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POLICY BRIEF 7: E-COMMERCE AND POTENTIAL RESPONSES IN AN ERA OF COVID-19

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There has been much concern over Minister Ebrahim Patel's arguments that allowing unfettered e-commerce would be seen to be "*unfair competition*" and place pressure on the government to open up other stores, increasing activity and risk. However, the focus on unfair competition between e-commerce and bricks and mortar stores is misplaced. The DTIC should instead use the opportunity to support e-commerce within a risk-adjusted strategy to opening up the economy which has the potential for long-run benefits.

E-commerce in South Africa has historically lagged behind developed economies at around 1.5% of retail spend in comparison to close to 20% in the UK.³ Reasons include the high cost of data, low credit card penetration and relatively high delivery charges as well as the popularity of shopping malls as a source of leisure. COVID19 has changed this dynamic by halting leisure retail. It is likely to continue to be dampened significantly over the coming months even as businesses slowly open. The lockdown has furthermore induced trial in e-commerce for many and it is likely that even once the lockdown is lifted delivery may be preferred to in-store experiences by those at risk, such as the immunocompromised and elderly as well as those that want to continue with social distancing.

Prior to the COVID pandemic, e-commerce in South Africa was growing off a small base. The sector is varied, comprising various business models: a range of established retailers spanning most listed clothing, grocery and general merchandise companies, with both a physical and online presence, online-only retailers such as Takealot, marketplaces and a varying range of small and microenterprises.

The development of e-commerce has many potential benefits for South Africa. Firstly, South Africa is at the stage where it is still possible to develop local e-commerce giants, with local warehousing, employment and taxation as opposed to having the market dominated by international players who are based offshore. Secondly, there is export and employment potential in e-commerce in the short run through delivery and warehousing hires and long run through the creation of a regional hub for Africa. E-commerce can be fairly employment intensive as it requires pickers and packers and delivery services. Thirdly, e-commerce allows

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³ Goga, S, Paelo, A and Nyamwena, J (2019), "[Online retailing in South Africa: An overview](#)", Industrial Development Think Tank Industry study

for transparency and traceability which is a benefit for taxation. There are also advantages to local manufacturers. The use of data analytics enables predictions of trends based on search and purchase patterns which can optimize manufacturing. Fourthly, it allows customers to compare products across a range of providers with ease and reduced transaction costs and allows for a greater variety of products to be stocked and provided to customers. Fifthly, it creates scope for SMEs to expand into broader markets than would ordinarily be available, this is important in the South African context where there are relatively high barriers to entry into traditional retail routes to market.⁴

There are some concerns including that of e-commerce displacing bricks and mortar companies with resultant impacts on shopping malls and employment, though in most instances it has played a complementary role.⁵ There are also competition concerns where large platforms tip to dominance and engage in anticompetitive behaviour necessitating regulatory scrutiny. However, for the most part there has been a strong industrial policy support for e-commerce in various countries due to the potential economic benefits in strengthening e-commerce and using it as a tool to enhance export channels. China has support measures for e-commerce both at a national and regional level. Guangdong Province developed various interventions focused on local business adoption of e-commerce including the creation of an online shopping marketplace for smaller local businesses, stimulating trial through the provision of vouchers to be redeemed through local e-commerce outlets, and subsidies such as assistance with rentals and R and D. Malaysia has engaged in more than 40 e-commerce related initiatives and programmes including economic incentives for warehouse conversion, e-commerce free trade zones, strategic investment and promoting national brands through online channels.⁶

In the context of COVID, the key benefit of e-commerce is that it substantially reduces movement and contact that would be experienced in physical stores. This has led to Senegal fast-tracking measures to support e-commerce by creating an e-commerce platform that provides access to the websites of SMEs that stock essential goods.⁷

In South Africa e-commerce for essential goods is already allowed with questions as to whether this should be extended to other products. We would argue that the risk of opening up e-commerce businesses should be considered, stratified by business model type. For all categories the risk of contact is reduced as a result of delivery. However, the level of control over staff and movement changes considerably across various categories and should be considered separately, weighing up the various factors, and not as a monolith. For example, allowing retail stores or e-commerce companies that warehouse their own products with varied inventory and are already engaged in home deliveries of some products to deliver a wider range of products, would entail less risk than, including allowing for marketplaces which allow individuals to engage in bilateral e-commerce (such as classifieds) which would require a range of sellers to engage with couriers or customers. This is particularly if there are health and safety conditions placed on the company as a condition of sales. Criterion that could be used in developing a risk-based approach that could draw from international experience,

⁴ das Nair, R. and Chisoro-Dube, S., (2015). [Competition, barriers to entry and inclusive growth: Case study on Fruit and Veg City](#). CCRED Working Paper 2015/9

⁵ Goga, S, Paelo, A and Nyamwena, J (2019). [“Online retailing in South Africa: An overview”](#), Industrial Development Think Tank Industry study

⁶ Government of Malaysia (2016), Malaysia’s National eCommerce Strategic Roadmap.

⁷ UNCTAD, Senegal’s e-commerce sector helps country cope with COVID-19, available at <https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2342>

including considerations such as the ability to create a secure work environment in terms of distancing, ability to facilitate contactless payment and delivery, and whether it could be done on a skeleton staff.

One of the potential concerns given the dominance of market platforms internationally is that allowing e-commerce would advantage the larger and established platforms. One of the ways to mitigate this is to create mechanisms for SMEs to access e-commerce channels. This can be supported by the government through simple mechanisms such as providing small businesses with information packs on how to engage in online commerce, including lists of providers for various components of the value chain (such as website hosting, warehousing, payment integration, delivery). There can be a requirement for platforms to carry the products of certain 3rd party local providers. Stimulus to small businesses could include subsidization of online stores, potentially the development of a marketplace on which they could list and creating funding solutions to support innovative platforms and the scaling up of SME capacity to sell online, as well as creating capacity for existing platforms to support SMEs.

Covid 19 is has set in motion a range of changes in business models one of which is the move to e-commerce. The period of lockdown provides great potential to enhance the development of the e-commerce industry taking into account the local context and internal e-commerce market and create a platform for an outward based e-commerce hub. Consideration should therefore be given to ways in which e-commerce can be supported, while aligning with public health and public interest goals. In the long run, benefits could include a vibrant local e-commerce sector that builds employment and skills locally, future-proofing the sector from international dominance.