

# Digitalization, E-Commerce, and Private Sector Development in Arab States

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## **Abstract**

MENA countries display serious weaknesses in their ability to benefit from the adoption of digital trade and e-commerce. As these countries trade primarily in fossil fuel and other natural resources, they are less affected by the advantages of digital trade. MENA countries are poorly integrated in global value chains as they produce few intermediate products that they export to other countries. While consumers are adopting digital commerce quickly, the productive sector is not keeping pace. This has the implication of hemorrhaging consumers' surplus for the benefit of sellers overseas. There are some exceptions where the opportunities such as in transport and tourism where digital trade have had a positive impact on local economies. Overall, the indications to date that the extent to which digitalisation will have a positive impact on the economies in the region will be limited to a small list of economic activities and confined to a small set of countries, mostly the GCC countries.

***Keywords:*** E-commerce, MENA, digital trade.

***JEL Classifications:*** O53, O33, O31, L25, G24, G28, G53, G38, K24.

## **Introduction**

Digital platforms have widened the range of goods and services that can be traded across borders. Trade in both tangible goods and intangible goods is now enabled by digital platforms like Alibaba, Noon, and Amazon. Cross-border trade in services was among the first sectors to benefit from the rise of digitalization, which has since deepened and broadened to include almost all sorts of business services.

Digitalization has not only increased the scale, scope, and speed of trade, but it also changed the way businesses trade across borders and the way resources are allocated to produce goods and services. Businesses, especially small and medium-sized enterprises (SMEs), in principle can now make use of digital tools to overcome barriers to growth when the right conditions are in place. For example, using cloud-based services, SMEs can avoid having to invest in fixed assets. They can engage in real-time supply chains, conduct transactions via e-payment services, run marketing campaigns on social media platforms, source skills and talent remotely, and tap alternative finance, such as crowdfunding, all on the back of digital platforms. In the past, SMEs and other cash-short businesses would lose out to competition due to their inability to finance the acquisition of the necessary assets to compete and sustain their growth. These new opportunities, as will be shown later in this paper, cannot be taken for granted.

E-commerce is a key aspect of the economic leveraging of digitalization. It is defined as “a way of conducting business by companies and customers performing electronic transactions through computer networks” (Liu and Arnett, 2000). Eurostat defined it simply as the “trading of goods or services over computer networks such as the Internet” (Eurostat, 2017). E-commerce plays an important role in the development and evolution of trade, mainly by extending supply chains and reducing information asymmetries and transaction cost. At the macroeconomic level, the digitalization of commerce and trade can be understood in the context of accelerating economic openness. E-commerce facilitates international trade, which is an important source of capital flows, especially hard currency, as well as being an important channel of new knowledge and technology across borders. Economists generally agree that open trading economies grow faster than their counterparts (Grossman and Helpman, 1991; Edwards, 1993). In this respect, e-commerce is seen as a conduit to international digital trade; an important vehicle for businesses to increase the size of their markets and for economies to better capture the potential benefits of increasing returns to scale and economies of specialization. Digital trade often refers to intangible products that are transferred and consumed over digital networks, but it also includes physical products that are sold over digital networks (OECD, 2017).

From a policy perspective, however, these developments have given rise to a range of regulatory, legal, and fiscal issues, such as the physical management of parcel trade, the combating of the rise in counterfeit goods, the management of trade-related taxes and tariffs, and the global management of data transfer issues. The latter has raised some challenges with regards to arriving to an international agreement on the guidelines and standards for appropriate protections of personal data. From a macroeconomic perspective, the main challenge of digital trade has been the

assignment of the location of value creation for the purpose of both tariffs and taxation (OECD, 2019).

In the context of Middle East and North Africa (MENA) countries,<sup>1</sup> the experience shows that the effect and impact of digital trade and e-commerce in a developing country context is a more complicated matter. To benefit from greater exposure to international trade in goods and services, a country needs to have a comparative advantage in a few sectors that can help it leverage increased exposure to international markets. To benefit from greater exposure to international trade and the integration in Global Value Chains (GVCs) through digital platforms, a country requires an advanced digital infrastructure and competitive industries.

In this regard, MENA countries display serious weaknesses on both accounts. MENA countries trade primarily in fossil fuel (around 45 percent of total export) and other natural resources. Trade in primary sector products are less affected by the advantages of digital trade. Trade within the region too is also limited to fossil fuel and other primary sector products. Furthermore, MENA countries are poorly integrated in GVCs as they produce few intermediate products that they export to other countries. These weaknesses reduce the opportunities to benefit from digital trade and e-commerce. While the MENA consumer base is digitalizing rapidly, the productive base is not. This means that while consumers in the short run may accrue a surplus from participation in e-commerce, they may lose that surplus if the productive sector continues to lag and, subsequently, unemployment rates begin to climb. Whether the generated consumer surplus offsets the economic loss caused by foreign competition hinges on how and where the surplus is being spent. Governments will need to put in place instruments to capture part of that surplus with the aim of reinvesting in the local productive sector. It is in this context that in 2017, some 60 countries (by 2021, there were 86 countries) came together to begin multilateral negotiations around global digital trade in what is known the “Joint Statement Initiative.”<sup>2</sup>

A few exceptions exist, most notably in the Gulf Cooperation Council countries (GCC), where the rates of government, consumer, and business digitalization are high. However, given their industrial structure (i.e. high concentration in oil and gas), they stand less chance to benefit from the growth of digital trade. Thus, while oil and gas revenues helped expedite consumer participation in global digital trade, there is no evidence that they had a similar impact on producers.

Without the integration of the local production base in global digital trade, regionally-active digital platforms may be accelerators of trade deficit and the crowding out of both local production and local retail.

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<sup>1</sup> The Middle East and North Africa (MENA) includes all Arab countries, plus Iran and Israel. In the context of this paper, the analysis and reference will refer primarily to Arab countries.

<sup>2</sup> For a good discussion of the Joint Statement Initiative in a developing countries context, see Rashmi Banga’s UNCTAD Research Paper No. 58 UNCTAD/SER.RP/2021/1

There are some exceptions where the opportunities provided by digital trade and e-commerce remain strong. Transport and tourism are two economic sectors where there are some bright spots (such as Qatar and the UAE in logistics and transport, Egypt, Morocco, and UAE in tourism, and Bahrain in business services). Thus, the extent to which digitalization will have a positive impact on trade in the region will be limited to a small list of economic activities and confined to a small set of countries. However, as most businesses in the region are SMEs, digital uptake remains slow. Around the world, many retail SMEs are challenged by scarce resources and do not possess the abilities to leverage e-commerce sales channels (Quinn, Hutchinson, Alexander, and Doherty, 2009; Schu et al., 2016). They, therefore, lag larger companies in the adoption and usage of advanced digital technologies that are required for successful e-commerce engagement (Abebe, 2014; OECD, 2017).

### **How does e-commerce manifest itself in the MENA region?**

E-commerce and e-trade are felt differently across the MENA region. The six GCC countries and Egypt account for 80 percent of e-commerce in the MENA region. This was the finding of an extensive survey of e-commerce in the region entitled *E-commerce in MENA: Opportunity Beyond the Hype* conducted by Bain & Company and Google in 2019. Within the span of just five years, the share of digital media usage in the region increased from less than ten percent in 2012 to more than 30 percent by 2017. This is important as digital social media are increasingly becoming digital marketplaces where people browse, shop, trade, and share information about goods and services. The rapid spike in digital adoption in the region was mostly driven by smartphones and underpinned by faster Internet speeds. The most advanced e-commerce market in the region, the UAE, had an e-commerce penetration rate of 4.2 percent on a par with that of Turkey and Brazil. Saudi Arabia had a penetration rate of 3.8 percent, which, together with the UAE, represents 60 percent of the e-commerce market in the region. To put these numbers into perspective, in China, the UK, the US, France, and Germany, e-commerce penetration of total retail sales surpassed ten percent, reaching nearly 16 percent in the case of the UK.

In this paper, we focus primarily on Arab states within the MENA region. These comprise four different groups.<sup>3</sup> The GCC countries, which is the most developed group of high-income countries in the region. These states have high internet penetration and social media presence rates. The second group includes Jordan and Lebanon, which are highly urbanized and educated societies with relatively high internet penetration, albeit at slower speeds. The third group is the rural, lower- and middle-income countries of North Africa (Algeria, Egypt, Morocco, and Tunisia). In these countries, GDP per capital is lower, literacy rates are lower and a total of 100 million citizens are unconnected.<sup>4</sup> The final group includes countries affected by conflict, namely Yemen, Iraq, Syria, Palestine, Sudan, and Libya, and the least developed countries (LDCs), which are Comoros, Djibouti, Mauritania, and Somalia.

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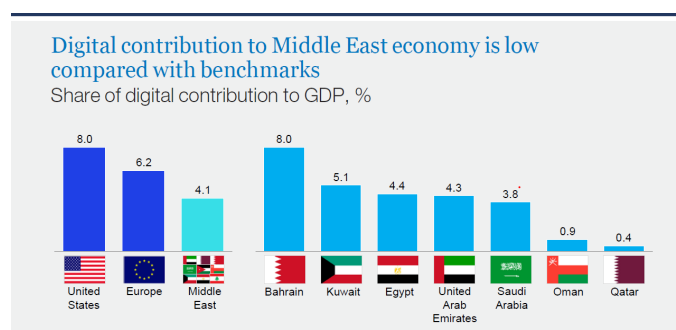
<sup>3</sup> <https://www.arabdevelopmentportal.com/blog/how-measure-digital-transformation-arab-countries>

<sup>4</sup> <https://www.arabdevelopmentportal.com/blog/how-measure-digital-transformation-arab-countries>

## Great variations across the MENA region

These variations across the region have implications for how digital trade and e-commerce impact social and economic cohesion between and within countries. According to Statista (2020), internet penetration across the breadth of the MENA region in 2020 was around 33 percent. This is in contrast with GCC countries where the penetration rate in 2018 for the UAE was already 91 percent and in Saudi Arabia it was 73 percent. By way of comparison, Egypt, as the leading country in North Africa, had a penetration rate of only 43 percent during the same 2018 period.<sup>5</sup> A recent World Bank report finds that the poorest 40 percent of the Tunisian population would need to allocate over 40 percent of their income to purchase high speed internet. Households in the lowest 40 percent income range in Morocco would similarly need to devote a third of their income to access mobile internet services. More than 60 percent of people living in Algeria, Djibouti, Morocco, Syria, Tunisia, and Yemen cannot afford fixed or mobile broadband services.<sup>6</sup>

Low Internet penetration rate in the Arab region, outside of the GCC, is often ascribed to a number of reasons, such as the lack of investment in the necessary digital infrastructure, weak or no competition among telecom companies, and consequently high prices that keep services out of the reach of many citizens. It is not surprising then to see the digital contribution to regional and national GDP below that of other parts of the world. As more and more economic surplus – in the form of consumer, producer, or retailer – is created on digital platforms, the average citizen in the MENA region is increasingly at risk of being left out of this surplus.



The disparity in access to the Internet across countries and within them raises the alarm that the welfare gap between the poorest and richest segments of society will only worsen in the increasingly digitalized commerce. If these disparities are not addressed quickly, e-commerce and digitization generally will exacerbate the socio-economic inequalities that are fuelling much of the turbulence in an already unstable region.

## Capturing the digital surplus – consumers, retailers and producers

It is widely agreed that the digitalization of commerce reduces transaction costs, increases efficiency, and improves performance. As a result, e-commerce generates economic surplus. From a market viewpoint, the Internet facilitates the sharing of information and knowledge about pretty

<sup>5</sup> <https://www.statista.com/topics/5550/internet-usage-in-mena/>

<sup>6</sup> [https://www.worldbank.org/content/dam/Worldbank/document/MNA/Broadband\\_report/MNA\\_Broadband\\_Key\\_Facts\\_English.pdf](https://www.worldbank.org/content/dam/Worldbank/document/MNA/Broadband_report/MNA_Broadband_Key_Facts_English.pdf)



much everything and thereby boosts efficiency across the entire supply chain for many businesses and sectors (Porter, 2001). This is also in line with the proponents of economic openness and internationalization, where trade is believed to improve productivity because of its direct and indirect role in the transfer of new technologies, knowledge sharing, and information about markets and consumer preferences (Grossman and Helpman, 1991).

It has also been shown that Information and Communications Technology (ICT), in general, helps firms accumulate new market knowledge (Moen, Madsen, and Aspelund, 2008; Tan et al., 2009), which is an important factor in reducing the liability of foreignness. ICT is the most cost-effective method for helping small- to medium-sized businesses acquire wider market share and compete against big companies in an increasingly globalized environment (Tan, Chong, Lin and Eze, 2009).

According to Venables (2001), there are four channels by which ICT (and, subsequently, digitalization) facilitate reductions in the cost of doing business. Firstly, ICT enhances transparency in markets, thereby cutting costs associated with searching, matching, and communication. Secondly, its deployment leads firms to reduce their monitoring and management costs. Thirdly, organizational changes and digitalization that follow from ICT use create efficiencies that reduce shipping costs. Shipping products directly from a manufacturer or wholesaler to an end-user increases efficiency by cutting storage and handling costs (Reijnders, and Hooheveen, 2001). Finally, the efficiency gains from ICT help cut the amount of time goods spend in transit and the associated costs.

Digital platforms now allow businesses to market their goods and services to a vastly greater range of consumers at much lower costs than traditional distribution outlets (Tan et al., 2009); boosting levels of cross-border trade particularly for SMEs (Manyika, Lund, and Bughin, 2016; Ryan, 2014). Savings from these efficiencies are captured by both businesses and consumers. The speed, low cost, and near limitless connectivity available through the Internet have increased the spread of e-commerce worldwide for business-to-business (B2B), business-to-consumer (B2C), and consumer-to-consumer (C2C) networks. Alibaba and Amazon are key examples of major online global platforms that have moved quickly to provide support for all three of these channels for e-commerce.

### **Consumer surplus: True, but not equal**

Digitalization has a visible impact on trade via its impact on consumers. As MENA consumers become more exposed to international product and service providers on digital platforms, their tastes, preferences, and expectations are shaped accordingly. According to one study<sup>7</sup> by Bain & Company and Google in 2019, in the five years preceding the study, the share of digital media rose from less than ten percent in 2012 to more than 30 percent by 2017, with the high rate of digital adoption primarily driven by rises in the use of smartphones and social media, and in Internet speeds. According to the same study, online transactions (buying and selling) have been completed by over 60 percent of shoppers in the UAE and Saudi Arabia, and some 43 percent in Egypt. These

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<sup>7</sup> *E-commerce in MENA Opportunity Beyond the Hype* (Bain & Company, 2019).

are shoppers who have access to the internet. The study also found that while US shoppers typically make around 19 online purchases annually, MENA shoppers do so only two to four times a year.

Research undertaken in the US estimated that the gains from e-commerce reached the equivalent of a 1.3 percent permanent boost to consumption by 2014, or about USD 1,250 per household (Einav, 2017). The research found that “gains arose mostly from accessing a wider variety of merchants online, but also from saving the travel costs of buying items in brick-and-mortar stores. The richest counties gained roughly twice as much as the poorest counties, and densely populated counties gained more than sparsely populated counties” (ibid.). These findings suggest that there is a propensity for e-commerce to benefit the rich more than the poor and urban areas more than rural areas.

For customers, shopping online varies greatly from walking into an actual shop. Firstly, it offers a range of advantages such as a simple and convenient platform for accessing a much larger array of products and services from more suppliers and usually at lower prices. Further, consumers can use search engines and price comparison sites to find and compare many different offers for the same product, which saves them money. Finally, consumers can shop 24/7: anywhere and at any time; side-stepping the problem of opening hours, distance, or availability of items. Since online stores are less limited by physical space, they can carry a broader range of items. These, according to Einav et al. (2017), can be thought of as “variety gains” and “convenience gains.”

Electronic markets allow consumers to reduce the cost of researching purchases by increasing the efficiency with which product information reaches potential buyers. Indeed, a significant part of the shopping experience of consumers in the MENA region involves online research, irrespective of whether or not the product or service is purchased online or in a physical store. Nearly 56 percent of shoppers in the UAE, Saudi Arabia, and Egypt begin their online shopping journey with search engines rather than retailers’ websites. Online videos also play a key role in the consumer path to purchase in this region. Around 20 percent of consumers in the UAE and Saudi Arabia watch online videos when researching a potential purchase compared to seven percent in the UK. From its market research with women in Saudi Arabia, YouTube reportedly discovered that half of the individuals who watch a video showing a new brand will subsequently visit a retailer’s physical store or e-commerce channel.

MENA consumers also use their smartphones to generate a “consumer surplus.” Smartphone share of shopping-related search queries in the UAE and Saudi Arabia has averaged 70 percent. Over half of all shoppers (55 percent) in the UAE, Saudi Arabia, and Egypt state that they use smartphones to shop online. Research by Stephanie Lee on the consumer surplus generated for smartphones users in South Korea found it to be around USD 41 per person per month on average, translating to around USD 49 million per day at the country level (Lee, 2018). Lee distinguishes between two sources of “surplus”: substitution and expansion. Smartphones, due to their multi-functionality, save consumers the need to buy several products, for example: a music player, a phone, a recorder...etc.; hence creating an economic surplus for consumers. However, smartphones also expand the capabilities and opportunities for consumers to engage in digital

consumption and hence spend more time online than they would have otherwise. Therefore, by default and design, smartphones increase consumer surplus. Lee's results show that a smartphone generates considerable value by facilitating digital consumption at locations where such consumption had been difficult and inconvenient without a smartphone and that "the mobility of smartphones is an important channel through which smartphones create consumer surplus" (Lee, 2018).

Other research by Brynjolfsson et al. (2019)<sup>8</sup> provides estimates for consumer surplus generated by social media platforms such as Facebook. Brynjolfsson and his colleagues at MIT estimate that the contribution to welfare due to Facebook in the US over the period 2003-2017 is USD 231 billion (in 2017\$), which translates to USD 16 billion on average per year. They based their estimates on surveying how much users were willing to be paid to quit using the "free" service. The research found that when using such a measure, popular social media platforms, particularly WhatsApp, Facebook, and digital maps contribute significantly towards what they coined as "GDP-B"<sup>9</sup> growth and that "conventional GDP estimates miss a great deal (by 4.10 percentage points) of value by not accounting for these goods." Calculating the GDP-B for the MENA countries would be beyond the scope of this paper, but there is clearly significant consumer surplus for MENA users of digital tools.

Nonetheless, the ability to accrue the benefits of e-commerce for consumers hinges on their ability to access digital platforms via broadband and 3G networks. Accessibility itself depends on the availability of the necessary infrastructure and affordability. As we have indicated earlier, these two factors differ largely across the MENA region, with the GCC countries boasting high levels of accessibility while the rest of the region lags far behind.

Over 80 percent of e-commerce in the MENA region involves electronics, fashion, beauty, and grocery items. Fashion e-commerce has exceeded USD 1.6 billion dollars in 2018 (Google and Bain & Company, 2019), whereas grocery e-commerce is still a small category relative to electronics, fashion, and beauty products. Overall, e-commerce in the MENA region is driven by luxury consumption in a narrow set of countries by a small segment of the population.

Consumer surplus is generated via digital (retail) platforms by consumers who can afford adequate access to the Internet, have access to e-payment facilities, and enjoy an economic surplus to spend on consumer products. Only a small segment of the MENA population meets these criteria. For example, it is reported that while 80 percent of users in Jordan can afford a smartphone and a 3G/4G connection, only 42 percent have a bank account, and only eight percent have made an

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<sup>8</sup> GDP-B: Accounting for the Value of New and Free Goods in the Digital Economy Erik Brynjolfsson, Avinash Collis, W. Erwin Diewert, Felix Eggers, and Kevin J. Fox. NBER Working Paper No. 25695 March 2019.

<sup>9</sup> GDP-B captures the benefits associated with new and free goods and thus goes "beyond GDP."

online purchase.<sup>10</sup> Access to traditional and electronic banking and payment services remains a major challenge.

A World Bank survey<sup>11</sup> in 2014 found 28 percent of the adult population, 21 percent of women, and only ten percent of the low-income citizens in Morocco to have access to a traditional bank. In Egypt, only 33 percent of the population have a bank account.<sup>12</sup> Given that electronic payments typically require access to online banking, e-payments technology is key for participating in the digital economy. Apart from GCC countries, where access to banking services hovers around 80 percent, the average rate for the region is 43 percent, with Iraq and Palestine at 25 percent and 27 percent, respectively, at the bottom. Inequitable access to credit cards, e-payment and financial institution penetration is hindering the development of e-commerce and the growth of the digital economy in the region. While solutions such as “cash on delivery” may work for small items, online streaming, or media products, many other professional services cannot be purchased in this way.

The role of e-commerce in generating consumer surplus makes less accurate the assumption<sup>13</sup> that financial inclusion does not necessarily support the poor. E-commerce creates a direct link between access to financial services and the ability to accrue a “utility surplus” from participating in economic and social life. The inclusion of a greater share of the population in electronic financial services is more important today than their inclusion in traditional banking services. Research<sup>14</sup> has already demonstrated that financial inclusion in MENA contributes positively to financial stability. Access to e-payments is therefore a fundamental element of financial inclusion in the MENA region. Governments across the region have begun to address the accessibility problem for the average citizen (see Box 1) by creating dedicated digital infrastructure for that purpose.

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<sup>10</sup> [The evolution of mobile wallets and digital payments in Jordan – Teknospire.](#)

<sup>11</sup> Zottel, Siegfried; Ortega, Claudia Ruiz; Randall, Douglas; and Xu, Sarah Yan (2014). Enhancing financial capability and inclusion in Morocco: a demand-side assessment (English). Washington, DC: World Bank Group.

<sup>12</sup> <https://www.albawaba.com/news/only-33-adults-egypt-have-bank-accounts-1038630>

<sup>13</sup> Dhrifi, A. (2013). Financial development and the growth inequality poverty triangle. *Int. J. Econ. Finance Manage.* 2 (7), 472–481.

<sup>14</sup> Simon Neaime,\* Isabelle Gaysset (2018). Financial inclusion and stability in MENA: Evidence from poverty and inequality. *Finance Research Letters*, 24.

### **Box 1: Examples of Government Response**

**In Egypt**, a public-private initiative was recently launched to create a local digital platform called “Benya Raqmeya.” It is a full-fledged “one-stop-shop” marketplace that provides businesses and enterprises with all their digital business requirements. According to media reports, the initiative represents the next generation and evolutionary development of cloud-enabled solutions, which contributes to the country’s vision of enabling the development of a strong digital economy relying on equitable and affordable access to knowledge. “Benya Raqmeya” offers its customers the necessary infrastructure to connect efficiently and securely to the cloud through a set of solutions. The platform gives businesses and enterprises the freedom of choosing between the best cloud services that meet their business needs while ensuring cost optimization, avoiding vendor lock-in, providing flexible data storage options, and addressing enterprises’ lack of expertise and management overhead experience.

**In Morocco**, the national strategy “Maroc Digital 2020” was launched recently with the aim to accelerate Morocco's digital transformation, strengthen its position as a regional digital hub, and address some structural eco-systemic obstacles, such as the issue of governance and digital skills. Some of the strategy’s main objectives are to:

- Place Morocco among the top three MENA countries, outside the GCC countries, in e.GOV services;
- Move 50 percent of administrative procedures online;
- Reduce the digital access gap by 50 percent;
- Connect 20 percent of SMEs to the Internet;
- Increase offshoring to Morocco by five to ten percent annually, creating 60,000 new jobs;
- Train more than 15,000 IT professionals in Morocco.

In September 2019, media sources reported that Moroccan telecom operator “inwi” launched its mobile money service “inwi money.” The service works on “Comviva Mobiquity” money, where the service offers consumers a quick, convenient, and secure way to perform multiple financial transactions, such as person-to-person money transfer, airtime purchase, bill payments, and merchant payments. Furthermore, in March, 2020, after securing approval from the “Bank Al Maghrib,” Orange Morocco had announced the launch of Orange Money in the country. This service is expected to allow Moroccans to make mobile payments and transfer money using their mobile devices. Thus, Morocco becomes the 18<sup>th</sup> country in Africa and the Middle East region of Orange to offer the Orange Money solution.

### **The retailer surplus: For the few big**

Research from the EU shows that while e-commerce channels displace some traditional sales, they create additional consumers who find the benefits of online shopping advantageous (JRC, 2015). E-commerce is therefore believed to result in a net economic surplus for participating retailers. For example, the research found that, on average, 16.6 percent of online sales of portable computers, 36.1 percent of online sales of digital cameras, and 37.9 percent of sales of media players would be lost without online sales portals. As such, e-commerce partly complements and displaces traditional sales outlets. Furthermore, Lorca et al. (2019) report that firms which adopt high levels

of e-commerce (B2C and B2C simultaneously) immediately experience an increase in profitability.

Economic surplus is also captured through efficiency gains. Business costs, such as advertising, go down because retailers can go on digital platforms to market their products directly to consumers, allowing them to reach a larger potential audience at a much lower cost. E-retailers are able to offer customers detailed descriptions of goods and services, with visual displays of products including foreground views and information about complementary products (Bergendahl, 2005). They are also able to increase their product portfolio much more easily through e-commerce and operate more like department stores with increased product diversity (Willis, 2004).

So far, the digital surplus accrued via e-commerce in the MENA region is captured primarily by large GCC-based retailers and their foreign partners. GCC-based e-retailers and e-platforms have been increasing their product selections, both organically and through partnerships. Souq, a UAE-based digital platform that was acquired by Amazon, brings millions of new Stock Keeping Units (SKUs) to the market. The company launched Amazon Global Store in the UAE and Saudi Arabia, with a localized website, product selection, and payment methods. Yet, most of these SKUs (items) come from overseas sellers, mostly China and the US. Likewise, another UAE-based digital market, Noon, through its partnership with eBay, makes buying millions of new products available for MENA shoppers. This is in contrast with other regions, such as China, where Amazon has struggled to build substantial businesses because of local laws and hefty competition.

GCC-based retailers have been gearing up to take advantage of e-commerce to capture a larger share of the MENA market and act as a gateway for imports to the region. In this respect, they may be inadvertently contributing to a greater trade deficit between the region and the rest of the world and within it. Over the last few years, e-commerce has been among the top business priorities for GCC-based retail companies. Shifting from a traditional to an omnichannel model, these groups have invested considerable capital in introducing more than 35 new e-commerce channels since the end of 2016. Some major GCC retailers are partnering with global e-commerce specialists to launch Arabic language platforms, curate items to target MENA consumers, and form collaborative ventures with global brands to drive the expansion of their products in the region. These include brands such as H&M, Mothercare, HomeCentre, Centerpoint, 6th Street, Ace, Lacoste, Swarovski, Level Kids and Carrefour, among others.

The entry of large-scale retailers into the digital scene has intensified competition between retailers around price, service, and product range. Small retailers across the region remain unable to adopt digital tools and applications despite the opportunities to gain competitive power that being digitally enabled would bring. This was clearly evident in the extended lockdown periods during the COVID-19 pandemic when large retailers with deep pockets were able to quickly expand their distribution and sales channels over digital platforms, whereas small retailers went out of

business.<sup>15</sup> The situation is similar elsewhere in the world. In Germany, a country with an enormous amount of resources, the market share of small shops has fallen from 26 percent to 18 percent over the 2003-2015<sup>16</sup> period. Revenues of small retailers who are unable to adapt to the changing climate are expected to further decline by 50 percent over the next ten years,<sup>17</sup> effectively consigning them to extinction. If this is the case in Germany, the case for small retailers in the MENA region outside the GCC is likely to be more severe. Small retailers in the MENA region, however, are increasingly making use of social media platforms, especially Facebook and Instagram, to market their goods and services.<sup>18</sup> However, unless backed by strong followers, these are less effective in the face of better-known brands. To address this deficit, some niche platforms have emerged to cater to small businesses in niche markets (see Box 2).

One exception is the tourism industry. The MENA region received 87 million international tourist arrivals in 2018, that is six percent of the world's total arrivals. International tourist arrivals grew an estimated ten percent in 2018; earning the region USD 77 billion in revenues.<sup>19</sup> Globally, travel and tourism are the largest employment generating sectors in the world.

The exception of tourism as a sector stems from a number of factors. The retailer (a hotel or a tour operator, for example) is by design oriented towards exports (foreign consumers). The consumer tends to be technology savvy and uses technology to retrieve crucial information about destinations, amenities, availability, pricing, geographic information, weather, food, and transport. This is particularly so for fast-growing generation Y, or millennial, tourists. This generation grew up with digital technology and their preferences are hugely influenced by peers over social media platforms. Platforms like TripAdvisor, YouTube, and Instagram play a far more important role in informing and influencing tourist choices than traditional catalogues or tourism offices in foreign cities. This reduces the need for big resources to market destinations and experiences. The Y generation is also keener on immersive experiences with local communities overseas, which make them more likely to venture outside common sites and resorts.

In this regard, tourism e-commerce platforms have helped put otherwise less known, or off the beaten track, businesses on the map. In fact, establishing a reputation in global markets has been found to be the largest perceived benefit of e-commerce.<sup>20</sup> With that comes increasing sales and revenues.

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<sup>15</sup> Bartik, A. W., Bertrand, M., Cullen, Z. B., Glaeser, E. L., Luca, M., & Stanton, C. T. (2020). The impact of COVID-19 on small business outcomes and expectations. *PNAS*, 117(30), 17656-17666. [202006991]. <https://doi.org/10.1073/pnas.2006991117>, <https://doi.org/10.3386/w26989>

<sup>16</sup> HDE 2018 – Retail Federation Germany (2018). Brief Profile. HDE – Retail Federation Germany. Accessed December 22, 2018. [https://einzelhandel.de/images/presse/Graphiken/ DerEinzelhandel.pdf](https://einzelhandel.de/images/presse/Graphiken/DerEinzelhandel.pdf)

<sup>17</sup> Siemssen, S. (2017). “Oliver Wyman Retail Journal German.” Oliver Wyman. Accessed August 5 2017. [http://www.oliverwyman.de/content/dam/oliverwyman/europe/germany/de/insights/publications/2017/Feb\\_2017/2017\\_Oliver\\_Wyman\\_Retail\\_Journal\\_German.pdf](http://www.oliverwyman.de/content/dam/oliverwyman/europe/germany/de/insights/publications/2017/Feb_2017/2017_Oliver_Wyman_Retail_Journal_German.pdf)

<sup>18</sup> <https://www.imagesretailme.com/latest-news/instagram-supports-growth-of-small-businesses-in-mena/>

<sup>19</sup> World Tourism Organization (2019). Tourism in the MENA Region.

<sup>20</sup> Zaidan, E. (2017). Analysis of ICT usage patterns, benefits and barriers in tourism SMEs in the Middle Eastern countries: The case of Dubai in UAE. *Journal of Vacation Marketing*, 23(3), 248–263.

Digital technology reduces the need for intermediaries between the retailer and the consumer in the travel and tourism sector. As it does so, it renders many of the traditional travel agencies redundant. In the tourism sector, digital technology enables retailers to have greater control over their marketing and sales and connect directly with their customers over email, social media platforms, and reviews forums. Digital markets like booking.com, hotels.com, or Opodo help local tourism and travel businesses with end-to-end marketing, booking, and sales transactions.

While e-commerce in the MENA tourism sector is very likely to create economic surplus to retailers, it is also very likely that it will put local traditional intermediaries, such as travel and ticketing agents, out of business.<sup>21</sup> Many such intermediaries also lack the resources to adopt new technology and sometimes the incentive too.<sup>22</sup> In the last few years, multiple international online travel booking agencies and travel search engines have entered the region to cater to this growing market, including entrants from Asia such as Singapore's Wego and India's Cleartrip to homegrown brands (UAE's Tajawal and Kuwait's Rehlat).

Other platforms such as AirBnB are spreading too, enabling the expansion of the tourism sector capacity and the monetization of private property akin to developments elsewhere in the world. While this can increase the capacity of the tourism sector in a given place, for example in rural underdeveloped areas, it also creates pressure on traditional establishments, especially two- and three-star hotels and B&Bs.

Like in other sectors, digitalization in this sector is growing fastest in the GCC region, where the online travel market is expected to reach USD 15 billion by 2023; marking an increase of 140 percent from its current levels. Yet, it accounts only for five percent of the total GCC travel market compared to the global average of 12 percent, indicating a strong potential for growth going forward.<sup>23</sup>

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<sup>21</sup> Zaidan, E. (2017). Analysis of ICT usage patterns, benefits and barriers in tourism SMEs in the Middle Eastern countries: The case of Dubai in UAE. *Journal of Vacation Marketing*, 23(3), 248–263.

<sup>22</sup> Abou-Shouk M, Lim WM and Megicks P (2013). Internet adoption by travel agents: A case of Egypt. *International Journal of Tourism Research* 15: 298-312.

<sup>23</sup> [https://saudigazette.com.sa/article/562910/BUSINESS/GCC-online-travel-market-to-reach-\\$15-billion-by-2023](https://saudigazette.com.sa/article/562910/BUSINESS/GCC-online-travel-market-to-reach-$15-billion-by-2023)



**Box 2: Examples of regional-based digital platforms that serve as digital markets for local produce exist**

**Little Majlis** is a homegrown UAE-based brand conceived because of the limited opportunities for customers to find unique products and genuinely made-in-the-UAE items, particularly for tourists and local gifting. Little Majlis aims to allow people around the globe to get a taste of the UAE. It is about bringing people together and telling the story of the region. The Little Majlis artisan collection of stationery, accessories, and homewares are designed in the UAE and predominately made with locally-sourced materials by the artisans and small businesses who call this country home. Each design is simple, stylish and uniquely local.

The company website proclaims that by purchasing or receiving a Little Majlis product, you are not only taking ownership of a piece of the UAE, but you are supporting the local residents, artisans, and traders of the UAE.

**Anghami** is the leading music platform in the Middle East, which provides a seamless experience to listen to unlimited music on-the-go on your mobile with millions of songs to search from, stream, download, and share. Founded in 2012 by Eddy Maroun and Elie Habib, Anghami is a company with affiliates and offices in Beirut, Dubai, Cairo, and Riyadh. It caters mainly to the MENA audience and is available across the continent, bringing unlimited music to the Arab diaspora. In October 2012, Anghami inked an exclusive strategic partnership with the leading MBC Group ([www.mbc.net](http://www.mbc.net)), the Middle East's number one media group, bringing the largest media exposure ever for a similar music service. The combined efforts aim to drive more value and revenues to the music industry to win over piracy. Anghami is funded and supported by the regional VC firm "Middle East Venture Partners" ([www.mevp.com](http://www.mevp.com)) leading the largest digital music investment ever in the Middle-East. Today, Anghami is the number one music platform in the MENA region with the largest catalogue, comprising more than 30 million songs available for more than 70 million users.

**Bayt.com** is the number one job site in the Middle East, offering a complete range of end-to-end employment solutions and career planning tools. Founded in 2000, Bayt.com is fully functional in English, Arabic, and French, and offers the fastest, easiest, most effective, and most cost-efficient methods for employers to find quality candidates and for job seekers to find top jobs in MENA. Bayt.com is firmly committed to the region and has an excellent and thorough understanding of the MENA recruitment market and business landscape. This is evidenced by Bayt.com's fully trilingual recruitment platform, which is the first and only such platform in the region, as well as its 12 regional offices in Abu Dhabi, Al Kuwait, Amman, Beirut, Cairo, Doha, Dubai, the Eastern Province, Jeddah, Manama, Muscat, and Riyadh. It is also evidenced by Bayt.com's leading track record of continued success serving the region's jobseekers and employers in finding top jobs and top talent, respectively. with tens of millions of professionals and over 40,000 leading organizations using Bayt.com's recruitment platform across all industry categories and career levels, Bayt.com is the single largest marketplace of professionals and companies in the region today.

**Kinzzi** – meaning “my treasure” in Arabic – is an online multi-vendor lifestyle platform that showcases a curated selection of products from undiscovered regional brands, independent artists, and emerging designers. Kinzzi prides itself on curating a collection of “treasures,” often from limited-edition collections or handmade products produced by emerging local and regional designers, artists, creatives, and storytellers. The platform enables small businesses in the MENA region to expand their reach while encouraging a like-minded community to support their work through shopping pieces that are unique and tell a story. Ninety-five percent of its sellers are from the Middle East and GCC region; 69 percent are from the UAE, 12 percent are from Jordan, eight percent are from Lebanon, three percent are from Bahrain, and eight percent are from other countries outside the region.

**Souqalmal.com** (Souq al Mal is Arabic for “money market”) is the number one comparison website in the Middle East and allows users to compare financial and insurance products. The company’s vision is to create a highly transparent marketplace empowering MENA consumers to make the right choice by bringing them all the latest details to compare more than 3,200 retail banking, telecom, insurance, and education products offered by various providers in the UAE and Saudi Arabia. With more than 360 credit cards, 450 bank accounts, 147 personal loans, 100 car loans, 105 mortgages, 1,143 mobile phone plans, 150 broadband plans, 280 schools, 234 nurseries, more than 100 car deals, and 115 SME financial products, the consumer portal allows customers to do their homework using up-to-date, unbiased information.

**Netflix**, while it is a US-based video streaming service, has shown a best practice in tapping into and promoting local content. Over the last couple of years, the entertainment service has begun to increase its Arabic content, with the release of its first Arabic original series. The stories come from the UAE, Kuwait, Egypt, Lebanon, Tunisia, Morocco, Syria, Algeria, and Sudan, and are produced in Arab countries by Arab creators for both Arab and global audiences. It has become a conduit for the internationalization of Arabic films and soap operas. For example, *Heaven Without People*, a 2017 movie by Lebanese director Lucien Bourjeily was little known until it became available on Netflix and shot to fame.

### **The producer surplus: The main loser?**

Producers, especially SMEs, can leverage digital platforms to increase their competitiveness along global supply chains. Small- and medium-sized manufacturers can take advantage of the growth opportunities provided by digitalization to increase their share of global markets and sustain their domestic market position. This can be achieved, for example, by making use of cloud services, sourcing advanced business services, such as marketing, sales, and financial services from other countries, and by gaining a greater insight into competitive products and services in international markets. In this way, regional businesses, whether in manufacturing, retail, or business services, can enhance their chance of retaining a competitive edge over international competitors.

Among the most direct benefits of e-commerce is increased profitability due to cost reductions rather than increased sales (Bergendahl, 2005). For example, shipping products directly from a

manufacturer or wholesaler to an end-user increases efficiency by cutting storage and handling costs (Reijnders and Hoohgeveen, 2001). In this respect, e-commerce creates cost savings by improving supply chain efficiency and reducing the size of inventories by more accurate stock monitoring and management. The extensive digitization of systems and processes creates efficiencies that cut transaction costs, stock levels, advertising, marketing, and logistics costs. These savings are achieved partly through reducing the amount of labor required for each business task (Willis, 2004). In some industries, such as tourism, the gain of e-commerce goes beyond reducing transaction costs. E-commerce has expanded the market reach of tourism businesses, allowing the industry to organize itself along clearly segmented types of users who seek to personalize their travel experiences.<sup>24</sup>

In the MENA context, the gains and losses for producers are less clear. Exports tend to be concentrated in oil and agriculture, two sectors where the benefits of e-commerce are less obvious. The MENA region is not an important producer of electronics, beauty, or fashion items. There are always some exceptions, Lebanon, for example, has a thriving music, fashion, and beauty industry, while the UAE, Egypt, and Morocco are strong exporters of tourism. However, given the industrial structure of most MENA economies, producers are less likely to benefit from global e-commerce. The impact of e-commerce on local producers in the MENA region is therefore more likely to be negative. Digital marketplaces like Amazon, Noon, Dubizzle, and others serve more as conduits for imports than export channels. Until MENA-based digital markets serve as channels for exporting local produce, the surplus accrued from e-commerce will continue to be limited to middleclass consumers and a few retail aggregators such as Noon and Amazon-Souq. MENA producers have to first specialize in goods and services that are globally competitive before they can benefit from the economies of scale that digital platforms can offer. To date, there is no indication of the emergence of such goods and services beyond tourism and logistics (see Box 3).

In theory, digital platforms can provide MENA firms, especially SMEs, with the opportunity to increase their international trade and, subsequently, their growth. However, due to structural challenges in MENA (see Box 4), the prerequisites to benefit from these opportunities are not present. MENA countries perform below their potential in international trade and exports from the region continue to be dominated by oil and agriculture (OECD, 2018, Wolde and Bhattacharya, 2010).

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<sup>24</sup> Lalitha K, Paul N I J. (2015). "A Study on the Impact of E-Commerce on Retail Marketing in Tourism." International Seminar on "tourism Sector in India- Development, Sustainability and Challenges.

### Box 3: MENA trade profile (OECD/Saidi, 2018)

Total trade in goods as a percent of GDP (an indicator of openness) was 75.9 percent in the MENA region (2017), indicating a relatively open regional economy (the figures are around 48 percent for developing countries and 60 percent for advanced economies), though there are substantial variations across countries (around 45 percent in Egypt, 62 percent in Saudi Arabia, and around 173 percent in the UAE, the latter dominated by re-export trade). The region accounted for only five percent of global exports and 4.3 percent of total imports in 2017 (Figure 1.2), with both the UAE and Saudi Arabia featuring among leading merchandise exporters accounting for two percent and 1.2 percent of global exports, respectively (and, excluding intra EU trade, at 2.6 percent and 1.6 percent, respectively).

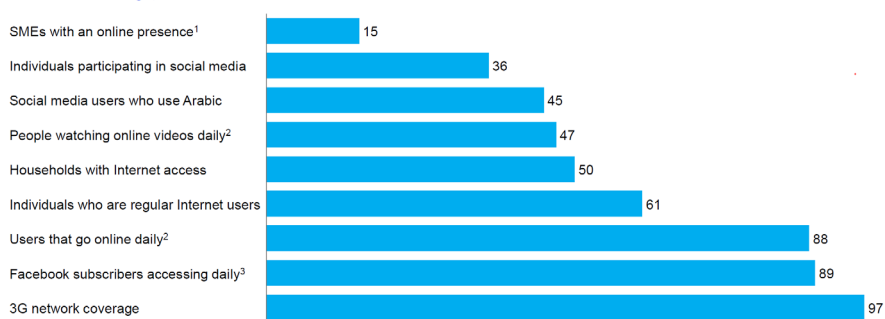
The MENA region is also making a mark in commercial services trade (mainly travel and transport), with the share of its exports of commercial services rising to 3.5 percent of global total in 2017 compared to around 2.59 percent in 2005. The UAE accounted for 1.3 percent of global commercial services exports in 2017, while both the UAE and Saudi Arabia feature among top importers of commercial services (at 1.7 percent and one percent, respectively).

The MENA region, however, lags behind here as well: intra-regional GVC participation remains low at below ten percent (OECD, 2015). Especially for the oil-exporting nations, the share of foreign value added in exports remains significantly low.

While some of these identified barriers to trade relate more to intangible products than intangibles, MENA SMEs trading with intangibles lack market knowledge and international experience as well as the financial resources to expand beyond their own borders (ScottKennel, 2013; Shaw and Darroch, 2004). A 2016 McKinsey study found that while the MENA region consumer base is digitalizing rapidly, businesses are not. This is a negative trend as it inevitably contributes to widening the trade deficit with the rest of the world. It basically implies that MENA traders are not following their customers online, where they are captured by traders from outside the region (from Chinese traders on Amazon, for example). While local businesses may derive advantages through importing a greater variety and better quality of inputs, they also face the prospect of stiffer international competition that may drive them out of the market (Seker, 2012).

Though Middle Eastern businesses lag behind in digitisation, consumers are leading the charge

Middle East average, %



<sup>1</sup> Saudi Arabia only.

<sup>2</sup> Google Consumer Barometer 2015 for the United Arab Emirates and Saudi Arabia only.

<sup>3</sup> Middle East, North Africa, and Levant, based on *Arab Social Media Report 2015*, launched at Arab Social Media Influencers Summit 2015.

SOURCE: *Networked Readiness Index 2015*, World Economic Forum; *2016 Digital Yearbook*, We Are Social; Digital Adoption Index, World Bank; *The Connected Consumer Survey 2015*, Google; McKinsey analysis

**Box 4: A recent review (Saidi, 2018) conducted for the OECD found the following barriers:**

The main barriers to growth in trade and investment (including intra-regional) are multi-fold:

- Though average tariffs have reduced over time, they remain very high; non-tariff barriers (for example, burdensome technical regulations, import authorization procedures, cumbersome customs clearance, and border controls) are obstacles to both regional and global integration;
- MENA's trade facilitation performance – in terms of procedures, harmonization, transparency, border agency cooperation, and so on – leaves much to be desired;
- Though regional trade agreements are in place, their implementation and enforcement are lacking and benefits are not visible;
- Lack of diversification is a serious drawback, given that oil and agricultural products remain by far the most important exports;
- Regional economic integration has seen very little progress due to different factors including weak institutions, the lack of infrastructure, and state-owned enterprises;
- Cumbersome licensing processes, complex regulations, and opaque bidding procedures create both business and investment barriers;
- Competition legislation is particularly needed in countries where markets are highly concentrated and where barriers to imports are still high;
- Trade has been negatively affected by the wars, sanctions and political barriers in the region;
- The scarcity of quality data and statistics on both domestic and foreign investment means a lack of evidence-based public policy and increases perceived investment risk.

Thus, while digital platforms should make it easier for MENA businesses to reach foreign markets, it is not clear that they have the comparative advantage required to win in that game. In principle, reducing the cost of access to international markets through digital platforms should help improve the competitiveness of local businesses and thereby their growth potential (Wagner, 2002, 2007, and 2012; Falkand and Hagsten, 2015), but such advantages are not automatically accrued. Internationalization via digitalization is a two-way process, local (small) businesses are more exposed to competition from bigger, more powerful regional and international competitors. Arnott and Matthyssens (2001) observe that markets face rapid saturation from the arrival of foreign competitors through the Internet.

The conventional wisdom in economics is that foreign competition, induced through international trade, leads to greater competitiveness of local businesses in the long run and stipulates that local resources are oriented towards new areas of comparative advantage. However, this is only possible if the local economy has the technological knowhow and financial resources to make that transition. In the case of MENA countries, apart from the GCC, these capabilities are less developed. Recent studies have found MENA firms to score low in international benchmarks in terms of investment in technology adoption and online advertisement, which is a sign that they may not be ready for international competition. A major barrier to a greater e-commerce economic leverage in the region is the lack of finance. A 2016 joint report<sup>25</sup> by the European Bank for Reconstruction and Development, the European Investment Bank, and the International Bank for Reconstruction and Development/The World Bank found that while the financial and banking sectors in the region are relatively large, credit is mostly channelled to a small number of large firms. Small firms are less likely to have audited financial reports and less likely to use the banking system, even for payments. As expected, the report found that the business environment is negatively affected by chronic political instability in the region, unreliable electricity supply in several countries, and inadequate access to finance. These combine to result in substantial inefficiencies in the business environment.

We expect the growth effect of digital trade to differ according to the level of economic development and resourcefulness of the country in question. In this context, there is a debate on whether tariffs on electronic trade would benefit local producers and retailers or not. On the one hand, imposing tariffs on foreign products entering the local market, via electronic channels or traditional channels (by road, plane or boat), might – at least in the short run – protect local businesses. On the other hand, not imposing tariffs has the potential positive impact of exerting competitive pressure on local businesses to adapt to international trends and adopt more competitive business practices. However, there are downsides to both arguments. The cost of the tariffs are most likely passed on to consumers reducing their potential welfare and in the medium to long term, tariffs on digital trade lead to reduced competitiveness of domestic firms and not the opposite.<sup>26</sup> Some research has pointed out that the extent to which a tariff is passed back to the consumer as opposed to being absorbed by the foreign company will depend on the extent of the tariff (how high the tariff is). Governments can levy a low rate tariff to capture part of the traded value without threatening consumer choice and purchasing power, all while exposing local businesses to a healthy level of competition. Not imposing tariffs on the ground that exposing local business to international competition will force them to improve their competitiveness is only effective when local businesses have the resources required to increase their competitiveness.

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<sup>25</sup> [https://www.eib.org/attachments/efs/econ\\_mena\\_enterprise\\_survey\\_en.pdf](https://www.eib.org/attachments/efs/econ_mena_enterprise_survey_en.pdf)

<sup>26</sup> For a comprehensive discussion of tariffs on e-trade see Andrenelli, A. and J. López González (2019-11-13). “Electronic transmissions and international trade - shedding new light on the moratorium debate”, OECD Trade Policy Papers, No. 233, OECD Publishing, Paris. <http://dx.doi.org/10.1787/57b50a4b-en>

## **Conclusions**

E-commerce platforms provide MENA SMEs with an unprecedented opportunity to find and connect directly with new suppliers and consumers around the world. Ventures into internationalization can now be undertaken irrespective of company size and resource constraints (Manyika et al., 2016). One of the most important features of e-commerce platforms is the facilitation of business interactions across time and distance with a great ease, reliability, and comparatively low cost (Yamin and Sinkovics, 2006). By facilitating direct interactions with consumers and the ability to aggregate these interactions into valuable sources of insights and knowledge of consumer preferences and behaviour, e-commerce creates new channels for value creation and capture.

## **Prospect of inclusive growth**

Despite all these advantages, however, the impact of e-commerce and digital trade on Arab states is more likely to be negative than positive. Without investments in both exogenous (infrastructure, machinery, equipment...etc.) and endogenous (e.g. digital skills, e-government services, and innovation) factors of growth, Arab producers in MENA will not be able to benefit from cross-border digital trade. Currently, manufacturers in the region are not properly linked to digital marketplaces. So far, the rapid uptake of digital platforms trade by consumers and retailers in the GCC contributes primarily towards increased imports of products to the region; hence contributing to a greater trade imbalance.

Given the gap between consumer adoption and digitization among businesses in the MENA region, the potential of economic growth for local businesses remains. However, this would require significant investment in enabling technologies (such as 5G broadband networks) and the massive scale “enrollment” of SMEs on digital platforms. Infrastructure constraints faced by SMEs in the region range from the most basic, such as access to a steady supply of electricity, to the more complex, such as not having access to electronic payment systems or a lack of high-speed internet cables (ITC, 2016; Darsinouei, 2017).

The importance of digital platforms to trade and economic growth today is no less important than roads, airports, and ports. While high-income countries can afford to build the technological infrastructure conducive to e-commerce, poorer countries cannot. E-commerce is likely to benefit the rich more than the poor, even when consumer surplus is factored in. In this respect, the gap between the GCC and the rest of the region is likely to widen. Poorer MENA countries and regions within countries, as well as the poorer segments of society, are less likely to have adequate and affordable access to digital platforms and/or e-payment facilities. These are critical for capturing consumer, retailer, and producer surplus.

## Impact on employment

The total impact of e-commerce on employment will be difficult to assess in a MENA context. While various research has shown (Astoy, 2013;<sup>27</sup> Kolko, 2012;<sup>28</sup> Jayakar and Park 2011)<sup>29</sup> that access to Internet increases employment and labor productivity, the inability of MENA-based producers to leverage digital platforms to achieve economic growth will mitigate any potential positive effects on employment. It is true that several researches have demonstrated the positive relationship between ICT and employment, but the findings were based on countries with large and advanced production bases. For example, a study across ten different European countries by Biagi and Falk (2017)<sup>30</sup> found that the increase in websites and Enterprise risk management (ERM) is positively associated with growth in employment. Atasoy, Banker, and Pavlou (2016) also report a positive relationship between ICT use and employment in a study on employment and ICT based in Turkey.

The situation in retail may differ somewhat. As e-commerce activities replace traditional distribution channels new jobs are created through new sales channels, markets, and delivery services, the net balance here is not clear either. Research from elsewhere has shown that e-commerce can have an adverse effect on the geographic distribution of the new jobs it creates. For example, research has shown that downtown areas may see a loss of employment and overall economic activity even though new jobs are being created in warehouses and distribution networks in fringe suburbs and the outskirts of cities. Small stores play an important role in job creation in cities.<sup>31</sup> This is significant because the presence of small retailers in urban centers is key to local spending and it offsets the desire of some to live outside their locality.<sup>32</sup>

Another area where e-commerce will impact employment is in the so-called “gig-economy.” In a region where informal self-employment and entrepreneurship are high by necessity, digital platforms create opportunities to increase businesses’ efficiency. Cloud-based traders, consultants, and freelancers may offer services and sell goods via digital platforms such as Noon and UpWork. Even gig workers whose services are generally performed offline, such as home repair and care services, can source their business online.

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<sup>27</sup> Atasoy, H. (2013). Effects of Broadband Internet Expansion on Labor Market Outcomes, *Industrial and Labor Relations Review* 66 (2), 315-345.

<sup>28</sup> Kolko, J. (2012). Broadband and local growth. *Journal of Urban Economics*, 71(1), 100-113.

<sup>29</sup> Jayakar, K., & Park, E. A. (2013). Broadband availability and employment: An analysis of county-level data from the National Broadband Map. *Journal of Information Policy*, 3, 181-200.

<sup>30</sup> Biagi, Federico., & Falk, Martin. (2016), *The Impact of ICT and E-Commerce on Employment in Europe*. *Journal of Policy Modelling*.

<sup>31</sup> Dixon, T.J. The Role of Retailing in Urban Regeneration. *Local Econ.* 2005, 20, 168–182.

<sup>32</sup> Warnaby, G.; Benninson, D.; Davies, B.J. Marketing communications in planned shopping centers: Evidence.



<b>Summary of advantages and disadvantage of digital trade and e-commerce in the MENA region</b>		
	<b>Expected Surplus</b>	<b>MENA Situation</b>
<b>Consumer</b>	Access to wider range of products. Greater information transparency. Cheaper alternatives. More convenience (time and place). More flexibility (time and place).	Growing participation in e-commerce benefits by middleclass consumers. Poorer segments of population do not enjoy same level of benefits. Both poor and wealthy consumers of digital tools access some of the benefits of 'free' digital services.
<b>Retailer</b>	Wider continuous access to consumers anywhere. Greater information over consumers.' preferences and background. Real-time stocking. Direct marketing to consumers. Greater efficiency along supply chains.	Large retailers accrue the biggest share of efficiency gains. Large retailers experience market growth. Large GCC-based retailers serve as aggregators for global brands and gateways for foreign sellers. Small retailers are forced to share any surplus with larger retailers. Small retailers face the prospect of being squeezed out. Small retailers are pressured to adopt digital tools.
<b>Producer</b>	More efficient supply chains. Greater efficiency in production processes. Direct exposure to clients (both B2B and B2C) globally. Wider access to clients across the globe. Greater brand awareness.	Small producers struggle for brand visibility. Lack of knowledge of digital platforms. Lack of resources to adopt digital tools. Weak value proposition in terms of type and quality of product. Exceptions exist where local producers successfully leverage big digital platforms as in the case with media products.

## **Going forward**

The digital age implies that technology, more than any other resource, is key to unlock and leverage other sources of comparative advantage, including human, intellectual, and physical capital. Traditional sources of comparative advantage, access to cheap labour, skilled and semi-skilled, land, and transport hubs, remain important but can be only leveraged when coupled with an adequate leverage of digital channels. This raises the question of whether digital platforms are not now endogenous to economic growth. Traditional sources of comparative advantage are important, but not sufficient for global competitiveness.

There are numerous examples of businesses thriving on digital platforms at locations that lie at the periphery of GVCs. MyTona, a Yakutsk-based small firm in northeast Siberia, is a multi-million company that thrives on creating video games for the consumption of middleclass consumers in the US. Sofizar-Constellation, a Lahore based company, thrives on selling search optimization services to global clients out of an office in Lahore, where electricity is supplied through a power

generator. Likewise, Anghami, a music streaming company in Lebanon, which has recently moved its headquarters to Abu Dhabi and listed on Nasdaq, thrives on selling its services across the world largely to Middle Eastern customers. Other examples include Bayt.com, which has leveraged knowledge of local market and managed to build a MENA-based service company that serves the region better than competing platforms from outside the region. In all three cases, local red tape, slow bureaucracy at the ports, distance and lower quality basic infrastructure services were mitigated and compensated by the advantages provided by digital platforms. The tourism and hospitality sector is another bright indicator of the ability of local businesses to use digital platforms in their advantage.

Nevertheless, there remain substantial structural barriers such as poverty, low purchasing power, lack of education (Khan et al., 2017) and low literacy (Treesinthuros, 2013; Xiaoyan et al., 2010). Constraints due to infrastructure such as slow internet speed and lack of internet infrastructure in the rural area can also make e-commerce inconvenient from the users' perspective (Khan et al., 2017; Nafi et al., 2013). The lack of computer literacy and lack of consumers' awareness in some parts of the MENA countries, particularly in the rural areas, may also impact the adoption of e-commerce.

Governments need to put in place laws and regulations that allow both businesses and consumers to benefit from opportunities provided by e-commerce, including on digital payment systems, digital signatures, consumer protection and data protection (Lanz, 2018). GCC countries, which have shown the way in the adoption of e-commerce and digital trade tools in the region, are in a position to play a leading role in shoring up investments in digital infrastructure there. This is important for the growth of GCC-based retailers which have hitherto positioned themselves as gateways for inter-regional and global trade. An increase in e-commerce in the region will have a significant positive impact on employment too, which in turn will have a positive impact on geopolitical stability in the region.

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