

Photograph by Troy Scheid

e-nationalism

by James Wang

E-commerce and internet start ups are dominated by human capital trained within the US. Lacking the necessary skills and experience, it is difficult for local capitalists in developing countries to get a foothold in the e-commerce industry. Local capital in developing countries have a particularly hard time competing with multinationals that bring in skills, experience, money to set up distribution, and functioning models for e-commerce. If we think of dependent development as a balancing act between multinationals, the state, and local capital,¹ the e-commerce industry makes multinationals the dominant of the three by offering a new range of investment options for foreign capital.

When considering investing in a developing country, multinational firms usually consider the trade-off between liquid assets and profitability. The more liquid assets are—the less permanent capital investment is—the less risk of financial loss during periods of political upheaval. A factory, for example, is not a liquid asset because it can't be moved. E-commerce is an industry where business can be run from anywhere; it is very liquid.

E-commerce is all about being the middle man. It can have less to do with providing products or distribution than providing an efficient and marketable link between the two. Companies like Yahoo!, Amazon, and Priceline do precisely that: they market products like DVD players and Pokemon along with a variety of services. For every DVD player Yahoo! sells off of its website, it makes a commission. It is through pre-set commissions on sales, not advertisements and trafficking fees, that search-engines and online companies such as Priceline generate the majority of their revenue. This general model, formed around being the middle man, can be tailored to specific industries and products, which is what most internet start ups, lacking the name recognition or listing resources of a Yahoo!, have to do. Once a start-up has a functioning website marketing a particular product or service, all it has to do is create a distribution connection between producers and

dustry with 1,316,132 in vehicle sales (\$32.7 billion) in 1999 according to CNW Marketing Research Inc. of Bandon, Oregon, only state-licensed dealers may sell cars to consumers. The state, under the lead of Carol Kent in the Department of Transportation, has strictly enforced this policy by shutting down small to large size e-commerce operations. State regulations forced Ford to shut down its Houston-based e-commerce site, fordpreowned.com. After Ford sued the State of Texas, U.S. District Judge Sam Sparks in Austin, the nation's trendsetting law district for internet disputes, rejected Ford's request to halt enforcement on the ban. In addition, General Motors was denied a dealer's license to sell cars directly through its website. GM sold all of the retail dealerships it set up to handle distribution of the website's business. In Texas, state policy has forced online dealers to shift strategies. Companies like CarOrder.com of Austin, a unit of Trilogy Software

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consumers. A brief look at the domestic car industry within the U.S., which was valued at \$350 billion in 1999 alone, offers valuable insight into how macroeconomic policy governing e-commerce is shaping itself around a battle between brick and mortar car dealers and internet start ups. It also provides a helpful model for thinking about e-commerce in developing countries.

The car industry is a great example of the advantages and limitations of e-commerce. Lead generator sites—sites that take in consumer specifications for cars and return contact information of sales representatives at car dealerships that have those cars—are rapidly developing (or have developed) the ability to sell cars directly to consumers. Autoweb.com, Cars.com, Carclub.com, and Microsoft's Carpaint.com are the major Lead generator sites. They are developing the ability to sell directly in order to compete with direct sales companies such as Autonationdirect.com, CarsDirect.com, CarOrder.com, Driveoff.com, and Greenlight.com. Hybrids such as Autobytel.com, which offer both direct sales of cars and referrals to showroom dealers at the floors of local car dealers, seem to have the winning web model. But the development of e-commerce in the car industry is most notable because of the stiff resistance e-commerce companies have met with policy in states such as Texas. Within limits, Texas is a microcosm of the interaction between state policy, local capital interests, and internet companies.

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Inc., are acquiring physical dealerships within Texas to act as distribution sites for sales made over the web. These dealerships, of course, already have licenses. Other companies, such as Driveoff.com, have formed associations with brick and mortar car dealers. Car dealers pay a flat \$1,000 fee to join the association for two years, and DriveOff.com offers these dealers exclusive referrals. Still other companies like Autoweb.com charge a flat fee to dealerships that want referrals from a specific zip code. Keep in mind that, according to J.D. Power & Associates, only 2.7% of new vehicles sold nationwide were sold via the net in 1999. All of these sales ultimately went through car dealers. In other words, no e-commerce companies in the car industry have managed to create a successful vertically integrated structure—owning all of the process from production, to sales, to distribution via the web.

The development of e-commerce in the car industry in Texas underscores the fact that tough state policies hold enough influence to create difficulties for e-commerce, especially in a lucrative industry with established economic players. Car businesses hold a tremendous amount of cash flow, and are already launching their own defenses: 816 of 1,100 dealerships in Texas already have their own websites. The Texas dealers association has hired Public Strategies Inc., an Austin corporate consulting firm, to help launch its online defense. Outsourcing—hiring firms that develop e-commerce web sites for you—is becoming common practice for car firms as well as firms in other industries.



MPI supporters protest gov. policy in Mexico City. 1996

If we take the key players in the Texas model, and extend this situation to foreign markets undergoing dependent development, what do we see? Granted, the comparison isn't exactly a fair one, but what has happened in Texas offers valuable insights into the future of e-commerce in developing countries. Unlike the state government of Texas, which shows strong loyalty to local car dealerships, governments within developing countries may not hold such an allegiance to local capital elites. On the contrary, such governments often go out of their way to court multinational companies at the expense of local capital elites.

Exactly how big is e-commerce in the developing world? Latin Americans spent \$167 million in 1998 buying products and services online. This number is predicted to grow to \$8 billion by 2003, according to International Data Corp. of Framingham, Massachusetts. According to Boston Consulting Group, however, the majority of the \$167

Online Latin America, a joint venture with Cisneros Group. Microsoft Corp. is joining Telefonos de Mexico SA(Telmex) in order to build a web portal in Spanish. Where hardware is concerned, Compaq and Dell have Latin America staked out. The biggest protection for local business in Mexico right now is actually aimed at business-to-business transactions, which require signatures. But there is no policy—like the licensing policy for car dealers in Texas—which covers the revenue flowing from consumers to firms. Remember Carorder.com? They're the company in Texas that, in order to get around licensing policy preventing online sales of cars, decided to purchase a chain of car dealerships for distribution. What happens if foreign multinationals adopt this strategy of online service combined with local distribution? What if they dominate production as well? In some developing countries, this is already the case. Even more important, what about firms



Skyline of a postindustrial city

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million was spent on sites owned by U.S.-based companies. The few e-commerce companies partially run by Mexican nationals, such as Infotel, the Mexican unit of the Spanish Internet Company Terra Networks SA, have had hard times securing capital from big local banks. Infotel is a popular consumer portal that offers services such as news, chatrooms, product sales, and internet access. The engineers at Infotel don't even have the know-how to process credit card transactions online—the company currently prints out credit card information and processes sales by hand. Engineers at Infotel get paid an average of \$30,000—about three times less than what computer engineers can earn in the U.S., excluding stock option offers². Infotel's offer to Banco Nacional de Mexico SA(Banamex), which it hoped would give it online credit card transaction ability, was refused. Banamex, however, instead joined with Commerce One Inc., a U.S.-based company in Walnut Creek, California. Infotel is a good example of local capital's (though it is only local in the sense that the CEO is Mexican) inability to compete with U.S.-based internet start ups. Large businesses, such as Banamex, would rather outsource than deal with inexperienced local capital elites.

Forget about outsourcing: when you add multinationals such as Microsoft and AOL into the picture, the success of companies run by nationals such as Infotel seems highly doubtful. AOL, which has already launched its service in Portuguese in Brazil, will soon sell stock in America

that follow Autoweb.com's model of lead generating? E-commerce companies that make fixed percentages off of sales of products made and distributed locally will not only dominate competition coming from locals, but provide an obstacle for governments attempting to collect sales tax on web transactions. If we can be certain of one thing, it is that governments in developing countries won't be able to monitor online transactions, and nothing will stop the amazons and autowebs from lowballing profit statements in order to avoid taxes. Such firms can be based in the U.S.; they can operate with a minimal level of capital and management present in the developing country from which they are earning revenues. Whichever of the preceding models is used by e-commerce firms, the amount of revenue flowing directly from consumers in developing countries to U.S. based firms will increase exponentially in the next few years. A few governments, in an attempt to get at some of this revenue, have adopted policies benefiting local business. China, for example, requires that 50% of foreign companies, including internet service providers, be owned by Chinese shareholders.

In China, e-commerce sales last year topped \$10 million for 1999 and are projected to hit \$3.8 billion by 2003 according to Infotech consultants International Data Corp. But even in China, which has required IPOs to be approved by the state council in an obvious attempt to get a hold of some of the wealth e-commerce will generate, finite measures for monitoring and taxing sales between firms

and consumers have yet to be established. If taxation there is to follow the development of other industries, such as steel and oil, “taxation” will more likely boil down to the government negotiating for a preset amount of revenue from big e-commerce firms.

Let’s be honest in our assessments about developing countries: the Chinese Communist Party (CCP) doesn’t even use the invoice system, and has a hard time taxing its own citizens. It’s highly unlikely, with its staff of 500 government subordinates controlling all venture-capital operations, that the central government will be able to successfully monitor online transactions between consumers and foreign firms. The CCP’s policy requiring all encryption technology used by foreign firms to be submitted to the Special Control Management Department in Beijing is an unfeasible policy attempt at creating an apparatus with which to monitor business transactions. In a very simple sense, the balancing act between the state, multinationals, and local capital elites breaks down if the state is unable to enforce its own policies. The state government of Texas is highly effective in enforcing its licensing laws. Most foreign governments, however, couldn’t enforce as well as Texas even if they tried. Throw in the fact that many foreign governments are courting multinationals for investment, and state policy limiting multinational domination of local industry will be a difficult, if not impossible, balancing act for foreign governments to undertake.

Because the vast majority of human capital for the high-tech market is created in the U.S., developing nations are unable to compete in the e-commerce industry. Simultaneously, e-commerce gives already dominant multinationals a larger range of investment options than they’ve ever had before. Permanent capital investment in the means of production combined with a strong e-commerce model allows online companies to vertically integrate. If country risk analysis is unpromising, however, e-commerce now allows multinationals to benefit off of products and services that are locally owned via fees for online sales. Multinationals can do what Yahoo! and Amazon have been doing all along: getting fees off of sales made by both international and local distributors. E-commerce companies, with enough expertise, can cut out a sizeable share of the consumer market in developing countries without having a significant local base of operations. In either case, government policy towards e-commerce in developing countries will have a profound effect on our bullish economy, which is relying heavily on technology growth. People who talk about the end of the nation state don’t know what they’re talking about: e-commerce may bring about the most protectionist policies ever seen.

¹ Evans, P.(1979). Dependent Development. Princeton, Princeton University Press. Pages 1-101

² Petersen, Andrea. “Opening a Portal:E-commerce Apostles Target Latin America, But It’s a Tough Sell.” The Wall Street Journal. 25 Jan. 2000 natl. ed.: A1+.