



START

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RECENT COVERAGE OF THE REGION HAS FOCUSED ON THE SOCIAL NETWORKING ASPECT OF THE ARAB SPRING. THE HIDDEN STORY IS OF THE HUGE GROWTH IN WEB, SOCIAL MEDIA AND E-COMMERCE – OF A NEW SILICON VALLEY IN THE GULF

RIGHT-UP CITIES

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In the years since a number of countries in the Arab world set out on a rocky journey toward democratic rule, sections of the Middle East have found themselves in a state of inaction. This is especially perilous considering that half the Middle East's population is under the age of 25, and that 22 percent of 15-24 year-olds are unemployed.

Yet despite the looming threat of paralysis from Istanbul to Tehran, there exists a number of areas of growth and prosperity. The Gulf triptych of modern super-cities – Dubai, Abu Dhabi and Doha – continues on an ambitious cultural program of modernization and diversification. Gross Domestic Product in the richest nations – Saudi Arabia, Kuwait, the United Arab Emirates and Qatar – is growing at between 3 and 5 percent annually. A trickle-down effect has bolstered regional tourism, consumer spending and a booming Islamic finance market worth \$1.6 trillion.

One economic capillary delivering a stream of new jobs and innovation in recent years has gone relatively unnoticed: the region's new electronic commerce opportunities and small-to-mid sized web and social media start-ups. In stark contrast to the political disorder which mars daily life in Cairo and Tunis, the Arabian Gulf is undergoing a Silicon Valley effect.

Consumers in the Middle East spend over \$1 billion annually on online shopping. That figure is expected to double over the next three years. E-commerce in the region has outperformed every other market, increasing by 70 percent in 2011. In an indication of both the nascent status and the further potential of e-commerce in the region, Google estimates fewer than 15 percent of Middle East businesses have an online presence. The online spike in e-trade coincides with a corresponding uptake of social media: between 2010 and 2012, the number of Facebook users tripled. The MENA region

THE INTERNATIONAL FINANCE CORPORATION, A MEMBER OF THE WORLD BANK GROUP, UNVEILED A \$374 MILLION FUND TO SUPPORT SMALL AND MEDIUM SIZED BUSINESSES IN THE MENA REGION

now has 50 million Facebook subscribers and is adding one million each month.

According to *The Rise of Islamic Capitalism* by Vali Nasr, Dean of Johns Hopkins School of International Studies in Washington DC, the inescapable youth shift in Arab demographics has created an expanding, tech-literate audience. Disposable income has grown in three years to \$1 trillion in 2012. Over 100 million residents of the Middle East's 350 million are under the age of 15; social media use passed 25 percent in 2011, growing at an average of 125 percent year on year.

This technology-enabled audience is also reflected in the diversification of industry in the region's oil-producing nations. Saudi Arabia's fossil fuel endowments are being streamed back into economic hubs and universities such as the Saudi Aramco Entrepreneurship Center in Dhahran and the King Abdullah City for Atomic and Renewable Energy near Riyadh. In a country where unemployment is 12 percent for Saudis (30 percent for women), youth are being asked to innovate their thinking. One such initiative to help is Badir, established in 2007 to launch incubators and start-ups in five distinct sectors, including advanced manufacturing

and biotechnology. So far, it has supported over 70 companies, including Enwani, which links mobile phone numbers with the relevant addresses to make deliveries easier. Another Badir start-up, Yatooq, has developed an automatic Arabic coffee machine. It sold 2,000 machines in the first 48 hours after launch.

Middle East start-ups will also soon be able to take advantage of the first e-commerce platform dedicated to the region. A joint project between Aramex, Google, ShopGo and PayPal aims to rationalize e-payments and provide more security for online merchants in a part of the world where credit card penetration has been historically low and postal addresses have been inadequate. According to PayPal, online transactions in the Middle East totaled \$9 billion in 2012 – a figure which is expected to grow to \$15 billion by 2015.

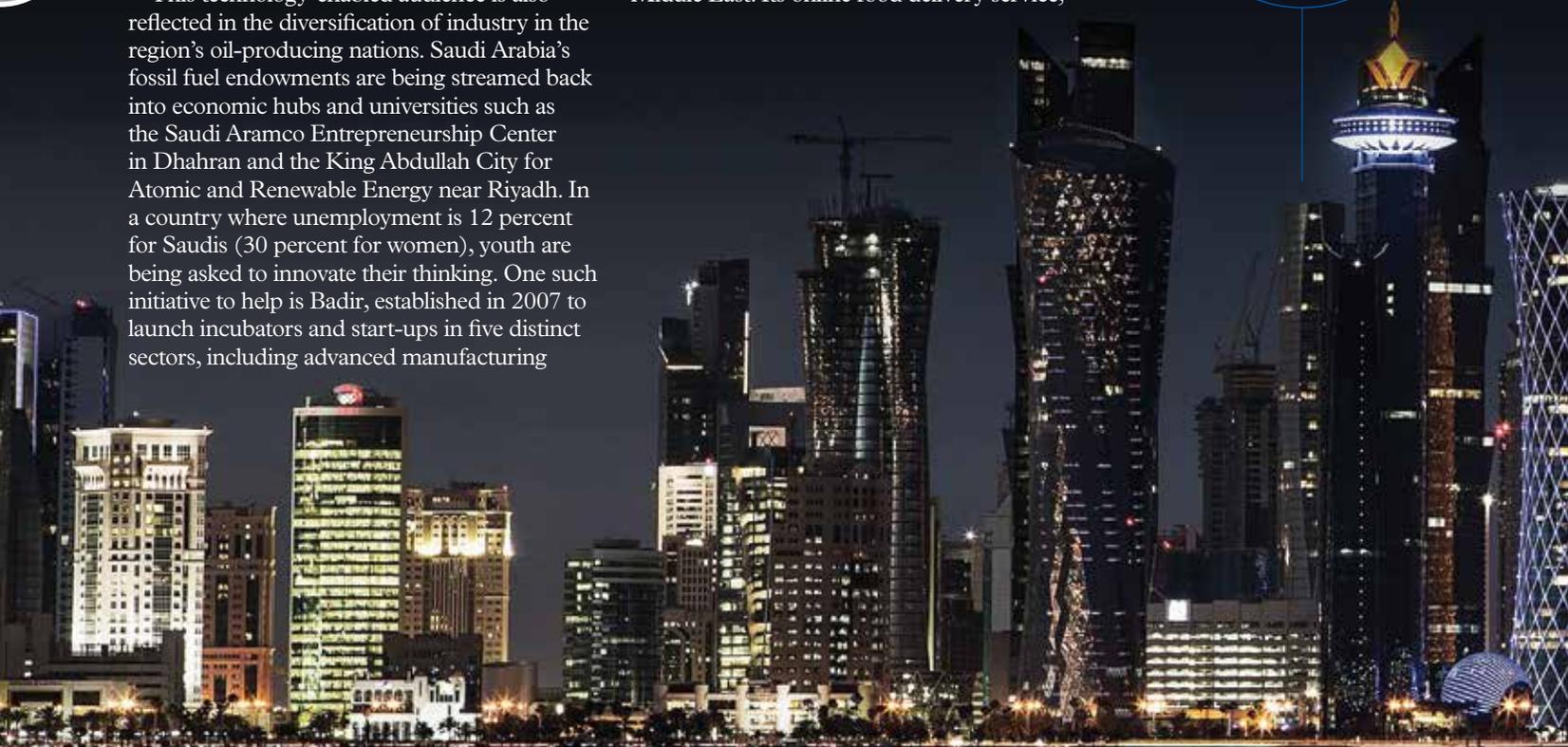
LOCAL INITIATIVES

Start-ups in the Middle East have blossomed in an ecosystem sustained by international and local investors. In September, Berlin-based Rocket Internet, which raised \$1 billion in 2012, signed a partnership with the regional firm iMENA to expand one of its companies in the Middle East. Its online food delivery service,



Facebook users
34%
of Qatar's
population

22



The West Bay area of Doha is a business and retail hub of the Qatari capital



LinkedIn users
13%



Twitter accounts
3.8%

Hellofood, already active in Saudi Arabia, will debut in other neighboring countries within months. Customers will be able to read aggregated restaurant reviews, and order online or via an app. Also recently, Souq.com, the Middle East's largest online shopping portal, received a new round of funding from investors in New York and South Africa. In May, the International Finance Corporation, a member of the World Bank Group, unveiled a \$374 million fund to support small and medium sized businesses in the MENA region.

One popular motivation for the founders of start-ups in the Middle East is the desire to launch local equivalents of established Western brands such as Amazon and Apple's iTunes. In 2007, Ala' Alsallal, a student in Jordan frustrated by the long time lags between the English and Arabic publications of JK Rowling's Harry Potter novels, gathered a group of volunteers to translate the final book in the septology, *Harry Potter and the Deathly Hallows*. The resulting text was downloaded by users over one million times. When Rowling's lawyers issued a cease-and-desist letter, Alsallal shut down his server: by that time, however, he had isolated a unique gap in the publishing industry.

Originally launched from his parents' home in Amman in 2010, with \$12,000 in initial funding and with Alsallal's mother, brothers and sisters acting as employees, his online retail site Jamaloon now offers 9.2 million Arabic and English titles to 22 countries in the Middle East and North Africa. Registering the company took a total of three hours and cost Alsallal \$450. Over the

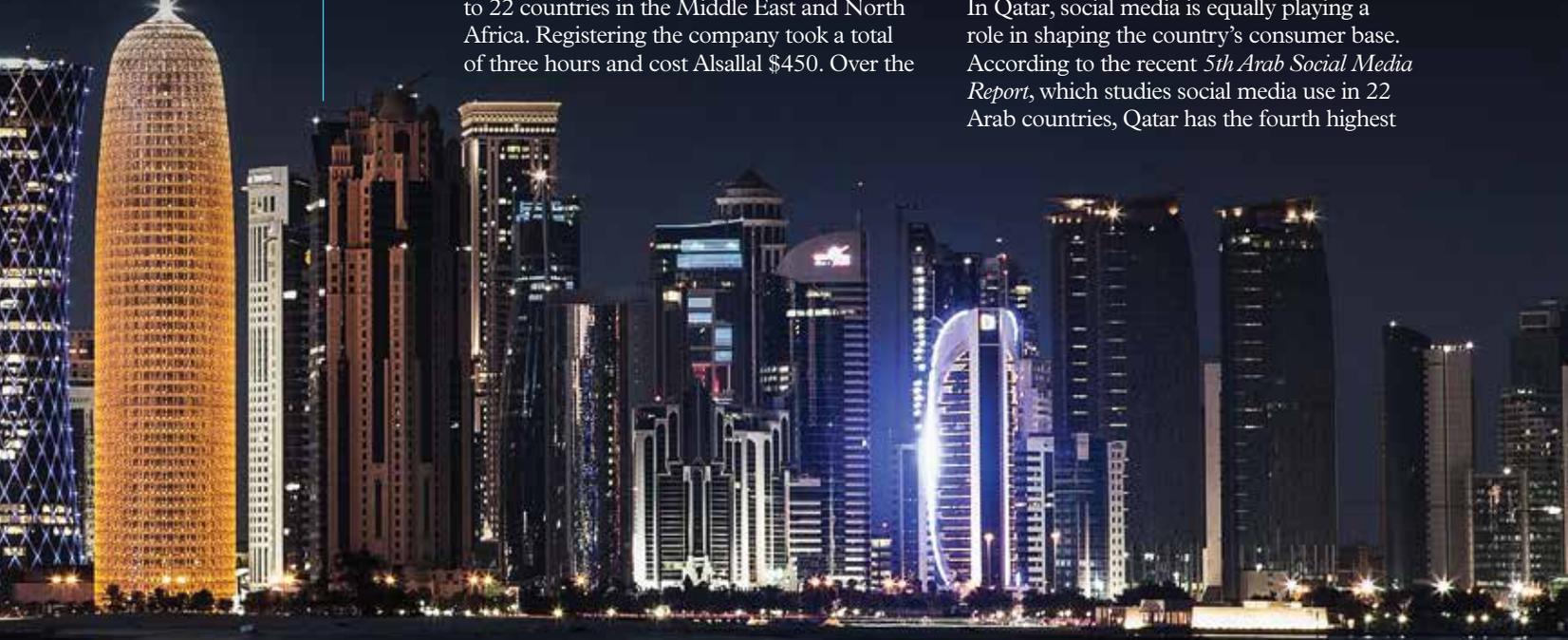
next few months, the online book store, which attracts 400,000 unique users a month and is followed by over 27,000 people on Twitter, will expand into Egypt and launch both e-books and a publishing on-demand service. Jamaloon now employs 20 full time members of staff and has offices in Amman, Beirut, New York, London and Dubai.

"There is no structure in the world of Arabic publishing," says Alsallal, 27. "It was usually very difficult to find good quality Arabic books – or even translations of popular English books." According to the Publisher's Association, 450,000 texts are produced in English each year; only around 150,000 in Arabic. Continues Alsallal: "We don't have high readership percentages in the Middle East, but that's only because quality Arabic texts are in short supply. I decided to start an online book store to tackle these issues."

Alsallal says it took time to persuade local publishers to collaborate with an online retailer. "They wanted cash-in-hand, or they worried about fraud in other ways." But three years after launch, Jamaloon is expanding. "I'll go wherever the readers are," says Alsallal. "I think digital publishing is only going to become more popular in the region. It takes up far fewer resources and is more easily delivered to readers wherever they are."

DIGITAL DIVERSITY

In Qatar, social media is equally playing a role in shaping the country's consumer base. According to the recent *5th Arab Social Media Report*, which studies social media use in 22 Arab countries, Qatar has the fourth highest



SOCIAL MEDIA

CASE STUDY: THE GULF

percentage of Facebook users in the Middle East. Some 34 percent of Qatar's population used Facebook last March; 13 percent of the population is on the networking site LinkedIn, and 3.8 percent have Twitter accounts.

Doha-based Spark Digital was originally set up to build the website and manage the social media campaign for Qatar's successful 2022 FIFA World Cup bid – the company of 12 staffers was subsequently parlayed into a standalone business, offering digital services and multimedia content to a number of Doha's sports federations and retail businesses.

"I like to think of ourselves as at the education stage in Qatar," says CEO Nino Kader, sitting behind his desk in a modest office on the first floor of a business tower near Salwa Road in the country's capital. "The business community here is five years behind in digital maturity." He points to a huge potential market that could be tapped. "It has long been established in the US that you go fishing where the fish are," he says. "And in the Middle East, someone signs up for Facebook every three seconds."

The social media figures in Qatar alone offer start-ups an immediate marketing advantage. Between 2010 and 2011, there was 165 percent growth in Facebook users, and an increase of 35 percent between November 2012 and November 2013. "At the moment, many of our clients are interested in simple 'likes' and 'followers,'" explains Kader. "I think that will

change. As the market matures, they will become more aware of breaking down the data to reveal a more complex picture. When is the best time to send a Tweet? What is the geographical breakdown of followers? How many of them are men and women? How many of them actually are engaged with a particular campaign? You will also notice a more significant conversation about budgets for digital operations."

Amid all this creativity, one prominent start-up in the Middle East has carved a niche specializing in coverage of regional tech launches. *Wamda*, which launched in Beirut in 2010, now publishes around 10 articles a day in English, Arabic and French. The site makes use of a sponsored content model for funding, now employs 15 full time staff and has over 98,000 followers on Twitter. The amount of content produced in-house is between 60 and 70 percent. The remainder comes from freelance contributors around the Middle East.

"When we started, the coverage of the technology sector in the Middle East was nascent," says Nina Curley, *Wamda's* Editor-in-Chief. "The idea was to create a platform for reporting start-up culture. There was a bit of skepticism at the beginning. People would ask us about just what there were out there. Well,



Annual online
consumer spend in
the Middle East
\$ 1 billion

The Downtown area of the Dubai waterfront at night



Social media
use grew
125%
year on year
in 2011

“IN THE MIDDLE EAST,” HE SAYS, “SOMEONE SIGNS UP FOR FACEBOOK EVERY THREE SECONDS.”

we know there was always an active start-up ecosystem – it just wasn’t being covered.”

REGIONAL DYNAMISM

Another factor in the varying stories of start-ups in the Middle East is explained by the geopolitical differences between North Africa, the Levant and the Gulf. Over the last three decades, the three ancient capitals of the Middle East – Cairo, Damascus and Baghdad – have been supplanted in their ambitions by the modern, gleaming Gulf metropolises of Dubai, Abu Dhabi and Doha. Egypt, Syria and Iraq, the traditional crucibles of commerce, art, science, sports, medicine and literature have

been gripped by the Arab Spring, wars and sectarian violence.

In the space of one generation, Dubai has transformed itself from a bucolic fishing village into a major financial services hub bridging East and West. Abu Dhabi’s annual GDP of \$248 billion has allowed the UAE’s capital to invest in universities, business schools, museums, a relative newcomer to the airline business, Etihad, and tourism. Doha, the largest exporter of liquid gas in the world, has used its revenue to host universities such as Georgetown’s School of Foreign Service, Carnegie Mellon University and Weill Cornell Medical College, as well as embarking on an ambitious arts and sports program.

“There is a certain attraction in basing a start-up in the Gulf,” says Christopher Schroeder, the author of the recently published *Start-up Rising: the Entrepreneurial Revolution Remaking the Middle East*. “There is access to financing, infrastructure and existing networks. The Gulf states are dynamic and attract smart people from across the world. The downside is the cost of living, and office rents and expenses are high.

