

# **E-Commerce In A Developing Country Like Bangladesh: Philosophy And Reality.**

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## **Biographical Sketch:**

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## 1. Abstract

E-commerce has a significant impact on business costs and productivity. The Internet has opened up a new horizon for trade and commerce, namely electronic commerce (e-commerce) has a chance to be widely adopted due to its simple applications. Thus it has a large economic impact. It gives the opportunity for “boundary crossing” as new entrants, business models, and changes in technology erode the barriers that used to separate one industry from another. This increases competition and innovation, which are likely to boost overall economic efficiency.

However, e-commerce is considered as close substitute for the conventional on-shop transaction keeping in mind the premises that different types of media (print, audio, video, telephone, computer based communication system, etc.) are synchronized in the delivery process in buying and selling system. Of course, in this age of information super high-way, nobody can challenge the possibility that effective and quality services can be offered through different types of modern media – without any real shopping place. Real shopping centre can be substituted by the virtual market environment. Now a question frequently strikes our mind: “Is the realities in the developing countries like Bangladesh, where access to modern technologies is very limited, meet the philosophy of e-commerce?” This paper aims at examining whether there is any gap between the philosophy of the e-commerce and the reality in the developing countries like Bangladesh and identifies the factors lies behind this gap. Then suggests some measures to be taken to minimize the gap.

**Keywords:** Philosophy of e-commerce, Realities, Constraints, Developing country, B2B, B2G, media use, Access to modern technology.

## **2. Introduction**

E-commerce is a way of conducting business over the Internet. And it has the potential to alter the traditional form of economic activities. Already it affects such large sectors as communications, finance and retail trade and holds promises in areas such as education, health and government. The largest effects may be associated not with many of the impacts that command the most attention (i.e. customized product, elimination of middlemen) but with less visible, but potentially more pervasive, effects on routine business activities (i.e. ordering office supplies, paying bills, estimating demand). The Internet, through advanced mechanisms of data transfer networks, establishes global linkages between customers and suppliers regardless of geographic location. E-commerce entails the use of the Internet in the marketing, identification, payment and delivery of goods and services. It involves order processing at company Websites and securing Electronic Fund Transfer (EFT) payment systems.

## **3. Objective of the Study**

E-commerce facilitates the very process of international transaction; this involves securing and finalizing a contract, delivery of the product, and finally payment for performance of the contract. The movement of goods and services, as well as the payment mechanisms within a country and more so outside a country, are governed by regulatory and legal issues. Hence, the regulatory environment is at the core of e-commerce development. This paper aims to highlight the status, statutes, potential and constraints of e-commerce development in Bangladesh. Both the statutory laws as well as the challenges in implementing them will be attempted. The paper shall also list specific

policy changes aimed at bringing improvements to the legal and regulatory environment affecting e-commerce.

#### **4. Methodology**

The article has been written on the basis of secondary information. The secondary information and data were collected from published books, journals, research papers, and official statistical documents. Reports published on 'e-commerce' by Organization of Economic Cooperation and Development (OECD) provides important ideas regarding the topic.

#### **5. Definition of E-Commerce**

E-commerce or electronic commerce, is the process of buying and selling goods over the Internet. Other than buying and selling, many people use Internet as a source of information to compare prices or look at the latest products on offer before making a purchase online or at a traditional store. E- business is sometimes used as another term for the same process. More often, though, it is used to define a broader process of how the Internet is changing the way companies do business, of the way they relate to their customers and suppliers, and of the way they think about such functions as marketing and logistics.

#### **5.1 E-Commerce Business Models**

##### **Business model**

A set of planned activities designed to result in a profit in a marketplace.

##### **E-commerce business model**

A business model, that aims to use and leverage the unique qualities of the Internet and the World Wide Web. E-Commerce business models integrate the internet, digital

communications and IT applications that enable the process of buying and selling. E-commerce business models are

1. B2C (Business to Consumer)
2. B2B (Business to Business)
3. B2G (Business to Government)

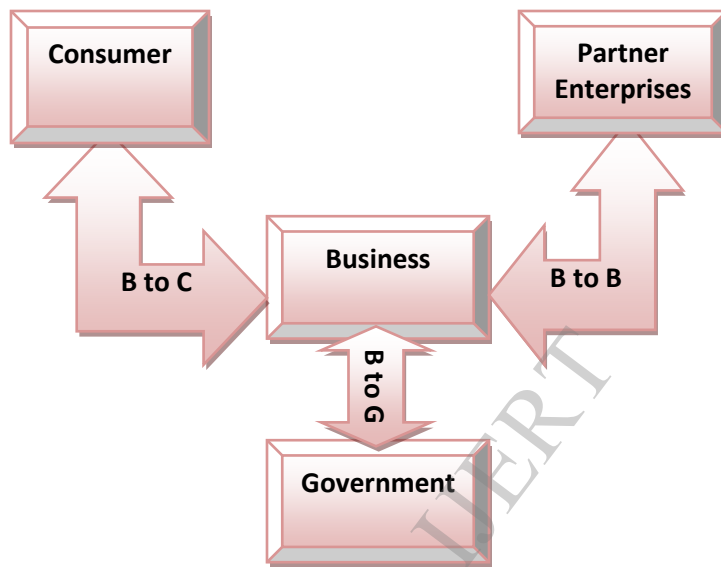


Fig. 1. Models of e-commerce

**Business to Consumer:** B2C e-commerce is unlikely to be of much use in the near future in Bangladesh because of low per capita income, a weak infrastructural and legal environment, lack of trust between business and consumers. B2C for cross border trade is also limited by the factors suggested for the domestic front. In addition, non-availability of international credit cards, foreign currency remittance restrictions, delays and informal payments at customs clearance even for small value and quantity items will discourage B2C.

**Business to Business:** The B2B application already exists in the export sector of Bangladesh, especially in the Ready Made Garments (RMG) industry. RMG has the lion's share of the export earnings in Bangladesh. The RMG sector has begun to use the Internet, and its dependence on ecommerce is likely to grow in the coming years. The Internet would enable them to seek information about potential buyers as well as raw material suppliers. Similarly the practice of posting a website by individual producers has begun. However, if Bangladeshi producers are unable to accommodate electronic transfer of payment and other facets of e-commerce, the business opportunity will move on to countries that have developed such systems.

**Business to Government:** B2G e-commerce is possible in Bangladesh, but on a limited scale at this stage. The government is a major buyer of goods and services from the private sector. Typically, the government procures goods and services by inviting tenders. Transactions involving information collection, obtaining various governmental forms, registering activities can also be conducted on-line. This will reduce time costs, corruption and the necessity of going through lengthy bureaucratic procedures as well as increasing transparency.

Figure 1 depicts the three dimensions of e-commerce. Business-to-Consumers (B2C) ecommerce is practically non-existent within Bangladesh, while a very limited level of Business-to-Business (B2B) and Business-to-Government (B2G) transactions exists. The potential for use of

e-commerce by Bangladeshi consumers and businesses with foreign firms is much brighter, and can play an important role in boosting the country's exports. A significant volume of B2G is also possible, as the government remains the biggest spender.

## 6. E-Commerce , Globalization and Bangladesh

Globalization has brought in many changes in the business scenario with the whole world inching towards one big market place. Communication between the buyers and sellers has become critical as each can opt to explore a greater number of alternatives than ever before. E-commerce through Internet, e-mails, websites, and other facilities, enables a businessman to be linked with every corner of the world, and thus opens up greater opportunities in the world market.

Another important factor is the time required for completing a business transaction. As markets are becoming competitive and informative a quick, reliable and replicable transaction implies availing of prevailing opportunities. On the contrary, delays in processing a transaction might become synonymous to wasting an opportunity. Therefore, a fast and alternative mechanism of communication, contract, and payment is an integral part of a globally competitive business organization. And here there are no alternatives other than the e-commerce.

How important or relevant is e-commerce to the economy of Bangladesh – a developing economy – in general and to the export market in particular? The Information Technology (IT) revolution has been too phenomenal to predict its future growth and its use in an economy like Bangladesh's. In the light of the recent spate of globalization and the initiation of the World Trade Organization (WTO), assessing the immediate and short or medium term relevance of e-commerce to Bangladesh becomes imperative.

A review of the trade scenario of Bangladesh reveals that it has accepted the challenge of globalization by pursuing the most liberalized trade regime in South Asia. As a signatory of WTO, Bangladesh has accepted the Code of Good Practice of the WTO Agreement on

Technical Barriers to Trade. Consequently, it is expected to adhere to various standards and technical regulations. To face the challenge posed by globalization, Bangladeshi producers will not only have to offer goods and services at competitive prices, but also have to ensure timely delivery, quality control and an efficient and reliable payment mechanism.

However, the steps taken towards trade liberalization in Bangladesh become ineffective as a result of poor governance and weak infrastructure. Even simple day-to-day transactions with government bodies are characterized by unnecessary delays, obstructionism by public sector officials and demands for illegal payments. In addition to corruption, trade related regulations that are vague, contradictory and improperly implemented aggravate the situation.

## **7. Implementation of E-Commerce in Bangladesh**

Electronic commerce generates competition, revenue and profit. It also creates flows of goods and services and hence traffic. Subsequently, it can act as an incentive for investors to finance locally available infrastructures, connectivity and bandwidth.

Access to e-technology such as the Internet is a necessary but not a sufficient condition for the development and growth of e-commerce. The popularity of e-commerce in any economy will be dependent not only on the cost, efficiency and reliability of Internet technology but also on the supportive framework that includes legal and financial infrastructural support as well as support in the form of technical expertise (know-how). A weak and inefficient supportive environment can damage the trust among partners and will stranglehold the possibilities and attractiveness of using technology for business and commerce.



### **8.1 The Regulatory and Legal Environment of Bangladesh**

To keep pace with the new era of globalization, Bangladesh's legal framework must ensure that appropriate legislative, judicial and administrative processes that support the public interest and private economic rights are in place. However, not much has been done in Bangladesh towards achieving that goal. Although certain century-old laws are being updated, the only significant legislative changes made in recent years have not proved to be very effective because of weak enforcement or provisions that allow for over-regulation (e.g. the Financial Loan Courts Act; the Securities and Exchange Commission Act).

Akin to any business sector, the regulatory and legal environment affecting trade and commerce will influence e-commerce development. These include institutional and policy directives as well as implementation capability and constraints relating to integration of the Internet and movement of goods and services. Despite the presence of a good infrastructure the failure to move goods and services and make payments on par with the international norms may dissuade businesses to embrace e-commerce.

### **8.2 Telecommunications background**

Access, pricing, and the quality of Internet services are critically dependent on the status and performance of the telecommunications sector. The telecommunication sector of Bangladesh is characterized by poor level of penetration, high cost to access, \$341 connection fees for each telephone, one of the highest in the world, and a lengthy waiting period (average waiting period for a new telephone connection varies from three months to ten years).

In recent years the government has demonstrated the need for increased participation of the private sector in the production and delivery of telecommunication services. Although the Bangladesh Telegraph and Telephone Board (BTTB) continues to be a monopoly in providing basic telephone connections, the private sectors involvement in cellular phones and as Internet Service Providers (ISP) have been allowed. Private sector participation in improving and widening the telecommunication infrastructural facilities has also been accepted.

In the backdrop of the public-private mix, the legal and regulatory environment plays a key role in the type of market structure under which this sector will perform. The prevailing statutes and their implementation will play an important role in bringing additional investments, infusion of technology, and dictate the level of competition among the providers of telecommunication services relating to the Internet.

#### **8.4 Financing and Banking System**

##### **Financing Mechanism**

There are three types of export financing in Bangladesh: pre-shipment financing in local currency by commercial banks; pre-shipment financing in foreign currency by commercial banks through the Export Development Fund (EDF); and back-to-back letter of credit (L/C) facilities.

Exporters can access credit in local currency from private and nationalized commercial banks at a concessional rate determined by the Bangladesh Bank (BB). The Interest Rate Policy introduced in 1992, which liberalized interest rate ceilings for all categories of lending except to export, agriculture, and small and cottage industries, permitted individual banks to differentiate interest rates charged to individual borrowers. The

interest rate bands for exports have been set in the range of 8 percent to 10 percent since 1994-95.

Exporters can obtain export credit for up to 90 percent of the value of their irrevocable L/C or sales agreement for a maximum period of 180 days. The Export Development Fund (EDF), administered by the Bangladesh Bank (BB), provides pre-shipment financing for imports of necessary raw materials, spare parts, and packaging materials for exporters of nontraditional items. Like other export credits, the time limit for repayment is usually 180 days, extendable to 270 days in exceptional cases.

### **Banking System**

In Bangladesh, electronic fund transfer has got a revolutionary changes and presently it's been using on a large scale. Electronic banking, which is highly dependent on the application of IT, has been pioneered by the foreign commercial banks. The local banks are yet to be fully automated but not far behind. Most local banks use computers on a stand-alone basis. In this regard the conditions of the government controlled banks are very poor. The extent of computerization in the government banks is limited to database management and electronic communication (through e-mails) only. The foreign commercial banks and local private banks are offering on-line banking facilities in the form of Automated Teller Machines (ATM) and local credit cards. Also, the banks are now offering ATM facilities have formed a common ATM pool. Under this system, a customer of any bank in the pool can receive the services using the same ATM. And recently Dutch Bangla Bank has introduced "Fast Track" facility where numbers of ATM booth will be available in one roof.

### **8.5 Skilled Manpower**

Successful application of e-commerce demands not only availability of technology and infrastructural facilities but also a skilled manpower that can appreciate and apply it. Bangladesh lacks skilled manpower and knowledgeable managers in the IT sector. Computers are primarily used for word processing, making presentations, e-mails in selected formal sector business establishments. However, the communication is constrained by the quality of verbal and written communication skills in English, which is mediocre at best, even among university graduates. If Bangladesh aims to interact closely with the international markets and seeks growth through exports, improved communication and computer skills among various segments of the society are imperative.

A good understanding of the current benefits and future opportunities of e-commerce is essential for the advancement of e-commerce. The lack of knowledge among public officials about the Internet and its potential, and their application in e-commerce, significantly handicaps policy reforms in this sector. In the private sector, viable IT sector projects fail to obtain financing due to the lack of understanding of the investors.

In the software development sector, Bangladesh has not shown much success because of the lack of qualified programmers and lack of initiative in the development of skilled manpower. Isolated, individual efforts were taken for initiating data entry and software export with limited success. These efforts were not successful because of inadequate experience, lack of quality control, inability to meet the deadlines as well as a failure to globally market Bangladesh's keen interest and attempts to enter this market. However, selected entrepreneurs and organizations continue to make concrete and positive efforts

to become involved. For instance, the Grameen Bank has recently set up a Software Village, the long term goal of which is to increase software exports from Bangladesh.

### **8.6 Governance and Policy Implementation Constraints**

Regulatory intrusiveness is a way of economic life in Bangladesh. Ageing laws on patents, trademarks and copyrights; post and telegraphs; land ownership and transfer; and employment have yet to be brought into alignment with modern practices and requirements (The World Bank, 1996).

In addition to this, Bangladesh has an intractable problem of poor governance. This has been manifested in the form of continued involvement of politicians and public officials, often in collusion with the private sector, in undermining the rule of law. As a consequence, institutions continue to remain weak and legal and regulatory reforms are difficult to implement. Rent seeking activities galore, discouraging competition and promotion of efficiency.

The problem of poor governance in conjunction with ambiguously drafted, inconsistently applied, and often contradictory regulations makes the whole process of dealing with the government an experience that most businessmen prefer to avoid. The lack of confidence in secure and flexible business transactions is widespread among the business community. This makes the prompt implementation of legislation and enforcement of court rulings just as important as the very substance of the legislation itself.

Poor governance can be both a cause and an indirect effect of ineffective e-commerce development. If the cost of doing business remains high, characterized by bottlenecks, red tape and corruption, the efficiency gains from e-commerce becomes moot. Trade and commerce through e-commerce assumes business norms and practices that are mutually

acceptable or understandable between buyers and sellers. Poor governance discourages trade in general and e-commerce in particular. The amount of time that businesses have to spend as well as the side payments they have to make to complete any simple transaction can be lengthy and time consuming.

## **8. Findings and Recommendations**

### **Findings**

This paper highlights various constraints to commerce and trade in general and e-commerce in particular. Many of these constraints are endemic across the business sector and demands major reforms through strong political commitment and an ability to implement policy changes. A list of specific constraints to e-commerce that policy makers can address in the short and medium term is summarized below.

- Φ Absence of a strong independent regulatory body for the telecommunication sector.
- Φ Restriction on issuance of international credit cards prevails. Lack of internationally accepted credit card facilities deprives genuine businessmen from initiating businesses or making international transactions smoothly. Furthermore, it also sends wrong signals to their foreign counterparts about the inability of Bangladeshi businessmen to make speedy payments through international credit cards.
- Φ Illegal cross border payment.
- Φ Absence of encryption law that precludes acceptance of digital signature.
- Φ Strong dependence of Letter of Credit to conduct international transactions.
- Φ Interest rate ceiling on export loans.

## Recommendations

The followings are some of the recommendations that will ensure the smooth functioning as well as the wide spread use of e-commerce in Bangladesh.

- Φ Bangladesh Telecommunications Regulatory Commission (BTRC) should be established independent of the government control.
- Φ Voice over Internet Protocol (VoIP) and private international gateway for voice and data should be allowed.
- Φ The number of pre-shipment agents (PSI) should be increased. The size of fines and penalties on PSIs should be increased for breach of rules and regulations.
- Φ Posting of government documents and publications including budgetary information on the Web should be instructed.
- Φ Contracts and other alternates to Letter-of-Credit (L/C) should be allowed as legal methods for international transactions.
- Φ Foreign exchange controls on travel and for business should be relaxed.
- Φ BTTB's monopoly in the nationwide long distance services should be ended.
- Φ The control of foreign exchange should be liberalized gradually, and issuance of International Credit Cards should be allowed.
- Φ Government officials are to be oriented on the benefits of e-commerce. For instance short course can be offered at training centers such as the Public Administration Training Center (PATC).
- Φ Business associations and organizations should be made aware of the benefits of e-commerce. BGMEA can play a significant role in this.

- Φ Greater competition among the Internet Service Providers (ISPs) should be promoted and new ISPs should be encouraged to come into business.
- Φ Revise and update ageing laws on trademark, copyrights and evidence.
- Φ Court procedures should be simplified and expedited. Administrative and institutional constraints in settling disputes should be removed

## 9. Conclusions

Despite being a poor country, selected segments of the Bangladeshi business community has embraced technology with reasonable success. The Facsimile in the 1980's and mobile telephones in the 1990's popularized modern technology in the mass market. Personal computers and the Internet are also emerging as day-to-day business tools. These positive indicators are favoring the prospects of e-commerce in Bangladesh.

The focus of this paper was on the current state of the regulatory environment in the financial and technological sectors of Bangladesh. Necessary reforms in order to introduce e-commerce have also been suggested. Lack of awareness among the policymakers has been identified as the major deterrent to introducing e-commerce. Conventional understanding of payment mechanisms raises false alarms against the flight of capital if e-commerce is implemented.

Synergy between telecommunications and information technology has the proven capability of monitoring and administering the real-time transactions. Therefore, liberalizing the telecom and IT sectors as well as reforming the country's financial and commercial procedures is the preconditions of successfully implementing ecommerce in Bangladesh.



In the case of marketing, simply having a website in the vast sea of the Internet is not sufficient. Uniformity is an important factor in the commencing of contracts through the Internet. Therefore, to take advantage of the newer opportunities that IT development presents, the Bangladeshi companies have to attain internationally accepted certification on quality control, competitive price and timely delivery.

This paper presents possible e-commerce application in the RMG sector. Availing of the IT technology by the RMG as well as other export-oriented industries is likely to become a necessity (because of international demands and expectations) rather than a choice. Banks, customs and other supporting institutions, along with the entrepreneurs exporting goods and services, will have to accommodate the external demands in order to maintain competitiveness and open new global opportunities.

Creating awareness among the Bangladeshi exporters regarding e-commerce is essential. They have to be knowledgeable to appreciate and to utilize the benefits of IT. The exporters are not required to acquire operating knowledge on IT. Their understanding on the cost-benefit aspects followed by adopting e-commerce would be an achievement. Business associations can play a major part at this juncture by highlighting the benefits of IT to its members, and encouraging them to use customized software for their day-to-day operations.

The overview of the legal and regulatory statutes suggests that Bangladesh has made significant progress in facing the challenge of globalization and concurrently, embracing e-commerce in due course. Technological and infrastructural constraints to e-commerce can be overcome if existing laws and regulations are implemented. A better

understanding of the potential benefits of e-commerce by the policy makers and bureaucrats is essential for speedy implementation and further reforms.

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