

# Effect of COVID-19 on E-commerce in Pakistan

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## **Abstract**

The E-Commerce industry plays a significant role for increasing the economic growth of a country by making use of information technology and services in distance areas along with increasing labor productivity and foreign investment inflow. The online industry in Pakistan is growing rapidly as it is proving valuable exchange of goods and services. The number of online shopping platforms and stores are increasing while the small scale shops are finding methods to sell online as well. However, to further promote this sector, Pakistan needs to provide ample opportunities in more number of cities as the existing infrastructure such as technology parks, roads and motorways, mobile data are all limited. Continuous professional development strategies and skills development policies are required to develop efficient human resource which will help in promoting the E-Commerce industry which saw growth during COVID-19.

**\*Keywords:** COVID-19; e-commerce; e-commerce growth; e-commerce in Pakistan

# **1. Introduction**

## **1.1. Background**

The COVID-19 outbreak is treated as a case of pneumonia with unknown etiology, which first appeared in Wuhan, a city in China, at the end of December 2019, which later spread across the country and then worldwide with a high rate and still is affecting millions. Pakistan, in the middle of the 4th wave of this outbreak facing the delta variant, is using the smart lockdown strategy and making vaccines mandatory to gain control of the situation. E-commerce is an industry that has seen exponential growth globally. The world is rapidly globalizing, and in this fast-changing environment, e-commerce has played an essential part in catering to people's needs and wants. Previously multiple factors hindered the growth of this industry in Pakistan, from the lack of fast-speed mobile data and its coverage to limited online payment facilities. Nevertheless, the E-commerce industry in Pakistan observed significant growth over the last few years as the industry has been estimated at Rs. 51.8 billion in Fiscal Year (FY) 17, which increased to 99.3 billion in FY 18 [1], showing growth of 92%. In the previous years, there has been a constant growth in the industry thanks to collaborative efforts by businesses and the government to digitalize the retail sector.

The country has overcome many possible barriers in the e-commerce industry; Pakistan has recently entered the world of 3G and LTE services. The country was previously limited to 2G, but now people have access to fast internet speeds, enabling and allowing e-commerce and the industry as a whole to grow. Besides that, the e-commerce industry has expanded its spread beyond the major cities of Karachi, Lahore, and Islamabad to reach out and cater to people all over Pakistan using the successful cash on delivery payment mechanism.

Another major issue that constantly affects the industry is the lack of digital payment acceptance. Pakistan previously had a retail market of over 900,000 merchants and over 2000 online merchants, out of which less than 50 online merchants accepted digital payments [2]. With the corporation of banks and initiatives of fintech start-ups providing online payment processing which have grown in number recently as the country and its process digitalize such as Safe Pay. However, payment gateways such as PayPal play a crucial role in e-commerce growth as it allows traders to receive money and promote business through the trust factor easily. At the moment, the service is unavailable in Pakistan due to high costs of entry, money laundering issues, and clearance complications [3]. The industry has boosted the global economy and played a crucial role in the economic development of many countries. Moreover, there are certain challenges in adopting e-commerce for many developing countries, including Pakistan, which include barriers including cognitive aspects, economic and socio-political factors which are being tackled with the help of joint efforts by the people and the government.

## **1.2. Problem Statement**

COVID-19's effect on online businesses selling goods and services in Pakistan has led to growth in sales and expanding the industry

# **2. Review of Literature**

China's intellectual development has shocked the world over the last four decades. Today, all large multinational companies prefer setting up their factories in China to making use of resources and ease of policies available in China. While it produces the most important goods of the world. The Chinese economy is 2nd highest in the world, with a GDP of \$23.25

billion. The Chinese economy exceeded the US to become the number one exporter globally, with exports valued at 2.2 billion dollars. The Chinese name has become common in all countries, especially in Pakistan with the help of the China Pakistan Economic Corridor. As the COVID-19 bites, countries that import their products faced a huge problem globally. China is the largest import market globally, which shares a border with Pakistan and is brutally affected by COVID-19. As Pakistan is, therefore, highly dependent on Chinese commodities, with this abrupt pandemic epidemic, the market growth of E-business has deteriorated to some level for some businesses at the start of the pandemic [4]. But the business which adapted to the fast-changing environment and digitalized were successful in increasing their sales. All this collectively contributed to a positive rise in Pakistan's e-commerce industry.

The COVID-19 pandemic has been going on for just over four months in much of the world and has already fallen several iconic retail giants: in the United States, many big names, including luxury store Neiman Marcus have shown signs of strain have even announced bankruptcy.

In Pakistan, there has been a growth in online deliveries, and technologies such as contactless delivery are becoming the new normal; not only are businesses ramping up their activities, but they are also changing their way of working and picking up problems with their systems and business models. The study findings have indicated significant growth in inactive and emerging customers in online shopping services and mobile devices for e-commerce. The number of web viewers increasing was seen in the first week of March 2020 [5]. Mobile apps of e-commerce indicate a similar trend. According to the research, the number of new and active users are increasing day by day from March and April 2020 [6].

Regardless of the COVID-19 pandemic, the e-commerce sector has been driven through severe limits. During the COVID-19 pandemic, Pakistan's e-commerce and digital economy saw a massive increase in revenue as shoppers' physical mobility was limited. In recent years, the country has been attempting to expand the digitalization of its economy by encouraging online businesses to boost export and build jobs for young people. Nevertheless, prevention initiatives associated with COVID-19 es appear to be adding to the Pakistani global upheaval economy, seeing growth. E-commerce is considered the dependent variable, given that the spike up or fall of the demand for the online marketplace is highly reliant on COVID-19 and on and the consumer behaviour in relation to this lethal pandemic [7].

Daraz.pk is one of the largest online shopping platforms in Pakistan recently owned by the international e-commerce-giant Alibaba, a Chinese-based online company with over seven million online products. The pandemic has favoured the Pakistani economy by witnessing an increase in exports to COVID-19 affected countries. The smartphone device monitoring agency known as Apptopia shows that day-to-day installs of apps such as those increased significantly starting early march.

### **3. Research Methods**

The study adopts the descriptive analysis to examine the prospects and challenges related to the e-commerce sector in Pakistan. Secondary data is extracted from the published sources to highlight the significance and existing situation of the industry and analyses what role covid 19 plated. The first phase of the study was based on empirical literature related to importance, challenges, and growth prospects of the e-commerce industry and in general about Covid-19. Data for the retail e-commerce market, number of e-commerce merchants accepting digital

payments, e-commerce transactions, e-commerce index and markets of online shoppers is included in the study. Policies documents are reviewed to present the relevant rules and regulations and initiatives are taken by the government to promote the e-commerce sector. In this regard, the study reviews the e-commerce policy and the significance of e-commerce activities during COVID-19 spread. Furthermore, a review of the Digital Pakistan Policy is done and the initiatives for promoting e-commerce sector are discussed accordingly.

## 4. Results and Discussion

### 4.1 Current State of E-Commerce in Pakistan

Pakistan has observed exponential growth in e-commerce activities in the past few years. All this has been possible due to the lower transaction costs, convenience, new delivery & courier services, and increasing internet availability alongside the very successful cash on delivery (COD) facility. Due to this, both consumers and enterprises have started focusing on online trading by developing and making use of online platforms. Expansion and influence have been seen apart from the larger cities into small cities and towns of Pakistan.

**Table 1. Retail e-commerce market landscape**

Province	Order share (%)	City	Order share (%)
Punjab	55	Karachi	24
Sindh	36	Lahore	17
Khyber Pakhtunkhawa	5	Islamabad & Rawalpindi	10
Balochistan	2	Sialkot	2
Azad Jammu & Kashmir	2	Multan	2
		Hyderabad	2
		Other	43

*Source: E-commerce Index (Daraz)*

Overtime with development of different sectors, economic growth these numbers are expected to grow, with digital policies by the government supporting this growth. Soon to have 5G, variety of payment gateways and technology parks, a growth is anticipated in the near future beneficial to all stakeholders. Online payment gateways are soon to be the revolutionizing factor for the growth of this industry making it easy to pay, deliver and receive the order.

As per the share of population as of now only 1% of the population shops online, due to multiple factors including low wages, lack of disposable income and low interest rates. The country is still without payment and transaction gateways such as PayPal and Stripe. Where the world is bringing in 4 months interest free payment, Pakistan is relying mostly on COD. However, the positive is the year-to-year growth in digital payments seen for example 8.2% growth in E-Wallet and mobile account payments in total accounting for 32% of the total customer expenditure being used in form of digital payments [8].

New online buying habits and behaviours have developed in COVID-19 as people have shifted towards e-commerce and their trust toward online platforms and payment methods increases. Consumers now prefer to remain at home and do online shopping which is providing more options while further experience driven mobile apps and sites are emerging around the world to satisfy the growing demand. The major increase in sectors including food and grocery, telecom and subscriptions and online shopping were observed. 'Daraz.pk' which

is the largest online marketplace in Pakistan witnessed nine times surge in its online orders since March [8]. While in 2020 due to strict lockdown companies struggled to meet the exceeding demand, due to multiple factors such as temporary halt on imports from China, and worker shortage, the economy slowly reopened due to the governments correct measures and polices in not only controlling Covid-19 but also in helping the economy flourish.

*“ Pakistan’s e-commerce market size posted a growth of over 35 per cent in the first quarter of the fiscal year 2021 to Rs96 billion compared to Rs71bn over the corresponding period of last year, the Ministry of Commerce said.”*[9]

Such growth in the economy as a whole and specifically e-commerce has allowed business to expand their operations, creating more jobs and adding to the economy in total. Thanks to the governments smart lockdown strategy which allowed functioning of business the economy did not stall at any time instead it grew, and it is forecasted that it will keep growing in an upward trend.

## **5. Conclusion**

Corona Virus proved to be a terrible disease that captured the whole world in its claws. From countries going in complete lockdown to superpower economies struggling with the virus that affected millions. This viral disease made making the circumstances worse than ever for the growth of the countries and the survival of regular businesses.

This research paper focused on the effects of COVID-19 on businesses specifically on online business in Pakistan. Struggling in the start of the lockdown, the economy grew greatly with efforts of the government and business to meet the rapid digitalization taking place.

Improvements in the industry with joint efforts of the ministry, sellers, and consumers can help improve the industry overall and increase sales for retailers. Cloud server installations, safer online payment gateways and convenient online shopping experiences altogether can help the industry significantly.

It is recommended to conduct future research on how to control transmitting viruses such as the COVID-19 for the future and how the e-commerce industry of Pakistan can further be improved by bringing in foreign investment and technology.

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