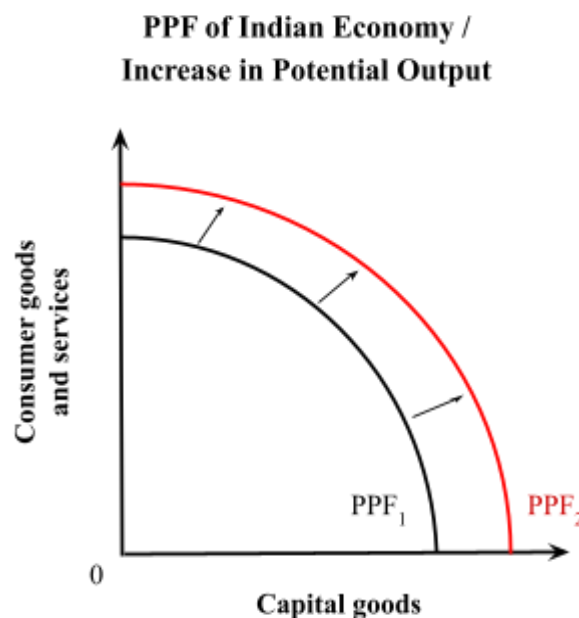
The retail behemoth's desire for expansion is easy to explain. India's e-commerce industry is still in its infancy, nearing 120 million online shoppers in 2018 out of a population of more than one billion.

In 2018, Amazon was the second-largest online retailer in India, trailing Flipkart, with 32 percent market share (compared with 41 percent in the United States). And analysts at Forrester predict e-commerce sales in the country will reach nearly \$86 billion by 2024.

Commentary

This article is about Amazon opening its largest office in Hyderabad of India, directly investing in e-commerce of this fast-growing economy. This is an example of foreign direct investment (FDI), referring to an investment made by a firm in one country into the business of another, gaining some or full control.

India represents a huge growing market in Asia, which is the reason why Amazon is investing there to access this market. The 7th highlighted paragraph of the article states that India's e-commerce industry itself is still in an infancy stage, providing only about 120 million of its more than billion population. Hence, this FDI can satisfy the rest of the demand at the same time of generating income, tax revenue, and employment to the country, leading to economic growth in the short term, which might contribute to economic development in the long term. The PPF diagram below illustrates this situation:

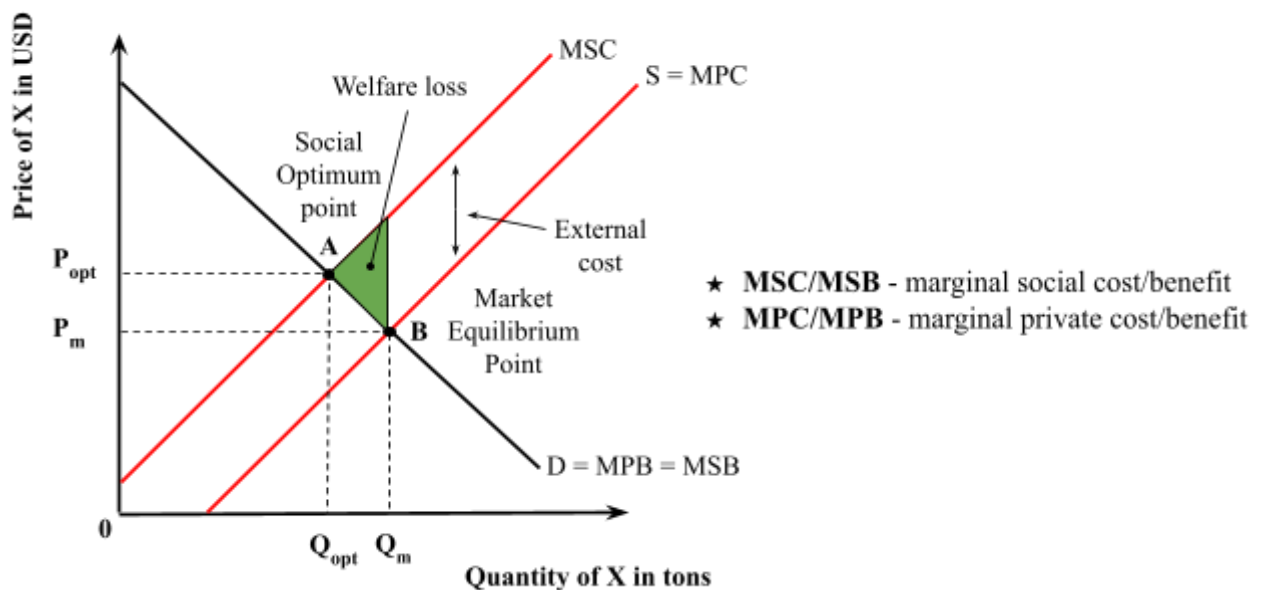


Since investment refers to spending on capital goods, as it increases there will be an increase in at least the *quantity* of capital. The capital is a factor of production, so as a result,

the potential output of the economy, shown as PPF_1 , shifts out to PPF_2 , generating economic growth.

However, the government must take into consideration the possible negative outcomes the company might create in the long run while producing and delivering. The examples include but are not limited to depletion or overuse of resources, environmental and respiratory health issues. Therefore, if not regulated carefully, it might have negative costs to locals and the environment, and we can show this in a diagram of negative production externalities:

Negative Production Externalities and Welfare Loss Diagram



Because of the extra cost to the society and environment, the $MPC < MSC$. The company concerning just about its private costs produces Q_m at P_m , instead of producing Q_{opt} at P_{opt} , which creates the social optimum point where $MSC = MSB$. Hence, there occurs a market failure and welfare loss of Q_{opt} to Q_m to the society, shown as a shaded triangle (\blacktriangleleft), where $MSC > MSB$.

This direct investment, through economic growth, can spur development in many ways possible, improving living standards. Firstly, the 6th highlighted paragraph states that a fully built Amazon office provides 15,000 jobs. This might enable some poor locals to escape poverty, and middle-income people to have more disposable income, which then they can spend on their health, education, or leisure activities, directly improving their living standards. Similarly, more employment means less government spending on unemployment benefits, so the money can be spent elsewhere. Secondly, the government can generate huge amounts of tax revenues, which then can be spent on providing merit goods and public services such as education, healthcare, and pensions, solve those environmental problems or pay some of their external debts. Lastly, if it leads to growth, then it will attract further investment, securing the sustainability of growth and development, *ceteris paribus*, everything being equal.

On the other hand, there might be several disadvantages associated with opening up to this MNC, which might hinder the development. Some of the possibilities include environmental damage and health issues, as described earlier; damage to domestic infant businesses who can't compete with Amazon leading to job losses; later on, the company might shift to more capital intensive production rather than labor-intensive, which creates further unemployment; it might bring its management team and provide locals only with low-paid jobs and so on.

The winners, in this case, include Amazon benefiting from the fast-growing market, cheap labor, and available resources; the government gaining huge tax revenues and paying less for unemployment benefits; people, who benefit from government spending generated from tax revenues; people, who get jobs directly or indirectly from this MNC; and consumers who will have more variety of products at cheaper prices. The losers are local infant

businesses giving up their profits, and local people who might suffer from health issues, environmental pollution, or lose their jobs in those local businesses.

The government can address these forthcoming issues by strengthening the regulations over the company, such as imposing a carbon tax encouraging them to switch to more renewable sources; empower the labor unions so they can protect the workers' rights, or investing in local businesses.

Overall, the extent to which this direct investment might be helpful or damaging to the development depends on the ability of the government to regulate its actions. Therefore, the government should let the company run its business, bringing in economic growth, but focus more on its regulation policies.

Reference to article:

Abdul, Geneva. "In South India, Amazon Builds Its Largest Office Yet." *The New York Times*, 25 Aug. 2020, www.nytimes.com/2020/08/25/business/amazon-hyderabad-india.html. Accessed 21 Feb. 2021.