

The Digital Economy: the Silent Revolution that Will Change the Region

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A Qualitative Leap in Connectivity

The major international institutions and forums for global economic debate define digital technologies as today's most important factor for innovation, competitiveness and growth, especially for small and medium-sized enterprises.¹

In the countries of North Africa and the Middle East (MENA), information and communications technologies (ICTs) have developed to such an extent in recent years that the penetration rates of the media they have most impact on (mobile telephones and Internet) are the world's highest and have become a cross-cutting factor of social, political and, especially, economic change in the medium and long term.

This growing capacity for change in the region existed prior to the 2011 protest movements, but accelerated in their wake as a fruit of the growing need to use these technologies as a channel for expression and mobilization. Thus, ICTs have become widespread means for social and political expression, helping to empower and increase the influence of the individuals, groups and economic and political actors who can best maximize their impact. This capacity for empowerment can likewise be found in the economic arena. Hence, the *2014 Arab World Online Report* from the Mohammed bin Rashid School of Government of Dubai estimated

that for the year 2020, around 20% of the labour market in the Middle East and North Africa will be related with the Internet and technological companies, this being the economic sector that will be generating most jobs.

In the same line, in 2012, Google and the digital economy consultancy Strategy& had already identified this growing trend in a report in which they coined the term the '*Arab Digital Generation*' (ADG).² This refers to these societies' population segments aged between 15 and 35 (accounting for around 40% of the region's population), who are digital natives and highly active on the web. This concept led to the analysis of a segment of the population, which, although not a majority, is significant – due to its middle and upper class profile and, therefore, to its access to technological resources – regarding the direction these societies are taking. Indeed, these populations are the '*shapers*' of these countries' political, social and economic trends.

In this sense, a characteristic factor of today's Arab societies is their high level of connectivity through ICTs, the Arab world being the region that has seen most growth in Internet users in recent years, with a growth of 600% between 2001 and 2014. Internet penetration, according to the *2014 Arab Knowledge Report*, will rise from 32% of the population in 2012, to a predicted 57% in 2017, 3% higher than the world average forecast for the same year.

This same report shows the growing activism on social networks of the Arab population, rising from 10 million users in 2012 (4% of the world's social network users) to 13 million in 2014 (11% of the world's users)

¹ G20 B20 '*SMEs & Entrepreneurship Taskforce Policy Paper*, September 2015, Turkey.

² www.strategyand.pwc.com/media/file/Understanding-the-Arab-Digital-Generation.pdf

EVERY DAY IN THE ARAB WORLD:

- 100 million Google searches. That is 70,000 days, if each Google search takes just under a minute.
- 36,000 new Facebook users register online. That's more than the number of people born in the region per day.
- Equivalent to 60 days' worth of Youtube videos uploaded: approx. the same amount of content aired by the region's leading TV stations.
- 10,832,000 tweets per day: more than triple the content of all Arabic newspapers printed every day
- 37,095,955 Facebook users below the age of 30: more than four times the total number of students enrolled in universities in the Arab world.

Discover Digital Arabia 2013

This new generation of network users are increasingly demanding digital content in Arabic, a trend that has strengthened since the Arab revolts in 2011, which brought with them greater social and political demands from local populations. In this regard, the Arab population accounts for about 5% of the world population, but only 1% of Internet content is in Arabic, just 0.2% of which is actually generated by the countries of the MENA region. Hence, the Arab Media Outlook 2009-2013, posited that 60% of Arabic speakers preferred to use content in Arabic on the Internet (50% of whom did not speak English). Likewise, for 40% of the poorest Arab population (the target of empowerment programmes through ICTs led by certain governments in the region as well as international bodies like the World Bank) it is essential that they can access content in Arabic, as otherwise they are automatically excluded from this technology, which in turn will further fracture their societies.

This increase in the demand for Arabic content is leading to the increasing appearance of start-ups located in cities where the ecosystem is riper for technological enterprise (the presence of technological incubators, better specialist training, *mentoring* programmes for new entrepreneurs, access to start-up financing, etc.).

Digital Technology: a Turning Point for Entrepreneurship in the Region

It should be underscored that the digital push in the economic and business spheres shows a heterogeneous distribution across the Arab world. This entrepreneurial activism has a much more sig-

nificant presence in countries of the Levant and the Gulf, and even in these countries this activity is especially concentrated in the cities. So, it is in Beirut, Cairo, Amman or Dubai where the ICTs demonstrate their greatest potential when it comes to empowerment and social, economic, political and cultural creativity.

New technologies are giving youth in the Arab world, especially in urban areas, opportunities of liberation and empowerment through self-employment, entrepreneurship, training or access to new, innovative forms of funding for personal projects.

The ecosystem of support for technological ventures has developed exponentially since 2010. Business incubators and accelerators have been created, along with specialized funds for the different levels of technological entrepreneurship, *mentoring* projects, *living labs*, engagement of entrepreneurial diasporas in their countries of origin...

In five years, the region has gone from having 183 support infrastructures for technological entrepreneurship in 2010 to 463 in 2015, according to a recent report in May 2016.³

There is, in the region, a growing awareness of the enormous impact this sector can have on the economy and job creation. As a fruit of this evidence bottom-up and top-down initiatives are being developed simultaneously.

In recent years certain governments have decided to develop policies that bring added value to their economies, investing in education, innovation and digital technologies. These governments, aware of the great potential of an innovative and digital economy, are making a decisive bid to improve the technological entrepreneurial ecosystem, Dubai being the most paradigmatic case in point. Following this

³ HADDAD, Habib; BOUSTANI, Elias and ASSAF, Teeb. *Collaborative Entrepreneurship. The state of corporate-startup engagement in MENA*, Expo 2020 Dubai and Wamda, May 2016. http://static.wamda.com/web/uploads/resources/Collaborative_Entrepreneurship_Report.pdf

same logic, and aware that innovation is increasingly more common among start-ups than in large corporations, several multinationals in the sector have launched projects geared towards facilitating and capitalizing this kind of creativity. This is the case, among others, of Microsoft and its *Cloud Startup Academy* in Morocco, specialized in women entrepreneurs with technological start-ups.

There are also various universities in the region that have set up initiatives together with technological investors to develop the sector. This was the case for the American University of Cairo and Sawari Ventures in 2011, which created Flat6Lab in Cairo, a pioneering incubator and leader in the region that went on to export its model to several Arab cities.

Likewise, similar initiatives have been launched by some countries' private sectors themselves, such as oasis500 in Amman. In fact, of all the region's initiatives of this kind created in 2015, 59% came from private investors, technological activists and NGOs.⁴

The demand for Arabic content is leading to the increasing appearance of start-ups located in cities where the ecosystem is riper for technological enterprise

Thus, a unique, innovative and not always coordinated active collaboration from the economic-business-institutional-academic fabric has favoured the exponential multiplication of initiatives in the field of entrepreneurship, training and funding of technological business projects. Undoubtedly, many of these countries' economies now find themselves at a turning point with respect to the economic, business and formative impact of digital technologies.

This was how the North American technological investor Christopher M. Schroeder described it in 2013 in his book *Start-up rising: the entrepreneurial revolution remaking the Middle East*. The author uses the term the 'silent revolution' to describe the

region's significant – and rising – number of well-prepared youth taking advantage of the creative opportunities offered by digital technologies to empower themselves and create employment and added value.

Collaboration from the economic-business-institutional-academic fabric has favoured the exponential multiplication of initiatives in the field of entrepreneurship, training and funding of technological business projects

As evidence of this effervescence, the meetings and competitions among technological entrepreneurs have multiplied in recent years in these countries' major cities. Likewise, these meetings are increasingly engaging the most relevant global technological actors (especially North American): companies, funders and specialized training centres. This enables the region's actors to better know one another, thereby fostering collaboration. Specialized transnational investment funds are set up, there are business angel networks, regional networks for mentors and coaching, specialized online training, programmes to engage the respective diasporas throughout the entrepreneurial process in their countries of origin, competition is generated among regional incubators to attract talent, etc.

The Mobile Economy: a Factor of Inclusion and Resources

One of the most important devices for this revolution is the mobile phone. Besides these devices' connectivity and rapid access to information, it is worth mentioning their multiple economic and entrepreneurial offshoots.

Within the Arab region there is great national disparity for the penetration of mobile technology. While Bahrein, Kuwait, Saudi Arabia and UAE have

⁴ Idem.

subscription rates of over 75%, Algeria, Palestine, Sudan, Syria and Yemen are below 50%.⁵

Nonetheless, in 2015 the regional rate had already reached 54% (above the 51% world average). But it is in the Smartphone segment that the region stands out, with a 36% penetration forecast for 2017. Therefore, while in 2014 there were 117 million Smartphones in Arab countries, this figure will reach 327 million in 2020, with Saudi Arabia and the United Arab Emirates among the three markets with the highest penetration worldwide.⁶

There is the real risk that these technologies could lead to internal ruptures in these societies between those with access and knowledge and those that remain excluded

This potential has manifested itself through the economy, allowing the high level of penetration to have a major impact. Thus in 2014, the mobile phone industry contributed 115 billion dollars to the Arab economies, accounting for 4% of its aggregate GDP. Expectations of growth have led to predictions of 164 billion dollars for 2020, accounting for 4.5% of Arab economies' GDPs, thereby foretelling a growth in the sector greater than the average growth of the economy.⁷

One spin-off of the mobile phone expansion in the region is the growing access to new funding sources. As in other emerging economies, like Kenya or Bangladesh, with the expansion of mobile banking in the region in recent years, an increasing number of people who had previously been excluded from

the financial circuits are opening bank accounts. In this regard, and to facilitate this innovative inclusive funding, several countries in the region have adopted favourable legislations in recent years, as was the case in Jordan in 2014 and Morocco in 2015.

Likewise, these business developments in connection with the mobile phone sector are significantly increasing revenues in the Arab states in the form of taxes, revenues that are particularly necessary in a struggling economy, hit by the contraction of strategic sectors such as tourism or oil revenues. In 2014, therefore, the public coffers of Arab countries saw tax revenues from this sector amounting to 13 billion dollars.

Conclusions: the Digital Economy Is a Game Changer

A large part of the Arab youth is hungry for useful technical training, job posts, knowledge, global connectivity, tools for economic empowerment and recognition. Digital technology in today's economic world not only allows these needs to be satisfied, but allows individuals themselves, and not third parties, to satisfy them. There is the real risk that these technologies could lead to internal ruptures in these societies between those with access and knowledge and those that remain excluded. To avoid this, it is essential that in this strategic area public authorities, companies and civil society engage in dialogue, cooperate and define converging lines of action. Nothing can stop digital technology from advancing. That it does so in a way that is inclusive and has an impact across the board is the responsibility of all actors in Arab societies.

⁵ GSMA INTELLIGENCE *The Mobile Economy. Arab States 2015*, GSMA www.gsmaintelligence.com/research/?file=7910cff3a3e6f96219cd50e31d6d3e1c&download

⁶ Idem.

⁷ Idem.