Opportunities are flourishing for some parts of the Gulf's digital economy, including in e-commerce, fintech and ICT services, while other business activity grinds to a halt and economic growth slows sharply across the region. Part of the legacy of COVID-19 will be that the digital strategies of Gulf states place greater focus on health care and resilience to future pandemics. Low oil revenues could result in a relaxation of foreign ownership restrictions in order to encourage more private sector tech investment.

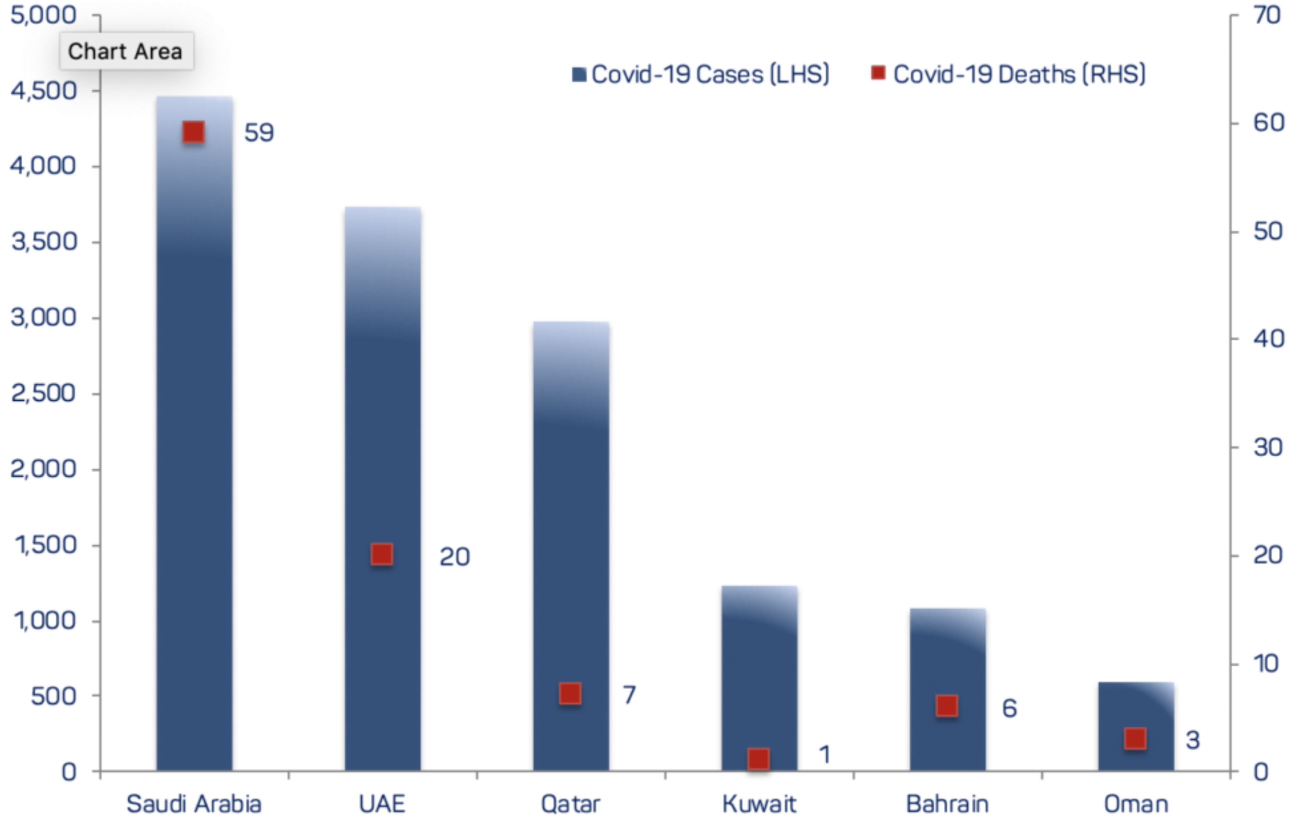
Gulf Monitor | John Davies | Digital economy GCC

The world goes online

An unprecedented surge in demand for digitising business-to-customer and business-to-business exchange in 2020 will benefit industries across the Gulf's digital economy, including telecoms, e-commerce, financial technology (fintech) and ICT services such as cybersecurity, cloud storage and consulting.

This is in contrast to sharply weaker growth in most industries as an economic slowdown stemming from the global COVID-19 pandemic and oil market volatility makes itself felt across the GCC.

Low oil prices will continue to undermine the hydrocarbons sector, while social distancing measures implemented in all GCC states aimed at limiting the spread of COVID-19 will see bankruptcies surge in the non-oil economy. The most negatively exposed non-oil industries are tourism, hospitality, construction and non-essential retail.



Confirmed COVID-19 cases as of April 12 2020
Source: Johns Hopkins University

E-commerce and fintech flourish

So where are the largest opportunities for the digital economy? Three sectors stand out: e-commerce, fintech and ICT services.

E-commerce will become the new backbone of regional retail. With social distancing measures being enforced to differing extents across GCC economies, consumer and business spending will continue to shift to online platforms. While development of e-commerce capacity had already made strides in recent years, particularly in the UAE, 2020 will see super-charged growth as firms grasp this sales lifeline.

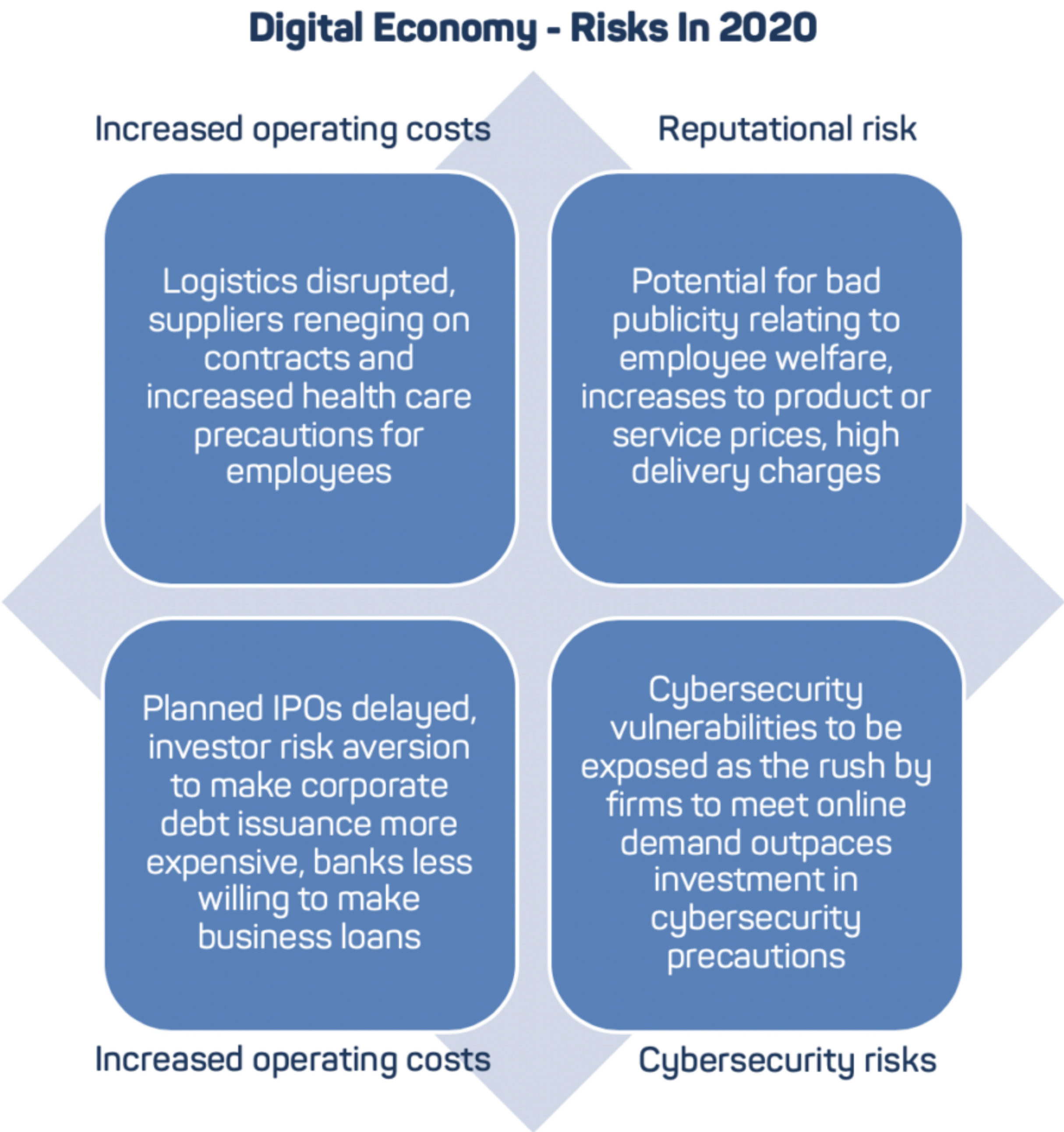
Growth in online sales will be strongest for essential retail goods, such as food and drink and health products. Analysis of search engine activity illustrates that demand for online grocery deliveries has risen to unprecedented levels across the GCC since the start of the year.

Meanwhile, fintech will keep the wheels of regional finance turning. Increased reliance on digital exchange between households and businesses will accelerate the uptake of fintech solutions, ranging from online banking to more sophisticated tools such as AI-driven customer service and blockchain.

Smaller, nimbler fintech providers are best positioned to benefit, delivering their services either directly to consumers, or partnering with established financial service providers to facilitate the larger firms' online presence.

The ICT service sector will act as the enabler for this digital transition. Firms across all industries will increasingly need to partner with ICT service providers in order to digitise their own products and services. Cloud storage, cybersecurity and e-commerce logistics providers will see a surge in demand from a range of industries, particularly retail and financial services

Disruption to the Gulf's digital economy is not all positive, with online businesses subject to rising costs and other risks to business operations, including exposure to cyberattacks.



Digital strategies to adapt post-COVID-19

Surging near-term demand for digital services will reinforce the already strong emphasis in GCC economic diversification strategies on developing advanced technology and digital ecosystems, and digitising industry operations and key services to foster economic growth.

However, the capacity to realise these goals will be reduced over the coming years if oil prices continue to slump, which is likely. Governments around the region will be forced to reassess their diversification priorities after the pandemic.

Health comes first

Digitalising health care systems will become increasingly important post COVID-19. It is likely that governments will accelerate pre-existing policies on paperless patient records, software enabled diagnostics, remote health care, robotic surgery and e-pharmacies.

At the same time, timelines for constructing ambitious new smart cities, including in the UAE, Saudi Arabia and Kuwait, will probably be pushed back with greater emphasis placed on aspects of developments likely to enhance the resilience of Gulf economies to any future pandemic.

This could include the rollout of 5G technology, the development of robust fintech ecosystems (reduce economic disruption from social distancing) and improved surveillance (to enhance virus “contact tracing”). In contrast, other smart city initiatives such as integrating electric vehicles into the national power grid, boosting use of renewable energy and smart metering could all become lower-priority objectives.

Private sector will need to step up

Whatever the GCC’s post-COVID-19 digital priorities, lower government oil revenues mean that private sector funding will have to play a greater role than originally envisaged. In the absence of generous financial incentives for foreign firms, restrictions on foreign ownership may have to be relaxed in order to attract the necessary investment. Even in relatively liberal markets such as the UAE, restrictions on foreign ownership are currently onerous in some sectors central to the region’s digital ambitions, such as financial services and utilities.

A relaxation of foreign ownership restrictions would likely encourage investment from US and Chinese technology, financial and health care firms. The five largest US technology firms, Alphabet, Amazon, Apple, Facebook and Microsoft will be well placed to expand into the Gulf should the regulatory framework become more favourable. All five will see relatively resilient revenues during the pandemic, which combined with large pre-existing cash reserves, will create a strong position for overseas expansion and M&A.

Turning to China, efforts by the country to lead the global fight against COVID-19 has seen Communist Party officials promote the idea of a long-term “Health Silk Road” (HSR).[1]First proposed by President Xi in August 2017 and endorsed by the WHO, the HSR had been relatively low profile since its inception. However, Chinese officials have increasingly promoted the initiative as a means of improving the resilience of global health care systems post-COVID-19.

Details on HSR goals are thin, but it broadly aims to enhance the flow of health-care-related goods, services and best practice between members. Allied with the “Digital Silk Road” subset of the BRI, the HSR could provide a channel for significant Chinese investment into the digital and health care systems of the Gulf.

John Davies is an economist with a special interest in emerging markets, global trade and heavy industry. He is the co-founder of research and analysis firm, North Shore Analysis.

Sources:

[1] Council on Foreign Relations, April 10 (https://www.cfr.org/blog/mapping-chinas-health-silk-road)

