

*Yaroslava Biloshytska*  
*Student,*  
*Economic Cybernetics Department,*  
*Taras Shevchenko National University of Kyiv*  
*Kyiv, Ukraine*  
[beloshitskayaa@ukr.net](mailto:beloshitskayaa@ukr.net)

## **THE IMPACT OF E-COMMERCE ON FOREIGN DIRECT INVESTMENTS**

### **Abstract**

The paper studies e-commerce's influence on Foreign Direct Investment (FDI). The inflow of foreign direct investment is an important indicator of the country's international attractiveness, a sign of the quality of the investment climate and a key indicator of competitiveness in the international capital market. FDI is an important factor in stimulating economic growth in Ukraine. Currently, the Ukrainian e-commerce market ranks first in Europe in terms of development and has great potential. The study examines the trend of changes in foreign direct investment (FDI) and their relationship with selected economic indicators. The paper makes regression analysis of data collected from 2008 to 2019e. The results show that the volume of e-commerce determine the level of FDI to Ukraine.

**Key words:** e-commerce, FDI, Multiple Regression.

### **Introduction**

Today, in the context of globalization and technological development, more and more factors affect the economic situation in the world. One of the main steps to avoid the negative consequences of the country's economic activity is to analyze the consequences of attracting and using foreign direct investment.

In recent years, the impact of foreign investment on the country's economy has been increasing, due to the fact that Ukraine is in the process of reforming its economic activity to the international level. Attracting foreign direct investment (FDI) flows is one of the main steps that helps to overcome the crisis, increase financial and economic indicators, attract the latest technologies.

In new economy, knowledge and information have become the main production factor. In this context, innovation and technical progress have a major contribution to the durable economic development. The electronic commerce is the key for enterprises' competitiveness in this informational era, insuring the access to new market segments, increasing the speed of developing business.

The e-commerce market is developing very fast, despite the global crisis and various negative situations in Ukraine. According to eMarketer, the average growth rate in the world is about 18-20% per year, which is about 10-12% of all retail sales. Moreover, in our country it is one of the most successfully growing industries.

The impact of the electronic commerce upon the economy and upon society will be of great importance both as extent and as intensity.

The subject of this paper is e-commerce in the Ukraine as factors influencing FDI.

The purpose of this study is to test the link between e-commerce and foreign direct investment and to build a model for predicting the impact of e-commerce on foreign direct investment.

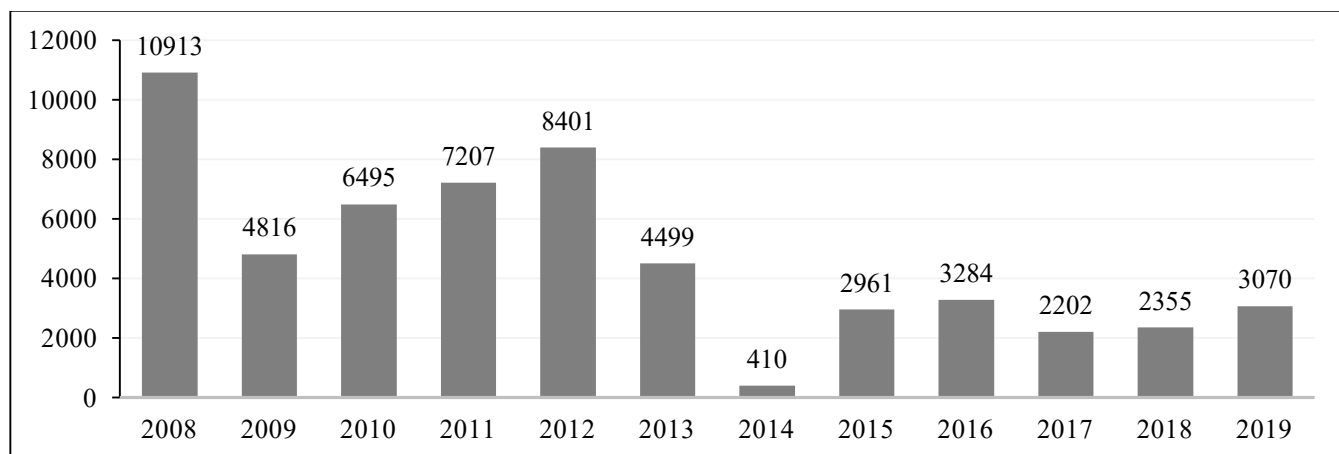
### **Literature overview**

The digital economy is becoming an increasingly important part of the world economy. It is revolutionizing business practices and has important implications for foreign direct investment (FDI). However, little systematic analysis has been done to investigate the investment models of digital multinationals (MNCs). The study by Bruno Casella and Lorenzo Formenti [1], conducted in the context of the UNCTAD World Investment Report 2017 (WIR17), is an attempt to fill some knowledge gaps and give impetus to future research. It offers a new framework for the digital economy, creates a large sample of MNCs and describes their international operations. The main conclusions are that MNCs in industries with a high degree of digitization have a "lighter" trace of FDI than traditional MNCs; they tend to concentrate their operations in several highly developed countries, and their investment models are more driven by fiscal and financial motives than by traditional MNCs. As digital technologies and business models tend to spread in the wider economy, this may mark the beginning of a new era of international production and internationalization of MNCs.

Aparajita Roy, Shantanu Mazumder and Swapan Kr. Maity (2018) [2] state in their paper that the impressive and unprecedented growth of FDI in the global economic landscape over the past two decades has made them an integral part of the development strategy of both developed and developing countries. It plays an important role in the economic development of the country through the modernization of technology, management skills and capabilities in various sectors. The growing Indian market has attracted a number of foreign retailers and domestic companies to invest in the country. FDI in the retail sector can expand markets by reducing transactional and transformational costs of business by introducing innovations in the supply chain. The article aims to identify the impact of FDI on various retail stakeholders and the country's GDP over the last fifteen years (2001-2016) using the Johansen Joint Integration Method and the Granger Causality Test, as well as to look for opportunities for retail growth in India. and analyzing the attractiveness of the industry using Porter's five-force model.

## Results

Regression and trend models were used for analysis in this study. The object is the economy of Ukraine. In the first part of the section we consider trends in foreign direct investment in Ukraine over the past 12 years (Fig. 1).



**Figure 1. Flows of FDI in the economy of Ukraine in 2008-2019 (in million US\$)**

**Source: [3]**

Analyzing Figure 1, we can conclude that the dynamics of foreign direct investment of Ukraine is unstable and until 2014, before the military conflict, the values were much higher. However, for the last 5 years in 2014 and 2019 we can observe the highest rates of foreign direct investment in Ukraine.

The purpose of this paper is to test the link between e-commerce and foreign direct investment in Ukraine. Several economic indicators were selected to determine their impact on foreign direct investment in Ukraine. GDP, inflation and interest rate were chosen.

Based on the collected data, a multiple regression was constructed:

$$FDI = 3835,58 - 144,21 \text{Inflation} + 37,67 \text{GDP} + 62,5 \text{E-commerce} - 286,1 \text{Interest\_rate}$$

**Table 1**

<b>Regression model characteristics</b>				
<i>Measure</i>	<i>Coefficients</i>	<i>Standard Error</i>	<i>t-statistics</i>	<i>P-value</i>
Intercept	3835,581647	43,60313304	0,887331	0,404355
Inflation	-144,2179635	8,502123093	-1,62954	0,147221
GDP	37,67112127	23,13688956	1,628184	0,147510
E-commerce	62,50314192	2,943806032	-2,36402	0,050045
Real interest rate	-286,1016775	132,5034919	-2,1592	0,067688

**Source: author calculations based on modelling results**

The model shows that the selected indicators determine the level of foreign direct investment by 77%. Based on the model, e-commerce has a positive impact on foreign direct investment.

## **Conclusions**

Analyses of research in the field of e-commerce and foreign direct investment revealed a gap in the analysis of the relationship between these indicators and understanding of their dynamics. Foreign direct investment is an important resource of capital and competence for developing countries. The high level of e-commerce development can be one of the indicators of a healthy state of the country's economy and can contribute to the inflow of FDI both in e-commerce itself and in related industries. Using a regression model, we can conclude that there is a link between e-commerce and direct investment.

## References

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