



GLOBAL X ETFs RESEARCH

Q&A with CTA's Brian Comiskey on the Rise of Internet & E-Commerce Companies in the Emerging Markets

Recently we spoke with Brian Comiskey, Manager of Industry Intelligence at the Consumer Technology Association (CTA)®, owner and producer of CES®, about the rise of internet and e-commerce in Emerging Markets. The Q&A below offers CTA's perspective on some of the powerful trends in internet & e-commerce companies and their outlook for the coming years.

Why is internet & e-commerce a compelling theme within Emerging Markets (EMs)?

EMs represent great potential for internet & e-commerce companies as they sit at the intersection of a **few key growth trends**: rising smartphone penetration rates, improving internet infrastructure and large youthful populations. In fact, nine in 10 members of Gen Z live in EMs per the latest research from Bank of America.¹ Internet & e-commerce is a compelling theme as it stands at the nexus of these growth trends.

Further, COVID-19 has only hastened the shift toward more digital, automated, and remote capabilities across global economies; an evolution that could ultimately define the next 20 years. The need for socially-distanced and remote solutions has altered consumer behaviors and pulled forward the digital and "on-demand" lifestyle of the future in both developed and developing markets.

Ultimately, the continued transformation of the digital landscape in developing economies depends upon the role of e-commerce companies as incubators for technology adoption and the pandemic, acting as an accelerator of internet business.

Which Emerging Market country stands out most for having the most developed global e-commerce and internet platforms?

Among EMs, the meteoric rise of Chinese e-commerce companies such as Alibaba and JD.com stand out. Although e-commerce operations remain a significant component of their businesses, as seen by Alibaba's record Singles' Day sales this year, the greater impact is how the rise of e-commerce has paved the way for other internet-based technologies in these companies' regions.

An earlier epidemic, the 2003 SARS crisis, arguably served as a catalyst for the initial Chinese e-commerce boom. JD.com expanded its offerings beyond electronics, and Alibaba dove into consumer-facing e-commerce for the first time with the launch of Taobao.

Today, Alibaba and JD.com (part of Tencent) now exist as super apps offering services such as internet search, online entertainment and digital payments from a single interface that capture a greater amount of a user's time.

Other EMs nations have emulated this growth model through the rise of their own prominent domestic e-commerce companies like MercadoLibre in Argentina and Jumia Technologies in Nigeria.

Which country or regions are still small on a global scale, but show high potential for internet and e-commerce?

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In southeast Asia, Malaysia stands out as a country with high potential due to its 83% smartphone penetration rate, the second-highest in the region after Singapore. Malaysia has multiple online shopping platforms such as Mudah.my, Shopee and Lazada pushing the nation's digital economy. Notably, all are backed by funding from e-commerce giants in neighboring countries such as Alibaba and Singapore's Sea, competing for market share in Southeast Asia's rapidly growing consumer segment.

In Latin America, Chile is often overlooked for its potential compared to neighboring Argentina and Brazil. Boasting one of the highest internet penetration rates in the region and the third highest 5G penetration behind Brazil and Mexico, Chile is ripe for a breakthrough in internet-based business and e-commerce.

The e-commerce model is playing out as part of the regional pivot by physical retailers to an online presence. Like their Brazilian counterparts Lojas Americanas Via Varejo, Chilean retail giant Falabella accelerated its omnichannel strategy via the acquisition of regional ecommerce giant Linio. As in Malaysia, foreign companies have already taken note of the emerging digital business environment with last year's acquisition of grocery delivery CornerShop by Uber.

How has the pandemic accelerated the adoption of internet and e-commerce among Emerging Markets?

The pandemic has supercharged digital transformation in emerging and developed markets alike. According to the World Economic Forum, internet use has increased by 70% because of the coronavirus outbreak.²

Southeast Asia in particular has seen a significant surge with 40 million people coming online this year for the first time across Singapore, Indonesia, Malaysia, the Philippines, Thailand and Vietnam per a report by Google, Temasek Holdings and Bain & Company.³ Bringing their regional total to approximately 400 million people online, these countries also saw a 63% growth rate in their e-commerce sector in 2020.

Despite the pandemic's headwinds on Latin American markets, e-commerce sales are expected to grow 19.4% from last year to about \$84 billion per the latest eMarketer forecasts.⁴ This comes on the heels of pandemic-induced physical store closures and continued contraction of the in-person retail market. In fact, estimates show the region saw 38.4% of its population engaging in some form of e-commerce in 2020. This is a significant gain from previous years, but also shows ample room for growth.

Looking forward, what are some of the trends you expect to see within the space and what are some next generation EM companies helping to shape them?

I believe there a couple of key trends in the EM internet and e-commerce space: sustained growth of technologies that surged amid the pandemic and the need to bridge the digital divide between those who have and do not have internet access.

CTA research finds the pandemic has driven adoption of technologies such as telehealth and remote learning.

Notably, Chinese health software company Ping An Healthcare and Technology had been operating a telehealth option since 2014, but the coronavirus outbreak drove the company to fully embrace this offering in its operations. Launching online COVID-19 consultations in January, the company registered more than a billion visits in its first three weeks.

Since the outset of COVID-19 in Brazil, almost 50% of Brazilian schools hired one or more educational technology firms –Brazilian online education firm Arco Platform is one of the companies that has experienced strong growth. And medical education platform Afya Limited shifted its focus to primarily online courses to support health care professionals amid the crisis.



Both telehealth and remote learning are expected to see sustained growth in the post-COVID-19 era. The World Bank estimates an annual growth rate just under 20% for telehealth, and Research and Markets projects the global online education market to reach a value of \$350 billion by 2025.⁵

Despite the advancement of these technologies to meet the challenges of the pandemic, COVID-19 has also exacerbated existing socioeconomic disparities in Emerging Markets. Specifically, the International Telecommunication Union in their annual report noted that only 53% of the world has access to the internet.⁶ Bridging the digital divide will be a key focus for companies to address this issue.

Notably, a newer Chinese e-commerce company, Pinduoduo, has staked its future on addressing the rural e-commerce and internet gap in China that stands at a sizable 39% of Chinese citizens who remain offline. With the launch of a five-year, \$7.1 billion campaign to reach these underserved consumers, the company is diversifying its business model to both address a critical social need in China and tap into this market.

Thus, the potential of Emerging Markets rests not only in their investment potential, but the promise of groundbreaking technological innovation that can reverberate across all socioeconomic levels globally. Ultimately, these are the trends CTA looks for in our thematic research as well as during CES, the most influential tech event in the world. In fact, 26% of exhibitors at this year's virtual CES hailed from emerging market countries and provided a look at some of the innovative companies and startups from these regions. We look forward to seeing these trends play out over 2021 and when CES returns to Las Vegas in 2022.

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