

## **PERSPECTIVES AND PROBLEMS OF ELECTRONIC COMMERCE IN DEVELOPING COUNTRIES**

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### **Abstract**

Nowadays, a globalized world economy has received a new opportunities through instant messaging and provision of information via the internet. Implementation of a economic activity caused by informational technology make it both efficient and in many instances extremely profitable. The relevance of the article is due to foundation in, and arises from the fact that, the global economy requires and encourages a development of a new sector – Electronic Commerce or E-commerce, which is one of the components of a "New Economy" and is playing a significant role in the practice of up to the minute dealings. E-commerce is the economic sphere, which includes all of the financial and shopping transactions, electronic movement of capital, e-money, e-marketing, e-banking, and electronic insurance services. This is not an exhaustive list. The purpose of the study is to examine the role and place of e-commerce. As well, we are also going to analyze the problems and impacts that are associated with e-commerce in developing countries

**Key words:** E-commerce, electronic commerce, (IT) information technology, development, Internet purchases.

### **Introduction**

E-commerce can be defined as a commercial activity, which uses web-sites for determining an Organization for Economic Cooperation and Development: This is a whole business, which is found on the network, that uses Transmission of a controlling the Protocol.<sup>1</sup> E-commerce as it is commonly known, is the use of technology to conduct financial transactions online<sup>2</sup>. According to the definition of UNCTAD1: " E-commerce includes all forms of transactions relating to the commercial activities of organizations and individuals, which are based on the processing and transfer of digital information, including text, sound and visual data" <sup>3</sup> In recent years, E-commerce has become a key driver of the trade growth in developed and in many developing countries. That is radically changing the usual and previously used business processes in the retail sector. Over the past two years, the e-commerce market in the US grew by 25% and - by almost 30%, in the Eurozone.

E-commerce has great potential to change a large number of different kinds of economic and social activities, primarily for the development of a small and or medium sized business, allowing them to interact and compete with other similar businesses worldwide. The transition to the Information Society and Development the E-commerce is controlled by consumer demands, who today have a more informed choice and selection option. Although this transition is dictated by the

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<sup>1</sup> SMEs and electronic commerce. Paris: OECD, 1998.

<sup>2</sup> [www.pigseye.kennesaw.edu](http://www.pigseye.kennesaw.edu)

<sup>3</sup> Building Confidence. Electronic Commerce and Development. UNCTAD, 2000,

rhythm of the development of information and communication technologies. Globalization is going to manage simultaneously the development of e- trade and services liberalization in the World Trade Organization. E-commerce is growing faster than the use of the Internet and this growth will continue for many years until the access for the Internet will reach saturation in society and business. The sphere of the E-commerce includes: 1, The business operations related to the sale of goods, engineering, manufacturing, advertising and product information. 2. Creating demand for goods and services, quality, reliability and price orientation. 3. Offering worldwide post-sales support and customer service, 4. Facilitating a communication between business partners

### **The structure of the e-commerce market**

E-commerce can be conducted at various levels, starting with a simple representation of the web to the electronic support joint activities undertaken by several companies for example, outsourcing or a virtual enterprise. E-commerce in fact, has a global character. On an international level, e-commerce is complicated with factors such as differences in taxation, customs duties (and) rules of banking, as well as logistics on transportation of the product.

E-commerce generally is divided into a number of areas:

- Business-to-business, (B2B); refers to a situation where one business makes a commercial transaction with another
- Business-to-consumer (B2C); Business or transactions conducted directly between a company and consumers who are the end-users of its products or services
- Business-to-administration, (B2A); encompasses all transactions conducted online between companies and public administration
  
- Consumer-to-consumer (C2C): involves the electronically facilitated transactions between consumers through some third party
- Consumer-to-administration (C2A); involves all electronic transactions conducted between individuals and public administration.

### **The factors influencing e-commerce**

Based on experience with the use of electronic commerce in the Western developed countries <sup>4</sup> one can identify the main stages in the development of e-commerce. Initial growth is due to an excessive interest in the high-tech innovations and the high expectations of potential customers. As you get to the new system of commerce and meet the initial interest appeared the first negative feedback caused by the mismatch of expectations of service quality, to which the main influence has a low level of e-commerce infrastructure.

Missing or poorly developed infrastructure of settlements, and delivery of goods, expectation of the customer/consumer. In the future, market participants will apply significant efforts to create an effective payment system, its own logistics service, or to unite with offline providers that have developed warehouse and transport system. This creates favorable conditions for further growth of e-commerce in all sectors. The most active participants of the e-commerce market is developing independently these technologies. This is primarily the payment system, banks, service providers', access to the Internet and mobile communications, software and hardware that are interested in the marketing of its own products and services.

As a result, creating e-commerce systems are an unique character used in these systems, communication protocols are not compatible with similar protocols of other systems. During this period, the standardization of e-commerce are engaged in a variety of associations and

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<sup>4</sup> source: Gartner Research

organizations, and their proposed solutions are narrowly focused and did not agree with the decisions of other active participants in this market. This inconsistency does not allow e-commerce technology and the mass available to a wide range of users. It should be noted that such phenomena are temporary and are overcome at the stage of building the infrastructure of the e-commerce market.

Nowadays, we can identify a number of factors affecting the development of e-commerce technologies.

General economic factors:

1. Stability of the economic situation;
2. The share of "shadow" sector in the economy;
3. The size of the national economic complex;
4. Dynamics of indicators of domestic production and consumption;
5. The level of monopolization of the economy;
6. Tax climate;
7. Investment climate;
8. The level of monetization of the economy;
9. Level of differentiation of prices for similar goods and so on.

According to foreign expert's agency "eMarkete in 2013, foreign trade reached of 1.251 trillion dollars. The volume of Internet purchases amounted to 1.5 trillion dollars in 2014. Development of e-commerce is currently significantly higher than the rate of development of world trade as a whole, which is reflected in primarily the World Trade Organization. The total volume of world merchandise trade in 2013 increased by only 2.1% - after rising by 3.3% per a year. The main factors that had an impact on the world economy in 2013, it should be noted, first of all, global Trends: economy after the 2008 crisis is developing slowly, which affects the volume of world trade. The crisis of the euro area in 2012-2013 also complicated the situation in the pace of production, demand and consumption. Despite these factors, of this, the growth rate of e-commerce is only slightly slowed down; Moreover, many analysts tend to even talk about the fact that the economic crisis of 2009 was a catalyst for the development of e-commerce. And with this we can agree - on the one hand, consumers are looking for a better deal, but on the other - it mainly allows companies to have lower costs. The cost of servicing the online store is much lower than for the maintenance of normal. It is about saving on the purchase or lease of facilities and labor costs. The benefits of the Internet as a sales channel became apparent to entrepreneurs around the world. The largest proportion of buyers from North America, and in second place - the Asia-Pacific region. However, experts of eMarketer predicts that after 2015 the situation will change - and Asia will rank first in the world. The strong economic growth is expected in developing Asian countries. As a noted in the Global Wealth Report 2014 "With the projected compound annual growth rate of 10.5% private capital throughout the region of Asia-Pacific excluding Japan will grow to an estimated 61 trillion dollars by the end of 2018. With these rates of the region in 2014 will shift to Western Europe from the second place in the rankings, and in 2018 will deprive the North America the status of the rich region. "At the same time, for Asia is characterized by one feature: in this region the share of online shoppers is 46% of the of the world's total, while the number of registered users only 16.9% of the population. Expected information of the region in the future will also contribute to the growth rate of world trade. With regard to the structure of the country, then the volume of trade is now leading the United States and China. Experts predict that after 2016 will go ahead as Argentina, Mexico, Brazil, Russia, Italy. The growth rate of e-commerce in China will continue to be the highest. Among the main trends of the countries are the following:

In China, the first storage space for trade via the Internet, have been concentrated mainly in Beijing, Shanghai and Guangzhou. However, since 2011 the main participants in the Chinese e-

commerce market began to establish distribution centers in other rapidly developing regions. In Brazil, the boom of online trading sparked demand for open storage. The largest logistics center in the country is the city of Sao Paulo. In India, the share of online trade is less than 1% of the total retail market. Here warehouses oriented service only in large cities. A complicated tax structure of the country has led to the decentralization of storage networks. Most of them consist of small objects scattered across the country. A tax on goods and services, which are expected in the near future, will be a good stimulus and lead to an increase in demand for large distribution centers.

Table 1. The growth rate of e-commerce

	2	3	4	5
na	7%	5%	3%	3%
onesia	0%	3%	1%	2%
ia	0%	0%	5%	3%
entina	1%	%	0%	05%
xico	3%	0%	0%	5%
zil	3%	5%	1%	%
sian	4%	4%	1%	3%
y	0%	3%	3%	5%
UK	5%	3%	2%	2%
ada	0%	2%	0%	5%
in	0%	0%	35%	0%
eden	4%	2%	3%	3%
A	2%	4%	3%	4%
rway	0%	7%	0%	3%
mark	3%	4%	5%	%
nce	3%	3%	%	%
land	7%	4%	%	%
th Korea	7%	%	%	%
many	5%	%	%	%
an	3%	2%	%	%
ustralia	5%	%	%	%
land	%	%	%	%
rld	3%	3%	2%	7%

Source: eMarketer Survey of E-commerce

### The risk factors of e-commerce

Every year e-commerce is becoming an effective tool for business activity. Over the past several years, e-commerce has transformed how people buy and sell online. The Internet provides a fast and easy way for people to purchase things without having to visit an actual store. An online store can reach customers anywhere in the world. In fact, online shopping has become so popular that many vendors sell only online with no physical location. E-commerce also facilitates the purchase of digital media such as downloadable music and movies: with no physical product, vendors can boast truly instant delivery. In developing countries, IT and communication or rather e-commerce growth are substantial. Technology effectiveness is essential in e-commerce success. However, human, economic, and other organizational issues must be taken into account as well. Online consumers face problems concerning security and privacy. They are exposed with online risk such as hacker mischiefs. Moreover, when buyers make payment using credit cards, they are exposing

their banking information which could also be manipulated by hackers. The results of this research showed that the majority of the respondents felt that internet shopping is risky due to this very (the same) reason. Amongst the perceived risks is financial, product performance, social, psychological and time convenience loss. Other than stolen credit card information, there are also risks in delivery. The time taken for delivery may take quite some time, therefore, anything could happen in the process of delivery. Buyers may lose the item, or it could get damaged in transit. Online vendors might not be responsible for the loss and this leaves the buyers to bear all the consequence. When the perceived risk is greater

There is no development of the regulatory and legislative framework, which results in a problem of protection of intellectual property rights for goods or services that are implemented in the framework of e-commerce, the problems here are of a financial and contractual nature, volatility of currency fluctuations, exchange rates changing throughout a single day, and conflict of laws between different countries. As a result, there is mistrust on the part of investors, potential buyers, declining growth rates;

-There are problems that are related to the concept of global e-commerce. These include: a lack of confidence in relation to the fact that in another part of the world there really exists a partner company and its goods or services; differences in the traditions and rules of doing business in these companies;

- there are threat in the security of e-commerce. In order to minimize them, should be used an effective mechanisms that ensure the confidentiality, authentication and authorization;

-The need for universal standardization of interoperability and compatibility of networks, to all the participants of e-commerce that can have access to the organization's website, and it would not matter what the geographical situation, particularly networks;

-There is the difficulty of attracting new people because of the lack of managers with experience in sales, logistics, marketing, qualified service. Therefore, much attention was paid to the Internet and the design of various projects, rather than the traditional trade, and consequently lost potential business buyers.<sup>5</sup>

The US accounts for about 40% of the global online advertising market, about 25% of the world market of electronic Commerce, when the US population with Internet access is less than 15% from the world of the Internet audience

### **The Drivers of e-commerce in developing countries**

The implementation of an effective Internet e-commerce solution in Developing countries or other country that want to develop its e-commerce system can consider the following key steps: Developing strategy; before implementing Internet e-commerce, an organization must clearly define its goals. Many companies create goals that are not measurable, attainable or specific. Assessing readiness; before taking on the complexities and risks associated with implementing Internet e-commerce, an organization and its management should take stock of their current systems and capabilities. Four key drivers predict an enterprise's ability to succeed in e-commerce. These four drivers are: leadership; governance; competencies; and technology. Designing the project; Although projects will differ greatly in the details, there are some common requirements for implementing Internet e-commerce, including: managing the project, developing an outsourcing strategy, selecting an Internet service provider, selecting e-commerce service providers; and designing website security. Integrating the solution; In developing an Internet e-commerce platform, an organization must also consider how to integrate its e-commerce

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<sup>5</sup> Kobelev OA E-commerce: Textbook / Ed. prof. SV Pirogov. 3rd ed., Rev. and add. M.: Publishing and Trading Corporation "Dashkov & Co», 2010.

applications with its other business processes. For example, the richness of corporate intranet applications positively affects e-commerce capabilities. Extending intranet applications into the Internet permits an organization to provide more value to customers in several ways: real-time access to information; and ability to perform business transactions. Measuring effectiveness: Given the major investment that implementing e-commerce entails, it is only common sense to measure the return. Successful e-commerce companies have serious and accountable metrics and clear agreements about using them across the organization. It is in the appropriateness and completeness of the metrics selected that typically set successful e-commerce implementations apart from the ones that are unsuccessful.

### **Benefits and advantages of e-commerce**

Generally, commercial firms using e-commerce are informed that goods and services are available anywhere, prices and conditions of sale allowing them to make the necessary acquisitions on the most favorable terms. E-commerce provides marketing services to suppliers in real-time and enables them to transact without opening offices or hiring foreign agents. Fast and guaranteed delivery allows wholesale and retail trade and reduce the range of the required reserves. And this, in turn, helps especially small and medium size companies to reduce their costs.

Growth of E-commerce is due to its advantages and benefits, which include:

- The global reduction of costs of marketing and trade (transaction costs);
- solution the problem related with distances;
- creating the conditions for direct contractual relationship with the cooperating parties
- providing the competitive advantages in the global market for small and medium-sized enterprises;
- increase transparency markets: buyers and sellers can get almost instantly information on the prices of products, delivery terms, which is offered by competing firms;
- The prevention of negative sides such as, the criminalization of market processes, tax evasion, and etc

In order to make the Internet a more attractive retail space from the perspective of consumers, the IT system of trade should make a corresponding reduction in operating costs for sellers. In fact, achieved commercial web-companies in the initial stage of their activity savings by limiting the reduction of personnel and costs of rediscounting products have enabled many of them at the same time to lower the retail prices and increase the difference between them and the cost of production. There are also other aspects of the process of sale, for example, the possibility of organizing the supply of goods to the consumer, assortment optimization, improving the relationships dealers with manufacturers, whose potential from the standpoint of increasing the economic efficiency of e-commerce is not only exhausted, but still really not fully disclosed

E-commerce also allows customers to choose cheaper and better quality goods. With the help of e-commerce, consumers can easily explore the specific product, and sometimes even know the manufacturer, buying it at a lower price than the demand for it Wholesalers. Shopping online is usually very convenient and saves time compared to conventional stores. In addition, customers can view the reviews posted by other customers of the product purchased from a specific e-commerce site that can help greatly to make a decision regarding the purchase. For business e-commerce companies significantly reduces the costs associated with marketing, customer service, processing, information storage and inventory management. This reduces the amount of time associated with the reorganization of business processes - customize products to meet the demand of private clients, as well as increasing productivity and providing customer services. E-commerce reduces the burden of the infrastructure for business and thereby increase the amount of funds available for investment. It also contributes to the efficiency of customer service. On the other



hand, it allows you to collect and process information related to customer behavior, which in turn help to develop and adopt an effective marketing and advertising strategy.

### **Conclusion**

E-commerce is one of the most important instruments of the world and national economies. It is offering excellent opportunities for growth in developing countries. The Internet has enormous potential as a tool for development. E-commerce is indeed relevant and can be an extremely beneficial tool in developing countries. Globalization and blurring of national boundaries, accelerating information exchange, electronic commerce is one of the world's major economic trends. The economic effect from the use of e-commerce technology has a positive growth, and of course, now this sphere of activity is an integral part of society.