The Emergence of E-commerce in South Asia

Like many other parts of the world, the South Asian countries have witnessed the emergence of the electronic commerce (e-commerce) sector in recent times. With a large market and growing incomes, the region has become attractive to many international players in the field. At the same time, many firms have evolved domestically in the region. The South Asian governments have also responded positively to this growth through the development of some digital infrastructure. This paper presents the current state of play of the e-commerce sector in South Asia.

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Introduction

The world has witnessed the rapid emergence of electronic commerce (e-commerce) or digital commerce. This has brought about significant changes in the way business is conducted across the globe. The evolution of internet technologies in the last decade, the invention of the smart phone and mobile-based shopping applications as well as the emergence of social media sites, such as Facebook, have aided the growth of global e-commerce.

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Similarly, the South Asian region is also experiencing a significant growth of its e-commerce sector. Countries like India have emerged to become lucrative markets for e-commerce companies in the world. Many domestic startup firms have also emerged in this region and are performing very well in the sector. Several of these firms are also exploring expansion into the international market, while companies like Ola Cabs and Jugnoo have already started operations in overseas markets. This paper sheds light on the growth of the e-commerce sector in South Asia. It highlights the level of development of and challenges faced by the sector in the countries in the region.

India

The Indian e-commerce sector has witnessed remarkable growth in the last decade or so. It reportedly grew at a rate of more than 34 per cent (compounded annual growth rate) between 2009 and 2014. The total size of the industry was reported to be US$14.5 billion (S$19 billion) in 2016 and it is expected to grow to US$80 billion (S$105 billion) by 2020. The Global Payments Report, published annually by Worldpay, predicts that India will overtake the United States (US) to become the second largest e-commerce market by 2034. The vast and fast growing Indian market has attracted global e-commerce players such as Amazon, eBay and Alibaba. Flipkart and Amazon are the two major players in this sector. They are followed by other firms such Snapdeal and Paytm.

It is pertinent to mention here that Indian e-commerce company Flipkart sold 77 per cent of its stakes to American retail giant Walmart at a price of US$16 billion (S$21.8 billion), which is reportedly the world’s biggest transaction in the e-commerce space. It is also the biggest acquisition by Walmart in its history. This clearly reflects the growth potential of the Indian industry. There are several reasons for the e-commerce boom in India. These include the rapid adoption of modern technology by Indian consumers, increase in the number of internet

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users, innovative as well as different business models and alternative payment options offered by e-commerce companies. According to ‘Internet in India 2016’, issued by the Internet and Mobile Association of India and the Indian Market Research Bureau, the number of internet users in India increased from 278 million in October 2014 to 432 million in December 2016. Of them, 269 million, or 62.3 per cent, were from urban India while 163 million, or 37.7 per cent, were from rural India.

Currently, India is the largest consumer of mobile phones in the world. Almost half of the country’s population subscribes to a mobile service. According to a report prepared by the GSM Association in 2016, India has 616 million active unique mobile subscribers. Mobile broadband connections are growing at the rate of 15 per cent per year.

However, the Indian e-commerce sector faces several challenges. These include slow data speed, absence of policy to regulate the sector and different policies adopted by the different state governments and the federal government. These challenges impede the ability of companies to operate optimally in the sector.

**Pakistan**

The Pakistan e-commerce market is also growing at a rapid pace. The e-commerce market was estimated to be around US$150 million (SS$196.5 million) in 2017. It is expected to reach US$1 billion (SS$1.31 billion) by 2020. A growing urban population, an increase in disposable incomes, competitive pricing and better quality of the goods and services offered make this sector highly lucrative. Pakistan’s population of 176 million people, with a gross domestic product (GDP) per capita (purchasing power parity) of US$5,235 (SS$6,858) in 2016 gives the country an added advantage. The mobile and internet penetration rate, which is one of the major determinants for growth of the e-commerce sector, is increasing significantly. Today, more than 87 per cent of Pakistan’s population is covered under the cellular mobile

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6 “India set to become world’s largest e-commerce market”, op. cit.

network, of which 70 per cent are covered by 3G services while the rest are able to use 4G services. In June 2017, there were 44.6 million broadband and mobile internet users in Pakistan while there were 55.1 million subscribers of mobile handsets with internet connection.

The favourable landscape has enabled many e-commerce firms to operate successfully in Pakistan, with Olx.com.pk, Daraz.pk, PakWheels.com, Zameen.com and HomeShopping.pk being some of the major e-commerce players in the country. Apart from these firms, Chinese e-commerce firm, Alibaba, also sells goods and services in Pakistan without having any physical presence there. Its goods and services are imported into Pakistan from other countries.

In Pakistan, 95 percent of online transactions takes place through the cash-on-delivery method. Seventy-five percent of online transactions are carried out through the mobile phone. Delivery giants such as TCS and Leopard, as well other couriers, provide cash-on-delivery services across 150 cities nationwide.

The Pakistan e-commerce sector faces several issues. These include a lack of technological awareness among a large section of the consumers, a significant unbanked population and a lack of trust about the industry among many of the citizens. Pakistan also does not have a robust policy to regulate this growing industry. However, the Pakistan government is working towards developing a national policy to regulate this industry. This policy is expected to be announced soon.

**Bangladesh**

The e-commerce sector in Bangladesh took off a little late as compared to its neighbours in South Asia. While its central bank, the Bangladesh Bank, permitted online transactions in

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8 PTA (2017) Annual Report 2017, Pakistan Telecommunication Authority, PTA, Islamabad, Pakistan
2009, it was only in 2013 that it permitted the online purchase and sale of goods and services using international credit cards. As per World Bank data, in 2016, 18.2 per cent of the population was using the internet in Bangladesh. The annual turnover from this sector was Tk1, 000 crore (S$0.16 billion) in 2016. Like the Indians and Pakistanis, consumers in Bangladesh also prefer the cash-on-delivery method. This method constitutes 95 per cent of all payments in Bangladesh. Most consumers in Bangladesh use their desktop computers or laptops to make online transactions. Around 71 per cent of online traffic comes through the desktop computer or laptop, while mobile phone and tablet transactions make up for 26 per cent and three per cent sales, respectively.

The e-commerce sector in Bangladesh is primarily dominated by informal sales. The e-commerce Association of Bangladesh (e-Cab), the trade body for e-commerce in Bangladesh, estimates that there are 700 e-commerce sites and around 8,000 e-commerce pages on Facebook. Facebook remains a popular method for advertising and selling products in the country. The major e-commerce players in Bangladesh are Daraz Bangladesh, bikroy.com, clickbd.com and bagdoom.com.

The Bangladesh e-commerce sector suffers from poor telecommunication infrastructure and costly telecommunication services. It also has a technologically-backward population, mainly those living in the rural areas. Apart from addressing these concerns, the country also needs a comprehensive policy to regulate the sector. This is missing at this point in time.

**Sri Lanka**

Sri Lanka is also fast catching on the global e-commerce trend. In 2015, the Sri Lanka e-commerce sector grew by a mere one per cent. It is however expected to grow by three per cent in 2018. The total revenue from this sector was US$8 million (S$10.48 million) in 2016.

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13 Ibid.
Sri Lanka expects its e-commerce industry to grow to US$4 billion (S$5.24 billion) by 2020. The extremely high penetration of mobile use is one of the major reasons for the growth. In 2016, mobile penetration in Sri Lanka was 107 per cent. According to the World Bank, 32 per cent of Sri Lanka’s population was using the internet in 2016. A modest GDP growth rate and the growing per capita income of the Sri Lankan citizens act as an incentive for the growth of this industry.

The key players – Kapuruka.com, Daraz.lk, WOW.lk, Takas.lk, and MyDeal.lk – operate on the business-to-consumer format. Apart from Daraz, the others are home-grown companies. Currently there are no business-to-business e-commerce websites operating in Sri Lanka. Also, global e-commerce players such as Amazon or Alibaba are absent from the Sri Lankan e-commerce sector.

Sri Lanka has a long way to go on the e-commerce journey. There is an urgent need to increase the internet speed in the country. It also needs to develop payment gateways and policies to safeguard the interests of the buyers and sellers on the digital platform.

**Nepal**

There is little information on the e-commerce sector in Nepal. Suffice to say that, like the other South Asian countries, there is growth of e-commerce activities in Nepal. A few e-commerce firms operate in Nepal, which are quite popular with consumers.

Nepal does not allow its citizens to have a dollar account. As such, they cannot choose international online suppliers. Also, being a terrain nation, it is very difficult to operate courier services across the country. At the same time, the telecommunication infrastructure, such as internet speed and mobile phone penetration, is also far from satisfactory.

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policy on intellectual property rights is also outdated. There is no information available on Nepal’s policies relating to its e-commerce sector.

The Other South Asian Countries

Like Nepal, the e-commerce sector is also not very prominent in the other smaller South Asian countries like Afghanistan, Bhutan and the Maldives. However, these are not virgin markets as some sort of online business does take place there.

A more detailed research on the ground would be more useful in understanding the e-commerce landscapes in these countries.

Potential Opportunities

Despite the aforementioned challenges, the e-commerce and related sectors in the South Asian countries offer huge business and investment opportunities. By international standards, the e-commerce sector is in its nascent stage. However, it is growing at a fast pace and it provides a lucrative and untapped market for businesses and investors.

Two recent cases highlight the significant potential offered by this sector. As mentioned earlier, the first is the investment made by Walmart in Flipkart, India’s major online retail platform, in May 2018. The second is the acquisition of the Daraz Group by Alibaba. Daraz is a popular e-commerce firm, funded by Rocket Internet, operating in five of the South Asian markets. In May 2018, Alibaba acquired the entire business of the Daraz Group. Alibaba has also taken a 20-per cent stake in Easy Paisa, a popular payment gateway in Pakistan jointly launched by Tameer Bank and Telenor Pakistan. Similarly, Alibaba has also invested in Indian firms, Snapdeal and Paytm.

These developments point to numerous business and investment possibilities in the e-commerce sector the region, particularly at the sub-sector level, in areas such as expanding mobile networks and their related services. With a growing population of young South Asians
and increasing disposable incomes across the region, there would be a natural demand for both voice and internet mobile services. In this respect, business entities engaged in providing payment gateway services, financial technology and related consultancy services have the opportunity of expanding their base in this infant industry.

**Conclusion**

There has been significant growth in the e-commerce sector in South Asia. However, it still has a long way to go. The different countries in the region are going through a dissimilar rate of growth in the sector. India, with its greater technological development, and a bigger and matured market, has seen a significant growth in its e-commerce sector. The other South Asian countries still lag behind in India in this respect.

A key impediment to the growth of this sector in the region is the absence of a comprehensive policy to regulate the sector and safeguard the interests of the sellers and the consumers. Much work also needs to be done to strengthen the digital infrastructure, especially in the smaller countries. If the South Asian countries are able to address these issues, there is a huge potential in the e-commerce sector in the region.