



# E-Commerce

A Plausible Solution to  
Pakistan's Economic Woes



Karachi Chamber Of Commerce & Industry

Research & Development Department

September 2019

## Executive Summary

Pakistan has long been in a quest to transform its economy into a vibrant and technologically advanced country having a trade surplus, ample foreign exchange reserves, where its citizens have greater job opportunities with better incomes and higher standards of living. If there is one such sector that could be developed to achieve the national vision of prosperity, it could be safely said that E-commerce is the one, as it tends to take almost all other sectors in stride.

E-commerce refers to the buying and selling of goods or services using the internet. By utilizing E-commerce, businesses can extend their reach to national and international markets with relatively lower capital investment.

Pakistan’s E-commerce industry has been estimated at PKR 99.3Bn in FY18 (FY17: PKR 51.8Bn) with YoY growth of 92%. With a population of ~208Mn and a number of financial inclusion solutions in terms of branchless banking, Pakistan offers one of the largest untapped markets in the world for E-commerce. Although, the country has about 71.71Mn broadband subscribers and 69.64Mn 3G/4G subscriptions, E-commerce has not reached to a level where electronic money is predominantly used in place of cash for such transactions.

There are a host of reasons why Pakistan has not been able to realize its full potential in developing its E-commerce system. Two factors highly critical for the promotion of E-commerce industry in Pakistan are financial inclusion and literacy required to conduct a transaction. The world’s preferred digital payment method, PayPal, is not available in Pakistan due to a number of reasons. PayPal allows for low cost international transfer of funds for both E-commerce sales and freelancing proceeds. Further, presence of global B2B and B2C portals like Amazon and eBay is also lacking in Pakistan. If such a portal was present in Pakistan, it would have far-reaching benefits across businesses as currently they are deprived of a large market opportunity.

Quality content is not readily available in regional languages of Pakistan. If good quality tutorials describing steps to conduct E-commerce transactions in local languages in a simple manner are available easily, the pace of E-commerce and digital transformation would increase quite significantly.

Pakistan needs to use E-commerce as a tool to increase exports and lead to a higher tax collection. This would lead to reduction in fiscal and current account deficits, shoring up of foreign reserves and reduction in poverty. Pakistan has just scratched the surface with regard to E-commerce. In order for Pakistan to get a bigger share of global exports, Pakistani businessmen need to reinvent their strategy of conducting business and buy the most important real estate of the 21st century – “online presence”.

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## 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 sector which could be developed to achieve the government’s target, it could be safely said that E-commerce is the one, as it tends to take almost all other sectors in stride.

E-commerce refers to the buying and selling of goods or services using the internet

### 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 data and money to fulfill the 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. It diverts 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.



Source: [www.medium.com](http://www.medium.com)

Barrier of huge capital investment is considerably lowered as organizations can start operating at a fraction of the cost required for setting up a conventional business

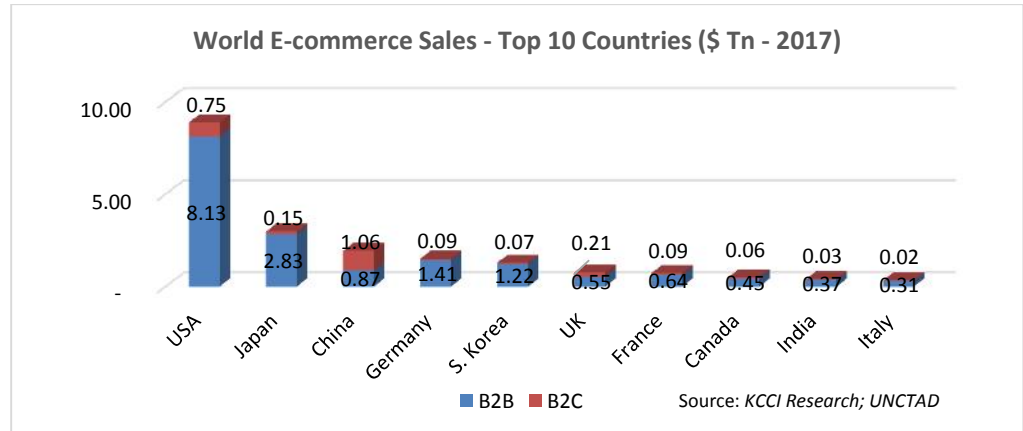
### E-commerce – a rapidly evolving global phenomenon

By utilizing E-commerce, businesses can extend their reach to national and international markets with relatively lower capital investment. Barrier of huge capital investment is considerably lowered as organizations can start operating at a fraction of the cost required for setting up a conventional business, while at the same time reducing overheads associated with such traditional shops. E-commerce has increased rural inclusion into mainstream society as people in rural areas now have access to the same products and services as urban dwellers.

From the customer’s perspective, E-commerce software applications provide diverse options to compare products while online reviews enable them to make better informed decisions. E-commerce allows 24/7 shopping convenience, as unlike conventional brick and mortar shops, the shop never closes. It saves hassle laden visits to the markets and lowers air and traffic pollution and other associated health risks.

Evolving into a global phenomenon, worldwide E-commerce sales has grown to \$ 29Tn.<sup>1</sup> Of this value, Business-to-Business (B2B) E-commerce commands the lion’s share of 86% while the Business-to-Consumer (B2C) segment saw the highest growth, increasing by 22% to reach \$ 3.9Tn. Majority of sales were driven by domestic buying from domestic vendors, but buying from foreign vendors is gaining traction as the share of such buyers has increased from 15% to 21%. About a quarter of the world’s shopping is now 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.

About a quarter of the world’s shopping is now being done online, with China alone having 440Mn online consumers



### Some interesting insights into global E-commerce consumer behavior

Research into behavioral patterns of E-commerce consumers indicate that men actually spend more dollars per transaction on average as they tend to buy higher priced items such as luxury goods and electronic items, whereas the female shopper indulges herself more in lower priced items such as cosmetics and food.<sup>2</sup> On average, men spend \$ 220 per transaction compared to \$ 151 per transaction for women. Further, men are more inclined towards efficiency as they do bulk buying in order to save both money and time.

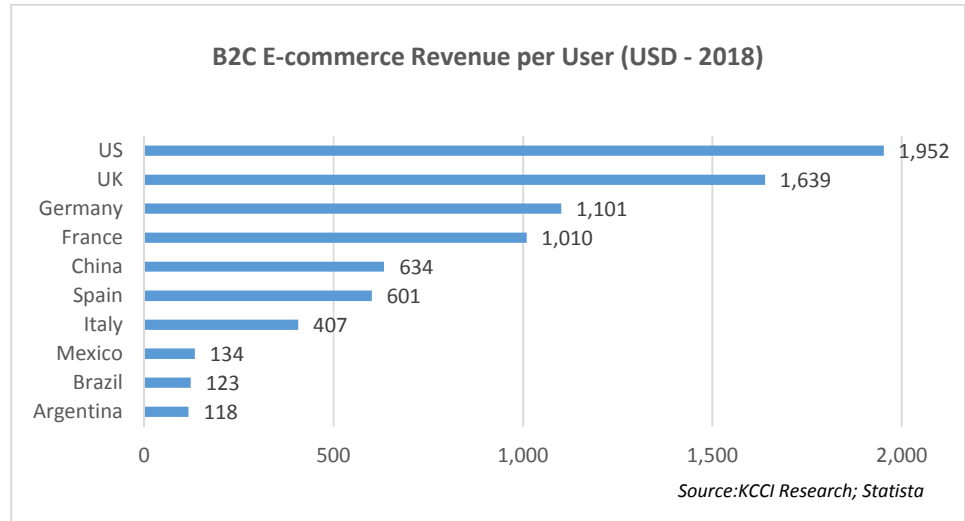
Men actually spend more dollars per transaction on average

Consumers have been observed to be loyal to a portal where they have had good experience, indicating that the adage ‘first impression is the last impression’ also holds

<sup>1</sup> UNCTAD estimates for year 2017

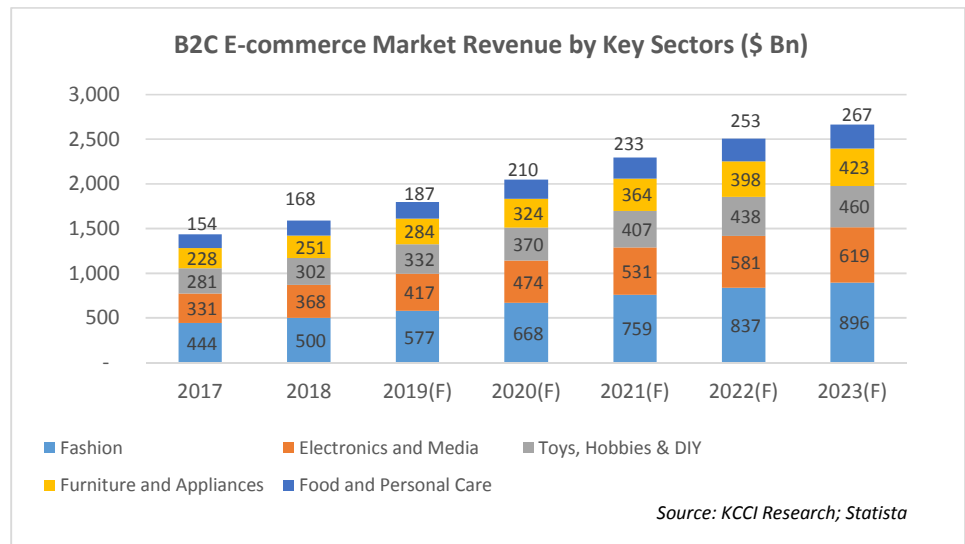
<sup>2</sup> www.statista.com; KPMG Global Online Consumer Report

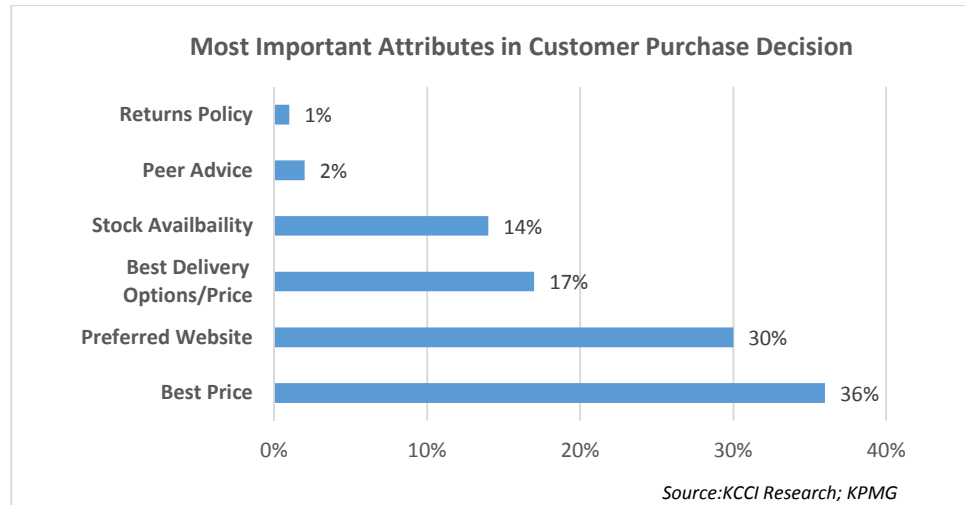
true in E-commerce. Retail sites get visited through mobile phones more (60%) for product surveys and price comparison, but when it comes to completing the checkout process, computers are the definite tools of transaction (60% of the transactions are actually carried out through computers as compared to 40% by mobile devices).



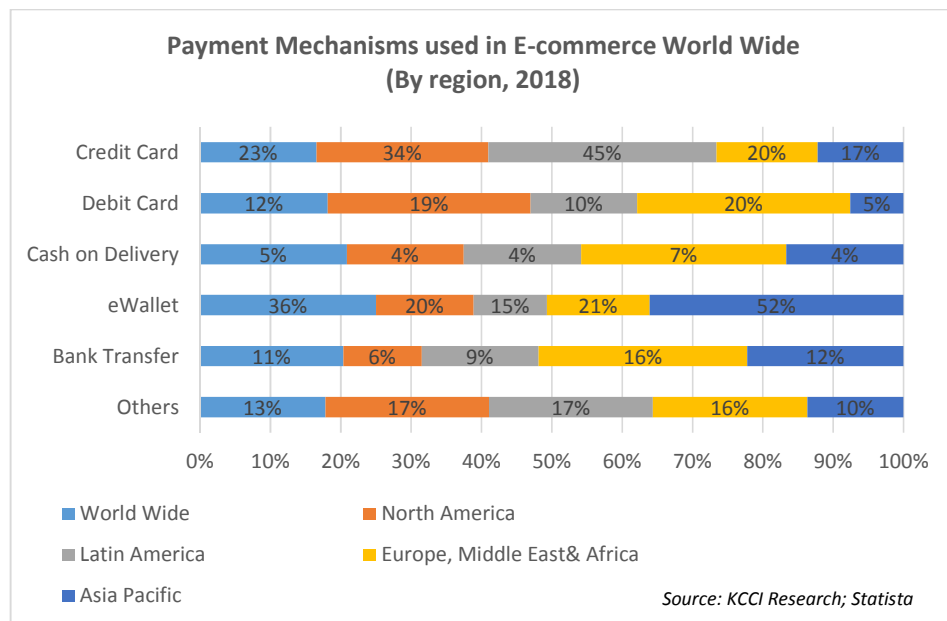
Generation X people (born in 1965-1980) are currently the main drivers behind online sales globally

With respect to demographics, Generation X people (born in 1965-1980) are currently the main drivers behind online sales globally, with average 19 transactions per year. However, as income of millennials (born between 1981 and 1996) start rising, their share in online shopping is expected to far exceed older generations.





Mobile wallets have overtaken cards as the method of choice to conduct E-commerce transactions globally<sup>3</sup>, from electronic cards previously, as rapidly evolving technology has created a dramatic shift. With ease of use of Fintech apps, Digital Wallets link smartphones to make payments based on QR codes, NFC (Near Field Communication) and other similar technologies.



### Three evolving trends in global B2B E-commerce

Recent analyses on global B2B E-commerce have revealed a very clear development: E-commerce has quickly evolved into the buying method of choice for B2B customers. In

<sup>3</sup> Digital in 2019



fact, 57% of B2B companies believe commerce is rapidly shifting from offline to online. B2B buyers increasingly prefer the option to self-serve online by researching, contacting, buying, and managing their suppliers through a single web-based platform.

Three trends in particular that have had a substantial impact on how, when, and where B2B companies sell their products and services are:

About 60% of business buyers purchase goods for their companies online

1. Building an E-commerce platform was a difficult task some years ago. Now innovation has made it easier than ever for B2B companies to affordably and quickly create an online buying experience to meet their client’s needs.

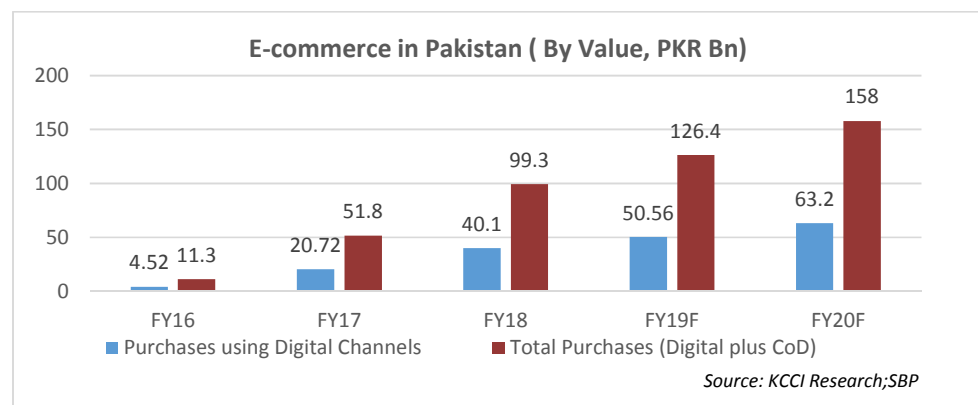
2. Two-thirds of B2B companies expect to stop publishing print catalogues within the next three to five years, moving instead to mobile-friendly versions that can be viewed on mobile devices or tablets.

3. Before the emergence of E-commerce, most B2B buying processes were managed on paper, through a digital order entry system or over the phone. Though some old fashioned B2B customers still prefer those processes, about 60% of business buyers purchase goods for their companies online.

### Pakistan’s E-commerce Landscape

Pakistan’s E-commerce industry has been estimated at PKR 99.3Bn with YoY growth of 92%

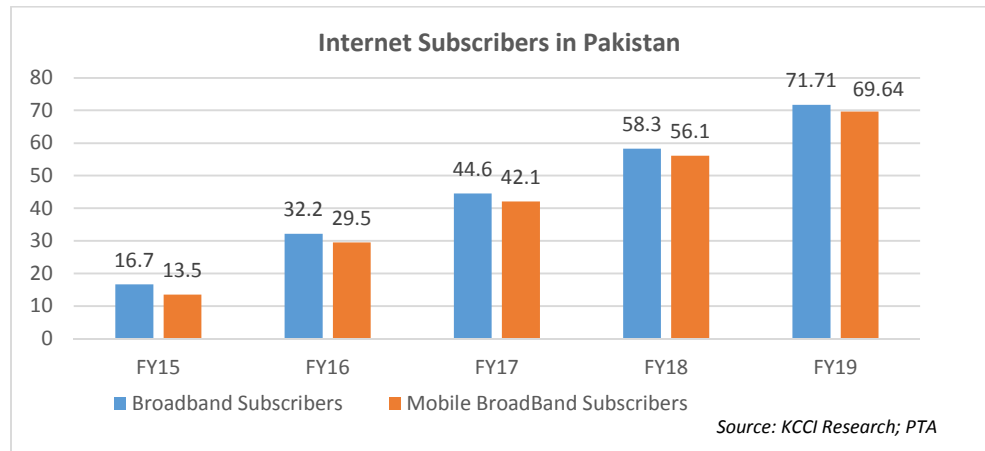
Pakistan’s E-commerce industry has been estimated at PKR 99.3Bn<sup>4</sup> in FY18 (FY17: PKR 51.8Bn) with YoY growth of 92%. Cash on Delivery (CoD) is still the prevalent payment mode and makes 60% of total transaction volume. Digital payments (credit/debit/prepaid cards, interbank funds transfer and 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 and a number of financial inclusion solutions in terms of branchless banking, Pakistan offers one of the largest untapped markets in the world for E-commerce. Although, the country has about 71.71Mn broadband subscribers and

<sup>4</sup> SBP

69.64Mn 3G/4G subscriptions, E-commerce has not reached to a level where electronic money is predominantly used in place of cash for such transactions.



The first Pakistani E-commerce store, Beliscity, was launched in 2001

### 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 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 Pakistani market in 2015 and 2016 respectively, introducing a new dimension in Pakistani cabbings.

Pakistan’s E-commerce players can be categorized as per the following types.

- Multi retailer platform: These are the dominant forces in the E-commerce industry having a wide collection 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 orders can be placed. Retailers like Gul Ahmed and Khaadi are good examples of this category.
- Facebook/social media retailers 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.

Services having dedicated apps are disrupting the transportation business in Pakistan

- Services having dedicated apps such as Uber, Careem, Paxi and Bykea are disrupting the transportation business in Pakistan like they have globally. People can book rides from the convenience of their homes.

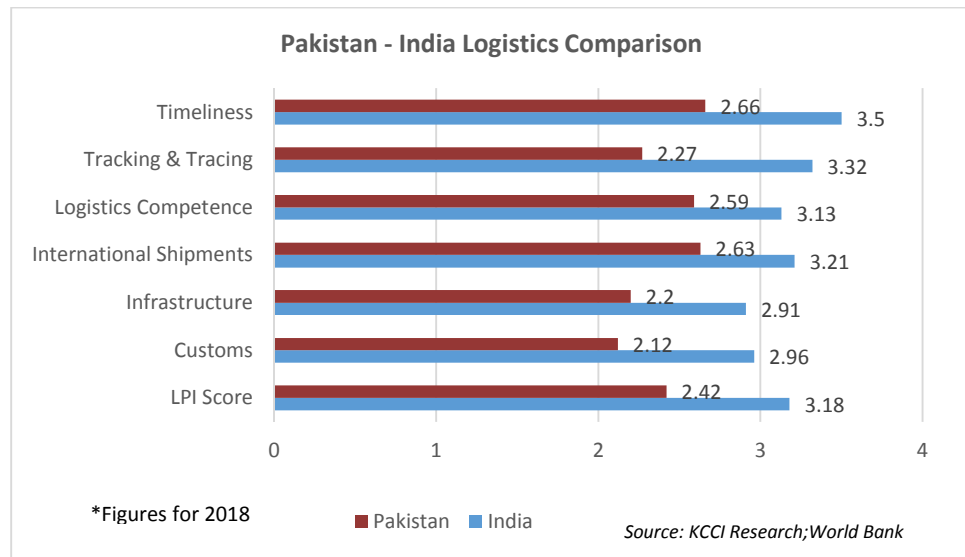
### Comparing Pakistan to India in E-commerce

Human Enterprise, is the entrepreneurial spirit to present solutions that can generate demand.

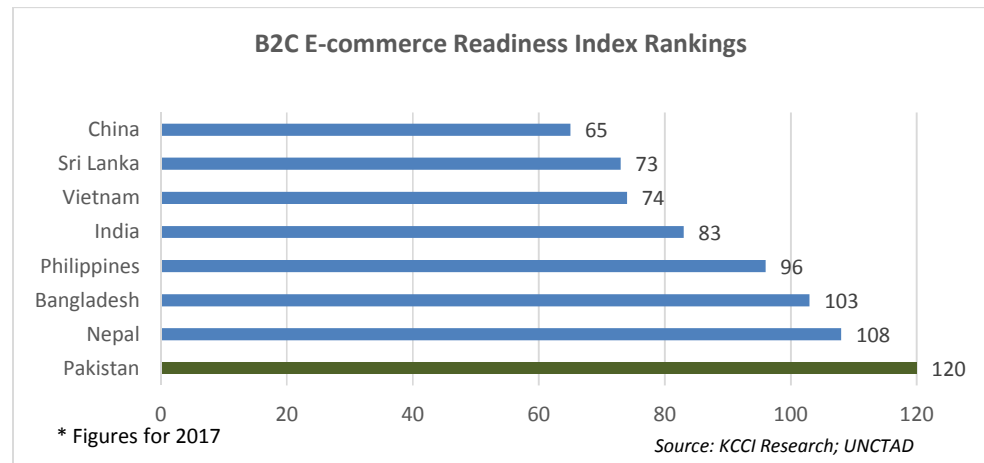
To compare versatility of E-commerce ecosystems between competing economies, three fundamental parameters which can be evaluated are:

- i) Logistics,
- ii) ICT and Payment Infrastructure, and most importantly
- iii) Human Enterprise, which is the entrepreneurial spirit to present solutions that can generate demand both domestically, and more importantly in the case of cross-border E-commerce, internationally.

If we were to compare these 3 bedrocks with India, (India’s E-commerce sales exceeded \$ 400Bn in 2018) we can see that Pakistan trails in all categories, lagging in key variables of logistics, such as customs processing, logistics infrastructure, and performance of international shipments.



The chart below depicts the UNCTAD B2C E-commerce Index, which measures an economy’s preparedness to support E-commerce development. Pakistan ranks in the rankings at 120 as against India’s 83.



In terms of Human Capital Index for 2017, Pakistan ranks at 134<sup>th</sup> in the world

The biggest gap between India and Pakistan occurs in the value of human capital, which lies at the heart of innovation. India has more than 15 E-commerce companies and startups, valued at more than \$ 1Bn, whereas Pakistan has none. In terms of Human Capital Index rankings for 2017, Pakistan ranks 134<sup>th</sup> as compared to India’s 115<sup>th</sup>. It is lamentable that Indian policy makers have figured out the correct theme to enhance its exports through cross-border E-commerce whereas Pakistan is still struggling in this domain.

According to studies, Micro Sized Manufacturing Enterprises (MSME) that leverage information technology grows more than two times faster than MSMEs that do not, regardless of the sector. This clearly underlines the need for a robust ICT infrastructure and awareness of businesses in order to benefit from E-commerce.

### Hurdles in E-commerce expansion

There are a host of reasons why Pakistan has not been able to realize its full potential in developing its E-commerce system in the manner many other competing economies have done. The following sections elaborate on the reasons and provide solutions on how such hurdles can be overcome.

Having access to PayPal allows exporters to receive money easily, due to lower transaction fee and an easy dispute settlement mechanism

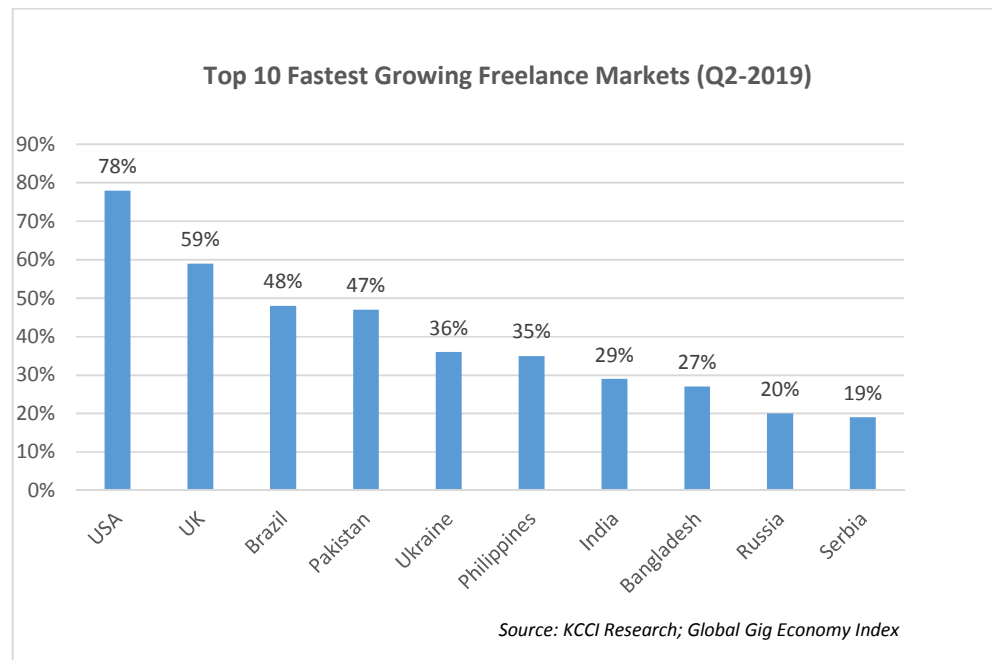
#### Absence of a globally accepted and viable payment system

The world’s preferred digital payment method, PayPal, is not available in Pakistan due to a number of reasons, including payment clearance complications, money laundering issues, 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 due to the trust factor. Another reason for PayPal not coming into Pakistan is that it is not easy for small firms to obtain business credentials. As such firms lack a credible trading history, international payment providers such as PayPal tend to preclude them from engaging in any activity whatsoever.

Pakistan ranks as the 4<sup>th</sup> most popular country for freelancing in the world behind India, Bangladesh and the US

Pakistan ranks as the 4<sup>th</sup> most popular country for freelancing in the world where freelancers receive work from E-commerce platforms such as Fiver, Freelancer. Cross-border payment solutions such as Payoneer and Skrill charge a fee between 5% and 30%. Having access to PayPal allows freelancers to ask their customers to remit payments via this platform, at lower costs. Former Finance Minister Asad Umar said that Pakistan will try to bring PayPal’s services in the country or build its own replacement as China did with Alipay. Unfortunately, nothing concrete has materialized as yet.

Another hindrance that freelancers face is in the form of official documentation, Form R, required by the SBP. Freelancers describe the form as redundant and unnecessarily time consuming.



In Pakistan, most businesses are SMEs and are currently deprived of a large market opportunity

### Non-presence of global portals

Presence of global B2B and B2C portals like Amazon and eBay are lacking in Pakistan. To evolve such a portal, a tremendous entrepreneurial spirit is needed with large investment on marketing. China has the highest number of B2B marketing agencies in the world, followed by the USA, India and Hong Kong. If a portal of the stature of Amazon was to be present in Pakistan, it would have far-reaching benefits across businesses as in the case of Vietnam. (Vietnam has around 700,000 businesses of which 98% are SMEs). In Pakistan, most businesses are SMEs (around 3Mn) and are currently deprived of a large market opportunity as only few of them are able to afford the old school method of attending international trade fairs for business recognition.

### Financial access and literacy

There are two factors highly critical for the promotion of E-commerce industry in Pakistan: (i) financial inclusion (ii) sufficient literacy required to conduct a transaction.

Two factors highly critical for the promotion of E-commerce industry in Pakistan: (i) financial inclusion (ii) sufficient literacy

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 Paise and Jazz cash, 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.

The SBP is actively working to enhance financial inclusion in the country. Private institutions such as Karandaaz are also working for the promotion of SMEs, particularly startups that include E-commerce ventures. Such efforts are paving the way towards a digital economy based on financial inclusiveness and empowerment of the unbanked, particularly women. Initiatives like Women Entrepreneurship Challenge are being taken where women-led startups are being provided funding and mentorship.

### Imposition of taxes on a nascent industry

Tax imposition on online cab aggregators like Uber, Careem and Bykea and online market platforms by the Sindh govt. in the recently announced provincial budget is a negative step as E-commerce is in its infancy stages in the country. High taxation on this nascent industry will discourage consumers from shifting towards digital economy, leading to stalled growth. Current applicable rates of sales tax on E-commerce businesses in Punjab, Sindh, KPK and Baluchistan are 16%, 13%, 15% and 15% respectively.

High taxation on this nascent industry will discourage consumers from shifting towards digital economy.

### Lack of tutorials in native languages

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 govt. should also 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.

Pakistan as a nation lacks the “customer is always right” philosophy where customers are sometimes treated as prey by businesses with mala fide intentions.

### Dearth of effective regulation to counter E-commerce fraud

Pakistan as a nation lacks the “customer is always right” philosophy where customers are sometimes treated as prey by businesses with mala fide intentions. The 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. Some of the misleading practice that consumers in Pakistan face are inaccurate product listings, fake reviews by the companies themselves, overpricing, misleading discounts, faulty and inaccurate products reaching or never even reaching the consumer after the payment has been made. Additionally, late delivery times, inconvenience of reverse logistics (the movement of goods back from customer to

vendor) and refunds and weak customer support are major reasons why many people still prefer to buy from shops rather than online. This is also one reason why foreign online businesses do not invest in Pakistan, as there is a lack of robust system of checks and balances in place, one where criminals are prosecuted and consumer rights are protected.

Therefore, strict online consumer protection laws need to be drawn up immediately so that Pakistan may benefit from evolution of E-commerce. At the national level, legislation must be supportive for E-commerce to grow. E-signature and e-contract laws are needed to facilitate the establishment of online business. International e-payments require regulations on the free cross-border flow of foreign exchange and, ideally, on the prevention of online fraud and cybercrime. Increased technological awareness would also help counter customer exploitation.

Government intervention may be key to addressing the vast majority of the problems that affect aftersales. For example, by adopting laws and regulations specifically designed to safeguard the economic interests of consumers (e.g. right to return and cancellation policies, policies protecting data transfer and privacy, and information requirements). The government can surely help E-commerce businesses in their quest to build a good reputation and encourage consumers to engage in E-commerce.

Inadequate protection of data is another issue that may arise in the context of cross-border delivery of services. A number of services require consumers to provide suppliers with personal data (e.g. telemedicine). However, consumers want to ensure that their data is used only for the purpose of the service to be provided and that they are not, for example, transferred to third parties for unsolicited marketing or other unscrupulous activities.

### The Pakistan Electronics Crime Act

The Pakistan Electronics Crime Act (PECA) 2016 has provisions that offer a remedy for any person wronged by E-commerce businesses. Customers can report these vendors or E-commerce platforms to National Response Center for Cyber Crimes - FIA by writing to [helpdesk@nr3c.gov.pk](mailto:helpdesk@nr3c.gov.pk).

### How can Pakistan improve its economy through E-commerce

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. E-commerce will lead to brand building at the international level and also foster an entrepreneurial culture in Pakistan, which would eventually lead to job creation.

Pakistan needs to use E-commerce as a tool to increase exports and lead to a higher tax collection. This would lead to reduction in fiscal and current account deficits, shoring up of foreign reserves and reduction in poverty. Pakistan has just scratched the surface

The Pakistan Electronics Crime Act (PECA) 2016 has provisions that offer remedy for any person who has been wronged by E-commerce stores

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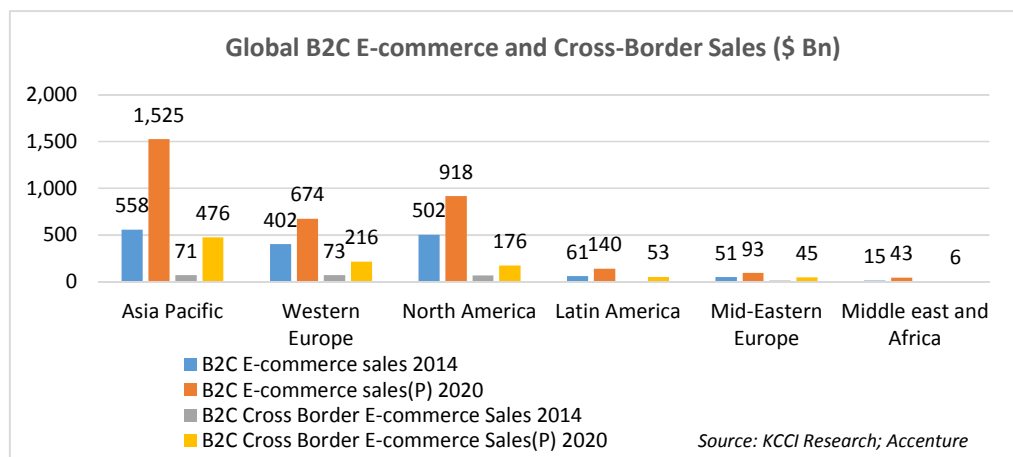
with regard to the E-commerce industry and its regulatory and legal frameworks; it needs to work on them on a war footing. If it manages to build policies that support the industry than rapid growth of Pakistan’s economy and its exports is possible.

**Become a cross-border E-commerce champion to increase exports**

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

One of the major reason for Pakistan’s weak exports is lack of realization that B2B E-commerce exports are the present and future of exports. In order for Pakistan to get a bigger share of global exports, Pakistani businessmen need to reinvent their strategy how they conduct business and buy the most important real estate of the 21<sup>st</sup> century – “online presence”. 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 entrepreneurs regularly come up with innovations instead of producing the same goods that they have been producing for decades.

One of the major reason for Pakistan’s weak exports is the lack of realization that B2B E-commerce exports are the present and future of exports.



**Cross-border delivery**

Cross-border delivery depends critically on countries’ transport infrastructure and customs clearance practices. Simplifying custom procedures would require the govt. to review cumbersome regulation as well as corruption. A good step that the government has taken is that Pakistan Post has now extended ‘EMS Plus’ parcel export service to the entire world. Parcels will be sent to 50 countries such as Japan, Canada, UK and US within 72 hours. This will help boost cross-border B2C E-commerce exports from Pakistan.

Pakistan Post has now extended EMS Plus parcel export service to the entire world.

Korean customs are working on to integrate cross-border transactions of leading E-commerce marketplaces directly with their customs system. This will help resolve the



difficulties experienced by exporters, who must fill out many export declarations as a result of the large numbers of sales. Korean Customs has also incorporated Simplified Export Declaration for E-commerce, significantly reducing the information items on the export declaration from 57 to 37. Pakistan Customs can replicate this with WeBOC system to simplify and boost ecommerce export procedure.

### International e-Payment solutions

To achieve cross-border E-commerce, it is vital to have international payment solutions available. Although PayPal is not available in Pakistan, the good news is that with acquisition of 45% stakes of Telenor Microfinance Bank by Alipay, Alipay is expected to be launched in the near term in Pakistan. Alipay is Chinese company Alibaba’s secure payment service. It is a third-party escrow service for B2B transactions, which holds the funds until both parties confirm delivery.

Domestically there also exists PayPak which is a Pakistani domestic payment scheme launched by 1Link under the State Bank of Pakistan Vision 2020. Currently, 20 of the country's banks have adopted it. The new payment scheme aims to compete in the domestic market with other international payment schemes like Visa & MasterCard. PayPak’s strategic objective includes offering Domestic Payment Scheme to provide low cost payment services to every citizen and business of Pakistan as businesses with relatively low sales volume are unable or unwilling to accept credit card payments due to high transaction fees.

SBP, in a welcome move, has allowed banks to facilitate freelancers and banks can now receive remittances by resident individuals from reputed online platforms up to \$ 1,500 per individual per month. This limit needs to be enhanced further.

A very big increase is expected in the number of freelancers in Pakistan, as under the President of Pakistan Initiative of Artificial Intelligence and Cloud Computing, around 10,000 students are being taught the disciplines. Many students will enter the freelancing arena in a year and introduction of Alipay may well yield a boost in their forex based earnings.

### Issuance of digital currency by SBP

In a positive development, the SBP has announced issuance 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. Board of Investment (BOI) has also designed a digital regulatory system to keep a check on electronic business transactions. The digital Business Regulatory Mapping Portal will ensure accuracy and transparency in business transactions through e-commerce.

### Presence on global E-commerce platforms

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SBP has announced the issuance of digital currency by 2025.

A silver lining for Pakistan is that in on the Alibaba portal, Pakistan now has its own dedicated pavilion

A silver lining for Pakistan is that in on the Alibaba portal, Pakistan now has its own dedicated pavilion. Currently there are more than 3,000 paid members and most of them are based in Sialkot, Lahore and Faisalabad, while textile, leather, surgical instruments and sports goods sectors are the top categories. Even before the launch of Pakistan’s page, Ali Baba has been attracting local buyers and suppliers. Overall, it has around 250,000 registered members from Pakistan.

### Developing an E-commerce ecosystem

Many E-commerce startups have come up over the years in Pakistan, disrupting the status quo, thanks to tech incubators across Pakistan such as the Nest I/O and IBA CED. However, what is lacking is a startup that increases E-commerce exports. So the government should create a tech incubator that solely focuses on creating cross-border E-commerce startups.

There is a dire need for Pakistani venture capitalists and angel investors to invest in these cross-border E-commerce exporting startups. Government should also consider creating a fund dedicated for this purpose.

More workshops need to be conducted to give briefings on bureaucracy, policymakers and businessmen on what cross-border E-commerce is.

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.

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

A truly global website needs to be multilingual, and versatile enough to cater to international shipping choices and multiple locally preferred payment options.

Global fashion trends get dictated by Hollywood and Western Television.

simply means 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’s problem of its trade deficit can be solved in less than 24 hours

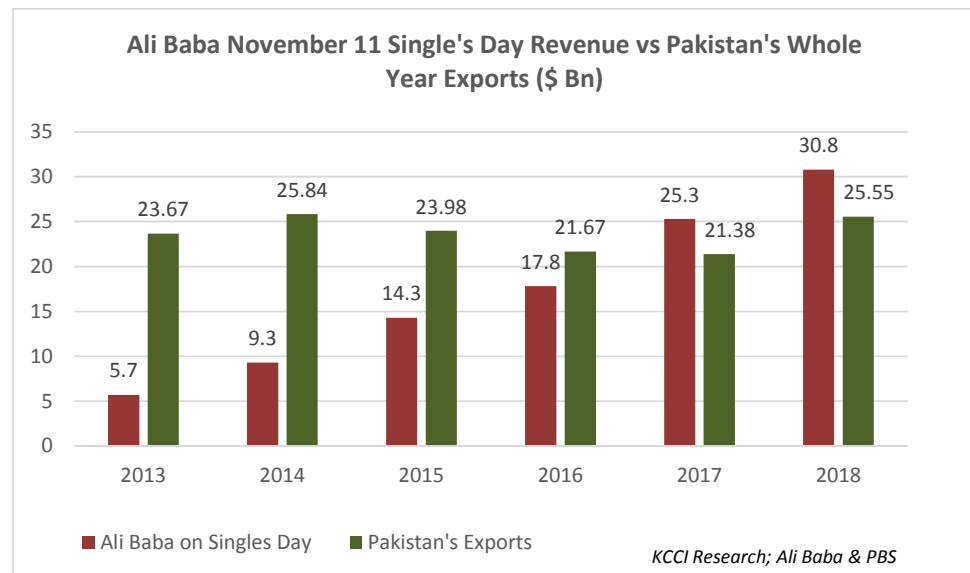
Dilating on the same lines, Pakistan is a leading country in the world that produces footballs. If Pakistani businessmen can leverage this good international reputation and try to sell direct to consumers globally, a new channel of cross-border B2C E-commerce sales can arise.

### An instant antidote for Pakistan’s trade deficit: day shopping festivals

Pakistan, due to wide-spread presence of its diaspora across the globe in general, and in the Islamic world, is in a unique position to create international day-specific shopping festivals of its own

To solve Pakistan’s ridiculously tricky problems, out-of-the-box solutions are required. Pakistan’s biggest problem is its trade deficit, yet it can be solved in less than 24 hours. On 11<sup>th</sup> Nov’18, Alibaba generated sales revenues of \$ 30.8Bn in a single day during the Singles Day event, 25% more than Pakistan’ exports in a whole year. (The Singles Day is celebrated in China every year on 11<sup>th</sup> November and can be considered the biggest shopping day event on earth).

Day-specific shopping festivals are a huge developing market which Pakistan needs to start tapping into. Such shopping festivals are taking place in every part of the world and Pakistani businessmen needs to focus on them to capture market attention. When less than 70,000 people can do it in a day, why cannot Pakistan replicate the same success, albeit in smaller proportions.



Pakistan, due to wide-spread presence of its diaspora across the globe in general, and in the Islamic world, is in a unique position to create international day-specific shopping festivals of its own. Some E-commerce day festival themes that Pakistan as a country can do are:

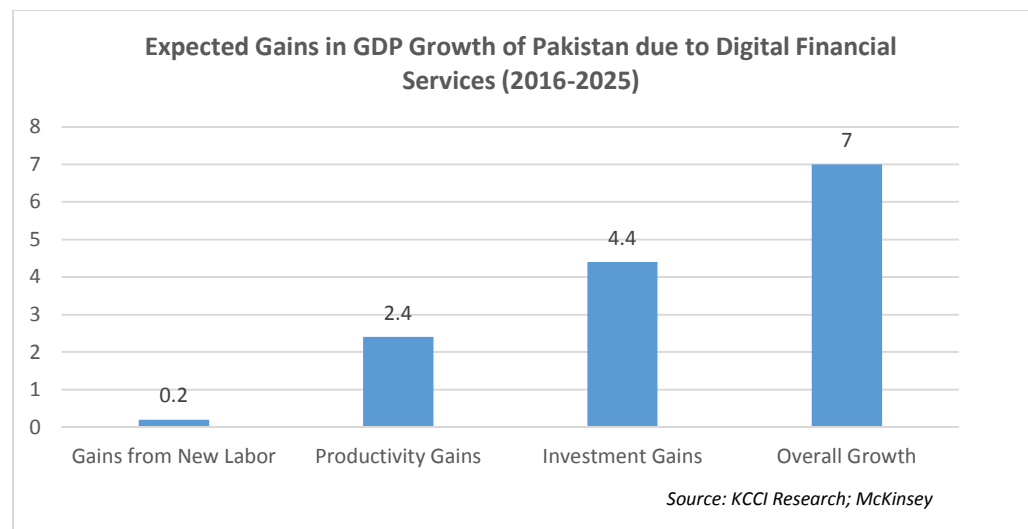
1. Great Pakistani Global Day: For Pakistanis living abroad
2. Muslim World E-commerce Day: To market products having Islamic orientation
3. Pakistan Sports Day: To sell Pakistani sports goods
4. Tourism D’ Pakistan Day: To pitch Pakistan’s tourism services to foreign tourists

Pakistan can increase its GDP by \$ 36Bn and create 4Mn jobs by 2025 via an increase in the use of digital financial services alone

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 shift towards E-commerce.

### E-commerce for job creation

Pakistan can increase its GDP by \$ 36Bn and create 4Mn jobs by 2025 via an increase in the use of digital financial services alone.<sup>5</sup> Other estimates suggest the online portals such as Daraz could alone create 1Mn, direct and indirect jobs by 2022. Hence, a substantial portion of the Prime Minister’s recent initiative to create 10Mn jobs can be achieved by focusing on E-commerce.



The Rural Taobao program helps farmers earn more by selling directly to urban consumers

### E-commerce as a tool for poverty reduction – China’s Rural Taobao Program

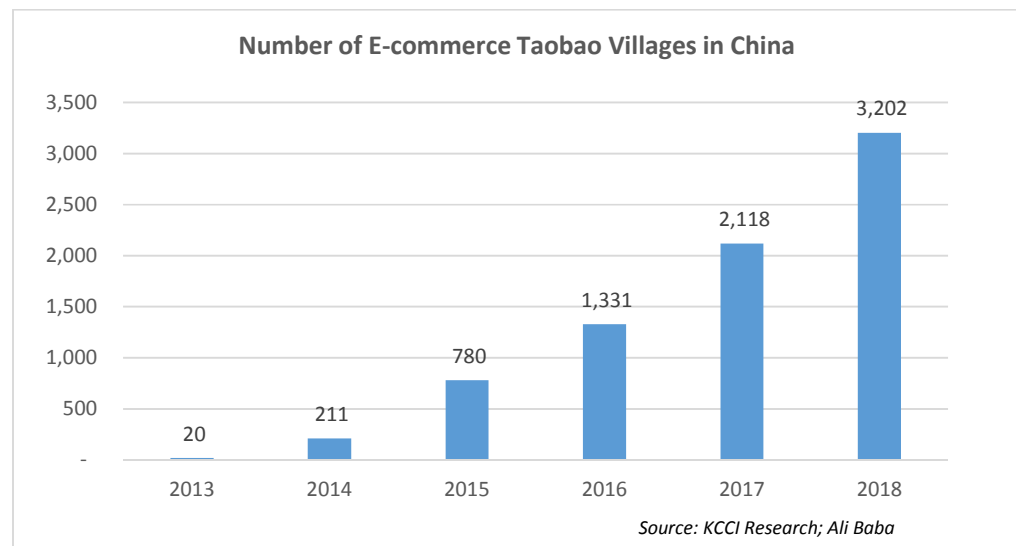
In China, rapid growth of E-commerce has been one of the chief drivers of change. The Chinese government, in collaboration with the AliBaba Group, launched the Rural Taobao program in 2013 to help farmers earn more by selling agricultural products directly to urban consumers through online platforms, which has in turn given rural consumers access to a wide variety of goods and services.

<sup>5</sup> McKinsey, 2016

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 211 villages in 2014 to more than 3,202 villages in 2018.



### E-commerce as a tool for poverty reduction – E-Commerce Demonstration Program

China has 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 at extreme poverty levels, have been immensely helped through this program.

### Prime Minister’s E-commerce website scheme can add \$ 1 Bn a year

Just like the govt. introduced the Prime Minister’s Housing Scheme to provide 5Mn homes in a time frame of 5 years, boost the domestic economy by providing 10Mn jobs and catalyzing the housing and construction industry of Pakistan, a low cost online website creation scheme to boost the IT industry of Pakistan can create employment and add \$ 1Bn a year to exports. There are a total of 102, 864<sup>6</sup> companies registered in Pakistan while the number of unregistered companies run in millions. Of these, only a

China’s Rural E-commerce Demonstration Program aims reduce poverty and modernize rural areas through E-commerce.

<sup>6</sup> SECP figures as of July’19

handful have websites, listings on cross-border trade platforms or social media presence.

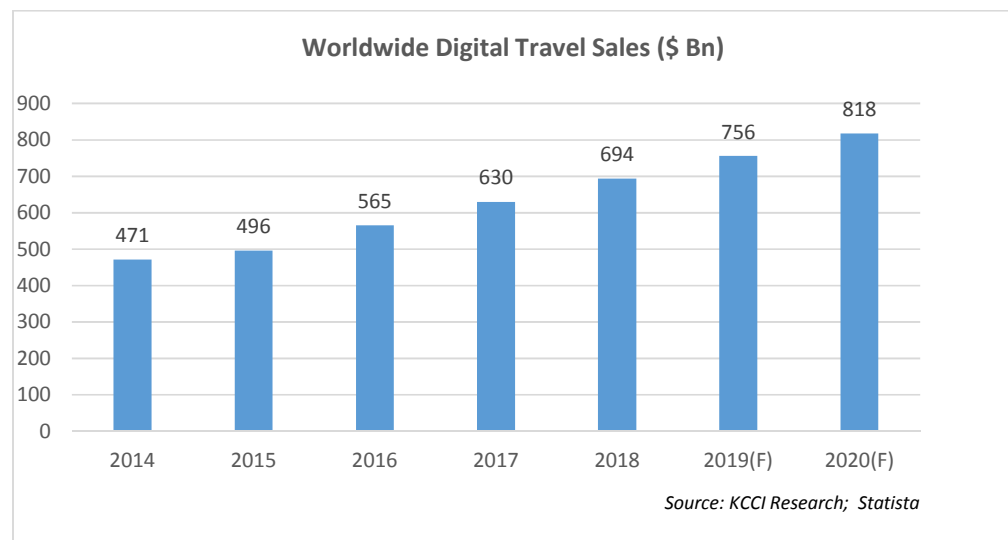
A low cost online website creation scheme to boost the IT industry of Pakistan

Under this proposed program, the govt. can subsidize website development of small and cottage industries. There are more than an estimated 3Mn SMEs in Pakistan<sup>7</sup>, majority of them operating in the informal economy. The govt. would only need to initiate a website development program and training workshop for these companies. The govt. can set a target of creating 500,000 websites, with an aim to set up 100,000 sites in the first phase. 100,000 companies from the informal economy, with an online presence - be it on their websites or any global E-commerce platform - with an extremely doable online sales revenue of PKR 6,000 revenue every day, translates to nearly \$ 1Bn a year to the economy.

### E-commerce and tourism

Pakistan’s whole tourism sector can benefit from the adoption of cross border E-commerce by getting listed on worldwide tourism sites

E-commerce gives Pakistan the opportunity to participate in global tourism value chains and have equal Internet access to international tourist markets. Pakistani tour operators, flight and cars operators, hotels, and the whole tourism economy can benefit from the adoption of cross-border E-commerce by getting listed on worldwide tourism sites such as Booking.com, Trip advisor, Expedia and Travelocity (to name a few) and then doing digital marketing by the use of social media to drive international tourists into Pakistan. A welcome step in this regard is that the govt. of Pakistan has established an online visa system to promote tourism. Under this policy citizen of 175 countries can apply for visa online where as citizens from 50 countries can get visa on arrival.



### E-commerce and creative industry– The Korean Wave

E-commerce has revolutionized the creative industry since Amazon came up with its own online publishing e-book services. Now writers, artists, game producers and

<sup>7</sup> Estimates by Alibaba

Pakistan also needs to strengthen its unique selling points to brand itself in both regional and global markets

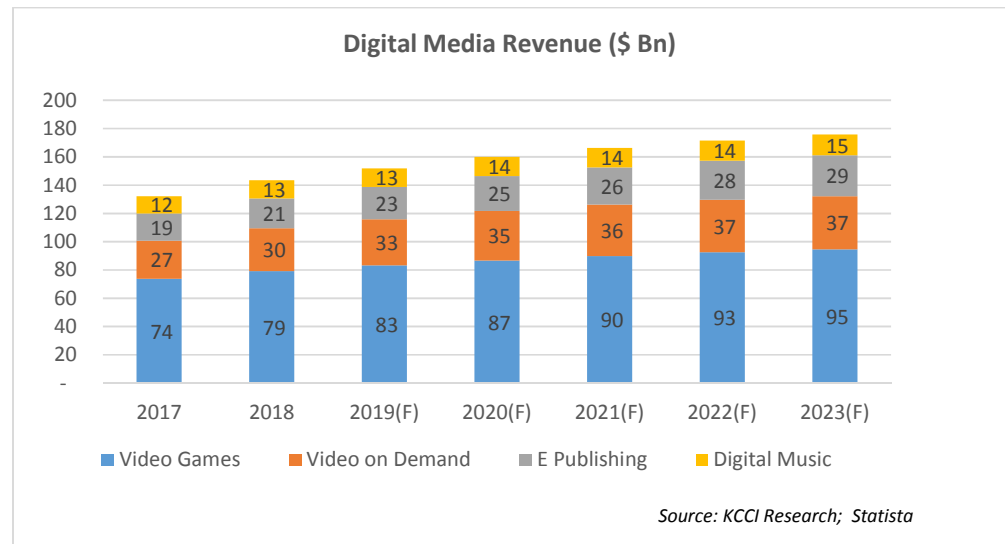
musicians are all reaping the benefits of E-commerce, as content producers have easier access to distribution and have more communication channels at disposal. Following the examples of India and Nigeria, Pakistan should try promoting its creative content, be it movie, TV dramas or live shows, to a global audience through platforms such as YouTube and Netflix.

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.

Similarly, writers in Pakistan can publish their work online and make it available to readers worldwide.

South Korea’s online exports surged 25% on the back of growing demand for K-beauty and K-pop related items.

Korean Wave refers to the global popularity of South Korea's cultural economy exporting pop culture, entertainment, music, TV dramas and movies. The gradual buildup resulted in South Korea’s online exports surging by 25% in 2018 on the back of growing demand for K-beauty and K-pop related items such as album records and stationery supplies. Pakistan needs to develop a Pakistan wave similar to the Korean Wave.



### Cross-border opportunity – Entering the largest B2C cross-border market

The global business-to-consumer (B2C) cross-border E-commerce market is expected to touch \$ 1Tn by 2020<sup>8</sup>, while China will remain the world’s biggest B2C market. Pakistan’s current annual exports are around \$ 24Bn; if Pakistan can leverage its close relation with

<sup>8</sup> AliResearch and Accenture

CPEC provides an ideal opportunity for Pakistan to carve out a bigger slice of this very lucrative market

China to get a very small fraction of its huge cross-border E-commerce market, this could go a long way to solve the country’s economic woes. Garments, footwear and headwear are the products most in demand in China’s online shopping market; the China Pakistan Economic Corridor (CPEC) provides an ideal opportunity for Pakistan to carve out a bigger slice of this very lucrative market: this opportunity should not be missed at all.

Business bodies in different economic sectors can play a part in developing an entrepreneurial culture to launch business incubators to help evolve successful startups

### Some additional measures to increase Pakistan’s E-commerce exports

- Specific E-commerce guides on the pattern of Austrade (trade development body of Australia) translated into Urdu and regional languages can be published for distribution to SMEs.
- A Karachi specific B2B E-commerce portal to enhance Karachi-based exports needs to be developed.
- A Digital Chamber of Commerce having sole purpose of E-commerce promotion can be formed. Lessons can be drawn from Malaysia’s Digital Chamber Of Commerce.
- Regular workshops need to be conducted to improve product marketing through E-commerce. Such workshops can also include brainstorming sessions to evolve ideas for expanding Pakistan’s product diversity and target markets.
- Pakistan Bureau of Statistics/ State Bank of Pakistan need to commission meaningful researches on so that data pertaining to E-commerce gets regularly published. There is a severe dearth of reliable data on key metrics of E-commerce.
- Respective business bodies in different economic sectors can play a part in developing an entrepreneurial culture to launch business incubators which can help develop successful startups. These can be both technical IT businesses and non-IT businesses focusing on cross-border E-commerce.
- A national policy to increase research and development in academia and corporate sector is the need to times so that new products are developed in line with global demand.
- The govt. needs to be pushed for greater focus on industrial capacity enhancement, as without high value addition, all measures would be useless.
- The Ministry of Commerce should develop an E-commerce exports policy to supplement to its core export policy. The step would put national development of E-commerce into a proper framework, beseeching meaningful input from relevant stakeholders.

### Making Karachi the cross-border E-commerce capital of Pakistan

Karachi is the economic hub of the country that contributes about 53% to national exports and more than 70% to tax revenues of the country. It is where the largest number of exporters, traders and industrialists abound. To transform Pakistan through

Cross-border E-commerce was the catalyst for Hangzhou's industrial upgrading and economic growth



E-commerce, Karachi needs to take up its due role as the cross-border E-commerce hub of Pakistan, similar to what Hangzhou did for China.

Hangzhou, capital of East China's Zhejiang province, and home to China's E-commerce giant Alibaba, was the first experimental zone for cross-border E-commerce. Its trade volume in cross-border E-commerce has risen from 100Mn Yuan in 2014 to more than 60Bn Yuan in 2017, and the scale of the industry has grown nearly 500 times. Cross-border E-commerce was the catalyst for Hangzhou's industrial upgrading and economic growth.

Success of Hangzhou led to the establishment of other cross border E-commerce zones in China

Some of the policies that Hangzhou’s cross-border E-commerce zone offers are paperless process of tax refunds. The govt. subsidizes the development of E-commerce for sectors such as electronics and clothing. The govt. also provides 50,000 Yuan in start-up fund for enterprise in these markets. Entities which exceed \$ 1Mn in exports are given a onetime subsidy of up to 30,000 Yuan. For easy payment, settling and currency exchange, each enterprise and individuals is permitted to open overseas accounts. The success of Hangzhou led to establishment of other cross-border E-commerce zones across China.

Karachi needs to have a cross-border E-commerce zone to radically alter the destiny of the city and the country

Pakistan needs to apply similar policies in Karachi as, like Hangzhou, it is a port city with the largest educated population in Pakistan and the highest number of private businesses who are part of traditional commerce. Karachi needs to have a cross-border E-commerce zone to radically alter the destiny of the city and the country. To implement the plan, Karachi needs to be provided all facilities for setting up centers of innovation, and requisite warehousing and logistics infrastructure, among other requirements.

### **Pakistan has just scratched the surface – it needs to do a lot more**

Establishing online business, integration of preferred international payment options, cross-border delivery and after sales service are the four main steps on getting started and being successful with international E-commerce. Country specific logistics, warehousing, regulatory requirements, import certifications, taxes and duties, and online marketing also need to be a key element in the Pakistani company’s strategy.

Pakistan would do mighty well in E-commerce if it could capitalize on the humungous opportunities

Global leaders in E-commerce are way far ahead of Pakistan thanks to good governance, higher value of human capital due to rigorous and innovative academic curriculum and higher industrial innovation and capacity building. Pakistan needs to focus on enhancing its product variety and value addition levels, knowing well that the future of manufacturing is 3D printing, artificial intelligence, robotics and data analytics, otherwise it will be further left behind in exports. Much emphasis is being laid on OBOR (One Belt One Road) initiative; Pakistan would do mighty well in E-commerce if it could capitalize on the humungous opportunities presented by the Digital Silk Road.

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