

COVER STORY

Package Deal

For years, Amazon recruited Chinese sellers aggressively. But many Chinese sellers' bad practices now have the e-commerce giant on the defensive.

BY ANASTASIIA CARRIER — SEPTEMBER 19, 2021



Illustration by Sam Ward

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In Shanghai, on December 11, 2019 — just weeks before a mysterious virus would be discovered 500 miles to the west — more than 10,000 people crowded into the National Convention Center's large dark hall. As the crowd waited for Eric Broussard, Amazon's vice president of international marketplaces and retail, to make his keynote address, the screen over the stage projected the gathering's slogan: "A World Without Boundaries."

It was the annual "Cross-Border Summit for Amazon's Global Store," a conference for international merchants who sell on Amazon's e-commerce platform. Amazon had just recently announced the closure of its Chinese store — admitting defeat after 15 years of trying to [win customers from](#) domestic e-commerce giants like Alibaba and JD.com — but Amazon's relationship with Chinese sellers had never been better. At the time of the summit, about [46 percent](#) of the 10,000 top sellers on the platform were based in China. Amazon wanted more.

On the stage in Shanghai, nine senior Amazon executives explained how the company could help Chinese manufacturers and sellers access the global audience easily and cheaply. There were workshops on how to improve sales, Amazon recruiters offering networking opportunities, and successful Chinese sellers presenting their logistics solutions to aspiring Amazon merchants.

In his keynote, Broussard encouraged the merchants to think globally and expand their business not just in North America, as many of them already did, but also in Europe.

“Regardless of where you are, you can engage the world’s customers and have direct relationships with them at low costs,” Broussard [said](#).¹

The event was something of a pinnacle for Amazon’s efforts in China: the company’s largest such summit ever held in China — a record that hasn’t yet been beat due to the Covid-19 pandemic — and the culmination of an aggressive multi-year recruitment effort. As the manufacturing basket of the world, China has factored heavily into Amazon’s success in recent years, unlocking access to the lowest possible prices and a wide variety of products.

“Chinese sellers are the hidden secret of Amazon,” says [Juozas Kaziukėnas](#), founder and CEO of Marketplace Plus, an e-commerce intelligence firm. “Chinese sellers make up a lot of Amazon’s sales, but Amazon rarely mentions them.”

That is, in part, because Amazon has had its hands full trying to rein in many Chinese sellers’ bad practices.² As Amazon’s recruitment efforts in China took off, there has been a concurrent rise in reports of Chinese merchants peddling counterfeit, poorly made and even dangerous goods on the platform. And while there are bad actors from every country on Amazon, Chinese sellers have developed a reputation for routinely manipulating reviews — and thus Amazon’s recommendation algorithm — by buying good reviews to promote their own products as well as negative ones to sabotage their competition.

“When Amazon decided to go to China to court sellers, they opened up a Pandora’s box,” says Jason Lee, co-founder of FBAFlippers, a brokerage that helps third-party sellers from China sell their Amazon business to Western buyers.

Trying to close the box has proven difficult, like a game of whack-a-mole. In addition to the sheer number of Chinese sellers, many also break Amazon’s rule of having just one account, allowing them to evade punishment. If Amazon suspends a seller, the seller will simply continue using their other accounts. In other words, for many Chinese merchants, it has been as Amazon promised: a world without boundaries.



Eric Broussard, Amazon’s vice president of international marketplaces and retail, at the 2019 Global Selling Summit in Shanghai. A coterie of Amazon executives spoke at the conference in an effort to incite greater numbers of Chinese sellers to join its platform. *Credit: Amazon*

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— *Juozas Kaziukėnas, founder and CEO of e-commerce intelligence firm Marketplace Plus*

But that could be starting to change. In May, a massive [data breach](#) of a third-party server that is believed to be in China exposed thousands of Chinese sellers buying reviews. Since then, the Shenzhen Cross-Border E-Commerce Association has said that at least [50,000](#) Chinese-owned accounts were suspended from the platform, including some of the biggest Amazon-native Chinese brands, with an estimated total loss of sales of \$15.4 billion.³ Last week, in its first direct admission of the crackdown, Amazon acknowledged it had [banned](#) more than 600 Chinese brands operating over 3,000 different seller accounts.

“Customers rely on the accuracy and authenticity of product reviews to make informed purchasing decisions and we have clear policies for both reviewers and selling partners that

prohibit abuse of our community features,” an Amazon spokesperson told *The Wire*. “We suspend, ban, and take legal action against those who violate these policies, wherever they are in the world.”

[Allen Fung](#), a former U.S. general manager of Chinese electronics company Sunvalley Group, says that when the suspensions first happened, he thought it would be temporary. “Sellers get suspended all the time. Amazon actually did a pretty decent job policing their platform for the past 10 years,” he says. “But recently, maybe because of the surge in demand from Covid, it just got out of control. Amazon had to take severe steps — like permanently blocking a lot of its top sellers — because they want to set an example.”


Fung’s old company, Sunvalley Group, was once an Amazon darling. It was even [profiled](#) by *The New York Times* in 2017 as an example of a Chinese company succeeding on Amazon. But several of Sunvalley’s brands — such as Ravpower and VAVA — disappeared from the Marketplace [in May](#) after they were [caught](#) adding slips of paper to orders promising \$35 for a review. The fact that the company has still not been allowed back shows Amazon is serious about changing the culture among its Chinese sellers, Fung says.

Kaziukėnas also thinks the suspensions and bans might signal a turning point. “It’s fair to say that many of the suspended sellers have been violating Amazon’s terms and conditions for a while,” he says. “So the question is why Amazon decided to act now.”

Indeed, the \$1.7 trillion company seems to be on the defensive. In addition to the data breach, Amazon’s reputation has taken a hit from regular press reports documenting counterfeit goods on the site, and law enforcement and government agencies in both the U.S. and the UK have also started putting pressure on the company. Now, industry observers say, the e-commerce giant has to figure out how to better manage its Chinese sellers or risk losing one of its biggest advantages.

‘THIS IS GOING TO BE BIG’

Amazon started courting China-based merchants in 2013, but it became a priority around 2015. Guided by the desire to “cut the middlemen” and recruit manufacturers directly, the company hired a team in Shanghai to translate its “Seller Central” platform into Mandarin. Amazon also provided around-the-clock customer service to Chinese sellers and launched its [first](#) ever online Amazon Seller University in order to provide free online training. Most importantly, teams of Amazon recruiters across the country courted both Chinese manufacturers and merchants to sell on the platform.

“Our recruiting numbers are accelerating... going from 15K sellers to 50K sellers by the end of the year,” Sebastian Gunningham, a senior vice president of Amazon Marketplace, wrote in a 2015 internal [email](#) . “One of the themes is Chinese factories who made stuff for Walmart and the likes for the past 20 years now realize they have [a] shot at building a brand themselves and selling directly to the world, without the intermediary... and we are that vehicle...this is going to be big.”

Although the Chinese government is typically skeptical of Western businesses targeting its consumers, Amazon was offering something unique: the opportunity for Chinese sellers to target international consumers. Beijing [cheered](#)  on Amazon’s efforts and encouraged Chinese enterprises to engage in international trade through e-commerce. The government’s 2016 “Guiding Opinions to Promote Healthy and Rapid Development of Cross-Border E-commerce” strategy offered financial support to domestic companies engaged in international e-commerce while municipal governments offered administrative resources. After Amazon held its 2018 summit in Ningbo, an industrial hub in Zhejiang Province, one of the local government officials praised the company for boosting Chinese exports and helping “the local companies go global.”

One of the biggest challenges, however, of going global is logistics. At first, Chinese products weren't reaching the doors of customers in North American and European countries quickly enough. With its emphasis on a great customer experience, Amazon wasn't thrilled about the weeks it was taking for packages to arrive from China. So, it opened up and started heavily promoting its Fulfillment by Amazon (FBA) program to Chinese sellers. The program allows sellers to cheaply store their products in Amazon warehouses in the U.S., at which point Amazon handles delivering the orders, ensuring they arrive within days.

"This was a game changer for Chinese sellers," says Kaziukėnas. "Without FBA, the number of Chinese sellers on Amazon would be 10 times smaller."



Amazon's FBA program allows sellers to store their products in Amazon warehouses, leaving Amazon to handle the distribution of orders, ensuring they arrive within days. *Credit: Amazon*

The arrangement seemed to work for everyone: low-cost products from China flowed to eager consumers, and the e-commerce platform making it all possible prospered. From 2015–2018, the company's [revenue](#) surged from \$103 to \$232 billion.

Opening up the FBA program to foreign sellers "was one of the 'aha' moments," says [David Glick](#), chief technology officer of Flexe and a former vice president of Amazon Fulfillment Technologies. "The fulfillment centers are optimized for outbound, for getting goods to customers' homes fast. So, if the fulfillment looks just like it's coming from a seller in the U.S., we could take advantage of leveraging sellers from all over the world, including China. And that allowed us to have the low prices and huge selection with the convenience of having things delivered in one to two days."

But while Amazon's fulfillment services have been hailed as a logistical wonder, there are downsides, consumers soon learned, to cutting out the middlemen — namely, quality control. The more Chinese merchants signed up for the platform, the more the issue of counterfeit and cheap products spread.

"Amazon's whole business model is about distribution, not sourcing, so they never developed capabilities like auditing or qualifying suppliers," says [Robert Handfield](#), professor at North Carolina State University who has studied [Amazon's struggles with counterfeits](#). "As a result, they sell anything on their website. Their whole model is 'buyer beware' — you have to pay attention for yourself."

Amazon's first big China controversy was in 2015, when dozens of hoverboards sold on Amazon Marketplace caught fire and caused material and physical damages. Many of the defective boards were sold by third-party sellers from China. Then, in 2016, the shoe brand Birkenstock stopped selling on Amazon citing counterfeits as the reason. From fake Apple accessories to pacifiers that were coming apart and [choking babies](#), Amazon consumers were learning the hard way that they needed to pay closer attention to their purchases.



In January 2016, a fire started by a defective hoverboard purchased on Amazon burned down a family's home in Nashville, Tennessee. The homeowners subsequently sued Amazon for \$30 million. Amazon settled the case for an undisclosed sum in 2020. Credit: Nashville Fire Department

But Amazon's number one method to do that — customer reviews — was also being corrupted. Reviews are so central to a seller's performance on Amazon that a whole cottage industry of services has popped up to help secure good ones. In Facebook groups, “reviewers” match with sellers whose products they are interested in and then exchange a positive review for reimbursement.

“These fake reviews are very similar to real, organic reviews,” says [Davide Proserpio](#), a researcher from University of South Carolina who co-authored a recent study on Amazon reviews. “They are verified, which means the reviewer purchased the item through Amazon, and generally they are high quality reviews with descriptions and photos that are difficult to flag as fake.”

While Amazon has stepped up efforts to combat fake reviews, observers say this cottage industry is evolving to stay one step ahead.

“People are now trying to make it look like their competitors are faking positive reviews so their account gets suspended by Amazon,” says [Chris McCabe](#), a former investigator for Amazon who owns ecommerceChris, a consulting business that helps sellers fight unfair competition. “That's what is really troubling — not just that there's review abuse, but there's brand abuse. Brands are attacking and defacing each other.”

For some brands, Amazon's inability to stop such fraudulent behavior has been catastrophic. In 2018, Kevin Williams, co-founder and CEO of Brush Hero — a water-powered rotating brush that was featured on the reality TV show “Shark Tank” — worked relentlessly with Amazon to try and get Chinese counterfeits of his product removed from the site. Because of the counterfeit's poor quality, Brush Hero was accumulating a mountain of negative reviews.

“I found that the individuals on the lower leadership level in Amazon absolutely cared. They got it, they understood the issue, they just couldn't do anything about [it]. They had no power,” says Williams.

Because of the negative reviews, Brush Hero's overall sales dropped not only on Amazon but offline as well. After months of fighting, Williams says he and his partner let go of their nearly 20 employees and sold the company for a bargain price.

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As Handfield at North Carolina State University notes, counterfeits hurt companies even if they don't realize it. The estimate for counterfeit products sold online ranges between hundreds of billions to [trillions](#) of dollars, and in 2019, 83 percent of the counterfeit and pirated goods seized by the U.S. Customs and Border Protection came from mainland China and Hong Kong. While there's no way to know what percentage of products sold on Amazon are counterfeits, Handfield says a "very rough, but conservative estimate" is 10-15 percent.

As an intermediary, Amazon has said it is not legally responsible for counterfeit or dangerous products sold by the third-party sellers on its Marketplace. Just as owners of a mall wouldn't be liable for damages caused by a product sold by a store renting space in the mall, Amazon has argued, it shouldn't be liable for the products sold on its site. This defense seemed to work until, in 2015, a hoverboard caught fire and caused burns to a California woman named Kisha Loomis who rushed it out of the house.

The court sided with Loomis, and this spring, California's Court of Appeal reaffirmed the judgment. Citing Amazon's communication of delivery delays and returns processing, the justices wrote, "We are persuaded that Amazon's own business practices make it a direct link in the vertical chain of distribution under California's strict liability doctrine," the justices decided.

Given how difficult it can be to enforce legal claims against Chinese sellers, government agencies are also starting to pressure Amazon to assume more responsibility for what happens on its platform. In July, the U.S. Consumer Product Safety Commission (CPSC) [filed a complaint against](#) Amazon that said it should stop selling, and be responsible for recalling, dangerous products sold on its Marketplace. The regulator is seeking recognition that Amazon is a distributor under federal law, which would [open](#) it — as well as other marketplaces like Facebook — to liability for fraudulent and dangerous goods.

"We must grapple with how to deal with these massive third-party platforms more efficiently, and how best to protect the American consumers who rely on them," said Robert Adler, acting chairman of the CPSC in a press [release](#).

When it comes to fake reviews, the Federal Trade Commission has reportedly been [goading](#) Amazon to take the problem more seriously. And in the UK in June, the Competition and Markets Authority [launched an investigation](#) into the question of whether Amazon, among other tech giants, is doing enough to take down fake reviews.

Amazon, presumably seeing the tide turning against it, was quick to change its tune from the "mall" defense. In August, the company announced a new policy that would allow customers to file claims under \$1,000 for property damage or personal injuries caused by the defective products sold on the Marketplace. Notably, the new policy would not seek reimbursement from the businesses responsible for selling the defective product — seemingly turning Amazon into the middleman it was so keen to cut out.

'A FLYWHEEL OF FRAUD'

Last July, in a half-empty room in a congressional building on Capitol Hill, masked members of the Subcommittee on Antitrust, Commercial, and Administrative Law questioned the CEOs of Amazon, Google, Facebook and Apple over a video call. The focus of the [hearing](#) was the companies' anti-competitive practices, but the legislators couldn't resist bringing up the quality of products sold on Amazon.

“Why isn’t Amazon more aggressive in ensuring that counterfeit goods are not sold on its platform,” Rep. Hank Johnson of Georgia asked Jeff Bezos, founder and then-CEO of Amazon.

“This is an incredibly important issue and one we work very hard on,” Bezos said over the video screen, acknowledging the problem publicly for the first time. “Counterfeits are discouraged, and they are a problem that doesn’t help us earn trust with customers.”



Then-Amazon CEO Jeff Bezos testifies before the House Subcommittee on Antitrust, Commercial, and Administrative Law, July 2020. Credit: [House Committee on the Judiciary](#)

To discourage counterfeits and other forms of fraud over the years, Amazon has come up with several programs. In 2016, it launched Transparency by Amazon, which allowed brands to buy a unique barcode that would help separate their products from counterfeits. In 2018, Amazon Brand Registry launched, allowing brands to register their trademarks and access tools to easier search and report brand infringement. In 2019, it introduced Amazon Project Zero, which uses machine learning to identify fraudulent listings and provides third-party sellers tools to remove fraudulent listings from the Marketplace. And in 2020, it established a Counterfeit Crime Unit program, which [partnered](#) with the U.S. government’s National Intellectual Property Rights Coordination Center to stop the flow of knockoffs on the platform.

Most recently, to weed out sellers who abuse the Marketplace, Amazon has tightened its registration rules — in addition to requiring identity verification, phone number, business address and a chargeable credit card, Amazon started making video calls to new sellers and sending [postcards](#) with a confirmation number to verify the address provided is accurate. In theory, this should make it harder for Chinese-sellers to open multiple accounts or disappear if law enforcement is enquiring about them after their products cause trouble, but it’s too early to judge the impact.

All told, Amazon [claims](#) to have spent \$700 million and hired 10,000 people to fight fraud last year, according to the company’s first Brand Protection report released in May. The report also said that Amazon stopped 10 billion suspect listings from ever being published.

But in spite of these efforts, counterfeits and fraudulent behavior have continued. In August, Amazon and GoPro filed a [joint lawsuit](#) against seven Chinese nationals and two entities for selling counterfeit GoPro accessories on the Marketplace. [Reports](#) of knock-off car seats, gloves and water bottles have [proliferated](#), as have complaints about [questionable](#) N95 masks from [China](#) during the height of the Covid-19 pandemic. Some big brands, like Nike in 2019, have even stopped selling on Amazon entirely, citing concerns about the lack of control Amazon has over its third-party sellers and fake goods.

Chinese sellers, meanwhile, have continued to flock to the platform. In January of this year, an estimated [75 percent](#) of new sellers on Amazon Marketplace were from China, a significant increase from the year before, when China-based sellers represented just 47 percent of new sellers.

Given Chinese seller’s association with counterfeit products and review manipulation, some critics have argued that online retailers like Amazon should be required to disclose the country of manufacturing on their listings.

“Any product description that’s on Amazon is rich with detail about the colors, the sizes, the materials. What is often missing is a specific description of where that product was made. And to me that’s just wrong,” says Scott Paul, president of the Alliance for American Manufacturing, which supports a recent bill called the Country of Origin Labeling Act.

But most products, even those sold by U.S. retailers, are made in China, which could make such a label meaningless. Amazon and other online marketplaces have strongly [opposed](#) the bill.

Others, like Handfield at North Carolina State University, think Amazon should be auditing its third-party sellers and doing random inspections of its distribution centers. “And at the end of the day,” Handfield says, “they’re not verifying the product before they sell it on their website.”

But Amazon’s sheer size makes such due diligence difficult.

“There are [1.5 million](#) sellers with an active listing on Amazon,” notes Jason Boyce, a co-author of *The Amazon Jungle* and a former Top 200 seller on Amazon who now helps businesses sell on the platform. “That’s a lot of sellers and listings to police.”

Amazon’s size also makes weeding out fake reviews a Herculean task. Proserpio’s study found that it takes Amazon up to 100 days to remove a fake review after it has been posted. But as Chris McCabe, the former investigator for Amazon, says, “Some delays are permanent — the reviews are still up even after we help sellers report to Amazon. That’s really the issue, it’s totally inconsistent.” The delays contribute to the growing backlog which, in turn, creates “a flywheel of fraud,” McCabe says.

“The more overwhelmed they are, the greater the backlog. The greater the delays, the more that encourages black hats and fraudsters to attack because they know it’s going to take longer to fix,” says McCabe.

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On June 16, Amazon published a blog post acknowledging that “we’re not perfect” in detecting fake reviews on the platform, but claimed to have stopped more than [200 million](#) suspected fake reviews in 2020 before they were even seen by customers.

“We want Amazon customers to shop with confidence knowing that the reviews they read are authentic and relevant,” Peter Kadushin, Amazon spokesperson, said in the emailed statement to *The Wire*. “To do this, we continue to innovate to ensure we stay ahead of bad actors so customers can continue to shop with confidence.”

The irony, of course, is that while stopping 200 million suspected fake reviews is impressive, it also underscores the scale of Amazon’s problem. Moreover, critics say, one number alone doesn’t help people understand the wider context in which Amazon is operating.

“Amazon likes to talk about the numerator and not the denominator,” says Boyce, co-author of *The Amazon Jungle*. “When you compare the \$700 million they’re spending to fight fraud to the almost \$500 billion in gross merchandise volume sold on the platform last year, it’s really a drop in the bucket. These problems are hurting American innovation, American IP, and the American seller, but Amazon is only investing a small amount to solve them. They allow this to happen.”



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● COVER STORY



Pole Position

BY EYCK FREYMAN

In public, Chinese diplomats and climate negotiators deny that they see any link between climate change and geopolitics. But there is a deeply cynical consensus within China's academic and policy communities that climate change creates geopolitical opportunities that China can exploit — and must exploit before its rivals do. Greenland was the proof of concept for this strategy. And it caught the U.S. flat-footed.

● THE BIG PICTURE



Transsion's Triumph

BY GARRETT O'BRIEN

A look at Transsion's monumental growth, unique marketing strategies and future growth potential.

● Q & A



Jörg Wuttke on China's Self-Destruction

BY ANDREW PEAPLE

The EU Chamber of Commerce in China president talks about China's self-inflicted problems; how he gets away with being so outspoken; and why he believes in China's comeback gene.



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