

Factors influencing the E-commerce (Electronic trade) in Saudi Arabia

Introduction

The great economic and commercial developments of the world's economy contributed to the appearance of e-commerce during the last decades of the twentieth century. E-commerce which became a sort of modern commerce participated in changing the future of commercial business, by facilitating the electronic sales and purchase process, improving companies' efficiency, minimizing costs and enhancing competitiveness, in addition to providing the products for consumers in a short time. Saudi Arabia is one of the countries which witnessed rapid growth in e-commerce during the recent years. There are some socio-economic conditions and factors behind the flourishing of e-commerce in Saudi Arabia. The most effective factor is the availability of internet services and the recent developments of digital and technological programs implemented. Moreover, Vision 2030¹, which states some goals like the expansion of private sector share in the economy played important role in the progress of e-commerce in Saudi Arabia. In the light of flourishing conditions for e-commerce, this paper aims to examine the factors influencing E-commerce (Electronic trade) in Saudi Arabia using a cause-and-effect approach.

An overview of Saudi Arabia

Saudi Arabia is the largest economy in the middle east and the richest country in the region. It is one of the G20 countries with a GDP growth rate of 2.6% in 2021 and projected to be 4% in 2022 (IMF, 2021). Saudi Arabia has implemented structural economic and financial reforms since the launch of Vision 2030, which established a new economic system that prompts the creation of a diversified and robust economy that achieves sustainable growth for the Kingdom. The Saudi economy has witnessed growth in many sectors, taking advantage of the natural resources in the Kingdom and its geographical and cultural position between three continents. Saudi Arabia provided encouraging environment for the private sector investments, hence the contribution of the private sector to the GDP is 41.1% in 2021. The Saudi Arabia is one of the main players in the global economy and global oil markets, supported by a strong financial system, an effective banking sector, and giant government companies based on highly qualified Saudi talents.

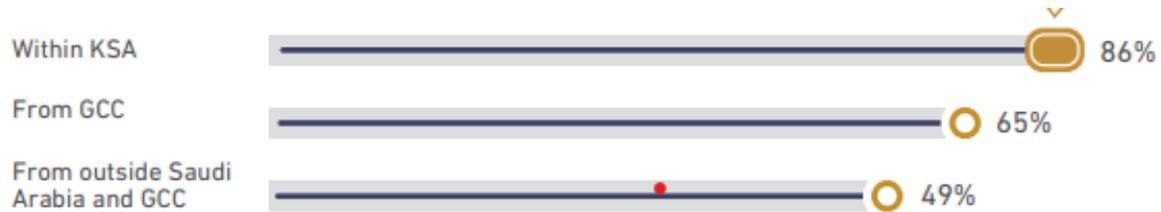
Factors affecting E- commerce in Saudi Arabia.

E-commerce was introduced in Saudi Arabia in 2001 when it was practiced in a simple way for limited activities. According to UNCTAD E-commerce Readiness Score (2017), Saudi Arabia ranked 46th out of 144 countries, and with an index score of 69, it is on par with countries such as Italy and Russia and higher placed than some larger economies like India and China. Saudi Arabia could move higher up in the

¹ Vision 2030, is a comprehensive strategic plan launched in 2015, covering all economic and social aspects of development. Saudi Arabia launched Saudi Vision 2030; built on several economic and financial reforms, which aim to transform the structure of the Saudi economy into a diversified and sustainable economy focused on enhancing productivity, increasing the contribution of the private sector, and empowering the third sector.

ranking through boosting banking and credit card penetration and optimizing the number of secure Internet servers per 1 million people. E-commerce sources of products vary in Saudi Arabia, the highest percentage is internal about 86% , and 50% from outside Saudi Arabia and Gulf Cooperation Countries.

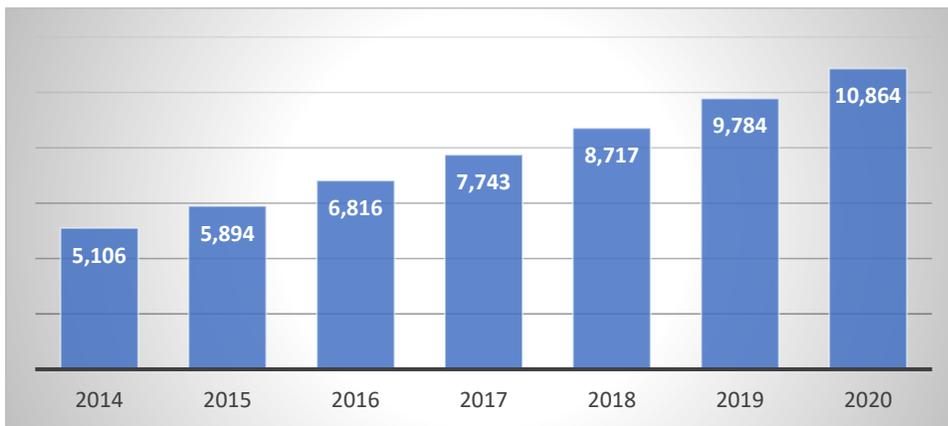
[Figure 1] Average Revenue Billions US\$



Source : Communication and information technology commission / KSA/2021

E-commerce in Saudi Arabia is growing and expanding rapidly, particularly during the COVID-19 pandemic. The average revenue is increasing with growth rate 13% during the years 2014-2020. (Figure 2)

[Figure 2] Average Revenue Billions US\$



Source: Go Gulf <https://www.go-gulf.com/ecommerce-saudi-arabia/>

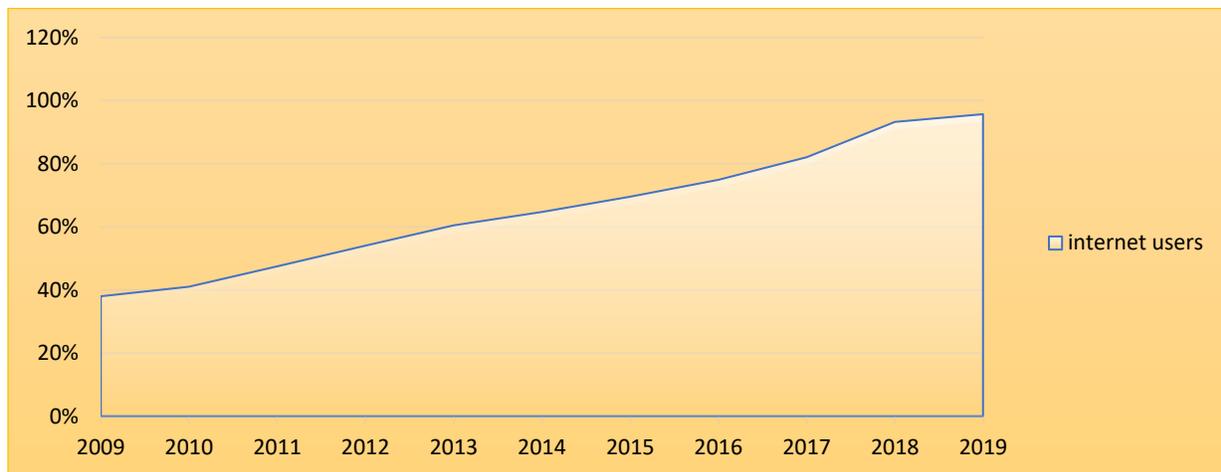
There are some factors behind the rapid growth rate of E-commerce in Saudi Arabia, most important are the following:

Availability of Internet Services

Saudi Arabia is one of the prominent Arab countries which established strong technological infrastructure and provided internet services all over its region, with continuous improvements on quality speed of service. Saudi Arabia is the biggest information and technology market in the MENA Region, spending per year reaches 45 billion dollars at the end of 2019 (Hiyam & Fatima,

2020). This fast development in using technology reflected in boosting e-commerce during the last recent years. A new international study² indicated that Saudi Arabia and UAE are the frontrunners of internet speeds in the Arab region. UAE topped Arab states in terms of Internet download and upload speeds, where it registered a download speed of 15.42Mbps. Saudi Arabia came second among Arab countries; with a 10Mbps download speed and a 2.4Mbps upload, followed by Qatar, Bahrain, Kuwait, Oman, Morocco, Iraq, and Libya. Internet users in Saudi Arabia represent 95.7% of the population in 2019 compared to 38% in the year 2009 (Figure 3). This high increasing rate of internet consumers played a vital role in flourishing e-commerce in Saudi Arabia. Moreover, the different digital and technical applications of the trademark stores and business commercial companies inside Saudi Arabia and globally helped in increasing the e-commerce consumers.

[Figure 3] Internet Users as percentage of population in Saudi Arabia



Source: World Bank Data, 2020

Rules and Regulations of E-Commerce

One important factor beyond the increasing numbers of e-commerce consumers is the creation of credibility and guidelines that govern commercial transactions, and the issuance of a regulatory system to safeguard the rights of concerned parties to increase confidence. Hence, the Ministry of Commerce and Investment issued the Rule of E-commerce (2019) which aims to support and improve e-commerce activities, enhance the confidence and security of e-commerce transactions against fraudsters. The rule states the mechanisms of; correcting the electronic mistakes, data security, commitment of e-commerce partitions, electronic advertisement, and guarantees. Likewise, the rule includes consumer rights, regulations of e-contracts, electronic firms, documentations, and purchasing measures through electronic platforms and organizations.

² Ministry of communication and Information technology/ Saudi Arabia/2021

Moreover, the Ministry of Commerce and Investment issued some regulations concerning e-commerce:

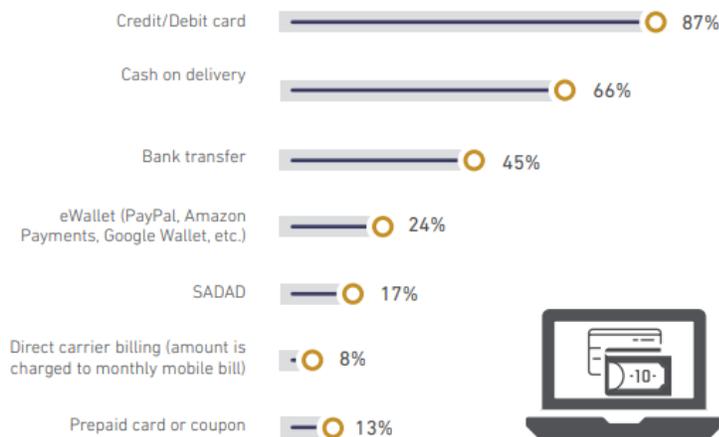
- Importance of clarifying the product information.
- Reserve the trademark's rights.
- Commitment on payment instrument issued.
- Commitment on delivery time, not to exceed 15 days.
- All merchants must get commercial records for their business.
- Not to keep client's information for a long period
- Clients have the right to get back their money if delivery of the product exceeds 15 days.

These regulations enhance the transparency of e-commerce transactions, improve clients' confidence and guarantee a secure and safe environment for e-commerce.

Digital Transformation of finance (Fintech)

Vision 2030 includes some goals that act as a catalyst for the development of e-commerce in Saudi Arabia. One of these objectives is to develop the financial sector and to increase electronic transactions to reach 70% in 2030, starting from 2020 which rates 28%. Digital transformation of the Saudi economy assists in the electronic and digital transition of many financial processes (fintech). Intensive electronic applications and digital platforms are created to facilitate this transformation. The top E-commerce platforms in Saudi Arabia are (OpenCart Arabic- Shopify- Expand cart- Magento- Woo Commerce- Big Commerce- Matjaree- Mapp_ Salla- MOOC)The use of electronic programs and applications is essential to perform any transaction with the government or the business sector. Saudi Arabia recently, experienced great development in electronic payments, the central bank of Saudi Arabia (SAMA) indicates that digital payments increased by 12.6% in 2020 compared to 2019. The electronic payments of e-commerce constituted 36% of the overall payments in 2019.

[Figure 4] Payment methods for online purchase In KSA during the last 12 months



Source : Communication and information technology commission / KSA/2021

Economic and Demographic factors

Saudi Arabia is located at the heart of three continents, the Kingdom has served as an important ancient trade route and a vital link connecting East and West. It has a rich culture shaped by the diversity of its people, which has formed the basis of the cultural identity of the Kingdom. The total population of Saudi Arabia is 34,218,169, with 49% female, the median age is 31.8, hence youth constitutes the largest category of the population.

The Standard of living in Saudi Arabia is one of the highest in the Middle East, however, the GDP per capita is \$22,840 in 2019 (IMF,2020). This high income reflects in the increasing levels of consumption. The Saudi market is a large market with varieties of products, due to the high demand and purchasing power. Consumption of final goods and services constitutes a large share of the consumption in Saudi Arabia. The high demand for e-commerce led to more expansion of e-commerce activities, however, the number of electronic shops recorded in Saudi Arabia in the year 2020, increased by 12.45% to be 28,676. In addition, youth (male & female) are the largest category in Saudi Arabia, the openness of youth on the international trends in most live commodities, and their high ability to use technical devices and platforms presents an important factor for the increase of e-commerce. Saudi Females who represent about 50% of the Saudi population contributed to more raise of e-commerce seize in Saudi Arabia through their high consumption and involvement in e-commerce activities. Furthermore, the Saudi population is characterized by its diversification, due to the high percentage of foreigners with different cultural needs. ,however the foreigners in Saudi Arabia in (2021) is 13 million, about 37% of the whole population. These varieties result in continuous demand for goods and services which may not be available in the Saudi market. So, e-commerce became the easiest way to provide these products for nationals as well as for foreigners.

Future perspectives of E- commerce in Saudi Arabia

Circumstances of the covid 19 pandemics catalyzed the e-commerce in Saudi Arabia, particularly during the lockdown which continued for some months in 2020. Most Saudi residents turned to get their needs of goods and services using digital applications. McKinsey & Company survey, (2021), indicated that Saudi consumer optimism has remained steady throughout the Covid-19 crisis, even if more than half of consumers have seen a decline in income savings. Most Saudi shoppers go to shopping centers for food, clothing, and electronics. The pandemic situation and the precautions measures imposed by Saudi Arabia, which are the traveling restrictions, measures of entering any shop or institution, using the health programs like Tawklnaa, restricted the movements of people for shopping inside the kingdom as outside. So, these regulations resulted in a high tendency of consumers to get their needs using e-commerce. This trend toward e-commerce is expected to continue during the coming period if the pandemic is still existing.

According to the official projections from statista.com, the expected annual growth rate of e-commerce during the period (2021-2025) is 6.29%, and the revenue is projected to amount to US\$7.051 billion in 2021 with an annual growth rate in the revenues 5.38% during (2021-2025). The market's largest segment is Fashion with a projected market volume of US\$ 2.058 billion in 2020, then electronics expected growth rate for electronics 8.3% for the period (2020-2024) & media, food, and personal care.

Conclusion

The increasing trend of e-commerce in Saudi Arabia during the recent years led by the mentioned factors will continue, however, e-commerce is extremely supported by the government and vision 2030 goals. The socio-economic factors and the development in the communication services had the greatest role in increasing rates of e-commerce. If the growth rate of e-commerce continued to increase in Saudi Arabia, this will make it one of the top countries in e-commerce worldwide.

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