

**E-commerce: Growth of e-commerce**

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Saudi Arabia has traditionally lagged behind regional standards for Internet connectivity, but it is rapidly catching up as intensifying competition continues to lower prices and improve broadband supply. In recent years, despite the kingdom's relative affluence and burgeoning young population, the underdeveloped telecommunications infrastructure and conservative society have constrained the growth of Internet use. As a result, the kingdom has the lowest rate of Internet penetration in the Gulf Co-operation Council, at 25% of the population, according to the Economist Intelligence Unit and **Pyramid Research** Estimates; the UAE has the highest rate, at more than one-third of the population.

Saudi Arabia also has a lower rate of Internet use than Iran, although it is ahead of Egypt, where gross domestic product per head is considerably lower. Partly because the base is so low, Saudi Arabia also has one of the fastest growing rates of Internet use in the Middle East. In an April 2008 interview quoted in AME Info (an online provider of Middle East business information), Michael Dell, the chairman and CEO of Dell Computers (US), said Saudi Arabia had a 2,250% increase in Internet use since 2000. With the Saudi telecoms market now opening up, there is significant potential for Internet services to grow from the current low base, both through personal computers and, increasingly, through third-generation (3G) mobile phones. This would in turn benefit broader macroeconomic growth since higher use of information and communications technology (ICT) tends to improve productivity. Given the large proportion of young people in the Saudi population, demographic trends will probably support a stronger expansion in ICT.

A survey released in January 2008 by the Arab Advisors Group and cited by Al Bawaba website found that Saudi nationals spent US\$3.2bn in e-commerce purchases through computers and mobile handsets in 2007.

Research by the Economist Intelligence Unit indicates that in 2007 there were 6m Internet users in Saudi Arabia, roughly 25% of the population. Despite heavy investment in broadband access, according to the same sources, only 430,000 subscribers had access to broadband. The number of Internet hosts climbed to more than 18,000 in 2007, up from 11,000 a year earlier, according to the CIA World Factbook. The most recent data from the Saudi Network Information Centre (a division of the Communications and Information Technology Commission) show that 1,967 domain names were registered during the first 11 months of 2007, taking the total number of domain names in the kingdom to more than 12,000.

The provision of Internet service has been open to local competition since 1999, when it began. However, the government is now restricting new licences to encourage consolidation. Individuals, companies, organisations and government agencies other than universities must subscribe through one of the 22 licensed Internet service providers (ISPs) in the kingdom. Connection fees in the kingdom are considered high, but Saudi Telecommunications Company (STC) and ISPs have reduced Internet service fees several times since 2001 to increase penetration. AwaINet and Nesma Internet are the largest local ISPs.

Integrated Telecommunication Company, a private information-technology company based in Riyadh, announced in April 2007 that 80% of homes in Saudi Arabia would have access to high-speed Internet by end-2008. But according to industry data, this forecast will probably prove too optimistic. We estimates that 284,000 broadband subscriber lines were installed in Saudi Arabia in 2007, up from 90,000 in 2006.

Asymmetric digital subscriber line (ADSL) has been in service in the kingdom since 2001. Customers have to pay two fees, one to STC to activate the ADSL service across the telephone line and a second to an ISP to provide Internet service across the ADSL line, although both fees are sometimes consolidated. STC has been highly criticised for its service in providing ADSL access, since customers had to wait many months to receive ADSL service on their phone lines. STC is constantly investing to increase the size of its ADSL infrastructure, and the wait times have declined, despite frequent complaints from customers over service issues.

STC started providing 1,024 kbps ADSL connections in January 2007. Saudi Arabia is lagging behind its neighbours in terms of DSL access, since broadband costs are nearly double that of neighbouring countries and the maximum Internet speed available from DSL connections is now 512 kbps.

The proportion of Saudis who use the Internet has been increasing rapidly since the opening of the telecoms sector began. Websites such as YouTube that allow free discussion and publication of user-generated content are becoming increasingly important spaces for social and political debate, despite official efforts to censor the Internet. However, the authorities are determined to monitor Internet activity, and they are quick to punish violators of sensitive subjects. Fouad al-Farhan, a prominent Saudi blogger, was arrested in December 2007 and remained in detention without charge until the end of April 2008.