Foreign Direct Investment Directed Towards E-Commerce Platforms

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Abstract
Internationalisation is regarded as the increasing financial co-dependency among different countries looked after by global trade, capital flows, knowledge, and migration. Behaviours towards such procedure substantially differ. E-commerce is changing the international trade and commerce landscape and is significantly contributing to a higher level in stimulating development and employment creation while creating strategic opportunities for social and financial progress of nations. On the other hand, FDI (foreign direct investment) flows varied substantially during the recent years and only managed to improve to the extent equivalent to the levels accomplished by the end of the crisis during 2016. E-Commerce has become an increasingly significant part of the international economy. It is transforming the business practices, and it has substantial insinuations for FDI. This research paper is focused on FDI directed towards e-commerce platforms.

Keywords: FDI, E-commerce, globalisation, MNEs

Introduction
Electronic commerce or e-commerce, in short, has dominated some of the continents with the regular increase in utilisation of the internet. Traditional buying and selling were in trend a few years ago; however, it made it difficult for the buyers to take out the time to explore a number of stores for a wide range of brands or products. In contrast, e-commerce made it comparatively convenient for shoppers to explore a wide range of retail store online at the same time without requiring them to move out of their comfort zone. E-commerce has spread to a large number of sectors in no time such as fashion, automobile, grocery, tourism and all other kinds of retail businesses. According to International Trade Centre (2017), international e-commerce including both local and foreign summed up to 25.3 trillion during the year 2015 out of which 22.4 trillion was contributed by B2B (business to business) e-commerce and 2.9 trillion was contributed by B2C (business to consumer) e-commerce.

Internationalisation is regarded as the increasing financial co-dependency among different countries looked after by global trade, capital flows, knowledge, and migration. Behaviours towards such procedure substantially differ. According to Braga (2018), lately, they have been affected by the international economic crisis and the emergence of mainstream leadership that accused internationalisation of the destruction of employment and increasing income disparity. Economic globalisation has been decelerated substantially during the past decade (Braga, 2018). Until 2016 international foreign capital flows witnessed a fall of approximately 65 percent as compared to the peak of 12.4 trillion achieved in the year 2007 (Lund, et al., 2017).

Figure 1: International Foreign Capital Flows, Source: (Lund, et al., 2017)

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A major part of this change was related to the decline in international coverage of the financial institution of the Eurozone during the period of crisis within Eurozone (Braga, 2018). However, FDI (foreign direct investment) flows also varied substantially during the recent years and only managed to improve to the extent equivalent to the levels accomplished by the end of the crisis during 2016. According to Braga (2018), the trade of commodities had been increasing by approximately 7 percent annually prior to the international economic crisis. However, since 2008, trade development has been weak and during some years recorded lower than the growth of global productivity for instance 2.3 percent at market exchange rates for international GDP against 1.8 percent for international trade volume in 2016 (Braga, 2018).

E-commerce is changing the international trade and commerce landscape and is significantly contributing to a higher level in stimulating development and employment creation while creating strategic opportunities for social and financial progress of nations. According to the International Trade Centre (2017), international B2B e-commerce is approximately 80 percent bigger as compared to B2C e-commerce and still, a major focus of the arguments and insights regarding e-commerce is towards B2C. The primary reason behind this is the fact that online presence for transactions of B2B e-commerce is mostly considered an additional thing to support business transactions that are usually performed via conventional methods of global trade where goods are imported in bulk quantity via container shipments, released through customs, and distrusted through the retailers. In contrast, B2C is carried out through a whole new method chain in which the vendors deliver the goods right away to the consumer through postal packages and the transaction is supported through a complete ecosystem which involves e-commerce platforms, e-payment service providers, and parcel delivery services. This innovative model creates challenges for the regulatory bodies especially the customs authorities to manage the increasing number of high-frequency, low-cost goods being traded across borders. Therefore, the majority of the policy discussions are focused on B2C operations.

Lately, e-commerce has been mainly confined within the local border; however, it has now expanded its reach across borders. According to the International Trade Centre (2017), an approximate 12 percent of international products trade was performed through global e-commerce in 2016. International online trade has been anticipated to grow by twofold as compared to local e-commerce by the year 2020 (International Trade Centre, 2017). Accelerated progress of international e-commerce creates new prospects for businesses from both developed and emerging markets to expand their reach into international markets. The digital gap between developed and emerging markets has been a primary concern for policymakers and it is evident, there is a substantial void related to the involvement in e-commerce. In contrast, according to the International Trade Centre (2017), predictions represent that, emerging markets are going to rapidly catch up specifically in terms of infrastructure that will create prospects for e-commerce development within their countries. E-Commerce has become an increasingly significant part of the international economy. It is transforming the business practices and it has substantial insinuations for FDI. This research paper is focused on FDI directed towards e-commerce platforms.

**Literature Review**

The prominent development of FDI within the last three decades has continually been the reason for contradicting responses in developed as well as emerging markets (Luo, et al., 2010). Precisely FDI has been termed as the acquisition of long-standing power by the investor in the administration of an organisation in a foreign country (Contessi & Weinberger, 2009). In the industrialised world, countries that export capital, as well as countries that import capital, have raised concerns over FDI. According to Kamble (2017), the countries that export capital are concerned about the outward capital flow which might cause a negative impact on their local investment whereas the representatives and labour of countries that import capital dread foreign proprietorship of the local organisations. Evolution in the developing phase and emerging markets and often local governments generally appreciate FDI while supposing investment via international action would bring additional capital, professional knowledge, and technology (Kamble, 2017). According to Kamble (2017), the most broadly acknowledge definition of FDI is recognised as the definition of benchmark set by IMF and OECD due to the fact that it was delivered by a combined expertise of the two global enterprises with the aim of settings standards for the domestic statistical bureaus for the accumulation of FDI data. According to Contessi & Weinberger (2009), the essence of the definition of FDI by IMF and OECD is that FDI is a global venture in which an investor while being in the home economy obtains a long-standing authority in the administration of an associated enterprise in the host country. As per the definition,
the presence of such long-standing authority is validated when the voting rights or shares held by the foreign partner is equivalent to a minimum of 10 percent of entire voting rights or share of the local enterprise. Kamble (2017) suggested that the critical thing about FDI is its supposed valuable influence on the progress. It is usually presumed that the FDI will promote development and encourage the technology transfer and essentially required knowledge to the host country. This professed role attained higher authority with the exceptional financial performance of the Newly Industrialize Countries (NICs) in the Asia region (Kamble, 2017). These NICs include Malaysia, Singapore, Taiwan, Hong Kong, and South Korea. The rise of China as the leading developing economy has further provided better distinction to the positive influence of the FDI on progress (Globerman & Shapiro, 2009). Conversely, the complex nature of fundamental reasons behind the accomplishment of the NICs in the Asia region does not document any limited resounding declaration regarding the influence of FDI on their progress (Kamble, 2017). Current studies indicate towards a host of complicated combinations of trade interventions by the government and macroeconomic as the substantial supporting elements (Yelpaala, 2010; Lall, 2013; myftar Kida, 2014).

While the improved significance of FDI in the global economy, in general, has been well recognised, it is a comparatively less valued fact a greater percentage of FDI is related to the global mergers and acquisitions (M&A) that often includes large-sized multinational enterprises (MNEs) (Klimenko & Qu, 2016). During the past few years, the majority of the global M&A transactions have occurred in finance, telecommunication, and transport sectors (Zheng et al., 2016). In fact, the service sector has turned out to be a main driving force behind international flows of FDI (Timmer, et al., 2014). According to UNCTAD (2014), services continued to be the reason for the biggest shares of both declared Greenfield ventures and M&A transactions during the year 2013. Specifically, an increasing percentage of service-related FDI is focused on e-commerce segment (Timmer, et al., 2014). Klimenko & Qu (2016) presented the example of the biggest e-commerce retail company Amazon that has been in the international business since last two decades either by taking control of leading domestic e-commerce platforms or by developing their own localised domains. According to Zheng et al. (2016), China has been among the main developing countries that have attracted FDI in e-commerce from a group of leading e-commerce retailers such as Expedia, eBay, and Amazon. According to Klimenko & Qu (2016), there are a number of different aspects to elucidate this sudden growth of FDI in services. Transformations driven by market have known to be complemented by the policy advantages and lately, a number of countries outlawed the FDI in critical services such as transport, telecommunication and finance (Klimenko & Qu, 2016). In the current era where most of the complications related to FDI in services have been eradicated, a few crucial ones are still there. Policy limitations that restrict the extent of international proprietorship in the services such as financial sector and telecommunication are still existent in a number of countries (Klimenko & Qu, 2016). According to Klimenko & Qu (2016), the most commonly witnessed policy limitations in e-commerce and telecom services are those related to the level of permissible international proprietorship. The form of limitations differs among countries with varied levels of market competition (Klimenko & Qu, 2016). Klimenko & Qu (2016) presented an example of the e-commerce sector. According to Klimenko & Qu (2016), China permitted e-commerce online data processing and transaction processing businesses to the possibility of 100 percent international proprietorship throughout the country since 2015. The present e-commerce business of China is dominated by the domestic e-commerce giant Alibaba (Zheng, et al., 2016). Conversely, Indonesia and India with comparatively less concentrated markets recapped their limitation on FDI in e-commerce retail during a similar period (Ramamurti & Hillemann, 2018). A significant aspect of most of the services markets is the existence of network effects (Haucap & Heimeshoff, 2014). In an increasing number of industries, retailers and consumers interrelate and transact through both online and offline intermediating platforms with network effects produced within as well as across both sides of a bilateral market that is the retailers’ side and the consumers’ side (Gazé & Vaubourg, 2011). According to Klimenko & Qu (2016), the advantage to a buyer for being a consumer of an e-commerce platform is based on the number of other buyers and retailers that belong the network of the same e-commerce platform. Provided the recurring occurrence of network effects in services sectors and the significance of M&As as a means for the FDI, the effects on the entrance of international business in the e-commerce markets along with the effect of policy limitations faced by these international organisations on retailers, consumers and e-commerce platforms along with the combine wellbeing of the host country needs to be further investigated.
According to Mbise, et al. (2018), evidence about FDI is not accessible at a distinct level. As per the estimation of OECD-DAC survey (2016), $81 billion was moved from the private sector by authorised growth investment interventions in the form of securities, syndicated credits, stocks in collective investment vehicles (CIVs), credit lines and direct investment in businesses between the period of 2012 to 2015. According to the Africa Investment Report by UNCTAD (2016), FDI in internet infrastructure and information and communication technology (ICT) summed up to 4.8 billion on 7 percent of overall FDI into Africa in 2016. According to Sen, et al. (2016), main South East Asian countries at present do not have implemented limitations on FDI in e-commerce especially in Indonesia where even e-commerce has been on the negative list until recently, the government issued a revised negative list that permitted 100 percent FDI in e-commerce subject to investment above Rp 100 billion or 7.5 million US dollars. Conversely, administrative processes continued to be a weakness (Sen, et al., 2016). Sen et al. (2016) presented an example of Thailand where approval from the Board of Investment is necessary for all kinds of foreign investments that contribute to the deceleration of the FDI. In terms of logistics, Indonesia appeared to have a limit of 33 percent on FDI in warehousing and distribution (Sen, et al., 2016).

Methodology
This research paper is solely based on secondary evidence and is focused on FDI directed towards e-commerce. For the purpose of this research, secondary data and reports have been used that is collected from published reports of leading financial institutions and publications, and research articles.

Discussion
The B2C e-commerce index 2018 by UNCTAD (2018) measures the markets’ readiness to facilitate e-commerce and extended its reach to include a total of 151 markets. According to UNCTAD (2018), digital preparedness has been a major attracting factor for FDI. A competitive B2C e-commerce environment as revealed by the B2C e-commerce index 2018 by UNCTAD (2018), seems to be attracting FDI. Digital readiness is attracting foreign direct investment. Majority of the top 10 emerging markets in the index witnessed influxes of FDI towards their e-commerce segments during the year 2017 totaling up to 1.7 billion. According to UNCTAD (2018), venture capital is also attracted to the favorable e-commerce ecosystem. In Thailand, the biggest recipient of the venture capital of 106 million were e-commerce businesses during the year 2017 (UNCTAD, 2018). The ride-sharing business from Singapore received a venture capital of 2 billion during the year 2017 (UNCTAD, 2018).

| FDI In E-Commerce Among Top 10 Emerging Markets In The Index, 2017 |
|-----------------------------|----------------------------------------------------------------------------------|
| Singapore                   | Alibaba invests $1 billion in Singapore headquartered Lazada.                    |
| United Arab Emirates        | Amazon purchases Souq for $ 583 million                                          |
| Malaysia                    | Alibaba invests $ 100 million.                                                   |
| Turkey                      | Amazon announces intention to launch; started operations in 2018 (no financial figures available). Alibaba announces intention to invest in 2017 and buys stake in local e-commerce company in 2018 for $ 1 billion. |
| Islamic Republic of Iran    | $ 100 million foreign investment by IIIC in leading e-commerce company Digikala. |

Figure 2: FDI in E-Commerce Among top 10 Emerging Markets in the UNCTAD B2C E-Commerce Index, 2017, Source: UNCTAD (2018)

The weight of ICT MNEs in global production has radically increased during the period of 2010 to 2015. According to UNCTAD (2017), the number of tech enterprises in UNCTAD’s list of top 100 MNEs increased by more than twofold. The resources of ICT MNEs increased by 65 percent and their working
profits and workforce increased by 30 percent whereas the trends of other MNEs in UNCTAD’s top 100 list stayed flat (UNCTAD, 2017). This significance of digital MNEs such as internet service providers, e-commerce platforms, and digital content firms has also been increasing at a fast pace. UNCTAD (2017), presented a new list of top 100 digital MNEs and the global production trail. According to UNCTAD (2017), 70 percent sales of digital MNEs were made across borders with a mere 40 percent of their resources based in the host countries. The influence of digital MNEs on host countries is less evident in direct physical investment and creating employment opportunities, but their investments tend to have a significant secondary impact on productivity and play an important role in digital progress. The acceptance of digital technologies in the international supply chain throughout all industries is going to have a profound impact on global production. Based on the industry and specific MNE preferences, this can lead to a less number of big investments in integrated production supported by big data and to quicker distributed production via 3D printing. This may result in reinstating local production and increasing outsourcing of services. In addition to that, it can result in reconfiguration of supplier associations in the host countries along with new business prospects. In the B2C e-commerce environment, there are various diverse business models which may have different implications for the contribution of Micro, Small and Medium Enterprises (MSMEs) in e-commerce. International Trade Centre (2017) presented an example of an e-commerce platform that acts as an enabler of the MSMEs operating in B2C retail sector while every MSME administers its individual supply chain and inventory. In contrast, in the inventory based model, the e-commerce platform administers its individual inventory and posts orders directly to the consumer while also letting other businesses to join in the same platform. According to Johnson & Mena (2008), fulfillment service is generally delivered through an inventory based model. It is important to understand the distinctive features of the two models because it could help in determining if cross-border delivery is going to occur in a direct vendor to customer small and low-value deliveries or at a bigger scale through fulfillment services. These features allow MSMEs to take different approaches in order to participate in international e-commerce. There might be a difference between policy approaches for both models. International Trade Centre (2017) presented the example of India for ordaining directive in 2013 to allow for 100 percent FDI in both B2B and B2C e-commerce strictly under the marketplace model. According to Kamble (2017), the objective behind the FDI policy of not placing any limitation on FDI on the marketplace model business was not same as the present complicated and indirect structure which some of the internationally financed marketplace entities have assumed.
Figure 3 represents that Y Company has FDI and, therefore, is unable to participate liberally in B2C retail transaction or e-commerce without fulfilling the strict requirements defined under the regulation. Conversely, Y Company is able to engage in the marketplace model of business liberally. Z Company with funding from Foreign X Company can help to overcome the limitation of the retail transaction. Z Company can sell the product at highly discounted prices in B2C transactions with the X Company that is the biggest B2C retailer in the marketplace site possessed by Y Company. This entire arrangement represents a perceived marketplace model. According to Kamble (2017); however, in reality, it is a complicated hybrid arrangement that includes inventory based model as well as marketplace model while abiding by the FDI limitation defined in the regulations. According to Kamble (2017), India prohibited FDI in inventory based model e-commerce to make sure that businesses with a marketplace model could not find a loophole to start acting similar to a retail transaction. However, more significantly, this laid down a number of riders on the marketplace entity in an attempt to control such confusing arrangements at various levels and it can be conveniently observed as an arrangement that firmly abides by the regulations. According to Kamble (2017), the two most significant riders include that firstly, a marketplace entity will not be permitted above 25 percent of its sales affected on its position from a single or its group establishments and secondly, marketplace entities will not openly or secondarily affect the market price of products or services. While observing the functioning of the current complicated hybrid models, a correlation can be contingent between the discounts provided by the B2C enterprises and the creating business opportunities for the marketplace models. According to Kamble (2017), the B2C organisations that retail products on e-commerce platforms purchase commodities from B2B enterprises at highly discounted prices. As a result, cross border investors having shares in such B2B enterprises accordingly reimburse or captivate these concessions. Ultimately the B2C organisations retail the highly discounted goods through the marketplace model and attract a large number of consumers and eventually become capable of achieving the targeted
gross merchandise value (GMV). It can also be said that there is a direct monetary spur associated with the marketplace in order to make sure to achieve the highest number of sales made through its platform. According to Kamble (2017), it is valuable to note that within such engagements the eventual foreign investor is associated with the downstream marketplace organisation. Kamble (2017) presented the example of Flipkart which is the Singapore based international financier and its marketplace is the downstream organisation in India.

Figure 4: Secondary Effect on Sales Price, Source: Kamble (2017)

Figure 4 represents that as the value of sales goes up on the market place, the revenue or commission on each sale made also goes up that means an increase in the overall profit. The obtained profits are distributed to the eventual international financier who holds the shares in the marketplace organisation. The concession can also be captured at the marketplace organisational level. Kamble (2017) presented the example of Amazon as the marketplace organisation that provides promotional finance to its retailers where concessions are suggested by the Amazon and its retailers eventually follow them. Subsequently, the retailers deliver a debit note to Amazon that is accordingly paid for by Amazon. This how secondary funding of concession works. According to Kamble (2017), an organisation such as Paytm, where Chinese e-commerce giant Alibaba has financed it, operates a payment gateway and offers a monetary incentive to the consumer on specific products after discussing and signing agreements with selected retailers. This type of strategy is mostly used to attract a higher number of users to make the payment while using their gateway. When in a conventional marketplace, setting the price of the goods stays the privilege of the retailers; however, according to Kamble (2017), in the complicated domain of e-commerce, this is not specifically true. It is not an easy take to establish if the prices of goods are openly affected by the marketplace models or they have a secondary influence on the cost of goods (Tian, et al., 2018).

In addition to that, the effect is a wide term and it is subject to various diverse explanations by different entities. The questions remain that if the term effect takes account of the trend of setting a destructive price that may lead to competition disputes. A few marketplace organisations assign the concession as advertising

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or marketing spending which is included in the marketing or advertising budget. It has been further anticipated that such type of resourceful accounting conduct would be considered as the disruption of manipulating market price. With reference to flows of FDI, it appears that efficiency seeking investments, which are usually export-oriented, are started to be influenced not just by nationalist policies but also by the economising of international value chains considering the decline in incentives for procedure breakup and by technology to such extent that the localisation decisions are not affected anymore by the costs of labour (Kaliszuk, 2016). All of these elements are creating motivations for localisation in small-sized flexible manufacturing facilities in close proximity to the end markets (Braga, 2018). As a result, MNEs are reconsidering their localisation policies to adjust to the increasing adopting of policies for the need of local and content (Braga, 2018). According to Braga (2018), recent IMF predictions demonstrate that the demand for capital and consumer goods is increasing with the restoration of the power of international economy and recovery of conventional trade flows are also probable.

Conclusion
As the trade of commodities had witnessed an annual increase of approximately 7 percent prior to the international economic crisis and since 2008, trade development has been weak, all such trends have combined to raise a few concerns that if the peak of globalisation has been accomplished and now it is receding and what will be the implication of FDI decision and policies. There is a presence of recurring aspects observed which can help in understanding the decelerating of trade. Weak collective demand and political instability are taking down the trade investment that previously used to trade intensive and is usually acknowledged as the main negative influencers within this context. However, it appears that there are other essential powers at work. The limited supply chains to deal with the geopolitical and environmental threats, trade tariff barriers, improved local content within Chinese exports, and the progressing shift headed for services in the global economy are a few common suspects recognised within this situation. The evidence regarding discrimination against foreign commercial interests has surged substantially during the post-crisis period. Concessions, localisation needs, and trade investment are known for significantly contributing to the recent trend of biased activities that usually escape multidimensional restraints. It is not easy to measure their true influence on international trade flow; however, it has become evident that they are playing their part in the deceleration of trade. In addition to that, current advancements in the technology, for instance, the influence of advanced robotics on the decision of MNEs to reinstate local production, have also had its influence on the trends of globalisation. It might be too early to contemplate if the boiling point of globalisation has been achieved. It can be argued that the world is currently in a phase of rearranging international manufacturing arrangements. Digital flows related to e-commerce, social networks, and entertainment are the leading forces of globalisation at present. Conversely, the fear of a less cohesive international economy has turned out to be true. Current events such as Brexit, implementation of nationalist measures by the United States under Trump rule and responses by the trade associates highlights the possibility of financial breakdown. It is unavoidable for the quantity and arrangement of FDI flow to escape the impact of such growth factors that on the one hand are likely to encourage market-seeking investment while on the other hand are raising suspicions regarding the advantages of trade-oriented FDI. Policymakers are required to make sure that they are not tempted to embrace such policies that are further going to promote such practices such as FDI limitations intended to enforce technology transfers. More consideration is required for the guidelines and there is a need for such infrastructure that encourages digital globalisation. This may include careful consideration when setting up regulations of domestic data storage and processing and transferring data across borders as this could put the business models of digital organisations at risk and can also obstruct FDI flow in today’s innovative age of globalisation.

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