

## **E-commerce – A Plausible Solution to Pakistan’s Economic Woes**

Pakistan has long been in a quest to transform its economy into a dominant position where it could be counted as a true Asian Tiger: a vibrant and technologically advanced country having a trade surplus with its trading partners, ample foreign exchange reserves to fund its imports, and where its citizens have greater job opportunities with better incomes and higher standards of living. To progress in this quest, the government has outlined an economic vision which also entails creation of 10Mn jobs in 5 years. To realize this vision, the govt. needs to look no further than the e-commerce sector; if there is one such industry which could be developed to achieve the government’s target, it would be safe to say that e-commerce is that industry, as it tends to take along many other industries in stride.

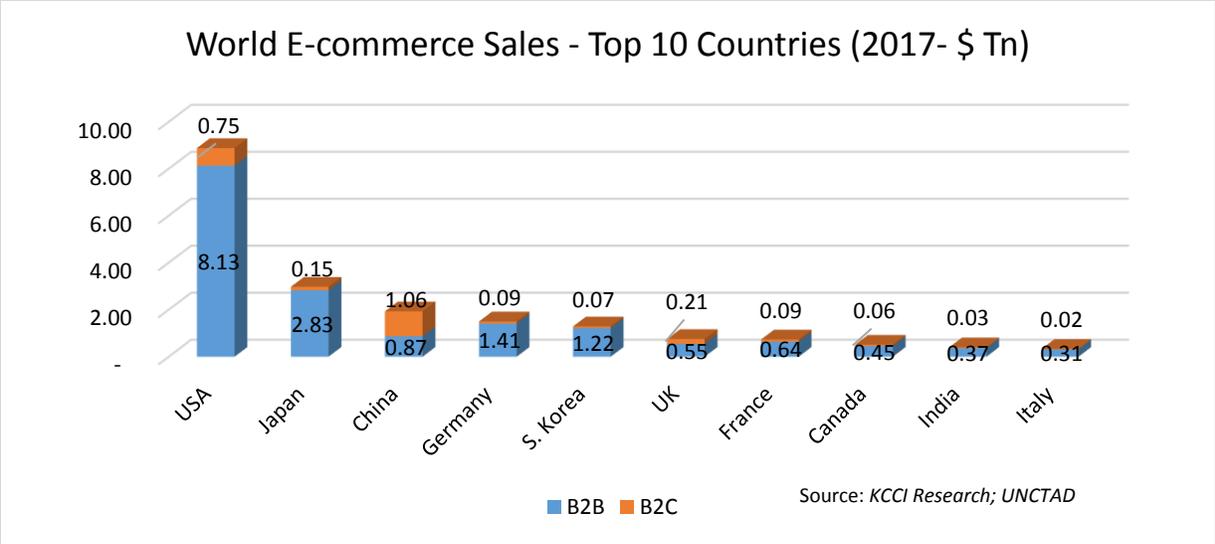
### **What is E-commerce?**

E-commerce, or electronic commerce, refers to the buying and selling of goods or services using the internet, including the transfer of money and data to execute these transactions. E-commerce removes the geographical barriers of trade as sellers from different areas can deliver products and services to customers all across the country and even the world.

E-commerce reduces transactions from the black or informal economy by bringing previously invisible goods, such as unlawfully imported goods or off the record trading, into the formal economy.

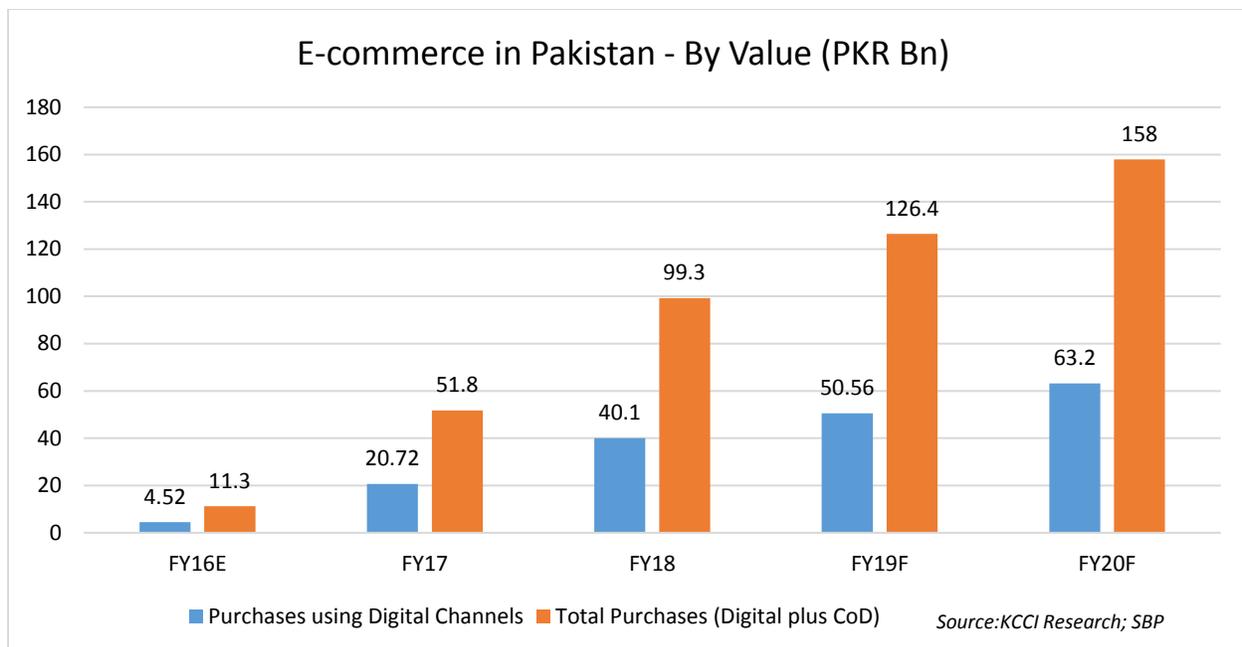
### **E-commerce – a rapidly evolving global phenomena**

Global e-commerce sales grew 13% to \$ 29Tn in 2017 as per estimates of UNCTAD. Of this value, Business-to-Business (B2B) e-commerce has the lion’s share of around 86% while the Business-to-Consumer (B2C) segment saw the highest growth, increasing by 22% to reach \$ 3.9Tn in 2017. Majority of sales were driven by domestic buying from domestic vendors but people are increasingly buying from foreign vendors as the share of such buyers increased from 15% to 21%. About a quarter of the world’s shopping is being done online, with China alone having 440Mn online consumers. In terms of country-wise sales, the United States is the undisputed king with almost \$ 9Tn in sales, 3 times higher than Japan and 4 times higher than China.



**Pakistan’s E-commerce Landscape**

Pakistan’s e-commerce industry has been estimated at PKR 99.3Bn by SBP in FY18 (FY17: PKR 51.8Bn) with YoY growth of 92%. Although, the country has about 67Mn broadband subscribers and 65Mn 3G/4G subscriptions, e-commerce has not reached to a level where electronic money is predominantly used as a mode of payment in place of cash for such transactions. Cash on Delivery (CoD) is still the prevalent payment mode and makes 60% of total transaction volume. Nonetheless, digital payments (credit/debit/prepaid cards, Interbank Funds Transfer and Mobile Wallets) grew by an impressive 93.7% in FY18 to reach PKR 40.1Bn compared to PKR 20.7Bn in FY17. With a population of ~208Mn (as per census 2017) and comparatively limited financial inclusion solutions in terms of branchless banking, Pakistan offers one of the largest untapped markets in the world for e-commerce.



## History and Current Structure of the Pakistan Market

E-commerce arrived to the shores of Pakistan in the aftermath of the dot com bubble which burst in Silicon Valley in 1999. The first Pakistani e-commerce store, Beliscity, was launched in 2001. Although Beliscity failed, other early entrants like Pakwheels.com, Zameen.com and Homeshopping.pk were launched in 2003, 2006 and 2008 respectively, and are thriving till today.

The first foreign entrant into the Pakistani e-commerce landscape was OLX which started its operations in 2010. In 2012, Rocket Internet, a German investment firm, launched Daraz.com.pk and FoodPanda.pk. Ride hailing companies Careem and Uber then ventured into the Pakistan market in 2015 and 2016 respectively, introducing a new dimension in Pakistani cabbing.

Domestic e-commerce players can be categorized as per the following types.

- **Multi retailer platform:** These are the dominant forces in the e-commerce industry who have a wide assortment of products listed on their websites. Examples of these platforms are Daraz, Symbios, Foodpanda, Bookme.pk, Yayvo, Goto, Well.pk etc.
- **Niche retailers:** They focus on one niche and try to leverage their specialty to drive sales. Examples are online stores like Higher.com.pk and Babynestboutique.com etc.
- **Companies having their own online stores** through which people can place an order on them. Retailers like Gul Ahmed, Khaadi and Pizza Hut are major players in this category.
- **Facebook/social media retailers:** They have very well established Facebook stores or groups. Examples are Facebook business pages (shops) like Karachi Buy & Sell. Usually housewives and traders who want another avenue of sales make up the bulk of this segment.

## Acquisition of Daraz by AliBaba - A Milestone in Pakistan's E-commerce History

Daraz, an online marketplace was founded in Pakistan in 2012 by German venture capital company Rocket Internet. In a very short span of time, it conquered Pakistan's e-commerce market thanks to the marketing expertise of Rocket Internet, introduction of sale days like "Blessed Friday", strategic acquisition of its main competitor Kaymu.pk, and creation and education of a market place ecosystem. Its clever strategies took it to the top of e-commerce standings in Pakistan, attracting attention of AliBaba (the Chinese e-commerce giant). AliBaba acquired the company in 2018 for an undisclosed sum believed to be in between \$ 400-500Mn. Ali Pay, the financial arm of AliBaba, also acquired 45% stake in Telenor bank in order to further develop the Mobile Wallet e-commerce ecosystem in Pakistan.

### **E-commerce for Job Creation**

McKinsey Global Institute estimates that Pakistan can experience an increase in its GDP by \$ 36Bn and create 4Mn jobs by 2025 via an increase in the use of digital financial services alone. Estimates by Daraz suggest the online portal could alone create 1Mn, direct and indirect jobs by 2022. Hence, a substantial portion of the Prime Minister's initiative to create 10Mn can be achieved by focusing on e-commerce.

### **Become a Cross-border E-commerce Champion to Increase Exports**

Cross-border e-commerce refers to international online trade entailing trade of products via online shops across national borders and is the most promising area that developing countries like Pakistan needs to focus on to enhance its exports.

Pakistan has a very high trade and fiscal deficit which means that the government has to borrow to run the country. One of the major reason, among others, for weak exports is that government does not have the realization and vision to fathom that B2B e-commerce exports are the present and future of exports. In order for Pakistan to get a pie of the exports of the future, Pakistani businessmen need to reinvent how they conduct businesses and buy the most important real estate of the 21<sup>st</sup> century: digital presence. Every business worth its salt must target the following:

- Have a website.
- Get itself listed on influential trade platforms in Pakistan and globally.
- Develop a strong social media presence.
- Appropriate budget allocations for digital marketing expenditure.

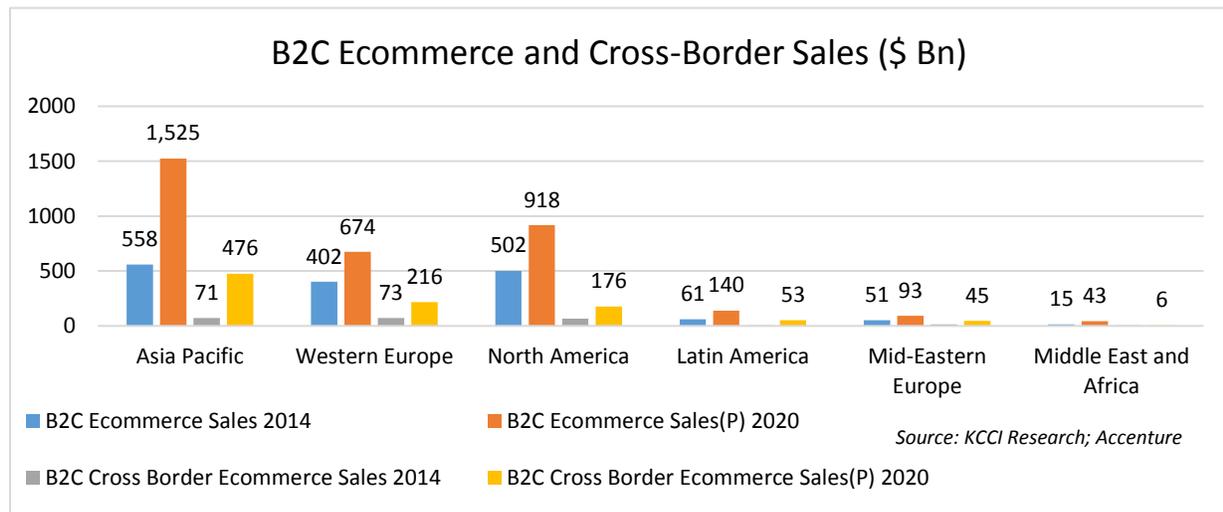
A truly global website needs to be multilingual, and versatile enough to cater to international shipping choices and multiple locally preferred payment options. For example M-Pesa is the mobile wallet of choice in Kenya; if a Pakistani exporter wants to make inroads in Kenya, he would need to integrate that payment option into his website.

A major concern for e-commerce buyers is non-transparency about the real cost of an international purchase. Duties and taxes vary based on customer and supplier's locations. One can get an idea of goods' customs cost by using a duty calculator. Simply input your products' information and countries of departure and arrival into the appropriate fields to determine a cost estimate from the following site: <https://www.dutycalculator.com>. Another way to help keep the confusion of customs to a minimum is to hire a customs broker. Companies can ease consumers' minds by offering them fully landed cost calculation at checkout, including accurately calculated shipping rates, VAT, and duties. Service specialists such as Borderlinx or Global-e can provide help in this regard.

In Western markets, especially Europe and America, consumers use e-commerce platforms like Amazon and eBay. However, every country has different platforms and Pakistani businesses need to focus on getting products listing on as many as possible after understanding thoroughly the dynamics of that market. Chinese consumers, for instance, shop from marketplaces such as Alibaba, T-mall and Taobao, Japanese consumers shop from Rakuten and Indian consumers use Flipkart. In order to successfully sell into international markets, e-tailers (electronic retailers) should look to build a presence on appropriate platforms.

After tending to these initial considerations, Pakistani entrepreneurs need to identify the most promising demand markets and then formulate the right strategy to penetrate them. This can only be done after a thorough analysis of internet selling trends, which in modern parlance refers to conducting a web traffic analysis. For instance, findings reveal that strong cultural and colonial history has allowed UK-based retailers to successfully sell to former Commonwealth markets. Similarly, global fashion trends get dictated by Hollywood and Western television catalyzes demand for Western brands globally.

Pakistan also needs to strengthen its unique selling points to brand itself in both regional and global markets. One big avenue is the Pakistani TV drama which is followed with zeal regionally and globally. Pakistan’s Lawn fabric is a hallmark of its textile industry in the global markets due to high quality of its fabric and unique designing. Textile firms specializing in Lawn fabric can make use of the drama popularity to enhance their Direct to Consumer e-commerce sales to consumers in neighboring countries, thereby bypassing many regional trade barriers.

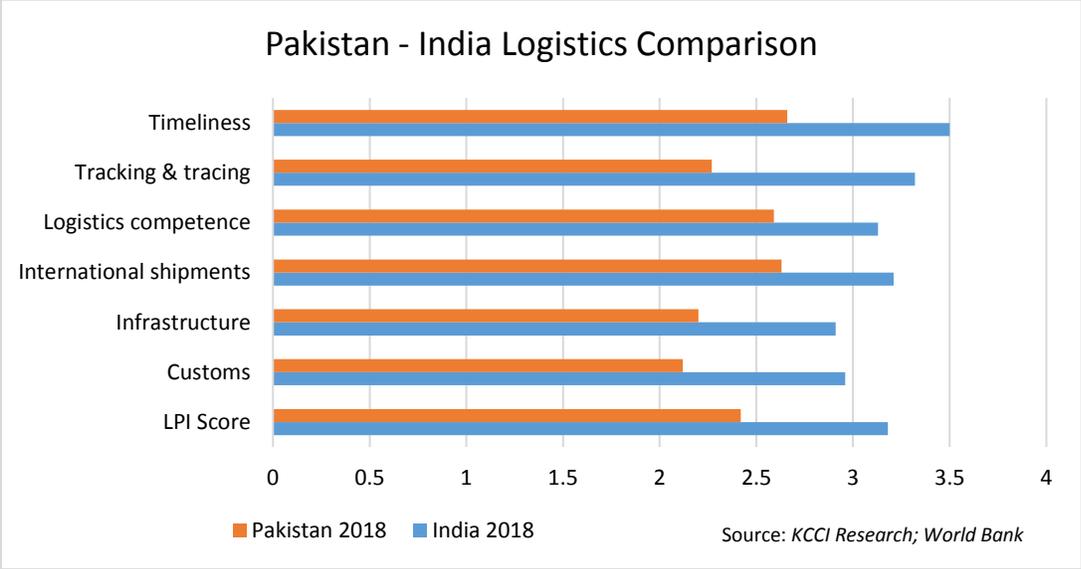


Dilating on the same lines, Pakistan is a leading country in the world that produces footballs. If Pakistani businessmen can leverage this good international reputation and try to sell direct to consumers globally, a new channel of cross-border B2C e-commerce sales can arise.

**E-commerce: A combo of Logistics, ICT and Enterprise**

The three bedrocks essential for a thriving e-commerce ecosystem are i) Logistics, ii) ICT and Payment Infrastructure and most importantly iii) Human Enterprise, which is basically the entrepreneurial spirit to present solutions in the form of goods and services that can generate demand domestically, and more importantly in the case of cross-border ecommerce internationally.

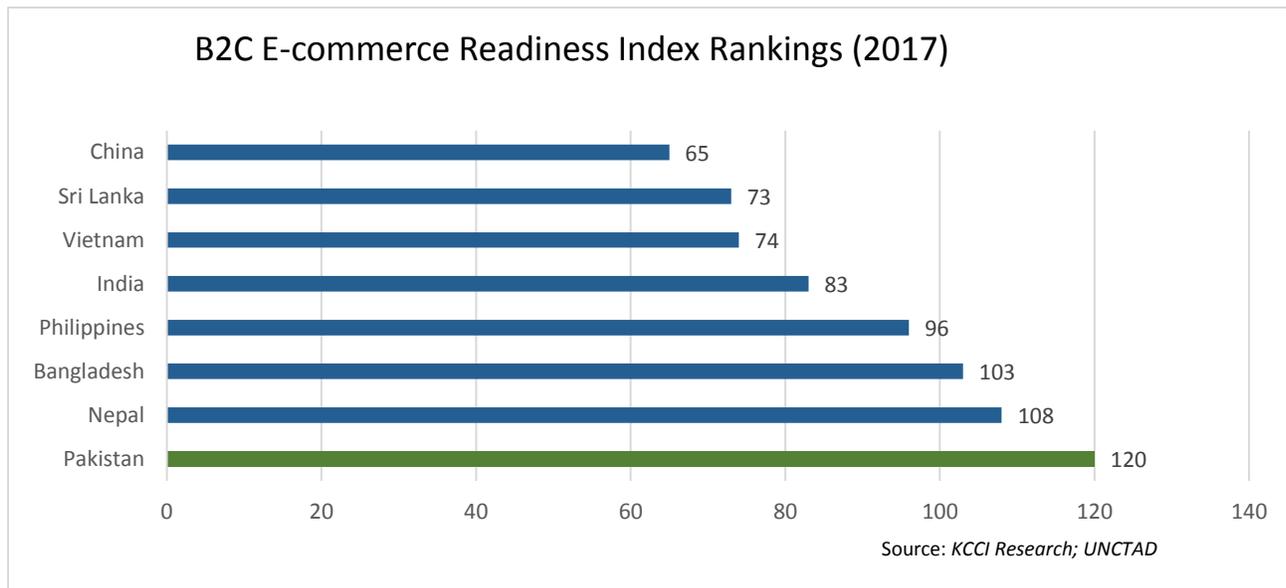
If we were to compare these 3 bedrocks with India we can see that India outshines Pakistan in all categories; India’s e-commerce sales exceeded \$ 400Bn in 2018. India is ahead of Pakistan in all the variables of logistics, such the performance of Customs department, logistics infrastructure, and performance of international shipments and overall logistics competency (as measured by the Logistics Performance Index published by World Bank. India also boasts a higher score in delivery variables such as tracking and tracing capability and timeliness of the delivery, both domestically and internationally.



The biggest difference between India and Pakistan is the value of human capital, which is at the heart of innovation. In order for Pakistan’s products and services to sell globally through the e-commerce platform, innovation is required. It is no secret that India is far ahead of Pakistan in terms of innovation. India has more than 20 e-commerce companies and startups, valued at a cumulative \$ 1Bn, whereas Pakistan has none. India’s education system is based on what is new and innovative in the software market while the curriculum being used for Class 9 in Sindh was last revised in 2002.

In terms of Human Capital Index rankings for 2017, Pakistan ranks 134<sup>th</sup> in the world where as India ranks at 115<sup>th</sup>. India is the closest to Pakistan in environment, culture, racial characteristics, and social attitudes, yet Indian policy makers have figured out the correct theme to enhance its exports: cross-border e-commerce. The chart below depicts the UNCTAD B2C E-commerce Index, which measures an economy’s preparedness to support online shopping. Pakistan ranks quite low in the rankings at 120 while India ranks at 183.

Pakistan therefore needs to learn from the model applied by its regional competitors for promoting its ICT industry and in turn enhance cross-border exports. It also needs to realize that its cross-border e-commerce growth will only materialize when Pakistani industries and entrepreneurs come up with regular innovations instead of producing the same goods that they have been producing for decades.



### Three Evolving Trends in Global B2B E-commerce Pakistan can benefit from

Recent analyses on global B2B e-commerce have revealed a very clear trend: e-commerce has quickly evolved into the buying method of choice for B2B customers. In fact, according to one recent survey of B2B vendors, 57% of B2B companies believe commerce is rapidly shifting from offline to online. B2B buyers increasingly prefer the option to self-serve online by virtue of researching, finding, buying, and managing their accounts through a single web-based platform.

Three trends in particular that have had (and will continue to have) a significant impact on how, when, and where B2B companies sell their products and services:

1. Building an e-commerce platform was a complex task some years ago. Today, innovation has made it easier than ever for B2B companies to quickly and affordably create an online shopping experience of choice.
2. 69% of B2B companies expect to stop publishing print catalogues within the next three to five years, moving instead to mobile-friendly versions that can be viewed on tablets or mobile devices.
3. Before e-commerce became a viable option, most B2B buying processes were managed on paper, over the phone, or through a digital order entry system. Though some B2B customers still prefer those processes, e-commerce has given buyers a superior procurement option; about 60% of business buyers purchase goods for their companies online.

Pakistani businesses need to wake up from their slumber otherwise its largely stagnant exports will start to diminish. They need to open up their websites while also opening up to mobile-commerce as traffic from offline models such as procurement through paper, phone and digital order entry systems is shifting to the web. They have to shift away from searching for buyers in a pond that is getting emptier and shifting towards e-commerce.

### **E-commerce as a Tool for Poverty Reduction - Rural Taobao Program**

In China e-commerce has grown very fast and has been one of the chief driver of change over there. The Chinese government, in collaboration with the AliBaba Group, launched the Rural Taobao program in 2014 to help farmers earn more by selling agricultural products directly to urban consumers through online platforms, which has in turn given rural consumers access to a wide variety of goods and services.

The program's five main activities are listed below:

1. Develop rural financial services through Ant Financial (subsidiary of Alibaba).
2. Setup an e-commerce service network in counties and villages.
3. Improve logistical connections for villages through "two-stage delivery" shipping packages from county centers to villages.
4. Provide training in e-commerce to workers.
5. Promote entrepreneurship

The Rural Taobao Program has expanded quickly, from 212 villages in 12 counties in 2014 to more than 30,000 villages in 1,000 counties in 2018.

### **E-commerce as a Tool for Poverty Reduction - E-Commerce Demonstration Program**

China also launched a program called Rural E-commerce Demonstration Program with the aim of reducing poverty and modernization of rural areas through e-commerce. Its main activities consist of fostering rural e-commerce supply chains, establishing and improving rural e-commerce public service, promoting connectivity between agriculture and commerce, and enhancing e-commerce training. Thousands of villages, many of them with extreme poverty got helped under this program.

### **Pakistan has Just Scratched the Surface of E-Commerce**

Pakistan needs to use e-commerce as a tool to increase exports and formalization of the informal economy to broaden the tax net. These steps will lead to reduction in fiscal and budget deficit, shoring up of foreign reserves and reduction in poverty. Pakistan has just scratched the surface with regard to the e-commerce industry and its regulatory and legal frameworks and needs to work on them on a war footing. If it manages to build policies that support the industry than rapid growth of Pakistan and its exports is possible.

E-commerce gives a level playing field to new entrants who otherwise would have no chance to compete with existing established businesses without huge investments. It is also fostering an entrepreneurial culture in Pakistan which would eventually lead to job creation and brand building at the international level.

There are two factors highly critical for the promotion of e-commerce industry in Pakistan: financial inclusion and literacy of technology required to conduct the transaction. Financial inclusion refers to the provision of financial services to low income segments at a reasonable cost. Even with the success of branchless banking with Mobile wallets such as Easy Paisa and Jazz cash just to name a few, Pakistan still has a large unbanked population residing in rural areas so a substantial effort is required to increase financial inclusion so that they too can reap the benefit of the digital revolution. The other variable is the access to and literacy required to use the technology through which e-commerce takes place.

## **Tutorials in Regional Languages Can do Wonders for E-Commerce**

One big barrier apart from poverty, illiteracy and lack of better infrastructure is that quality content is not readily available in regional languages of Pakistan. If good quality tutorials describing steps to conduct e-commerce transactions in Sindhi, Punjabi, Pashto or Seraiki in a simple manner are available easily, the pace of e-commerce and digital transformation would increase quite significantly. The gov't.'s policy should also be to encourage the use of e-commerce amongst public through awareness campaigns to promote a culture of e-commerce, which supports electronic business transactions at national, regional and international levels.

## **Urgent Need to Enforce Regulations to Counter E-Commerce Fraud**

Furthermore, increased technological awareness would help counter customer exploitation. Pakistan as a nation lacks the “customer is always right” culture where customers are sometimes treated as prey by cons or people with little business ethics. This culture flourishes due to minimal enforcement of laws pertaining to basic consumer rights. Numerous cases abound where e-commerce sellers have not delivered on their stated promises, resulting in disgruntled customers disillusioned at the whole concept of e-commerce. Additionally, late delivery times, inconvenience of reverse logistics and refunds and weak customer support are major reasons why many people still prefer to buy from shops rather than online. Therefore, strict online consumer protection laws need to be drawn up immediately so Pakistan can benefit from across the board evolution of e-commerce.

## **Introduction of Paypal to Immensely Help in Cross-Border Exports**

The world’s preferred digital payment method, PayPal, is not available in Pakistan due to a host of reasons including payment clearance complications, money laundering issues, political instability and high costs of entry. Having access to PayPal allows exporters to receive money easily, as it charges only 2.5% as transaction fee and offers an easy dispute mechanism. Availability of PayPal leads to more business because of the trust factor.

Alternatively, third-party escrow services for B2B transactions, such as Alibaba’s secure payment service, Alipay, hold the funds until both parties confirm delivery, can be used by Pakistani exporters. The good news is that with acquisition of 45% stakes of Telenor Microfinance Bank by Alipay, this service is expected to be launched in the near term in Pakistan.

As per studies, Micro Sized Manufacturing Enterprises (MSME) with high IT focus are likely to grow more than two times faster than MSMEs that do not leverage technology, regardless of the industry. This clearly emphasizes the need for a stronger ICT infrastructure and awareness of businesses to benefit from e-commerce.

In a positive development, the SBP has announced issuance promised the issuing of digital currency by 2025. The creation and regularization of Electronic Money Institutions (EMI), which are non-bank entities, to issue e-money for the purpose of digital payments will usher in a new era for e-commerce in Pakistan. EMIs would complement governmental efforts in creating facilitative environment for stakeholders in e-commerce. This will also help businesses in contributing for global competition through cross-border e-commerce.