



ROLE OF E-COMMERCE IN ECONOMIC DEVELOPMENT OF RUSSIAN REGIONS

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ABSTRACT

This article assesses the potential opportunities for development of e-commerce in Russian regions, as exemplified by the Far-Eastern federal district. As opined by the authors, in the current economic instability situation, Internet trade provides extra markets and allows to maintain financial stability of regional entities, possibly contributing extra to regional budgets. The authors give a general characteristic of the economy and regional retail and find the factors negatively affecting the development of the Far-Eastern e-commerce. Those, first of all, include underdevelopment of payment services, lacks of legal regulation of e-commerce sector, infrastructure issues of the regional development.

KEYWORDS : E-commerce; Internet trade; Retail; Logistical infrastructure; Electronic services; Online; E-shop.

INTRODUCTION

A serious source of regional budgets income and a catalyst of socio-economic development and financial stability of Russian regions is the trade sector. Recently, progressive technologies and forms of trade process arrangement have been

implemented in that sector. The introduction of new technologies, growing number of Internet users created favorable conditions for active development of e-commerce in Russia. In broad sense, e-commerce is the use of computer networks for improvement of the corporate efficiency. That tool ensures profitability growth, provides the way to new market segments and improves service quality.

Internet trade in Russia is a large market: even a small category (foodstuffs) covers some 1.3 million people which is comparable with Nizhniy Novgorod's population. Currently, a few dozens of thousands

of e-shops service the needs of dozens of millions Russian online customers. According to some estimation, e-commerce exceeds over 1% of Russia's GDP while the Russian legislators have been paying more attention to regulation of online purchases indirectly acknowledging their significance for the economy of certain regions and the country as a whole. E-commerce gains special actuality in the current economic instability conditions. Complicated market and economic conditions make many organizations and enterprises look for new ways of development and markets. Therefore, companies which did not work with retail and product manufacturers are moving to the end user. The



simplest and quickest way is online trade. Companies open their e-shops and actively enter the e-commerce market [5]. Meantime, weak development of the Russian e-commerce market should be noted compared to the available potential. Besides, great differences are observed in connection with involvement of Russian regions into e-commerce due to infrastructure problems: available Internet and communication channels, underdeveloped payment systems, logistics, and trade infrastructure.

Actively developing e-commerce sector requires new solutions, in particular, the development of logistical infrastructure in regions. The objective of this article is the consideration of trends and problems of e-commerce development as exemplified by a particular region, the Far-Eastern federal district.

Underdeveloped infrastructure in regions (first of all, logistical):

A significant problem restraining e-commerce development in remote regions is the absence of well-tuned logistics system, i.e., delivery of goods from e-shops' warehouses to end users. It is not a problem when an e-shop is oriented at local regional buyers: own courier service is arranged, well-controlled and adjusted for commodity group's specifics. Speaking about federal scale, the only delivery service with developed branches network and more or less workable traffic flow control system is Russian post. However, that structure is inefficient and slow: long delivery terms, loss of cargo, continuous queues in offices, old system of advising consignees via paper notifications. Large Internet companies solve that problem via arrangement of own pickup points. Yet they are unable to cover all communities. This issue may be solved by three ways:

1. First, Russian post will be restructured and will finally provide contemporary service level;
2. Second, western logistics companies will manage to develop business in Russia to come closer to Russian port in geography;
3. Third, largest e-shops will do with all the discrepancies and create joint pickup point's network.

Uneven development of logistics infrastructure may be balanced and e-commerce may be spread all over the country via outsourcing fulfillment centers. Fulfillment as an aggregate of logistical processes may be arranged by own efforts (insourcing) and via outsourcing. As insourcing variants, existing company's warehouse (owned/hired) may be used, separate warehouse and offline shops in some cases. Fulfillment may be assigned for outsourcing to professional fulfillment operators, npl operators providing fulfillment services and other companies.

Issues of legislative regulation of e-commerce: - It should be noted that currently in the RF legislature the issues on protection of rights and liabilities of customers in Internet are not worked out well. It is required to develop and introduce quality standards in distance selling, improvement of self-regulation in that segment, creating sector's quality marks and rating of e-shops as well as legislative support of selfregulation and standardization of services. In the development of Internet, the government sees some threats and responds to them via strict prohibitory and restrictive, very rapidly adopted regulations. In general, the changes in legislature on e-commerce (e.g., Act on restriction of Internet payments [16], restrictions on storage of personal data outside the RF [17], do not account for the new opportunities which state, industry and society may gain with the development of information and communication technologies. Currently the legislative process in Runet does not involve industry. Thus, the most important principle of Internet regulation is violated, namely the principle of multiparty regulation. It implies the participation of the three equal players: governmental authorities, civil society and business – in formation of the rules regulating Internet.

E-commerce development indicators in the Far-Eastern federal district

Despite the dynamic development of retail, regional companies weakly use e-commerce opportunities. Sales via Internet in total turnover of retail are 0.2% which is one of the lowest values among all federal districts of the RF (Figure 2).

The highest level of e-commerce is in Khabarovsk Krai (0.8%) and PrimorskKrai (0.2%). Meantime, in Republic of Sakha (Yakutia), Amur, Sakhalin Oblasts, Kamchatka Krai e-commerce virtually does not exist. It should be noted that the official statistics on the use of Internet in other areas (provision of various services, sales of digital products, tourism, etc.) is currently not collected; no special studies at the level of the Far Eastern region were conducted. The main factor of e-commerce development is Internet connectivity. In the Far-Eastern

federal district it is lower than average in Russia. Regularly, only 58% of region's adults use Internet. Still, growth rates of Internet connectivity in the Far East are higher than country's average. Over 78% of the population of the Far-Eastern federal district using Internet made at least one purchase online in 2014 (it corresponds to 44% of urban population, 18-64). It should be noted that the smaller a community or a town, the less the share of online buyers, and for rural areas the number of buyers does not exceed 17% of Internet users (9% of population).

METHODOLOGY:-

The information basis of the research is supported by the statistical data of the Federal service of state statistics of the RF, official documents of Ministry of industry and trade of the Russian Federation and authorities of the constituent entities of the Far-Eastern federal district, research and reports of analytical agencies and consulting companies, etc. Comparative and dynamic analysis, normative, economic systems analysis (shift analysis) are used as the basic methods, ensuring comprehensive research.

General description of the economy and retail state of the Far-Eastern federal district

The Far-Eastern federal district (FFD) occupies the area of 6,215.9 thousand square km which is over one-third of Russia's area (36.4%). Meantime the district is not densely populated. Some 7,065.9 thousand people live there making up 4.9% of the population of the Russian Federation. FFD consists of the nine regions: Republic of Sakha (Yakutia), Khabarovsk, Primorsk and Kamchatka Krai, Amur, Magadan, Sakhalin and Jewish autonomous Oblasts, Chukotka autonomous Okrug [6]. The district includes 68 cities including Vladivostok, Komsomolsk-on-Amur, Blagoveschensk, Magadan, Petropavlovsk- Kamchatskiy. FFD regions significantly differentiate from each other by population density, infrastructure and socio-economic development level. The southern regions of the Far East have the highest population density, while this figure in Primorsky Krai is 1.4 times higher than the average value across Russia. Also, there are significant differences among the FFD regions by the value of gross regional product per capita. For example, in Sakhalin Oblast, this figure is almost 6 times higher than in Jewish Autonomous Oblast. Due to the settlement system and differentiated economic development of the vast territory, the Far Eastern Federal District is characterized as a region with poor transport infrastructure. The density of public roads in FFD is 6.6 times lower than the average value across Russia, the density of the railway communication is 3.6 times lower. In addition, the railway infrastructure is extremely uneven: in the southern regions of the Far East (with the exception of Khabarovsk Krai), the density of railways greatly exceeds the average value across Russia, while there are no railways in the northern regions (with the exception of the Republic of Sakha).

CONCLUSION:-

E-commerce today changes the typical image of the regional retail. Users are getting used that besides retail shops they have a few communication channels with sellers. Their behavior changes greatly. They are actively using new channels – Internet and mobile Internet when making purchases.

For some companies, Internet sales became the most preferable business development method. For start-ups, Internet retail sector is a real opportunity to cut costs on the traditional sales methods. For large companies it is an extra way to expand and increase their businesses. Often, some online shops are shop windows for offline shops contributing to extra clientele and consumer demand monitoring. It should be noted that it seems impossible to determine the total volume of the e-commerce market and the extent of its influence on the development of the regional economy due to lack of the necessary statistical data. Further research should focus on the study of trends and factors affecting the development of e-commerce in a particular region. It is recommended to carry out a separate study in the form of a representative online survey of the Internet audience, as well as companies and SMEs registered in the regions of the Far Eastern Federal District. It should be finally noted that considering huge national, public, technological and economic value of the regional e-commerce segments it is required to develop governmental support measures including development promotion regulations on the regional and federal levels. Creation of the required organizational and legal instrument for distant trade in Russian remote regions would contribute not only to corporate and capital drain

abroad but also to more intensive development of the national IT infrastructure and therefore to the solution of regional socio-economic development issues.

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