

Sino-MENA: Relations amid the pandemic

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- E-commerce and live-streaming are two winning sectors during the pandemic boosted by populations being put under lockdown, or self-isolating.
- The MENA region has seen a boom in the e-commerce sector -- especially in the UAE -- over the last few years, and Chinese enterprises have been playing an important role in furthering growth of the industry.
- The pandemic is making live-streaming more popular, and businesses in MENA are capitalising on this trend to offset losses caused by decreased offline activities.

China and MENA deepen e-commerce, live-streaming ties

While businesses in general are taking a heavy hit from the COVID-19 pandemic, there are two sectors -- e-commerce and streaming -- that are growing at higher rates than previously in MENA. Both had been getting a major boost in the past few years thanks to Chinese market activities. These sectors will not only continue to grow -- the COVID-19 lockdown is accelerating their expansion.

- With the MENA lockdown, we now expect that e-commerce industry turnover will be more than the projected USD 42B for 2020.
 - This will be driven by increased demand, investments and business expansion from Chinese tech companies, an increase in contactless transactions, and government policies to encourage the sector.
 - There is still room for growth, as e-commerce penetration in MENA remains low compared with other regions.
 - But with FinTech starting to show a strong presence in MENA, it is expected to revolutionise the e-commerce space.
- The UAE is the largest market in MENA, with USD 6.2B in B2C turnover (22% of the MENA total), closely followed and soon likely to be surpassed by Saudi Arabia, at USD 6B (21%).
- The retail e-commerce market in the GCC is expanding, given the increasing use of the internet and social media, better access to secure payment gateways and gradual improvement in the delivery system.
 - The GCC's retail e-commerce has been growing at double digit rates -- estimated at 22% on average for the last five years -- with a pre-pandemic USD 49B in revenue forecast for 2021.
 - As demand increases, and lockdowns possibly return, the region is likely to see the emergence of new e-tailers and revamps of online portals by traditional retailers.
 - The UAE e-commerce business was estimated to have reached USD 16B in 2019, up from USD 12B in 2018 and USD 5B in 2015.
 - It has been growing at an average rate of 33% for the last five years.
 - The UAE shopper is the most active in the region -- spending more than an average USD 1.6K per year.
 - In Saudi Arabia, the market estimate for 2019 is USD 16.5B with 4.7% growth from 2018 and 38% from 2015.
- Chinese shopping apps Club Factory, Pinduoduo, JollyChic, Taobao and Aliexpress are the most downloaded e-commerce apps daily, versus, for example, US and European companies eBay, OLX and Wish.
- MENA is particularly attractive to Chinese companies because of its large youth population, high smartphone penetration and heavy use of the internet.
 - In 2019, Egypt (with a 102 million population) hosted Chinese telecom company Huawei's first data platform in MENA.
- Local businesses have tended to seek partnership opportunities with Chinese counterparts rather than provide direct competition.
 - Online marketplace Noon.com -- founded by Dubai entrepreneur Mohamed Alabbar and operational in the UAE, Saudi Arabia and Egypt -- partnered with Chinese technology company Neolix to trial driverless vehicles to deliver its products.
- Contactless transactions -- which have already been increasing -- are expected to reach USD 69B in value this year in MENA.
 - In response to COVID-19, central banks in Saudi Arabia, Qatar, Bahrain and Egypt have increased the amounts that can be purchased by tapping or swiping a card, phone or smart watch.

Figure 1 - E-commerce Turnover (% of GDP)¹

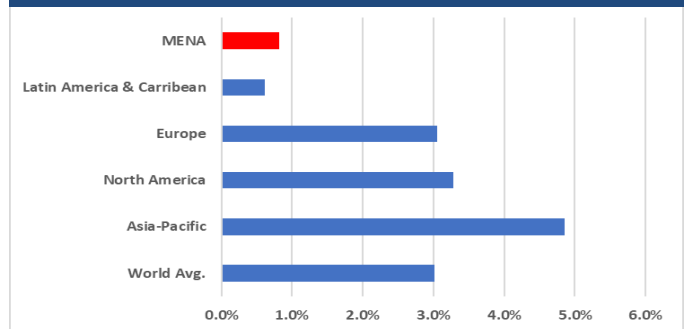
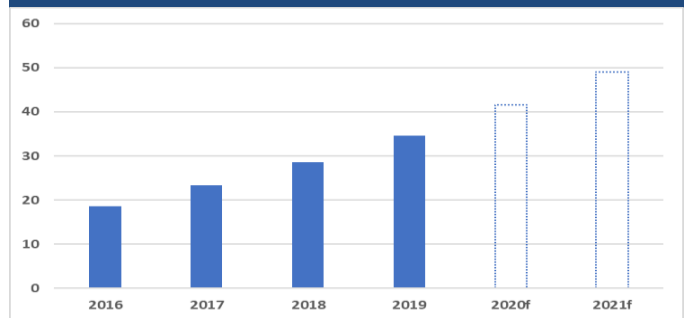


Figure 2 - Retail E-commerce Sales in GCC (USD, B)¹



¹ Arabia Monitor; Ecommerce Foundation.

- Such efforts will increase contactless transactions in both the short and long run.
- Meanwhile, Chinese contactless payment systems such as Alipay and WeChat Pay have entered the region.
 - WeChat is already the fourth most popular chat app in the UAE with 2.85M users. So, the potential for its WeChat Pay system to grow is huge. As one example, the company -- which has a 40% market share in China -- has started offering Chinese tourists in the UAE instant VAT refunds to their WeChat Wallet.
 - Many stores in the UAE started accepting Alipay back in March 2018. Mashreq Bank expanded its partnership with Alipay to 1,000 retailers within three months, from 150 in August 2019.
- Governments across the MENA region are facilitating the expansion of e-commerce.
 - Digital commerce and cashless payments were defined as top government priorities in UAE's Vision 2021.
 - Saudi Arabia's Vision 2030 plans to expand the role of e-commerce to 80% of the retail sector by the end of this year.
- As e-commerce continues to grow and consumers demand more when it comes to delivery, the "last mile" will prove vital in the e-commerce supply chain.
 - It will prompt new and effective technologies to boost productivity, an area where China will most likely play a major role due to its advanced delivery industries, which are already expanding overseas.

COVID-19 is bringing changes to live-streaming. More businesses are adopting live-streaming shopping to offset losses caused by decreased offline activities. We expect this sector to keep growing in MENA, bringing new opportunities for both business and employment.

- Live-streaming overall is expected to become a USD 20B global business by 2021 up from just over USD 1B in 2017.
- There are over 40 streaming platforms in MENA alone -- of which over 80% are operated by Chinese companies such as Yalla, TikTok, and Bigo Live.
 - Bigo recently opened an office in Jordan which aims to serve the wider Arab community. One third of the GCC population are daily users of the Bigo app.
 - TikTok gathered 4.7 billion views across the region in 2019.
 - On 31 December 2019, Dubai's Emaar and TikTok partnered for a social media campaign which gathered over a billion users.
 - It was one of the world's most-watched New Year celebrations to be live-streamed.
 - In November 2019, JollyChic launched the region's first live-streaming shopping event and attracted over 170,000 participants.
- Governments across the region have also adopted live-streaming.
 - In the UAE, the Ministry of Finance now includes live-streaming for its major public events.

Table 1 - App Ranking in Select MENA Countries (Apple Store)²

	UAE	Saudi Arabia	Egypt
1	Zoom	AlRajhi Mobile	Zoom
2	TikTok	Asafny	Getcontact
3	Microsoft Teams	MRSOOL	TikTok
4	Wish	Zoom	My WE
5	Netflix	TikTok	MadLipz

- In 2019, the Dubai Department of Tourism and Commerce organised a campaign with TikTok attracting 54 million views.
- Given the growing popularity of streaming and the decreased footfall in shops, we believe retailers and e-commerce marketeers will increasingly incorporate live-streaming into their sales strategies.
 - Meanwhile, online platforms will rely on their own- or third-party delivery companies to complete transactions offline (similar to teleshopping).

Further development in the ecosystem is key

Over the past few years, MENA has experienced significant progress in addressing some of the issues related to the e-commerce ecosystem. However, quantum leaps are necessary in some areas, such as payments and logistics, to foster healthy long-term growth in the e-commerce market.

- Cash on delivery has always been the preferred payment method in MENA.
 - Approximately half of all payments are completed on delivery by cash, prepaid card or credit cards.
 - But we now expect that due to hygiene concerns, many payments will take place online, to minimise human to human contact and cash contamination risks.
 - However, low credit card and bank account ownership will continue to present a challenge to reducing cash payments, but also create opportunities for new innovative solutions.
- Mobile wallets have the potential to help address the cash on delivery challenge in MENA, as smartphones capture the majority of e-commerce transactions in the region.
- The full impact of the COVID-19 pandemic is still unfolding, but it is already clear that the outbreak is fostering growth in the MENA-China e-commerce and technology space.
 - Nothing we have said in highlighting these growth opportunities should detract from the overall economic (and human) damage being wrought by COVID-19.
 - But it does show that as the virus runs its course, there are some sectors that will more immediately do better than others.

² Arabia Monitor; SimilarWeb LTD.

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