E-Commerce in Dubai: Realities and Impediments

ROLA TASSABEHJI

INTRODUCTION

Historically, Dubai has always been a city of merchants and it has now evolved as a vibrant global trading market. Recently, it was chosen by a number of multinational Information Technology (IT) firms as their Middle East regional headquarters. According to published Dubai Chamber of Commerce and Industry statistics, sales turnover of the IT industry of Dubai is reported to have reached US $1.5 billion last year and is growing at 15% annually. Gitex, the biggest regional IT forum taking place annually at the Dubai World Trade Center, attracts over 400 international exhibitors and 1,000 companies and has contributed to Dubai’s image as the IT center in the Arab world.

However, compared with the global industrialized urban centers, Dubai is far behind in its adoption of new economic developments involving e-commerce. Currently, only a handful of e-commerce ventures exist in the UAE and none capture the full potential of today’s global networked economic environment. To date, market forces alone are not sufficient for the diffusion of e-commerce in the private and public sectors.

Recently, Dubai Crown Prince and UAE Defence Minister General Sheikh Mohammed bin Rashid Al Maktoum launched a major government initiative, the ‘Dubai Internet City’. Although the potential of the vision is still not clear, what is certain is the government’s recognition and determination that Dubai needs to play a greater role in the digital age.

EXISTING E-COMMERCE APPLICATIONS

Compared with the rest of the Arab world, Dubai is witnessing a number of genuine attempts from the different government and semi-government departments to launch on-line public services. The Dubai Chamber of Commerce and Industry (DCCI) for example, launched a very informative website in 1997 and began adding on-line services immediately following the launch. The site (www.dcci.org) currently provides a matching service for on-line trade opportunities, trade statistics, events and a comprehensive member search. In another example, Dubai Ports and Customs Department currently offers the facility for cargo handlers to process their transactions pertaining to clearing of goods electronically. Meanwhile, Dubai Electricity and Water Department is piloting a system for ‘bill reading’ over the web while preparing for launching online payment processing.

However, in spite of these individual efforts, there is very little coordination or standardization in the services being provided by the different departments. Synergies that could reduce time and money have yet to take place. Internet applicants currently have to search for and use different sites for government services with no common place on the Web to access the services.

In terms of initiatives in the private sector, new e-shops owned by Dubai businesses of different sizes are appearing every day on the Web in spite of the unavailability of the infrastructure or relevant support of the financial institutions. In most cases, these pioneering companies are trying to be early adopters and stay ahead of the competition. However, local sites have been quite modest in size and sophistication levels and very few merchandise ‘niche’ products. Traffic experienced by Dubai based e-commerce sites and the amount of money generated by these sites are suspected to be still well below commercial viability. General merchandise e-commerce sites and portals have also been short of international standards.

On the other hand, in spite of its tremendous potential to enhance productivity, the business-to-business e-commerce sector in the UAE remains quite insignificant. EDI services have been introduced in the country a few years ago but did not achieve any visible penetration level in the market. A new breed of Web-based EDI solutions supported by local information technology vendors are expected to improve the situation. Other forms of business-to-business applications are also expected to proliferate starting by the growing number of IT companies and their business partners.

KEY OBSTACLES

The key challenges facing the diffusion of e-commerce in Dubai are the same as those found worldwide. These include widening access to the information infrastructure, building user and consumer trust in information systems and electronic trans-
actions, minimizing regulatory uncertainty in the new electronic environment, and easing logistical problems for payment and delivery. Although most of these issues are familiar to other economies worldwide, inherent challenges to the region exacerbate the problem.

A major inherent challenge is the small market size that is preventing a critical mass of Internet users from emerging. Another pressing issue related specifically to this region is the regulatory structures that are limiting market access in most countries in the region.

According to recent released statistics from Etisalat, the only ISP, Internet penetration rate in the UAE is estimated to be around 8%, well above the estimated 20% level required to sustain an e-commerce economy.

The problem of a lack of a critical mass of Internet users applies in most e-commerce business-to-consumer cases. As an example, the few banks that have ventured into Internet home banking may have to wait long before they see their investment pay-off. Major banks like Emirates Bank International and National Bank of Dubai develop Internet banking services largely for ‘marketing’ purposes rather than for the return-on-investment initiative. According to OECD figures, Internet banking costs a typical bank US$0.13 per transaction versus US$1.08 for a traditional banking transaction. Applied to the UAE, the Internet banking transaction cost is probably more in the range of US$10 per transaction. The main reason for this imbalance is due to the small numbers of adopters of this service.

One of the main factors behind the low Internet adoption rate in this part of the world has been the low IT knowledge of the average person. Quite often the concerned users do not possess the relevant basic understanding of using PCs or conceptual understanding that information can be obtained more efficiently online than in person. Even in companies where the internet is available access is often confined to top management or used by the selected few for e-mail. Sometimes the Web is used as a research tool, but rarely as a way to communicate by sending or receiving data.

In addition to the small market size, the limiting regulatory structure presents another inherent barrier. Etisalat, the local PTT, currently monopolizes telecommunications including telephone and Internet access. While this company has provided a wide range of services – including the launch of Comtrust, a new e-commerce business venture that provides a Public Key infrastructure for the UAE – there is evidence that pressure from competitors would have driven it to perform better and offer more attractive terms. The deregulation of the telecommunication sector has been one of the most important driving factors for e-commerce in the world. The result of the deregulation in developed countries has invariably yielded to improved service levels, better pricing strategies and increased capacity of communication.

Some Arab countries like Saudi Arabia, Lebanon, Jordan or Kuwait have allowed multiple private companies to sell Internet access while keeping the telecommunication infrastructure in the hands of the publicly owned telecommunication companies. Countries that have fierce competition, as in Lebanon have already witnessed a sharp drop in prices equivalent to US levels.

DUBAI INTERNET CITY

On 29 October 1999, in a major televised press conference, HH Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Ruler of Dubai, announced the launch of the ‘world’s first free trade zone for e-business and visionaries’. The stated objective of ‘Dubai Internet City’ is to create an infrastructure and environment enabling Internet-related enterprises to operate globally out of Dubai, with a significant competitive advantage. The strategic location of Dubai, its world-class logistics, and the Internet city’s corporate and personal tax exemptions are seen as contributors to a unique zone that would include the world’s major e-ventures, the first Internet university, a science and technology park, and an extensive R&D center.

The announcement, made on the eve of the opening of Gitex, the third largest computer exhibition taking place annually in Dubai, sparked debates and predictions on the Internet city’s potential. Senior executives of major IT corporations were meeting with the Sheikh confirming their support and enthusiasm to participate in the construction of such a city. Meanwhile, the local press was praising the new vision for Dubai as the beginning of the next investment success story, following the path of the Jebel Ali Free Trade Zone.

Whether the vision will truly move Dubai to the digital age will greatly depend on the success of the integration of the Internet City with mainstream consumers and businesses. Government commitment and recognition of the importance of creating a commercial environment that is responsive to technical change is the first step in that direction.