

# Chapter III

## Identifying Factors for Lack of E-Commerce in Developing Countries

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### ABSTRACT

*The past few years have seen a rise in the number of companies' embracing e-commerce technologies in developing countries and the volume of e-commerce has been growing. However, as compared to developed nations, developing countries still have been lacking in e-commerce. This chapter identifies some of the reasons that may be responsible for lack of e-commerce in developing countries. For the scope of the study, we have limited developing countries to China, India, Indonesia, Philippines and Sri Lanka. The study identifies factors at the macro level to understand why the adoption of e-commerce in developing countries has been not taking off as expected.*

### INTRODUCTION

The use of the Internet as a vehicle for electronic commerce (e-commerce) has become a standard operating practice in many corporations throughout the world (Ah-Wong et al., 2001; Rosenbaum, 2000). The world is rapidly moving towards Internet based economic structures and information

societies, which comprise networks of individuals, firms, and countries linked electronically in interdependent and interactive relationships (Heeks, 2002). The wide use of information and communication technologies (ICTs) has accelerated the growth of e-commerce in last few years in many parts of the world. These technologies have revolutionized business, economic prosperity

and the way the world and its citizens communicate (Davison et. al., 2000). However, developing countries still lag behind the developed countries in technology absorption. Roche and Blaine (1997) point out that most of the developing world suffers from an “MIPS gap ratio” in the order of something like 1:26 with the developed world. The reasons for low participation level of many developing countries in the global information society for e-commerce include perceived incompatibilities between cultures and technologies, an idealistic preference for self-reliance, and simple lack of economic or human resources to acquire and utilize technology (Davison et. al., 2000).

Developing countries, while representing around 80 percent of the world’s population, account for only 2 percent of the total global expenditure on informatics (Davison et al., 2000). This may create marginalization for developing countries from the mainstream economic growth of the world.

E-commerce technologies have the potential to help solve many problems faced by developing countries; from providing remote health care to education (Schech, 2002, Sprano, 2000). However, developing countries may miss major benefits of the e-commerce revolution for the next few years because of inherent problems they face in the implementation and use of e-commerce solutions. This chapter examines the state of e-commerce in developing countries and discusses issues that developing countries must address to harness the benefits of e-commerce. Our discussion includes the progress made in handling these issues and outlines the challenges facing developing nations in successfully implementing e-commerce in their economies. We also endeavor to describe approaches that can be taken to resolve some major issues and challenges related to e-commerce in developing countries. The rest of the paper is organized as follows. We first briefly describe our framework and how we derived this framework. The next six sections discuss the issues and challenges in each category identified in

our framework. In these sections, each category is further divided into several sub-categories so that progress made to handle the issues and the remaining challenges can be easily illustrated.

## **A FRAMEWORK FOR E-COMMERCE INFRASTRUCTURE**

The emergence of electronic commerce over the past decade has radically transformed the economic landscape. There has been an increasing amount of literature on the factors that affect development of the Internet and e-commerce in developing countries. On one hand, it is helping nations increase their economic growth and thereby provide more opportunities for the businesses to grow, but on the other hand it raises many technological, economic, and social challenges. While developed countries that have been offering e-commerce have shown impressive performance in their respective economies, many developing countries still lag behind in the e-business race. This could be due to several reasons including but not limited to language, education, technology and technical infrastructure.

In developing countries, internet use and its economic potential are growing exponentially. Developing countries have the advantage of learning and benefiting from the diverse experiences of industrialized countries and leapfrogging into an e-commerce revolution. However, there are still many unresolved issues that hinder the growth of e-commerce in developing countries. Many businesses and consumers in developing countries are still wary of pursuing e-commerce because of the lack of a supporting legal environment, particularly for international trade transactions. Concerns such as the enforcement of contracts, liability, intellectual property protection, privacy, and security are still unresolved to the satisfaction of those involved (Bhatnagar, 2001, Ah-Wong, 2001, Davison et. al., 2000 and E-commerce report 2001). Developing countries have a difficult task

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