

COVID-19 AND E-COMMERCE



A GLOBAL REVIEW

Executive summary



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AMID SLOWING ECONOMIC ACTIVITY, COVID-19 HAS LED TO A SURGE IN E-COMMERCE

The digital economy and e-commerce play a growing role in efforts to achieve the Sustainable Development Goals (SDGs), bringing both new opportunities and new challenges. Information and communications technologies (ICTs) are increasingly affecting the way in which goods and services are produced, consumed and exchanged.

Countries that harness the potential of e-commerce will be better placed to benefit from global markets for their goods and services in this digitalizing economy, while those that fail to do so risk falling behind. And despite improvements in connectivity over the past decade, digital divides remain significant. Almost half the world's population remain disconnected from the Internet and a much smaller share of people are currently shopping online.

Ever since early 2020, the COVID-19 pandemic has dominated global economic developments. Restrictions on movement and other interventions to preserve public health reduced economic activity in most sectors and countries have greatly impacted on production, distribution and consumption. As a result, it is estimated that the global economy contracted by more than 4 per cent in 2020, and global trade has been even more severely affected.

At the same time, the pandemic has led to a further acceleration of digital transformations. Digital solutions have become instrumental to allow people and businesses to continue some economic and social activities remotely. This has resulted in more use of teleworking, videoconferencing, digital entertainment and other applications. It also led to a surge in e-commerce.

Innovations in technology and the modalities of commerce are creating opportunities for companies of all sizes to engage in domestic and international trade through the adaptation of supply chains, lower trade costs and extended market reach. By reducing transaction and search costs as well as frictions at commercial interfaces, digital platforms – those of individual sellers and third-party platforms such as

Amazon and Alibaba – enable those offering goods or services to connect more easily with (potential) consumers and to expand the volume of commercial interactions.

The COVID-19 pandemic has altered trade patterns substantially and encouraged the growth of online shopping and services in domestic markets where movement controls and consumer anxiety have discouraged physical transactions. It is likely that the accelerated trend towards e-commerce seen during the pandemic will be sustained during recovery. Lessons learned from it, and challenges encountered, should therefore be important for future economic growth and for development.

This report is the result of a joint effort by a number of partners of the eTrade for all initiative. It makes a preliminary assessment of the impact of the COVID-19 crisis on e-commerce, drawing on the limited range of data available. It includes surveys of e-commerce businesses and consumers conducted by UNCTAD as well as research by United Nations Regional Commissions and other eTrade for all members.

The report summarizes what we know to date, outlines what this indicates for policymakers in diverse stakeholder communities and reflects on approaches to e-commerce that can support global and national economic recovery when the pandemic eventually recedes. Its conclusions, and those of associated regional reports published by the Regional Commissions, while necessarily provisional, intend to stimulate discussion and the deployment of appropriate policy initiatives, particularly in developing countries and least developed countries (LDCs).

TRENDS IN GLOBAL AND REGIONAL ECONOMIES, E-COMMERCE AND THE DIGITAL ECONOMY

Understanding the trajectory of e-commerce is vital for appropriate policymaking on the part of governments and business planning by commercial enterprises. At the same time, most policymakers lack relevant statistics to monitor developments in this area, a fact that has been exacerbated during the pandemic. The brief time period since the global spread of coronavirus starting in the first quarter of 2020 also means that only partial, limited data are available for analysis, with the most substantive data concentrated in the early months and in a limited range of developed and higher income developing countries. At the time of drafting this report, there also significant uncertainty as to the trajectory of the virus and related policy responses. Nonetheless, it is possible to observe some key trends based on available information.

While there has been a substantial reduction in overall economic activity during the pandemic, the crisis has seen growth in the market share of trade and retail taken by e-commerce, particularly in domestic markets where movement restrictions and consumer anxieties about social interaction have encouraged the use of online shopping. As well as goods, substantial increases have been seen in online conferencing, gaming and entertainment. More people, in short, have been using electronic commerce more often. Businesses with an established online presence have been better equipped to take advantage of this, along with traditional businesses that have been sufficiently agile and had sufficient resources to upgrade their online marketing and sales. Communications networks have largely held up during the pandemic, but there have been considerable difficulties related to trade and transport logistics, especially for international transactions.

The surge in e-commerce during the pandemic, enabling more transactions – both business-to-business and business-to-consumer – to be undertaken has been observed in most parts of the world. Domestic e-commerce was boosted as national lockdowns, movement restrictions and mandatory closures

of non-essential retail stores affected consumer behaviour. The share of e-commerce of global retail trade is estimated to have surged from 14 per cent in 2019 to about 17 per cent in 2020.

Examples from various parts of the world offer a rather consistent pattern. In Latin America, the online marketplace, Mercado Libre, sold twice as many articles per day in the second quarter of 2020 compared to the previous year, and the African e-commerce platform, Jumia, saw an increase of over 50 per cent in the volume of transactions during the first six months of 2020. In China, the online share of retail sales rose from 19.4 to 24.6 per cent between August 2019 and August 2020 and in Kazakhstan, it increased from 5.0 per cent in 2019 to 9.4 per cent in 2020. Downloads of shopping apps jumped 60 per cent in Thailand in the week between the imposition of a partial lockdown and full emergency measures during March. Similar observations were made in many developed countries.

Domestic e-commerce related to services was also boosted by the pandemic. The widespread shift from office to home working and the closure of public entertainment venues, led to substantial increases in the use of teleworking, distance learning, online networking and entertainment sites. The impact of this has varied between and within countries, as online alternatives have been more available to those with better connectivity, office jobs and higher incomes. International trade in goods, much of which now relies substantially on orders placed digitally and on cross-border logistics, has been adversely affected by reductions in demand, movement controls and restrictions on transit imposed to mitigate and minimize the spread of infection. Stricter border controls – common in many countries during the pandemic – have affected shipping and transportation, causing severe disruptions in supply chains for all trade, both traditional and e-commerce.

The first quarter of 2020 saw global trade contract by 3.5 per cent and global manufacturing output by 6 per cent. This was followed by a drop of almost 18 per cent

in global trade in goods in May 2020 (compared with the previous May). UPU reported sharp falls in cross-border postal exchanges in the first five months of 2020, and world merchandise trade has been predicted to fall by between 13 and 32 per cent in 2020.

In Africa, 38 countries have announced some form of border closures – with concurrent falls of 5, 16 and 23 per cent in exports in February, March, and April 2020 compared with 2019. A significant proportion of this trade consists of transactions that have been facilitated through e-commerce. In Latin America and the Caribbean, a 23 per cent contraction in the value of regional goods exports has been predicted for 2020, along with a similar fall in imports. The most important factor disrupting international trade in this region has been disruptions to air and maritime transport. Although the number of freight flights did not fall significantly, the number of passenger flights – which transport much merchandise that is ordered online – halved between January and August.

Trade in services has also been affected. The value of exports from a group of 37 countries, which in 2019 accounted for around two-thirds of global exports of services, shrank by 10.4 per cent in the first quarter of 2020 (compared to the same period in 2019). Tourism has been particularly badly hit. Before the pandemic it accounted for 24 per cent of global commercial services exports, and as much as 50 per cent in the case of the LDCs. International tourist arrivals declined by 44 per cent worldwide between January and April 2020, compared with the same period in 2019. The World Tourism Organization predicts arrivals to drop by between 58 and 78 per cent in 2020, as compared with 2019.

The impact on businesses has varied. Businesses with an established online presence have been better equipped to take advantage of increased demand, along with traditional businesses that have been sufficiently agile and had sufficient resources to embrace the digital transformation. Retailers that were previously online-only have naturally made gains, other than in sectors such as travel and tourism. Traditional retailers that already had established online offerings were better placed to maintain more of their previous sales revenue than those without them – though, for many, increased online sales will not have compensated for decreased offline sales. Many businesses that were

previously offline-only have launched new online offers, while others have shifted their product offers to meet changing consumer requirements. Those that have remained wholly offline have been worst hit, whether by enforced closure or lower footfall due to reduced customer rates.

Many of the challenges facing the world in terms of global economic development, the COVID-19 pandemic and e-commerce development may be broadly consistent across regions. However, there are important differences by country in terms of economic characteristics, digital readiness and development status. The pandemic has reinforced the importance of addressing existing barriers to e-commerce in order to leverage the benefits that can be derived from it and cope with the potential downsides of digital transformation. In general, economies with high levels of internet adoption and uptake of online shopping before the pandemic are better equipped to cope with disruptions and to take advantage of digital opportunities.

The extent to which trends experienced during the crisis will continue during recovery and beyond is uncertain and will depend, *inter alia*, on the pace of recovery and the nature and extent of measures taken to facilitate it. Many consumers expect to continue spending more online after the crisis than they did before. The fact that more people have crossed entry barriers is likely to sustain higher usage levels where they are concerned. E-commerce platforms are therefore likely to retain many, though perhaps not all, of the gains in market share that they have made during the pandemic vis-à-vis offline markets.

CHALLENGES TO E-COMMERCE AND THE ROAD TO RECOVERY

The 7 key policy areas and the gender dimension

Alongside opportunities for growth in e-commerce, the pandemic has manifested several important long-standing barriers for securing benefits from digital shifts.

Experience during the pandemic has shown the importance of addressing challenges in all the 7 key policy areas identified by eTrade for all, as well as the gender dimension:



E-commerce readiness assessments and strategy formulation



ICT infrastructure and services



Trade logistics and trade facilitation



Payment solutions



Legal and regulatory



E-commerce skills development



Access to financing for e-commerce



Empowering women entrepreneurs in developing countries

Businesses and governments response

Businesses and governments have responded in various ways to the pandemic and the e-commerce challenges identified below.

Businesses that had already started to a certain degree their digital transformation, seem to have done better than those that had not. Some businesses – particularly communications network operators and digital platforms – have played important roles that have influenced the opportunities available to others seeking to profit from e-commerce or to use it to mitigate losses arising from traditional business models.

While most governments have prioritized short-term responses to the pandemic, some have also begun to address longer-term strategic requirements for recovery. The aim of developing strategies for recovery from the pandemic is not simply to return to the ‘business as usual’ pre-pandemic but to ‘build back better’.

These strategies should build on prior experience and understanding of the role of e-commerce in development as a driver of economic growth, inclusive trade and job creation that can enhance both economic prosperity and social welfare. Diversification through e-commerce, associated with more efficient border infrastructure as well as regulatory changes could encourage local production and cross-border trade.



E-COMMERCE READINESS ASSESSMENT AND STRATEGY FORMULATION

The need to identify country readiness in e-commerce and formulate relevant supporting strategies has been accentuated by the pandemic. Countries in which governments are well-informed about e-commerce and have coherent strategies in place have been able to respond to the sector's needs more quickly and effectively to the COVID-19 pandemic. Governments that have prioritized e-commerce development through coordinated actions have been able to adopt new measures and amend regulations with greater confidence and expedition.

The Report identifies the following priority actions for governments to consider:

- Systematic data gathering and evaluation of the impact of policies and business practices;
- Identification of critical gaps requiring intervention;
- Establishing/developing strategies for e-commerce that are integrated into broader national development and implemented through coherent governance structures;
- Strengthening interministerial and interdepartmental dialogue for effective coordination;
- Fostering dialogue between government, businesses and business associations (on both demand and supply sides of e-commerce) and consumer representatives; and
- Facilitating public/private collaboration to build awareness and trust in e-commerce among merchants and consumers.



ICT INFRASTRUCTURE AND SERVICES

Businesses and countries that have access to high-speed, competitively priced international connectivity are better placed to digitalize operations and compete in international markets. Limited and costly broadband services can effectively hamper the establishment of viable digital services or the uptake of domestic e-commerce.

The pandemic has increased demand for international and domestic bandwidth, hardware, and services (particularly for homeworking and streaming.). This has stretched network capacity, but in most countries the networks have held up better than expected. Some governments and businesses have intervened, in a variety of ways, to alleviate short-term network congestion, expand connectivity and reduce costs for vulnerable users through price controls or tax changes. Some have also begun to address long-term infrastructure shortfalls.

The Report recommends that governments and network operators focus on:

- Encouraging investment in international and domestic connectivity with particular attention to remote and rural areas,
- Investing in partnership, to improve network deployment in underserved and potentially less profitable areas, to ensure progress towards universal broadband access;
- Taking steps to reduce digital divides within countries, including the gender divide, improve affordable access to all; and
- Supporting information services, portals and e-commerce platforms that are oriented towards local businesses' and consumers' needs.



PAYMENTS

The availability and adoption of digital payments systems that function effectively with e-commerce platforms are important for the spread of e-commerce. International e-commerce depends on the ability of merchants to be paid quickly, reliably and at low commission rates across international borders and between currencies.

The pandemic has demonstrated the value of digital and cashless payment mechanisms in enabling transactions to be made at distance, although cash culture is still prevalent in many countries, especially in LDCs. Increasing the acceptance and adoption of cashless payments will hasten short-term recovery from the crisis and lay the ground for e-commerce to expand.

The Report finds that governments and other stakeholders in this area should prioritize:

- Raising awareness of the benefits of digital transactions among merchants and consumers;
- Establishing enabling financial and digital regulatory frameworks that facilitate use and ensure security for digital transactions, including measures concerned with electronic transactions, cybersecurity and consumer protection;
- Encouraging interoperability within a competitive banking environment, to facilitate seamless interbank transfers, reduce friction in transactions and lower costs; and
- Simplifying digital transaction mechanisms (and lowering or reducing entry costs) to incentivize adoption by those at lower income levels.



TRADE LOGISTICS

Electronic commerce is not purely electronic. While online products can substitute for some physical goods (most notably in entertainment), many e-commerce transactions require movement of goods and/or people, whether within countries or across borders. Challenges arising at the interface between digital and physical infrastructures add to those that exist within traditional trade relationships. At the same time, ICTs provide new ways of facilitating trade by improving the efficiency of data management along trade corridors and through border crossing points.

Inefficient transport and trade logistics, which reduce the cost and speed advantages that digital transactions offer merchants, have been accentuated during the pandemic, particularly for small parcels from MSMEs. Pandemic conditions have also accentuated weaknesses in infrastructure for their delivery. Some governments have introduced information resources, portals and platforms during the pandemic to assist MSMEs and start-ups to establish e-commerce initiatives.

Governments and other stakeholders should focus on:

- Facilitating the digitalization of international trade by adopting the provisions of WTO's Trade Facilitation Agreement, implementing standardized paperless documentation formats, single window processes and other mechanisms to smooth the flow of goods along transport corridors and through border crossings;
- Investing in transport infrastructure, including ports, airports and border crossings, which are critical to enabling cost-effective distribution of inbound and outbound goods that are ordered online from other countries;
- Considering the introduction of de minimis duty exemptions for low-value shipments;
- Investing in improvements to postal networks, including the introduction of comprehensive physical addressing, and enabling innovative/competitive delivery mechanisms; and
- Supporting the establishment of information resources, portals and platforms that assist MSMEs in entering e-commerce markets.



LEGAL AND REGULATORY FRAMEWORKS

The effective implementation of e-commerce requires sophisticated and comprehensive legal and regulatory frameworks concerned with ease of doing business and with aspects of digitalization including electronic signatures and transactions, data management, consumer protection and cybersecurity, which are still inadequately implemented in many countries. The pandemic has demonstrated their importance for providing a safe, trusted, efficient and secure environment for both merchants and consumers.

In this area, governments and other stakeholders are encouraged to:

- Undertake a regulatory gap analysis in existing law and practice to identify where new measures are required;
- Work together to develop a holistic approach to legislation and regulation across government, in line with national e-commerce strategies (where such strategies exist);
- Relax regulations that inhibit or delay business start-ups and rapid, responsive innovations in business practice (which are particularly relevant to e-commerce ventures);
- Introduce new legislation and regulations expeditiously, but with full due diligence, in critical areas for e-commerce such as electronic transactions, data and consumer protection and cybersecurity, together with appropriate enforcement mechanisms; and
- Build awareness and capacity for legal adoption and enforcement by government, parliament and the judiciary, and for compliance by business.



SKILLS DEVELOPMENT

Digital skills are crucial to the development of the digital economy. Digital disruption, as in the case of the shift from offline to online commerce, require new skills related to both technology and general management, on the part of established businesses and business start-ups, as well as digital literacy on the part of consumers.

The pandemic has shown that many MSMEs, especially in developing countries, have lacked the business and technical skills to leverage e-commerce opportunities. Others have struggled to find people with relevant skills to recruit to cope with the expansion of demand. Many consumers, especially those new to ICTs, have lacked the digital literacy skills required to make best use of opportunities to shop online.

The Report advises governments and other stakeholders to focus on:

- Working across government ministries and agencies to support upskilling and reskilling for growing digital societies and economies;
- Enabling partnerships to provide practical training in e-commerce, tailored to local job markets and business experience;
- Building skills among relevant parts of the government and parliament needed to formulate, implement and enforce adequate policies, laws and regulations;
- Strengthening the capabilities of domestic IT sectors so that it can support local digital transformation and value creation;
- Ensuring inclusion of women and girls who are currently under-represented in e-commerce and the digital economy;
- Retraining staff in business support organizations (BSOs) to improve their ability to support e-commerce MSMEs and start-ups;
- Supporting domestic e-commerce platforms that are accessible to all groups within the population; and
- Improving digital literacy and awareness among consumers.



FINANCING FOR E-COMMERCE

Access to financing is a major bottleneck for many digital businesses in developing countries. MSMEs seeking to build e-commerce businesses in developing countries often find it difficult to obtain the investment they need and either under-invest or seek less secure and less substantial funding from alternative sources, such as family and informal lenders.

The pandemic has seen further reductions in the availability of capital, particularly through declines in FDI and international remittances, at just the time when new investment was most needed to meet increased demand for e-commerce.

Governments and other stakeholders should focus on:

- Assisting MSMEs and digital start-ups in building their financial capabilities in ways that will improve access to investment;
- Revising lending criteria by banks, tailoring these to the needs of the emerging digital economy, innovation and e-commerce; and
- Encouraging entrepreneurs and MSMEs to look beyond traditional lenders towards alternative funding models.



EMPOWERING WOMEN IN E-COMMERCE

Women's unequal representation in digital economies is a reflection of pre-existing gender inequality and of women's vulnerability in social, political and economic systems.

The pandemic has amplified the barriers many women face, making it even harder to benefit from the opportunities of the digital economy and e-commerce. Not only are women more exposed to the virus because they are more likely to work in service sectors or as front-line workers, but they are often excluded from policy formulation processes that affect pandemic responses. Women commonly take up more unpaid work than men (including domestic chores and child home schooling during lockdowns) while having fewer resources to draw on, experiencing inequalities in access to the Internet and other resources that enable them to launch businesses.

Against this background, governments and other stakeholders should also support women digital entrepreneurs by:

- Developing family-friendly responses to the crisis that provide broader social protection for parents and women in particular, including flexible work arrangements;
- Involving women more in policy and regulatory processes, including when exploring short-term responses to the crisis, to recognize and address the impacts on women digital entrepreneurs;
- Creating more meaningful, inclusive opportunities for women entrepreneurs to expand their connections and networks, and to voice their needs and concerns – including by engaging with decision-makers and other stakeholders;
- Supporting efforts to develop women entrepreneurs' skills and capacity to join e-commerce platforms and to participate more effectively in supply chains;
- Encouraging and incentivizing stakeholders – including the private sector as well as government – to adopt products that encourage women digital entrepreneurship, both during the crisis and in the recovery phase, such as dedicated, gender-specific support, gender-specific capital and/or gender-oriented tax levies; and
- Working together to address the broader issues and barriers that are faced by women digital entrepreneurs, including gender stereotypes, biases and norms, that prevent them from actively participating in the digital economy.

THE WAY FORWARD: LEVERAGING ETRADE FOR ALL

The COVID-19 pandemic has made eTrade for all initiative more relevant than ever. It has demonstrated the importance of ensuring consistency, avoiding duplication and finding cost-effective solutions that can be scaled in international efforts.

Over the past four years, UNCTAD and its 31 eTrade for all partners have been advocating for relevant policy approaches, supporting assessments of national e-commerce environments, and fostering collaborations between national and international stakeholders to maximize the synergies that can contribute to enabling e-commerce for development.

E-commerce has great potential for diversifying the scope and geographic reach of trading opportunities for businesses in developing countries and expanding

the range of both established and new enterprises. It also plays an increasingly important role in the supply and distribution of both goods and services in domestic markets.

Many developing countries, however, still struggle with the digital shift due to a range of barriers, as discussed above. They urgently need to overcome them and establish enabling frameworks for e-commerce to be better placed to leverage domestic and cross-border e-commerce and the digital economy for development objectives.

GOALS AND POLICY RECOMMENDATIONS

As the shift to the digital economy has been accelerated by the pandemic, the Report sees the need for greater efforts by three main stakeholders to secure more inclusive benefits from e-commerce:

- **Governments** need to prioritize national digital readiness so that more local businesses can participate effectively in the evolving economic landscape. Building an enabling e-commerce ecosystem requires changes in public policy and business practices to improve the digital and trading infrastructure, facilitate digital payments and establish appropriate legal and regulatory frameworks.
- **Businesses** in developing countries need to become better prepared to participate in the digital economy. This requires faster digitalization for smaller businesses, more attention to digital entrepreneurship (including reskilling), better capabilities to capture and harness data, and stronger regulatory frameworks for creating and capturing value in the digital economy.
- **The international community** – including development partners, United Nations agencies and commissions, regional economic communities, and organizations concerned with digital development –

need to enhance their collaboration amongst each other as well as with governments and the private sector to leverage the opportunities and minimize the risks of countries falling by the wayside.

The pandemic has demonstrated the importance of exploring evidence-based approaches, avoiding duplication, and leveraging synergies such as those deriving from effective partnerships. The eTrade for all initiative offers such an opportunity for added-value collaboration, and this powerful mechanism should be exploited to the fullest in the recovery efforts.

The objective of the eTrade for all initiative is consistent with the recommendations of the UN Secretary-General's High-Level Panel on Digital Cooperation and his Road Map for Digital Cooperation which seeks to enhance multi-stakeholder cooperation in the digital age.

This report, and those of associated regional reports published by the Regional Commissions, can serve to stimulate discussion and the deployment of appropriate policy initiatives in countries at all levels of development.

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