

ANALYZES OF E-COMMERCE DEVELOPMENT IN UZBEKISTAN: CURRENT TRENDS, PROBLEMS AND PERSPECTIVES

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ABSTRACT

This paper is devoted to defining and solving problems of the development of e-commerce in Uzbekistan. Here we discuss the importance of e-commerce to overall economic growth, review the models how to enhance the role of e-commerce in the economy, and compare the successful experience of developed countries with Uzbekistan.

We have conducted a research through using qualitative method of analyses, where we analyzed the legislative documents and activities implemented by the government of the Republic of Uzbekistan towards the development of e-commerce. Besides, we have defined the main obstacles and barriers in further development of e-commerce in Uzbekistan.

Keywords: e-commerce, legislative documents, Uzbekistan, economic growth, international experience, business environment.

INTRODUCTION

Today most of experts consider the e-commerce as one of most rapid growing fields and it became common to think that e-commerce can play the important role as a new mechanism of enhancing the economic growth. This view has the logical basis, if to look at the speed of information-communication technologies development in the world. The process of meeting of seller and buyer nowadays turns into another level and it results on high interest from researchers and economists.

There are very optimistic views towards the future of e-commerce, and it looks even more real due to long lasting financial crisis in the world, which started in 2008. Crises period have led to turn the “surviving” mode for most of firms. In this competitive environment the e-commerce with all its advantages seems as a “safe-boat” even for firms which are traditionally were not tend to use IT in their fields of activities.

Even in Uzbekistan where the negative effect from the financial crisis comparing with other countries was in minimum level, firms started including into their long-term strategies the task of entering to e-commerce segment of market. Obvious reasons for that are advantages which e-commerce can bring to the firm and to the economy in general. Here we list the main reasons:

1. The absence of geographic borders for trade and commerce, which lets to work with “7*24” schedule;
2. Buyers do enjoy the opportunity to know and study the product physically locating itself anywhere they want, while saving time and efforts for searching the needed product;

3. In conditions of competition e-commerce becomes another way of increasing sales for firms and helps to find new clients which were not available during trading through traditional ways;
4. Positively impacts on macroeconomic indicators;
5. Additionally the development of e-commerce helps to improve the overall ICT implementation and helps to create the modern IT based environment, where channels of communication between economic subjects become more efficient.

Taking into consideration the importance of the topic and the strong need to study the development levels of e-commerce in Uzbekistan we have decided to conduct the current research.

LITERATURE REVIEW

Business and economy are very strongly linked with the development and implementation of new technology. Many economists in their researches have recognized the fact that growth and development of any modern economy is based on innovation of new technology. Among them there are such well-known scientists as Kondratieff, Schumpeter (1961), Mensch, Porter (1990) and Romer (1994). Solow-Swan model (1956) argue that the crucial and decisive role it attributed to the technological progress in driving the growth, hence, implying that growth cannot be sustained without continuous technological change that occurs outside the model, that is, exogenously. Due to this, the long run growth rate in this model is defined completely by exogenous factors and beside of it the exogenous technological progress can take on many forms.

Mensch (1979) updates the Schumpeter theory, giving it an empirical base in history, where clusters of innovation take place and generate completely new sectors. Mensch stressed that only technological innovations can overcome depression and that governments must implement an aggressive innovation policy to stimulate the search for new and basic innovation.

Continuous growth of E-commerce is expected to have a deep impact on structure and functioning of economies at various levels and overall impact on macro economy.

There are already many researches devoted to study E-commerce as internet itself became a phenomena worth having deep studies and this field is attracting an increasing international attention. Most of researches mainly were conducted after 1995. Morrison and Siegel (1997) and Helpman (1998) have studied the features of e-commerce and found the positive effect of e-commerce on the productivity and the economic performance, through positive externalities of e-commerce such as: increasing the investment in R&D and human development, and developing the interrelationships between industries and other sectors that contribute to raise productivity.

Works of Bartel, Lach and Sicherman (2009) and Berman (2012) found that E-commerce leads to raise in wages and restructures labors market for the benefit of technical and skilled workers who have high educational level. The study financed and organized by UNCTAD (2002) states that the positive impact of the growth of information and communication technology is due to the spread of e-commerce, which increases employment opportunities for women. Jorgenson and Stiroh (2005) claim that e-commerce is an important determinant to improve productivity and economic efficiency, and one of factors which raise the economic growth rate. They also argue that e-commerce leads to raise in the investment volume in ICT, which in turn leads to raise in the productivity and economic growth. Similar study of Dedrick et al. (2003) says that e-commerce leads in raise of the productivity and

economic growth due to the fact that it reduces the costs of coordination between economic sectors and improve the standard of management and organization. Several studies examine the impact of E-commerce on countries' exports through the linkage between the degree of economic openness, trade liberalization, and the degree of using of the Internet. Onyei (2002) claims that the "extent to which a country is integrated into the global economy with greater contact, either via trade, tourism or geographical location, with the outside world, are more likely to be advanced in digital technology than other countries". On the other hand, Caselli and Coleman (2001) result from their work that countries open to imports from high-income OECD economies will benefit from knowledge spillover and hence, be more likely to adopt new technologies.

There are empirical studies, which say that internet use is correlated with openness to trade even after controlling for other factors that might be correlated with both. For example, Wallsten (2003) and Baliamoune (2002) found that the internet users make a greater share of the population in developing countries that are more open to trade. Results of other researches also claim that additional measures of ICT use and investment are correlated with various measures of openness. In general, the correlation between ICT use and openness is stronger in developing countries than in developed once.

Several studies like the research done by Clark (2001) focuses on determining the impact of internet use on exports. He uses the data from twenty Low-and middle-income countries in Eastern Europe and Central Asia. He finds that enterprises with internet connections export more, as a share of their total sales, than enterprises without connections. Freund and Weinhold (2000) argue that the internet can help to create global markets for traded goods by reducing the fixed costs associated with exporting through using a gravity model of trade. The internet could reduce costs "both directly via organized exchanges with numerous buyers and sellers and indirectly through powerful search engines, which enable sellers to notify buyers of prices instantaneously. In their another paper Freund and Weinhold (2002) now give empirical facts that exports of services to the USA grew more quickly for countries with greater internet penetration in a sample of 31 middle-and-high-income countries. From the reviewed literature, we can conclude that the emergence and rapid growth of internet and e-commerce have strong impact on the country's economy and to economic performance. It is not difficult to predict that these new technologies will transform the future of the economic structure. In most cases, we can see that economically it is clear that e-commerce and internet technology have positive impacts on overall performance of the country. Taking into account, that e-commerce can positively impact on economic growth of the country and based on the prior works in the available literature, our research will intend to study the features, trends, obstacles and barriers of e-commerce development in Uzbekistan.

METHODOLOGY

Our research is conducted through using qualitative methods of analyses. It is well-known that qualitative analyses methods are complicated in terms of data collection. Thus, in order to simplify the process we have decided to collect the related data in the following order: previous studies on related topic where Uzbekistan is taken as an object of the study, policy report papers, legislative documents of the government of Uzbekistan on related topic, statistical data on e-commerce from State Committee of Statistics of the Republic of Uzbekistan and from world popular databases. Collected data was processed through highlighting the most important key points, which could have crucial role in the development of e-commerce in Uzbekistan. Also based on collected narrative data and documents logical conclusions and recommendations were generated.

ANALYSES AND DISCUSSION

We see from reviewed literature that e-commerce can positively influence on the performance of businesses and here we can list them:

1. First of all, it is an opportunity for firms to enter into world markets with minimum cost and with comparatively same competitive conditions.
2. Increasing of speed of response to claims from customers. It becomes easier to be close to customers through implementing on-line customer services and to analyze the demand based on requirements of customers.
3. Analyzed demand leads to better customization of products, which increases the competitiveness and helps to gain firm's own segment in the market.
4. Cost minimization can occur almost in all spheres of business when e-commerce is fully realized in the firm.

In general, when firms gain from implementation of some new systems there is always another counterpart, which can also benefit, these counterparts are mainly customers which use the services of firms involved in e-commerce or which live in the country where e-commerce is fully implemented. Customers benefit in the following ways:

1. If customers have an access to services due to e-commerce, it means that they can reach almost all the possible producers in the world, thus they can broaden their product choice.
2. The opportunity of fast comparison of various types of products, which can lead to have better final choice taking into account price-quality principle.
3. The convenience and flexibility on choosing when to buy and where to buy.

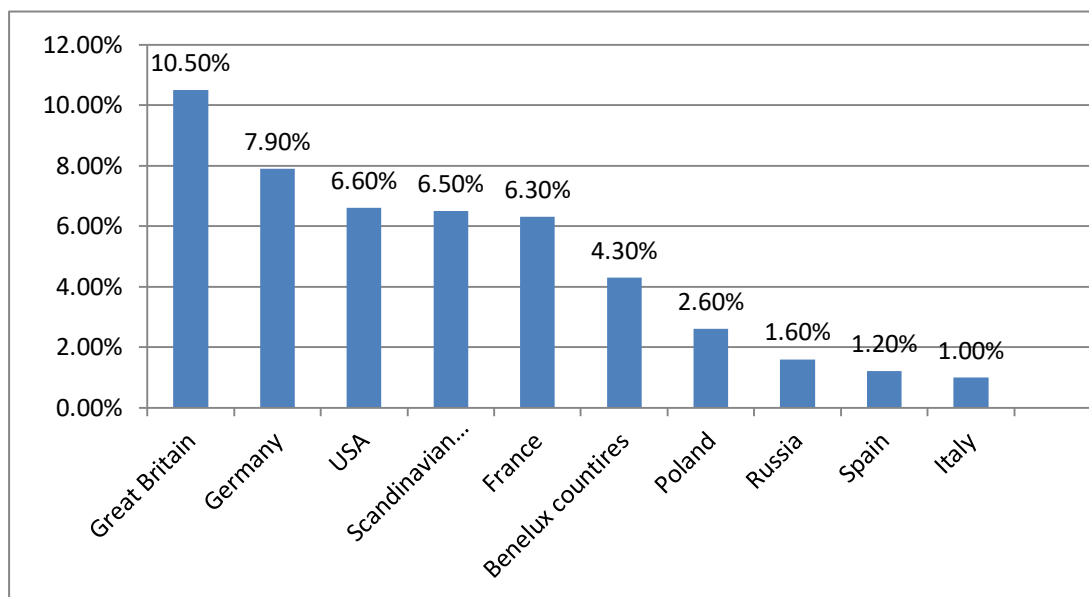


Figure 1. The share of trade operations conducted through e-commerce in overall trade of the country (Uzcard, 2014)

It will be fair to say that despite of support from the government of the Republic of Uzbekistan for the development of e-commerce Uzbekistan still has the beginning levels of its implementation. If to compare and evaluate with other developed countries it is noteworthy to mention that in several countries, including USA, Great Britain, Canada,

European Union countries and in some Asian countries (Singapore, Malaysia, China and etc.) the role of e-commerce is significant in overall economy of the country.

We can see it in figure 1. For on example of USA and of some countries of EU where the share of e-commerce in overall trade of the country is shown.

It can be concluded that through increasing scales of e-commerce it becomes possible to increase the overall level of trade in the country. Also it means that the level of globalization is reaching its highest point and other countries which are not that widely involved in trading through Internet may stay behind in competitiveness as e-commerce by itself requires different strategic approach.

According to estimations of the world independent analytic agency “eMarketer” in 2014 the world turnover of consumption products was equal to 22.492 trillion USD, and 1.3 trillion USD of this amount was related to trade through Internet, which gives about 5.9 percent of overall trade. China and USA still keeps the leadership in e-commerce where 55 percent of the total world e-trade in 2014 was associated with these two countries.

There some reasons why developed countries have higher e-commerce development levels than others. Beside of obvious natural factors such as infrastructure or education level, there is another essential reason for this. These countries have defined in their strategic development programs that e-commerce development is one of priority areas and the strategic plan of realization of activities on e-commerce development are already included into overall development plan. Here, it is necessary to mention that when we discuss about e-commerce, we consider all types of business organized through Internet, some sources may use other more narrow meanings as e-trade, e-business, mobile-commerce and etc.

One of examples of successful implementation of programs on e-commerce development is e-Europe program, which let rapid growth in amount of e-commerce subjects in Europe for recent years. Creating conditions is a one side, which should be taken into account another one, is a legislative base, which should coordinate, control, solve disputes and define critical legal activities. For this there are several directives accepted by Euro-parliament in Europe, which became the legislative bases for socio-economic relations in Internet for consumers and for business. For example, in 1997 was accepted a directive “About protection of consumers in making contracts in distance”, in 2000 there was a directive “About e-trade” and in 2002 “About confidentiality and electronic communication technologies”.

In economic literature there are four main models of relations between agents of electronic trade/commerce (“G2C”, “B2C”, “B2B”, “G2B”), but here we would like to use the wider approach and provide six models:

- “G2C” – between government and consumers;
- “G2B” – between government and business;
- “B2C” – between business and consumers;
- “B2B” – between business and business;
- “G2G” between government and government;
- “C2C” – between consumers and consumers.

Uzbekistan is also taking similar steps by making attempts to implement all above mentioned models through creating the legislative base. The legislative base include the following important documents such as the decrees of the Cabinet of Ministers of the Republic of

Uzbekistan “About the actions on development of e-commerce”, “About further improvement of payment systems in implementation of e-commerce” “About organization of measures on cryptographic protection of information”, “About actions on further development of computerization and information-communication technologies”.

Beside of it there are Laws of the Republic of Uzbekistan, which regulate the fundamental relations between participants of e-commerce such as “About e-commerce”, “About informatization”, “About electronic digital signature”, “Electronic document turnover”, “About e-payments”.

- i. Based on our observations there are some active participants of e-commerce based on “B2C” model, such as mytech.uz, esavdo.uz, uzbekmarket.uz, bozor.uz, arba.uz, korzinka.uz. Despite of these several leaders of this new market the scope and scale of e-commerce development still is very low comparing with the potential, which it has.

As our observations show one of many reasons for such situation is that firms are not using effectively the created conditions and most of them have sceptic views on progress through active participation in e-trade relations.

There are five basic conditions which firms must have in order productively implement e-commerce or e-trade elements in their own business:

- i. Firms must be connected to Internet or to other special communication systems;
- ii. The existence of communication window between trader and customer;
- iii. The existence of Intranet or Extranet database systems;
- iv. The ability to provide the safe transaction of information and to have the necessary technology for this;
- v. Organization of special payment system.

Creating the necessary conditions in case of developing countries sometimes might be not enough to enhance the scale of cover of e-business. The government of the country must undertake the additional measures in order to attract businesses to follow the world trend. Based on analyses of conditions and development level of western countries we propose for Uzbekistan to use special stimulation mechanisms. First of all it seems reasonable to develop B2B model of trade relations, where we propose to cancel taxation of value added tax and in cases when it is not appropriate to use the lower rates than what is used now (20%)

Additionally in order to develop B2C trade model it is important to implement electronic pockets for consumers, for this there should be centralized organization of bank card issues specially oriented for trading in Internet. This measure obviously requires establishment of electronic national currency. Uzbekistan recently have started using Websum the new national virtual money, but scales of using this currency is still very low. In perspective, this virtual money can become one of important elements of e-business.

Uzbekistan in its development of e-commerce or e-trade can be based on two well-known models. First model is the development through establishing the special system where all participants are already known. Here the organization of identification of participants is required. On permission of all participants, the transactions organized with high levels of automation. This model brings high safety and widely used in financial markets in the world. Another advantage of this model is that the human-factor impact is minimized. The second model is the system where participants might not know each other and idea is to find the right partner throughout the system. In such case the area of coverage can be much wider, as the

system is open for everyone, while it has also a disadvantage in the form of weaker safety. Mainly safety here is related with the anonymity of participants, thus increasing the chance for frauds.

In our opinion, in the initial stages of development Uzbekistan may use the first model, as the country already have a strong interbank payment system, have very effectively functioning state financial sector, where government owned companies and state organization do organize their trade operations. If to look at statistics on this regard “Uzcard” system of the country just in 2013 had more than 3 million transactions, in 2014 there were more than 22 million transactions. We can see that the increase is significant and the tendency of growth in number of transactions is sensitive even when we look at monthly statistics (Uzcard, 2014).

RESULTS AND CONCLUSIONS

In this paper we made a review of issues related to e-commerce in Uzbekistan. Results of our research show that there are main barriers and obstacles in the way of full realization of potential of e-commerce in Uzbekistan, here we will list them:

1. One of obstacles is related with overall cover of the population with Internet. Despite of tremendous growth in this field for recent years, most of Internet users are still young people, which brings to another problem that usually main consumers which have sufficient financial means are elderly people, thus it bring to minimization of e-commerce and that Internet is mainly used for other purposes such information collection or communication but not for trading or shopping;
2. Another very common barrier is related with skills and experience of businesses in this field. This problem is popular not only in case of Uzbekistan but all over the world, when the lack of specialist on IT field or “old style” views of managers become a problem in getting to be involved into the e-business
3. Lack of fast and popular virtual payment system where banks play active role and act as a guarantee for success and safety of transactions. Businesses might not know or might have less trust on success of payment systems and this can become a reason not to be involved in e-business for firms;
4. Lack of promotional activities regarding to popularization of e-commerce among consumers and of explanations on how the system works in order to make the population be aware of such services and actively involve them, which may creat a strong demand, and as a result can bring more businesses into e-business.
5. Defining of main obstacles and barriers in further development of e-commerce in Uzbekistan is important as it helps to define main problems in this field and solving these problems systematically can help to increase the scale and scope of e-business and thus can help to benefit from its all advantages.

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