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Effect of Commerce Digitalization on economic growth in GCC countries

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Introduction:

The digitalization of commerce denotes the transformation of traditional business and trade activities through the adoption of digital technologies, mostly recognized via internet, big data, 5G, artificial intelligence. Amidst rapid technological advancements, the e-commerce sector has emerged as one of the prime beneficiaries of digital transformation. It underwent a rapid digital evolution in GCC countries driven by government initiatives, technological advancements, and varying business needs. This research work emphasizes a fundamental shift in business activity and highlights the crucial role of technology in reshaping the commerce sector and driving economic progress. This shift has revolutionized traditional operations, fostering greater efficiency, global market access, and playing a pivotal role in economic growth.

Results:

Figure 1 illustrates the current and the forecasted growth of the GCC countries e-commerce markets with continuous and outstanding evolution. This growth is supported by the improved digital infrastructure among GCC countries, the government policies directed by economic diversification and increasing consumer spending.

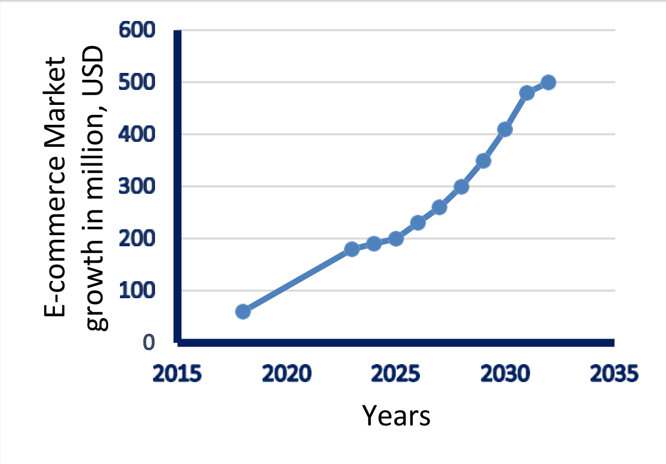

Figure 1. *E-commerce Market growth in GCC countries (in million, USD)*

Table 1. Actual and projected digital economy contribution to GDP (in%) in GCC countries

Country	Actual Digital Economy contribution to GDP (in%)	Projections of Digital Economy contribution to GDP (in%)
Saudi Arabia	15.6% of GDP (2023)	16% by 2025
UAE	9.7% of GDP (2022)	19.4% by 2032
Qatar	4.5% of non-oil GDP (2017)	7.8% by 2030
Bahrain	8.6% of GDP (2022)	11.9% by 2027
Oman	2% of GDP (2021)	10% by 2040

According to the data in table 1, the digital economy in Saudi Arabia contributed by 15.6% of GDP in 2023, making it the largest digital economy in the MENA region. The digital transformation marks a significant increase over the previous recent years. This shift is, specifically, visible in the commerce sector, where e-commerce transactions grew by 36% in 2023, allowing Saudi Arabia to be, also, the fastest-growing digital market in the MENA region (General Authority for Statistics. (2024)). As part of Vision 2030, Saudi Arabia aims to increase the digital activities contribution to GDP to 16% by the end of 2025 as shown in table 1 and over 19% by 2030. The digital economy in United Arab Emirates (UAE) accounted for 9.7% of GDP in 2022. This country is characterized by

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a more mature and stable market with an advanced level of digital tools adoption and plans to double the digital sector's share in the framework of the "UAE Digital Economy Strategy," within 10 years, reaching 19.4% of GDP by 2032. In Qatar, the digital economy participates by 4.5% of non-oil GDP in 2017. The country is achieving significant growth on digital technologies adoption in economic landscape and has an ambitious plan to enhance the digital economy contribution, expected to reach 7.8% of non-oil GDP by 2030. Bahrain also follows a Digital Economy strategy under the Economic Recovery Plan aiming to build a robust digital infrastructure. The Information and Communication Technology (ICT), contributed by 8.6% to the Bahrain's GDP and it is estimated to attain 11.9% in 2027. With a bit lower level, the digital economy in Oman contributed by 2% of real GDP in 2021. The country is deploying significant efforts to enhance its digital technologies adoption especially in the framework of The Government Digital Transformation Program (2021–2025) aiming to digitize about 80% of government services by the end of 2025 (ANBA 2025). This allows the digital economy to raise its share on GDP, targeted to reach 10% of GDP by 2040 as indicated in table 1. GCC countries are undergoing a rapid digital transformation based on a robust digital infrastructure, allowing them to benefit from its advantages and stimulate their economic growth.

The effect of commerce digitalization on GDP is instigated via an empirical approach involving the Non-oil GDP growth as dependent variable and Digital Commerce, Consumption, Foreign Direct Investment (FDI), Employment as explanatory variables. This approach is presented by the following equation:

$$\text{Non-oil GDP growth}_{it} = \alpha_0 + \alpha_1 \text{Digital Commerce}_{it} + \alpha_2 \text{Consumption}_{it} + \alpha_3 \text{FDI}_{it} + \alpha_4 \text{Internet Pen}_{it} + \alpha_5 \text{Emplyment}_{it} + \mu_i + \varepsilon_{it} \qquad \text{(Eq. 1)}$$

Where Non-oil GDP growth$_{it}$ is the annual Non-oil GDP growth of country i in period t, Digital Commerce is a proxy assessing the commerce digitalization level, FDI is Foreign Direct Investment inflows as % of GDP, Internet Pen is the internet penetration measured by the percentage of population using internet, Consumption is the total final consumption spending as percentage of GDP, μ_i is a country fixed effect and ε_{it} is an error term.

Conclusion:

Digitalization penetrates almost all economic spheres and has brought significant changes, making operations faster, more efficient, and more transparent. Our findings show that commerce digitalization can increase productivity and efficiency, facilitate boarder market access, raise demand and promote job creation and innovation, boosting thus economic growth.

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