

Global Digital Divide Persists But Is Narrowing

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Major differences remain in Internet access and usage around the world – the so called “digital divide”. Consumers in developed countries remain generally much better connected, particularly for broadband, than those in developing countries, but growth rates are much higher in the latter.

This has broad economic implications, for instance on consumer spending habits and business opportunities, as well as social, political and cultural consequences.

Key points

* Internet access and usage – especially broadband – has significant social, economic and political implications. High-speed Internet tends to transform the way that consumers spend their time and money, as well as alters the structure of many industries such as media and retail;

* In 2010 there were 2.0 billion Internet users worldwide, having doubled from 1.0 billion in 2005. China had the largest number of Internet users in the world in 2010, at 418.9 million, followed by the USA at 248.2 million;

* Developed economies continue to have much higher rates of broadband Internet penetration than developing regions. 97.6% of South Korean households had a broadband enabled computer in 2010, compared to 1.7% in Kenya or 1.3% in Pakistan. This is partly due to more advanced infrastructure, higher government spending on IT and communications, and larger incomes which allow consumers access to computers;

* Nonetheless, growth rates are significantly higher in developing regions. For instance, the total number of fixed broadband users in developing regions rose by 253.5% between 2005 and 2010, according to the International Telecommunications Union (ITU), whereas in developed regions it rose by 109.7%;

* Business opportunities will differ from region to region: in terms of sheer growth in Internet market size, developing countries such as Nigeria, China and Indonesia will top the list. In terms of per capita spending on Internet retailing, as well as usage of more sophisticated services like mobile broadband, developed countries such as the USA, Japan and Western Europe retain attractive potential.

* Despite significant progress, developing regions remain far behind developed regions in terms of access to and usage of broadband Internet:

* ITU figures estimate that the number of fixed broadband subscribers in developed regions was 104.2% higher than those in developing regions in 2005. By 2010, however, this ratio had fallen to 21.1%, with 304 million subscribers in developed regions compared to 251 million in developing regions, reflecting the higher populations in the latter;

* The best-connected country in 2010 in terms of broadband enabled computers was South Korea, where 97.6% of households owned a broadband enabled computer, while Sweden was second place at 83.6%. This is thanks to low costs, good IT infrastructure and high consumer incomes;

* In contrast, African countries tend to have the worst performance in this regard. For instance, only 0.9% of households in Cameroon owned a broadband enabled computer in 2010. These figures are partly related to the standard of IT infrastructure and its end-user cost, but also due to incomes: the Middle East and Africa had the lowest disposable income per capita of any region in 2010 at US\$1,188;

* In nominal terms, China has seen the largest increase in the number of broadband subscribers: they rose by 74.4 million between 2005 and 2010, an annual average growth of 24.5%. China has the world's largest number of Internet users, at 418.9 million in 2010;

* Faster average annual growth in broadband subscribers has occurred in other major developing countries, for instance India (57.5%), Nigeria (181.4%) and Vietnam (100.0%). However, as these are growing from a low base, overall penetration rates per capita remain lower than in more developed markets.

Business and spending implications

* In 2010 the total Internet retail market size was US\$308.8 billion worldwide, equivalent to US\$45 per capita, with the

USA accounting for 35.6% of the total. Better-connected countries have much higher Internet spending, e.g. US\$578.5 per capita in the UK or US\$466.9 per capita in Denmark in 2010. 4.0% of the total retail market in the USA in 2010 was composed of Internet retailing;

* The Middle East and Africa lags far behind all other regions in this regard: only 0.3% of the total retail market was composed of Internet retailing in 2010. Nonetheless there are significant variations within the region: the equivalent figure for the UAE was 1.0% in 2010 thanks to strong disposable incomes and higher levels of Internet access;

* The quickest growth rates in per capita Internet retailing have occurred in developing regions, which enables rapid growth from a lower base. For instance, Indonesia achieved an average annual growth of 63.6% and Nigeria 44.7% between 2005 and 2010, compared to 9.6% in the USA in real terms (US\$ fixed 2010 exchange rates);

* For businesses, it means the largest market sizes are in developed markets “where growth is still occurring and high consumer incomes make Internet businesses more viable” but future growth potential will be higher in developing countries;

* However, it also threatens traditional businesses, for instance print media or travel agencies, which have been under increasing pressure in developed markets due to the Internet, and are likely to undergo a similar trend in developing regions.

Government policy and investment

State-led investment in IT infrastructure has played a major role in shaping the digital divide:

* Strong IT infrastructure, as well as a literate and qualified IT workforce, can benefit economies by attracting Foreign Direct Investment (FDI) and improving business and labour productivity. Capital investment in telecommunications was the highest in the world in the USA in 2010, at US\$77.5 billion, but was also significant in China (US\$40.1 billion) and India (US\$18.0 billion);

* More open competition between Internet providers has been beneficial to consumers by driving down end-user costs. Luxembourg, the USA, the UK, Denmark, Norway and Iceland were all ranked in the top 10 lowest ICT costs by country in 2009, according to the ITU;

* There are wide-ranging campaigns by governments, NGOs and international organisations to help develop broadband access. India said in December 2010 that it wanted to have all villages of more than 500 people connected to broadband Internet by 2013. Even in developed countries there are efforts to bridge local digital divides: in January 2011 the UK government announced a plan to offer £98 (US\$151.9) laptops in an effort to get poorer and older consumers online;

* Mobile broadband can particularly benefit emerging countries, especially in rural areas where installation of fixed-line infrastructure is difficult. Although mobile broadband access remains limited, mobile phone ownership is growing: the number of mobile phone subscriptions in emerging and developing countries rose by an annual average of 23.7% between 2005 and 2010 to reach 4.0 billion.

Social, political and cultural impact

* Email and Internet access, especially through social media, allows people to communicate in new ways that enable, for example, the organisation of protests or popular movements, as well as bypass traditional controls on media in more authoritarian regimes;

* The availability of information on the Internet provides a major learning resource for consumers, both in terms of awareness of current affairs but also for training and remote learning. This could help reduce the divide in education and literacy levels between developed and developing regions as well as helping to narrow rural and urban divides;

* The narrowing of the digital divide will also arguably add to a social and cultural globalisation, with consumers all over the world able to access a wider choice of things like music, entertainment, brands and products as well as access to information. It is also likely to enhance the status of English as the 'global language';

* Greater IT usage and access may raise the skills of local workforces in developing countries, making people more employable and more likely to have higher incomes.

Prospects

Future growth in the number of broadband users is expected to be concentrated in developing regions, given that penetration and usage rates are approaching maturity in more developed countries. For example, the number of broadband Internet subscribers is forecast to grow by an annual average of 46.6% between 2010 and 2020 in Nigeria,

compared to 0.9% in Iceland.

China will have the world's biggest number of broadband subscribers in 2020, at 226.7 million, while the total number of Internet users will be 945.5 million in developed countries by 2020, compared to 2.8 billion in emerging and developing countries. The ITU has targeted having broadband access for half the world's population by 2015, while Brazil is targeting broadband access in 68.0% of households by 2014, and the UK wants universal broadband access by 2015.

In terms of business opportunities, the total global Internet retail market size is forecast to reach US\$540.6 billion by 2015 in real terms (US\$ fixed 2010 exchange rates). Of the major emerging economies, the quickest real average annual growth is expected to be in Nigeria (51.9% annually), China (23.2% annually) and Indonesia (22.0% annually), although these countries will continue to lag far behind North America and Western Europe in terms of spending per capita.

Countries and Consumers

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