

Challenges and Opportunities of E-Commerce. A Contemporary Context of Pakistan after COVID-19

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ABSTRACT: This research entitles us to know about the surge in trends of e-commerce in a developing country like Pakistan with real time-issues that many of its factors are facing and the potential opportunities in the Pakistan market. These different challenges are poor e-readiness, poor internet access, skepticism, and computer illiteracy. The research focuses on the hovering e-commerce opportunities that got a growth after the COVID-19 pandemic and how the socio-economic and political factors play their role in this regard. This research has used different newspaper, articles and reports as secondary data. Thus qualitative approach was used to find out the imminent opportunities and weaknesses of e-commerce in Pakistan. Finally, after detailed analysis of the data, the research concluded on how to take some lucid steps in order to sort out these issues and get advantage of the potential e-commerce opportunities in Pakistan.

KEYWORDS: growth, opportunities, challenges, pandemic, socio-economic, political, COVID-19, e-commerce, developing economies

Introduction

Pakistan is the world 5th largest country in the world by population, with a total population of 227 million, situated in South Asia. It has the world's second-largest Muslim population. As many of the developing countries have the capabilities to flourish in e-business market via utilizing telephone, internet and other forms of communication and information technology (ICT) (World Trade Organization, 2013). Pakistan has an astonishing 6 billion e-commerce market and is ranked 37th in the world, placing it ahead of Iran and behind Israel. It has a surge in the domestic e-business market by 37% and contributes 29% worldwide. According to the Statista Digital Market Outlook, Pakistan e-commerce will continue to grow in the next few years. It is estimated that the compounded Annual Growth for the upcoming four years would be surged to 7% (statista Digital Market Outlook, CAGR 2021-25). It is estimated that 19% of the Pakistan population has at least bought 1 product in their life. Segregating the total population's taste and their behavior for online shopping, Fashion ranked at the top with generating 70% of revenue. It is followed by Electronic and Media with 12% of revenue share. Food and Personal Care share 11%, Toys make 4% and Furniture and Appliances with 4%. Pakistan is an under-developed country which means it is very much difficult for the e-business market to grow due to certain factors .i.e., computer illiteracy, skepticism, poor internet access, e-readiness, socio-economic and political. E-commerce groups are trying to manage these challenges and trying to devise solutions of the problems they are being jeopardy to during this crucial period (Waqas et al. 2020). Coronavirus was first discovered in China in 2019, which adversely affects the production and operations activities in China. China is the main production hub in the world that exports billions of worth products across the world. Pandemic put a cap on that exports and thus it badly affected the global economy (Meyer 2020). However this e-business trend got soar after the COVID-19 pandemic with an increase in the opportunities for new start-ups and online platforms. The COVID-19 has made a huge contribution in the growth of electronics and online accessories so that anyone can place online orders for products like fashion, electronic, foods, clothes and tactical gadgets. During the pre-covid-19 era people were very skeptical about placing order for online products, people were unaware of different online platforms and basic literacy to use smart phones. Post pandemic has dramatically changed the trends as a large portion of the population is now opting

to order online and is getting efficient day by day to recognize the genuine and real shopping platforms. It was at this reason people during the pandemic has survive their basics needs due to e-business (Ahmad & Hui 2020).

The pandemic was out of the thin air and no one was ready to face it and it really plummeted the world economies. As the situation was getting worse day by day for that reason people took resort to online platforms for grocery (Mehraeen et al. 2020). The launch of Web 3.0 has alarmed all the digital and online platforms to prove their mettle in the world of economies and all the developing countries including Pakistan would be of good if resorts to e-commerce stream for generating revenue and Pakistan has announced that this sector would be totally tax free which herald a great future for new start-ups in Pakistan. E-commerce has been predicted to be a new driver of economic growth for developing countries, (Humphrey et al. 2003).

Literature Review

When we talk about the developing countries, we mean all the countries came in to being after the colonization and third world countries that are still at the receiving end of technology and IT infrastructure. These countries are always entitled to poverty, insecurity and instability (Japhet et al. 2010). Despite the fact that e-commerce is proving its mettle in most of the developing economies it is still facing barriers in its mushrooming i.e., (technology, network availability of information and communication technology skills, qualified human resources); cost factors (costs of Information and communication technology equipment's and networks); and insecurity and mistrust factors (no payment gateway, and legal frameworks), poor distribution logistics services, "skepticism with online purchases", and "problems in returning products (OECD 2004). These are the main factors for which the e-commerce in developing countries is facing hurdles as despite flurry smart phones and electronic usages in these economies ,people won't just go for online shopping due this main reason that there is no such secure payment gateway. The internet availability is not just ample enough for the development of e-commerce. (Oxley & Yeung 2001). However, despite these hurdles e-commerce in developing countries like Pakistan has significantly got flourished saying by a research as of March 2020 clearly shows that the number of online shopping has grown in the market of retail application and e-commerce mobile apps (Jebril 2020). Segregation of these online customers depicts a surge in usage of applications that offer food delivery and services in Paksitan, Malaysia, Thailand, and Singapore (Karimi-Zarchi 2020). It is published in a research that these new users are getting an increase in numbers day by day since April 2020 (Pymnts 2020). There is a question that arises that what are the main factors in the growth of e-commerce that makes developed countries more suitable for it than developing countries i.e., tradition business model, consumer expectations and conventional consumer behavior in this regard (Thoung 2002). Side by Side with the internal factors, there are some external factors that impede the growth of e-commerce in under-developed country i.e., infrastructure technological, economic, political, legal, social and cultural barriers that exist in the country that is the External Barriers (Terence 2007). To make these issues to be pacified, Bough (2004) has given us four main e-commerce strategies: empowerment, customer satisfaction, leadership and discerning pricing strategies, that will possibly help out the future and growth of e-commerce in these countries.

There has been a substantial increase in the e-commerce market of Pakistan referring to the last few years which marked around Rs. 51.8 billion in FY 17 that got continuous increase till 99.3 billion in FY 18 (KCCI. E-commerce 2019) depicting a marvelous growth of 92%. There has been private as well plenty government initiatives that upheld this sector in more advancement in ICT technology served as a basis of development to this sector. Government backed policies i.e. E-commerce policy and digital Pakistan policy are some initiatives. Despite the bleak and exacerbated payment and transaction security of Pakistan it has been

developing good transaction gateways and for an effective e-business to run, these seem to be rudiments. Side by side with the e-commerce development in Pakistan there have been barricades that impede its growth i.e., improper infrastructure and secure payment gateways that delay the flow of payments on both sides. Most customers are still dealing on cash on delivery transaction system (Research and Markets. Pakistan B2C ECommerce Market 2015). People are unacquainted of e-banking and at the same are very skeptical with the online payment system and go for cash on delivery (Moomal et al. 2015). Pakistan has been facing one of the major issue of the people illiteracy and their unacceptability of e-businesses and online mode of payment. Referring to the context of Pakistan in 2017, only 5% of the total internet users in Pakistan are engaged shoppers, compared with 11% in India and 8% in Bangladesh. When this data has been compared with the total population of Pakistan, it was found that only 1% of them, it are actually using internet which is quite below than average and needs to be developed in order to promote the culture of e-commerce in Pakistan. Internet is the backbone of e-business, according to Olarreaga and Austin (Olarreaga et al. 2012) and Borga and Koncz Bruner (2011) internet is crucial like life blood for physical as well as digital services (Lendle et al. 2016). According to a survey conducted by World Bank of e-commerce enterprises, the main issue they pointed out for inter-border e-commerce was connectivity issue. (Saez et al. 2020) there are two main reason for the restriction of digitalization I.e. poor infrastructure and skills, which is then followed by poor and intermittent energy shortages that has bad impact on businesses and has curb their sales by up to 60%. The intermittent and poor electricity embedded with high energy cost is the reason Pakistan is lagging behind in the industrial sector. The bad and poor management on the side of parcel delivery and unscrupulous tracking system with inefficient staff lead to business catastrophe. Majority businesses has recently has shut down their service in Pakistan due to the above mention reasons i.e., Airlift.pk.

Methodology

This research has utilized qualitative approaches i.e. and based on secondary data for analysis and data is collected from different reports published by government and other organizations. Qualitative approaches are utilized in gathering non-numerical data to comprehend the basic concepts, opinions, or expression. The qualitative research data is generally collected from diversified sources which may incorporate both primary as well as secondary resources Qualitative approaches are efficacious to gather data about social sciences and humanities (Pritha Bhandari 2020). After detail analysis of the resulted data we have been able to describe some of the issues and ground reality of the e-commerce market in Pakistan. These realities are as follow:

Strength:

There are many factors which can lead to a prosperous e-commerce development i.e. attractive global production, protecting startups, detain business and consumers, human resource training, government policies and regulations (Khatibi 2002). Soon after inception of COVID-19, there was a substantial increase in the e-commerce sector. Majority of people were under restriction of lockdown and were unable to reach the physical market for their daily needs for which they shifted to the online platform and thus the sobriquet of e-commerce was recognized and acknowledged by the society. Some of the key steps was taken by the hitherto government in order to prosperous the growth of e-commerce by laying down the following key steps:

1. Financial inclusion and digitization through Payment Infrastructure:

They have done their best to connect the different startups and existing enterprises with the banking channel so that all the transaction get a record i.e., payment gateway, where no offensive buyer or offensive seller will take advantage of the unsecure payment. Secondly they drove a campaign in order to impede the cash on

delivery system and to make a uniform payment gateway so that a digitalization of economy gets sway.

2. Empowering Youth and Small and Medium Enterprises (SMEs) through e-Commerce:

The New e-commerce policy has emphasized greatly on the new SME in the field of e-commerce startups as SME contribute a major about 95% in the GDP of Pakistan. They have been given opportunities to get themselves up to mark by providing them new e-Commerce business facilitation hubs, establishing a national e-Commerce aggregator, empowering youth and SMEs and extending access to finance for SMEs to promote digitization and skill development.

3. Consumer Protection:

Existing consumer protection laws in Pakistan is not up to the mark for which the new e-commerce policy has made it mandatory for online ‘dispute resolution mechanism’, a mechanism that is made by the federal and provincial government in order to subject all the online transaction on “dispute resolution mechanism”.

4. Taxation Structure:

In order to reduce the burden of double taxation on corporate sector the government in its new policy has enacted a tax free advantage for the web developers that create software and applications.

5. ICT Sector and Telecom Services in Pakistan:

In 2003 the IT and communication sector were de regulated by the then government after that it has witnessed a substantial growth in its market and shares. In 2014 after the inception of 3G/4G this sector has got more increase and growth. For supporting the equitable and sustainable growth of telecommunication/broadband services, the Government of Pakistan has established Universal Services Fund. Several programs have been rolled out by MoITT through the Universal Service Fund aimed at the provision of telecommunication services in commercially non-viable un-served/under-served areas.

6. Data protection and Investment:

In order to have an effective e-commerce base in Pakistan has enacted some new rules and regulation for the data infringement and protection of customers. This is truly a new dawn for the e-commerce sector in Pakistan.

Weaknesses:

With the emergence of e-commerce there are still some barriers that impede its growth in Pakistan. Some of them are as follows:

1. Offensive Customers:

In an under develop country one must not be astonished about the primitive attitude and behavior of some customers. A lot of issues have been facing by e-commerce enterprises about the fake order placement, wrong addresses, and obscene language with the rider and fake reasoning about the order return and replacement. This type behavior badly maligns the culmination of such businesses. In order to tackle it, government must take precautionary measures to secure the interests of online shops by making a safe payment gateway for all the transactions.

2. Offensive Sellers:

E commerce in Pakistan is still in the preliminary stages, which makes majority of the customers unaware of the fake sellers and products. They place order for one

item and get another on delivery. This type of behavior badly damages the trust of both genuine seller and customer and make the jeopardy of online businesses.

3. Illiteracy:

One of the main reasons in the growth of online businesses is the uneducated and illiterate people of the Pakistan. They are unaware about order placement and putting delivery information which makes it very difficult for the rider to deliver the parcel to its appropriate place.

4. Ineffective Logistics Services:

One of the most reasons for impediment of e-commerce growth is the poor logistics services .i.e. fake reasons of riders about locations and customers response. These fake reasons led by parcels replacement and return badly damage the inventory turnover of the online seller.

Threats:

Living in a country like Pakistan one must witness the potential and imminent threats to e-commerce .i.e. poor human resource, unqualified staff, cybercrime, political turmoil, and economic contingency. Above all the threats the most vicious one is the internal threats start from poor and unqualified staff, lacking technical and professional skills which can have adverse effects on company performance and reputation. Some external threats are from cyber hacking activities that can directly hack low secure websites and can emanate private data. Pakistan is a developing country where there would be consistent political turmoil intermittently which creates a cauldron for this sector. These threats are elaborated in a more detailed way below;

1. Political Threats

It is evident that Pakistan is one of the developing countries where political turmoil is usual to be seen. In such economic crises that has already engulfed world's stable economies; it makes Pakistan e-business more prone to the adverse impact of the political instability.

2. Cyber-Crime

Pakistan is in the preliminary stages to be embedded with modern technology yet it is very jeopardy to flurry online frauds and cybercrimes as technological literacy is yet to be diffused among the people. E-business finds it very hard to flourish in such skeptical environment.

3. Economic Uncertainty

Pakistan economic always finds itself between the devil and deep blue sea which make the investor more risk averse and a spate of bearish trend of KSE-index could be seen evidently. This continuous faltering trend of rupee against the dollar makes it very lousy for the e-business organizations to survive. These trends could be hover depending on the government policies and foreign trade relations.

4. Taxation System

The Federal board of revenue issued SRO 984(I)/2021 for the imposition of withholding tax on online market place under the eleventh schedule to the Sales Tax Act, 1990. The Federal Board of Revenue (FBR) has notified September 1, 2021 as the effective date for applicability of two percent sales tax of the gross value of supplies on online market places. Apart from this tax there are plethora preliminary taxes at the start of registering company. This adversely affects the business and grit of the employer to pursue his future vision and mission. Government of Pakistan should amend its taxation system in such a way that it neither affects country own revenue nor organization revenue.

Opportunities

1. Government and private sector initiatives:

Government of Pakistan has launched several initiatives for young entrepreneurs to pursue their career and curb the extra burden of un-employment on government. The ex-prime minister of Pakistan, Imran Khan has kicked off many such projects including tax exemption of this sector. The new government is also devising a way out to gather revenue as well as woo the e-commerce sector as government is already between the devil and deep blue sea. Private sector has also started initiatives like extreme commerce by Sunny Ali, enablers by Saqib Azhar etc where proliferate incubates are being inculcated with a diverse skills and knowledge. These incubates when get proficiency can contribute very well in national economy. Their commendable commitment to bind the youth with more advance and competitive skills of online earning and to make them self-independent especially women. It is for this reason Pakistan has ranked 37th for e-commerce revenue generation of about \$6 billion (statista Digital market outlook, CAGR 2021-25). It depicts the future of e-commerce in Pakistan and all the development of economy depending on it.

2. Technological advancement:

As the world is dynamic and with the passage of time new technologies get evolved that create surfeit opportunities to assuage the customer needs and demands. With the development of IT infrastructure in Pakistan, customer needs and demands are mainly fulfilled with electronic means.

3. Market viability:

People in Pakistan are now acquainted with online shopping and the ratio of engaged online shoppers are now soaring day by day. Business markets are substantially turning towards online and electronic means which is why people are now accepting the online businesses and shopping.



1.0 Flowchart for SWAT analysis

Challenges:**1. Un-secure Payment Gateways:**

Despite the unprecedented growth of e-business in Pakistan there is still no such secure payment gateway where customer and seller transactions could be preserved.

2. Logistic Issues:

Main impediment in the growth of e-business in Pakistan is ineffective logistics services. There have been plenty issues from the logistics side on the part of late delivery, fake reasons, offensive and churlish behaviors with the customers.

3. Supplier Issues:

Developing country like Pakistan is being damaged severely due to fake items delivery to their customer. This custom badly mistrusts the engaged shoppers against the electronic mean of shopping and they shift their taste of shopping from online to physical mean.

4. Taxation and bylaws:

The current taxation system has badly plummeted the grit of entrepreneur to pursue their career in electronic business due to heavy tax burden on them from the government side.



2.0 Flowchart of Challenges and opportunities

Conclusion

Electronic commerce has opened new dynamic doors for businesses; it has substantially created new grounds in education fields. It has rendered the basic idea that there is proliferate existing potential for the inculcation of e-commerce. Preliminary, new users of Internet literate would be impeding to pursue any sort of business activities via electronic means, pertaining to investment and return security as their main concern. Having a certain and substantial grit to establish customer viability on electronic means of shopping and other e-commerce services, their skepticism, imminent issues and ethical hazard should be defined, comprehended and curbed. E-business has brought abundant advantages in various fields, however, it requires vigilant attention to preserve consumer rights at the same time. For the development of e-commerce scion it would certainly take into account the efficiency and development of IT infrastructure and security frameworks, secure payment gateways which cannot be possible without technological advancement and system bylaws. E-Commerce is the eventual fate of shopping. The initiation spree of 3G and 4G networks, the web economy kept on expanding vociferously. In the upcoming 5-6 years, Pakistan will be having about 40 million net users which will protrude many developed and well settled countries in the world. This shows a bright future of e-commerce in Pakistan. E-commerce in Pakistan is still in developing stages and would need plethora time to establish its

mettle when all these impediments would be obliterated. There are certain steps taken by the previous government to uphold this sector by exempting it completely from taxes, however the current government has yet again bombarded this sector with tax. The web 3.0 is in the preliminary stages but once it is launched completely, would certainly proliferate its scion in Pakistan. Government should start basic inculcation and acquaintance to the general public so that they get to know about the pros and cons of e-business. They should also establish as much as incubation center, free of cost for youth so they may get a sense of self-employment in basic stages. This will also mitigate the un-employment burden on already economic-faltering Pakistan. Government should really devise a new friendly taxation system for e-business so that it motivates to-be and nascent entrepreneurs to establish new businesses.

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