TRADE AND SAUDI ARABIA

البنك السعودي البريطاني
The Saudi British Bank
With you Worldwide

TRADE
AND
SAUDI ARABIA

البنك السعودي البريطاني
The Saudi British Bank

If you require additional copies please contact :

Public Affairs Department
THE SAUDI BRITISH BANK
P.O. Box 9084, Riyadh 11413, Kingdom of Saudi Arabia
Tel: (01) 405-0677 Ext. 4310 Fax: (01) 405-0677 Ext. 4632
E-mail: pr@sabb.com.sa
This publication is available at: www.sabb.com

Introduction

This profile has specific objectives. Firstly, it seeks to offer exporters and potential exporters to Saudi Arabia an analysis of the current nature of imports into Saudi Arabia; its intention is to brief companies as to what is happening to Saudi imports — what trends are visible, what key changes are taking place. It attempts to answer a number of major questions, particularly:

- What changes are taking place in the value of Saudi imports?
- What is the composition of Saudi imports and how is this composition changing over time?
- How volatile are different categories of imports?
- What is the nature of trade policy in relation to imports?
- Where does Saudi Arabia buy its imports, and how are trading relationships changing?
- Which countries supply what commodities to Saudi Arabia?
- How do imports fit into the economic development process occurring in Saudi Arabia?

Secondly, this profile examines the changes taking place in relation to exports from Saudi Arabia; increasingly Saudi Arabia is diversifying its export base as industrialisation occurs. The Kingdom is no longer entirely dependent upon oil exports; now a wider range of non-oil related goods in a variety of sectors are beginning to feature on the export list.

Saudi Arabia remains a key market for most countries in the Western Hemisphere; in most cases it is the largest export market in the Middle East despite a relatively small population (around 20 million) compared with some of its neighbours. With visible imports at around $28 billion annually it is a particularly important market for the USA, Germany, Japan and the UK.

Economic Development and Import Trends

Explaining the behaviour of imports into Saudi Arabia requires an understanding of the links between the development process, government spending and their implications for imports.

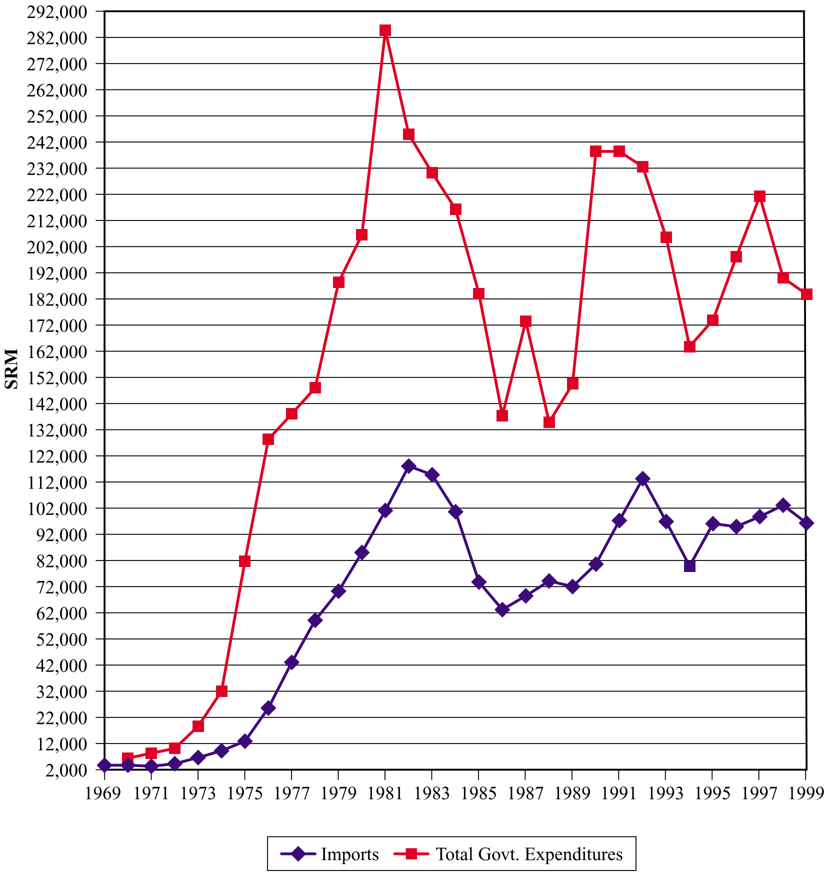
Since the oil price rise in the early 1970s Saudi Arabia has pursued a development policy which, amongst other things, aims to:

- Transform an essentially agricultural economy into a developed industrial economy, yet keeping a prudent level of self sufficiency in agriculture.
- Build a strong physical and social infrastructure (roads, airports, hospitals, schools et al).
- Create in the long term a highly skilled and productive domestic workforce through an emphasis upon education, training and health provision, but in the short to medium term allow the use of expatriate labour to overcome the skills shortage.
- Create less dependence upon the oil sector and oil revenues by generating more self sufficiency and a broader export potential based upon the comparative advantage afforded by cheap energy resources.
- In the early years to focus upon capital intensive products in order to overcome the relative labour shortage at that time; now Saudi labour is in abundant supply and it is now necessary to create jobs for Saudi nationals.

These policy objectives have been consistently followed over the past 30 years, with government spending the mechanism for emphasising these development priorities. As a consequence import trends have reflected these priorities; the 1970s saw a focus upon the import of both capital and consumer goods, but because of the drive for infrastructure development capital goods imports were particularly important. More recently, prompted by a relative decline in the importance of government spending, there has been a climate which has further encouraged the import substitution required in the second phase of the development process.

It is important not to over emphasise the links between trends in government spending and imports into Saudi Arabia; certainly the strength of the relationship between government spending and imports is weakening as the private sector develops in Saudi Arabia and as government spending becomes a much smaller proportion of total spending in the Kingdom. However, Graph 1 shows the correlation that exists between government spending and imports, with apparently an increase (or decrease) in import values lagging an increase (or decrease) in government spending by 6-12 months. This does not imply that the public sector undertakes most of the imports — indeed in 1981, when the value of imports to Saudi Arabia peaked in value terms, the public sector was responsible for only 12% of imports. But government spending does create business for the private sector which, in turn, has had to resort to imports.

Graph 1
Government Spending Against Imports: 1969-1999
(SR Millions)



1990 & 1991: Figures combined for Total Govt Expenditure
Source: SAMA Report 2000.

In 1975 imports stood at SR14.8B, by 1982 they had reached a peak of SR139.3B; import values fell as low as SR71B in 1986 only to recover to over SR120B during 1992. By 1993 import values fell yet again to SR105 billion and in 1994 fell even further to SR87 billion. Since then, however, import values have increased again — reaching SR105 billion in 1995 and peaking at SR112 billion in 1998 with positive annual growth rates of over 3%/annum in 1997 and 1998. In 1999 visible import values fell back again to SR104 billion — a decline of 6.6%. However, with higher government oil revenues, a slight rise in government spending and debt repayment more spending power may be promoted which could increase imports in 2001. The evidence, for example, by 2Q2000 seems to support this with imports increasing by 2.6% to SR30 billion compared to 2Q1999. But the increase is not spread over all types of imports; for example, imports of machinery and equipment fell by SR0.5 billion to SR6.73 billion whilst food imports rose by SR0.5 billion to SR5.4 billion.

There are clearly a number of factors influencing import trends; government spending is just one factor and this is growing less important over time. Secondly, the push for import substitutes and local products, sometimes via joint-ventures, is also beginning to have a strong influence upon import values. Thirdly, the changing nature of the development process, with less emphasis upon large infrastructure projects is now affecting the type of imports, together with the structure of the age distribution of the Saudi and Non-Saudi population (affecting, for example, composition of foodstuff imports).

The Composition and Volatility of Imports

Table 1 shows the composition of imports between 1995-99 by major import category. Clearly the most significant imports are electrical equipment, foodstuffs and transport equipment (cars, spare parts, etc); by 1999 electrical equipment constituted 24% of total visible imports, with foodstuffs representing 17.2% of the total.

There has been a more noticeable change in the structure of imports over the longer term; in 1981, for example, foodstuffs accounted for only 11% of total imports, electrical and transport equipment combined represented around 40% of imports compared with only 27.8% by 1999.

Table 1
Product-wise Imports Into Saudi Arabia: 1995-1999
(SR Millions)

Description	1995	1999	% Change
Foodstuffs	17,171	18,072	+5.2
Textiles and clothes	7,913	6,494	-17.9
Chemical/mineral products	9,551	10,768	+12.7
Wood and wood products	1,592	1,259	-20.9
Jewellery	4,237	5,113	+20.6
Base metals and metal articles	10,857	8,808	-18.9
Electrical machines	23,020	25,187	+9.4
Transport equipment	15,171	15,201	0.0
Others	15,674	14,078	-10.2
Total	**105,187**	**104,980**	**-0.2**

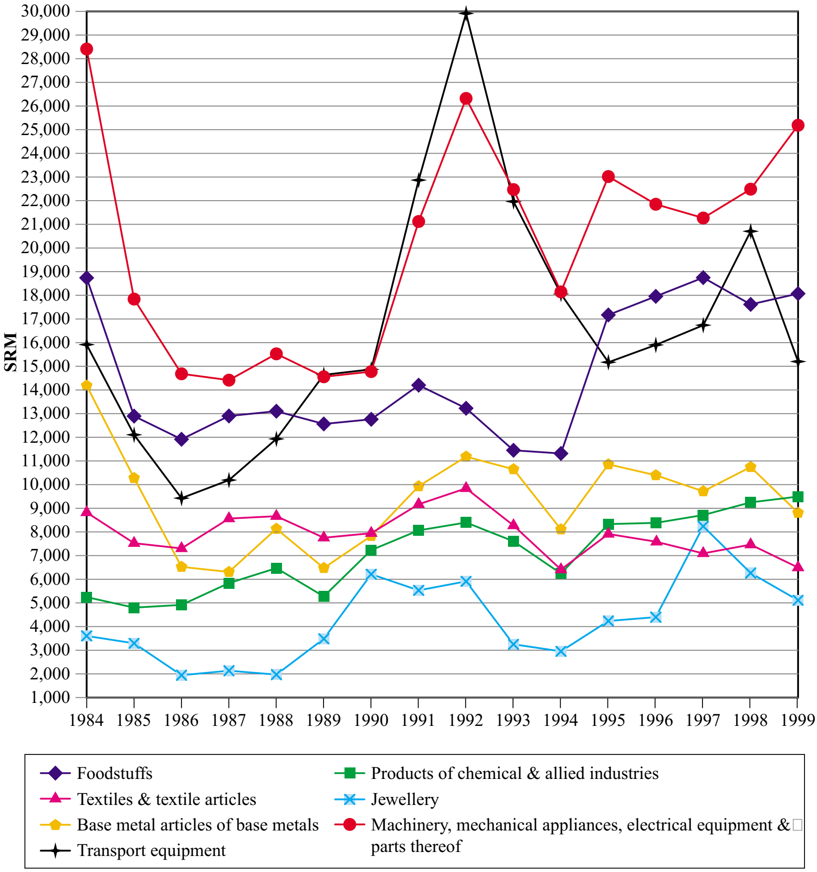
Source: Foreign Trade Statistics, CDS, 1999

But making this kind of comparison can be very problematical as Graph 2 illustrates. There are major fluctuations in some types of imports from year to year; this is particularly evident in relation to imports of capital goods. In contrast there is much less volatility in imports of consumer goods, particularly in foodstuffs and certain categories of foodstuffs like vegetable products.

Trade Policy and Import Substitution

Visible import values in 1983 represented almost 50% of the value of Gross National Expenditure, by 2000 this proportion had fallen below 17% with visible imports at SR105 billion and GDP estimated at some SR630 billion. Consequently, imports have become much less important to the Saudi economy; one reason for this has been a growing self sufficiency — that is, import substitution — which has taken place. The manufacturing sector in the Kingdom

Graph 2
Composition and Volatility of Imports: 1984-1999
(SR Millions)



Source: Foreign Trade Statistics (1999) Ministry of Planning.

now contributes almost 10% of GDP, there are over 3,000 licensed factories compared to only 500 in 1975; the workforce in manufacturing has more than tripled since 1980. Exporters to Saudi Arabia now need to consider competition from local producers and the ever increasing number of joint ventures with foreign companies that have and are being established.

The level of import substitution varies from sector to sector. Due to the rapid growth of certain sectors of domestic industry and also particularly agriculture, some structural changes have been taking place in Saudi imports. The heavy emphasis upon construction in the early stages of development and the high demand for construction related products encouraged rapid import substitution in this sector. Cement production in the Kingdom, for example, now fulfils almost all of domestic demand; in 1977 there was a 70% dependence upon imports. During 1999 the eight cement plants in the Kingdom produced 16.5 million tons of cement, 10% of which was exported (1.6 million tons). But examples of this kind are increasingly being found in consumer and household product markets — for example in the vegetable oils and in the disinfectant markets. Import substitution does not necessarily mean the total closure of the market to outsiders. It often facilitates new areas of demand such as raw materials, intermediate goods and support services. For example, in spite of the marked decline of demand for agricultural products due to import substitution, the rapid growth of dairy and poultry farming has necessitated massive imports of barley into the Kingdom. Exporters to Saudi Arabia therefore have to consider such changing trends in the pattern of demand.

Trade policy has been supportive of import substitution taking place; whilst openly committed to free trade and free capital mobility, and indeed with an objective of WTO membership, the Saudi government has given numerous incentives to local producers. Not only are there a wide range of subsidies available, but infant industries are entitled to up to 20% tariff protection on competing imports provided local producers can supply a high proportion of the local market with a comparable product to the import — in terms of quality and price. Article 7 of the Law for the Protection and Encouragement of the National Industries states that:

> ....measures to protect the local industries shall include the following:
> (1) Prohibiting or restricting the volume of imports similar to the local products
> (2) Raising the customs duties on imports similar to the local products.

Nevertheless Article 4 indicates that imports of machinery, equipment, tools and spare parts for new industrial projects or for expanding existing industrial units, or for packing products, should be exempt from duties of any kind. It is therefore wise for intending exporters to Saudi Arabia to check on the existing and pending output of their products in the Kingdom. Information on industrial licences and existing factories is available from the Industrial Affairs Agency of the Ministry of Industry and Electricity.

Exporters to Saudi Arabia must also remember that certain commodities are not permitted in the Kingdom. These include pork and pork products and alcohol. Whilst most medicines and pharmaceutical products are exempt from tariffs, permission to export to Saudi Arabia needs to be obtained from the Ministry of Health. Similarly arms and ammunitions cannot enter the Kingdom without a licence from the Ministry of Interior.

There will be considerable opportunity to exporters to Saudi Arabia arising from membership of WTO which is imminent.[1] At present the terms of membership are not clear. However the ‘spirit’ of WTO requires a gradual elimination of trade barriers and this will offer a net benefit to exporters. There is also an agreement to harmonise tariff barriers and customs duties in the GCC countries by 2005; again this will have implications for the cost of access to the Saudi market and should be studied carefully by exporters.

Sources of Imports

Saudi Arabia is dependent upon relatively few countries for the vast majority of its import requirements; historically, the leading exporter to the Kingdom has been the USA, even today it exports more than twice as much as any other country to Saudi Arabia. Over the last three years, however, its importance as an exporter to the Kingdom has diminished with its share of the Kingdom’s imports falling from 22% in 1997 to 19% in 1999 — accounting for a drop in import values of over SR3 billion during this period. Japan and the UK have occupied second and third ranking for import sources, though again in the case of the UK exports to the Kingdom have fallen over the last three years from over SR11.2 billion in 1997 to SR8.4 billion by 1999.

[1] See ‘Saudi Arabia and Membership of WTO’ also available from Public Affairs Dept. The Saudi British Bank for more details.

The top six exporters to the Kingdom (see Table 2) account for over 50% of total exports at some SR54.4 billion in 1999; the next ten countries account for SR24.7 billion or 23% of the Kingdom's imports. Taken together, the top sixteen exporters to the Kingdom are responsible for 77% of total visible imports in 1999, with the rest of the world accounting for only 23%. Clearly, Saudi Arabia's trade relations at present are very country specific by international standards.

Table 2
Saudi Imports By Region: 1984, 1995 and 1999
(SR Millions)

Region	1984		1995		1999	
	Value	% Total	Value	% Total	Value	% Total
GCC	1,539	1.2	2,822	2.7	4,082	3.9
Other Arab League	2,152	1.8	3,255	3.1	4,186	4.0
Islamic (Not Arab)	3,015	2.5	5,512	5.2	4,634	4.4
East Europe	1,077	0.9	1,519	1.5	1,293	1.2
Oceania & Australia	2,404	2.0	1,110	1.1	2,564	2.4
South America	1,722	1.5	2,447	2.3	2,876	2.7
Africa	281	0.2	566	0.5	1,739	1.7
North America	21,432	18.0	23,812	22.6	21,203	20.2
Asia	35,642	30.0	21,437	20.4	23,277	22.2
Western Europe	49,117	41.4	42,337	40.3	38,943	37.1
Other	356	0.3	298	0.3	183	0.2
TOTAL	**118,737**	**100.0%**	**105,187**	**100.0%**	**104,980**	**100.0%**

However, the latest SAMA Report (2000) indicates that imports from the top six industrialised countries fell by 10.3% in 1999, offsetting a rise of 4.8% in the preceding year.

Key Messages for Exporters and Potential Exporters to Saudi Arabia

There are a number of key observations arising from the analysis here that are relevant to exporters and potential exporters to Saudi Arabia.

- Saudi Arabia remains a crucial export market, particularly for certain countries like the USA, Japan, Germany and the UK. However, its relative importance has declined in recent years.
- There is still scope for a greater diversification of exports to Saudi Arabia coming from particular countries. The UK is perhaps the best example of this with exports at present concentrated in a narrow range of product categories.
- Exporters should be aware of the growing competition coming from local producers for imports and also from other parts of the world. A continuous check upon what is happening in terms of local production is very essential. Market shares are vulnerable particularly when local producers can apply for tariff protection.
- Particular categories of exports to Saudi Arabia, notably capital goods, are more volatile than others. This is not unusual, but exporters should plan accordingly.
- Exporters should pay attention to trends in government spending recognising its links with import values.
- If exports to Saudi Arabia are declining, exporters should give more serious consideration to forming joint ventures in the Kingdom.
- Exporters should take into account the changing nature of the economic development process in Saudi Arabia and the changing demands it places upon imports. Domestic private sector growth is now the focus of development and this, combined with the major changes occurring in the age structure of the Saudi population, have, and will have, significant implications for import demand.
- Saudi Arabia is and will continue to be a key market for multinational companies. However, it is not a market which is exclusively for large companies. Medium sized companies should also explore the possibility of diversifying exports (or joint ventures) into Saudi Arabia.

Exports from Saudi Arabia

Naturally, despite the major industrial growth taking place in the Kingdom, exports are still dominated by crude and refined oil; together such oil exports rose to SR168.7 billion in 1999, representing 88.8% of total exports of SR190.1 billion (see Table 3).

Table 3
Export Values: 1998-1999
(SR Millions)

	1998	1999	% Change
Mineral products	122,461	68,727	38
Chemical products	9,961	9,189	-8
Plastic products	4,152	3,529	-15
Base metals and articles of base metal	2,200	2,175	-1
Foodstuffs	1,663	1,768	6
Electrical machines, equipment and tools	1,022	873	-15
Other exports	2,133	1,954	-8
Re-exports	1,796	1,869	4
Total	**145,388**	**190,084**	**31**

Source: CDS, Ministry of Planning

Given further increases in oil prices in 2000, with export prices averaging $27/barrel and with export volume increases as well, oil export values should exceed SR220 billion.

The picture was not so promising for non-oil exports in 1999 with their overall value falling from SR22.9 billion to SR21.4 billion; this reflected a 15% drop in exports of plastic products to SR3.5 billion and an 8% fall in chemical exports to SR9.2 billion. Thankfully, recent figures counteract this trend with non-oil exports in 2Q2000 increasing by 10.3% to SR5.9 billion. Leading the way was a 40% increase in the value of petrochemicals to SR2.75 billion and a 5% increase in plastic product exports to SR950 million in 2Q2000.

With non-oil exports dominated by petrochemicals, their value will continue to fluctuate with changes in world petrochemical prices. Other exports, like for example construction materials, have not been subjected to depressed world prices and, as a consequence, their value rose in 1999.

In many ways the direction of exports reflects the sources of imports; in 1999 the USA imported over SR37 billion worth of Saudi products, followed by Japan at SR28.5 billion (see Table 4). The top ten countries importing from Saudi Arabia accounted for SR135 billion, or 71% of total Saudi exports in 1999.

Table 4
Direction of Exports: 1999
Top Ten Export Destinations
(SR Millions)

	Value of Exports
USA	37,185
Japan	28,496
South Korea	20,429
Singapore	11,107
India	8,175
Holland	7,845
France	7,469
Bahrain	5,560
UAE	4,710
Italy	4,428
Total ten countries	135,404
Other countries	54,680
Grand Total	**190,084**

Source: CDS, Ministry of Planning

Asian countries accounted for SR81.1 billion of Saudi exports, or almost 43% of total exports, with North America taking SR38.5 billion and Western Europe SR31.7 billion in 1999.

Membership of WTO, it is hoped, should give greater and easier access to foreign markets over time with particular ambitions in this respect for petrochemical and plastic products.

Apendix 1
Saudi Arabia's Exports by Country Groupings
(SR Millions)

Country Groups	Value of Exports
Gulf Co-operation Council	13,310
Arab League •	5,425
OIC Countries •	9,696
Asian •	81,118
African •	5,391
Australia and Oceania	1,937
North America	38,467
South America	2,802
Western Europe	31,789
Eastern Europe	33
Others	116
Total	**190,084**

• Except countries in above groups
Source: CDS Export Statistics (1999) Ministry of Planning

(Prepared by the Economic Advisor of The Saudi British Bank, Professor John Presley)

March 2001