

WHAT DOES SAUDI ARABIA BUY FROM THE REST OF THE WORLD?



البنك السعودي البريطاني
The Saudi British Bank

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Introduction

This profile has a specific objective. 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?

Saudi Arabia remains a key market for most countries in the Western hemisphere. Despite a relatively small population (approx. 17m) its imports, at around \$28.05B in 1995, are at a level comparable with Turkey, Brazil and Denmark; it is a particularly important market for the USA, Japan, Germany and the UK, with exports from the UK of around £2.5B in 1996 (see page 11).

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:

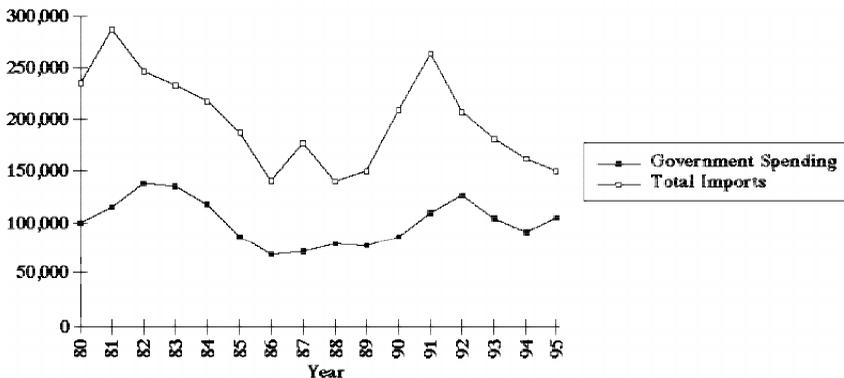
- Transform an essentially agricultural economy into a developed industrial economy, yet keeping a prudent level of self sufficiency in agriculture.
- Build a strong physical and social infrastructure (roads, airports, hospitals, schools, et al).

- 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.
- Focus upon capital intensive products in order to overcome the relative labour shortage.

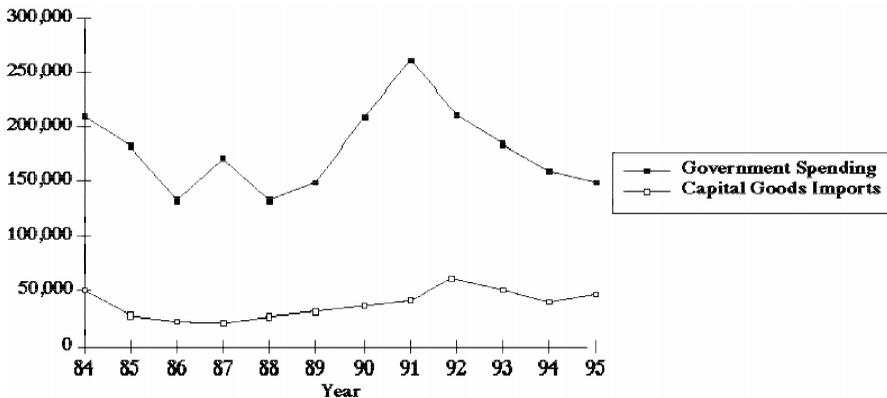
These policy objectives have been consistently followed over the past 20 years, with government spending the mechanism for emphasising these development priorities. As a consequence import trends have reflected these priorities; the 1970s saw a focus upon the import of both capital and consumer goods, but because of the drive for infrastructure development capital goods imports were particularly important. More recently, prompted by a downturn in 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 and 2 both show 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 1982, 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 TOTAL IMPORTS AND GOVERNMENT SPENDING (SR MILLIONS)



**GRAPH 2 CAPITAL GOODS IMPORTS AND GOVERNMENT SPENDING
(SR MILLIONS)**



In 1975, imports stood at SR14.8B, by 1982 they had reached a peak of SR139.3B, during the mid 1980s import values fell as low as SR71B in 1986 only to recover to over SR120B during 1992; by 1993 import values fell to SR105 billion and in 1994 fell even further to SR87 billions; since then, however, import values have increased again - reaching SR105 billion in 1995 and even higher than this in 1996 (aggregate figures are not yet available); UK visible exports to Saudi Arabia, for example, increased by 51% in 1996 - but it is not expected that this kind of increase in Saudi imports will be the same for all export countries in 1996.

The downtrend, noted in 1993 and 1994 consecutively, following peak performance in 1992, reflects partly the success of the drive for import substitution and partly the slowdown in investment in infrastructure projects.

Government spending fell back from SR204B in 1992 to SR160B in 1994, and this clearly affected imports. However in 1996 government spending rose again to SR197 billion and is targeted at SR181 billion for 1997.

The Composition and Volatility of Imports

Chart 1 shows the composition of imports by eleven groups. Clearly the most significant imports are capital goods with electrical and mechanical equipment providing 22% and transport equipment (cars and spare parts+other transportation) 14% of total import values.

Imports of foodstuffs stood at 16% of import values, with textiles and clothes at 8%. The structure of imports has changed very little since 1981 when foodstuffs contributed 11% of import values, and transport, electrical and mechanical equipment around 40% taken together.

Chart 1
Summary of 1995 Imports

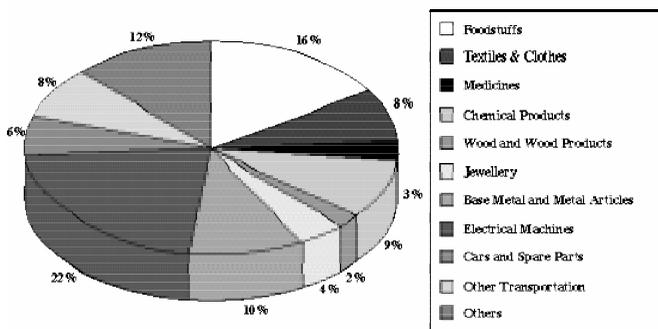
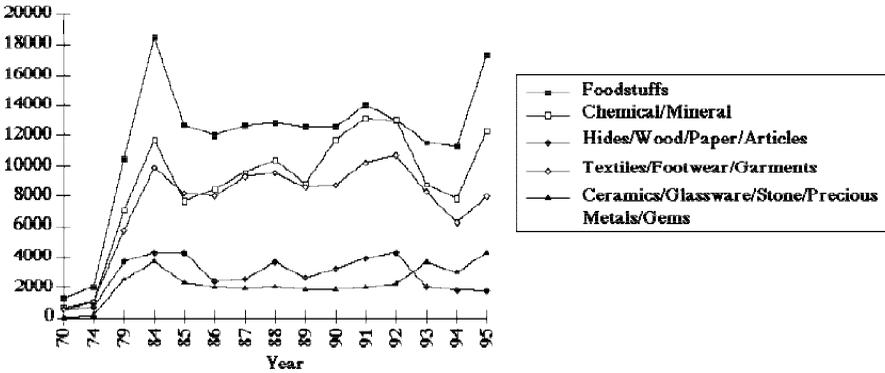


Table 1
Product-Wise Imports Into Saudi Arabia - 1995
(SR Millions)

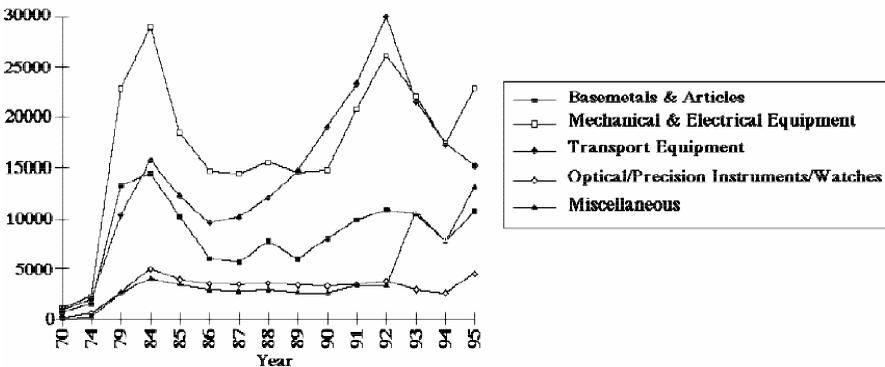
DESCRIPTION	1994	1995	CHANGES
Foodstuffs	11,317	17,171	51.7%
Textiles & clothes	6,410	7,913	23.4%
Medicines	1,963	2,813	43.3%
Chemical Products	7,735	9,551	23.5%
Wood & wood products	1,616	1,592	-1.5%
Jewellery	2,954	4,237	43.4%
Base Metals and Metal Articles	8,108	10,857	33.9%
Electrical machines	18,145	23,020	26.9%
Cars & spare parts	8,606	6,249	-27.4%
Other transportation	9,452	8,923	-5.6%
Others	11,143	12,861	15.4%
Total	87,449	105,187	20.3%

Care must be exercised however in making this kind of comparison. As Graphs 3 and 4 show, 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 relatively little volatility in imports of most consumer goods, particularly animal and vegetable fats, footwear and prepared foodstuffs amongst others.

GRAPH 3 SAUDI ARABIAN IMPORTS BY COMMODITY GROUPS (SR MILLIONS)



GRAPH 4 SAUDI ARABIAN IMPORTS BY COMMODITY GROUPS (SR MILLIONS)



Trade Policy and Import Substitution

Import values in 1983 represented almost 50% of the value of Gross National Expenditure, by 1995 this proportion had fallen below 25%. Consequently, imports have become much less important to the Saudi economy; one reason for this has been a growing self sufficiency-that is import substitutionh has taken place. The manufacturing sector in the Kingdom now yields over 8% of GDP, there are over 2,400 licensed factories compared with only 500 in 1975; the workforce in manufacturing has doubled in the 1980s. 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 industries and other productive sectors, 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 fulfills almost all of domestic demand; in 1977 there was a 70% dependence upon imports. 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 in 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 will 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 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 (see sectoral studies Nos. 1 and 2, Saudi British Bank) 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 imports-in terms of the 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 licenses and existing factories is available from the Industrial Affairs Agency of the Ministry of Industry and Electricity.

Appendix 1 gives a list of products receiving a 20% tariff imposed upon them (as at 1995). Tariffs are assessed according to the actual price paid or agreed upon in the currency of the exporting company. This price includes the cost of packing, insurance and freight. The duty is paid in riyals and the appropriate currency exchange is that prevailing when the bill of entry is accepted and the goods are declared at customs. (All imports have to be cleared by a customs agent on entering Saudi Arabia, and duty must be paid before customs clearance is given.)

Finally, exporters to Saudi Arabia must also remember that certain commodities are not permitted in the Kingdom. These are pork and pork products, alcohol, any product on the Arab Boycott list (e.g., products of firms under Jewish ownership or control) and any product originating in Israel. 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.

Sources of Imports

Among the countries exporting to Saudi Arabia, there have been few changes in the rankings of the top ten leading suppliers between 1993 and 1995. In 1995, Switzerland and Italy changed their position as the fifth and seventh supplier countries respectively and Holland stood as the tenth largest exporter in place of Turkey. However as Table 2 shows, the USA continues to be Saudi Arabia's main trading partner, followed by Japan, UK and Germany. Over 70% of imports are purchased from only ten countries. These ten countries together accounted for SR72B of imports into Saudi Arabia, as compared to SR61B in 1994, showing an increase of SR11B, or just about 18%. In comparison, imports from all other countries taken together increased by SR6.8B (about 26 per cent).

Table 2
Country-Wise Imports Into Saudi Arabia - 1995
(SR Millions)

No.	Country	Value of Imports
1	U.S.A	22,633
2	Japan	9,312
3	England	8,904
4	Germany	8,273
5	Switzerland	5,198
6	France	5,019
7	Italy	4,620
8	South Korea	3,304
9	China Mainland	2,888
10	Holland	1,983
Total of Ten Countries		72,134
Other Countries		33,053
Grand Total		105,187

The regional dependence upon imports is unlikely to change drastically in any economy, but Table 3 indicates that there are shifts taking place in import sources. North America now supplies almost 23% of imports compared with only 18% in 1984, Western Europe's contribution has remained fairly stable at around 40%; Asia, perhaps surprisingly, now supplies only 20% of imports compared to 30% in 1984.

In 1995, the Kingdom's imports from other GCC countries continued to show an upward trend. Imports from the other five GCC countries increased to SR2.8B in 1995, compared with SR2.5B in 1994. The United Arab Emirates accounted for almost half of this trade.

Table 3
Saudi Imports By Region 1984 and 1995
(SR Millions)

Region	1984		1995	
	Value	% Total	Value	% Total
GCC	1,539	1.2	2,822	2.7
Arab League	2,152	1.8	3,255	3.1
Islamic (Not Arab)	3,015	2.5	5,512	5.2
East Europe	1,077	0.9	1,519	1.5
Oceania & Australia	2,404	2.0	1,110	1.1
South America	1,722	1.5	2,447	2.3
Africa	281	0.2	566	0.5
North America	21,432	18.0	23,812	22.6
Asia	35,642	30.0	21,437	20.4
Western Europe	49,117	41.4	42,337	40.3
Other	356	0.3	298	0.3
TOTAL	118,737	100.0%	105,187	100.0%

Table 4
Key Trading Partners and
Associated Main Export Categories 1995
(SR. Millions)

RANK	TRADING COUNTRY	VALUE
1	U.S.A. (21.52%) Other parts of military aeroplanes Other parts for aeroplanes Private cars, 4+year old, spark ignition, over 3000 CC	22,633 1,569 998 750
2	JAPAN (8.85%) Private cars, spark ignition, current 1501-3000 CC Jeeps, curent year, spark ignition over 3000 CC Auxiliary plant for use with boilers	9,312 946 379 364
3	UNITED KINGDOM (8.46%) Other parts of military aeroplanes Gold ingots Other parts for aeroplanes	8,904 1,403 809 529
4	GERMANY (7.87%) Barley Private cars, current, spark ignition over 3000 CC Other parts for motor vehicles	8,273 556 359 279
5	SWITZERLAND (4.94%) Gold ingots Other parts for military aeroplanes Medicines containing penicillins	5,198 2,318 688 223
6	FRANCE (4.77%) Whole frozen chickens Military Weapons Refined sugar crystals	5,019 518 189 168
TOTAL OF TOP 6 COUNTRIES (56.41%)		59,339

Source : Import Statistics, 1995

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 for 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 import 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 (see Sectoral Studies Nos 1-3, The Saudi British Bank).
- 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, has, 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.

APPENDIX 1

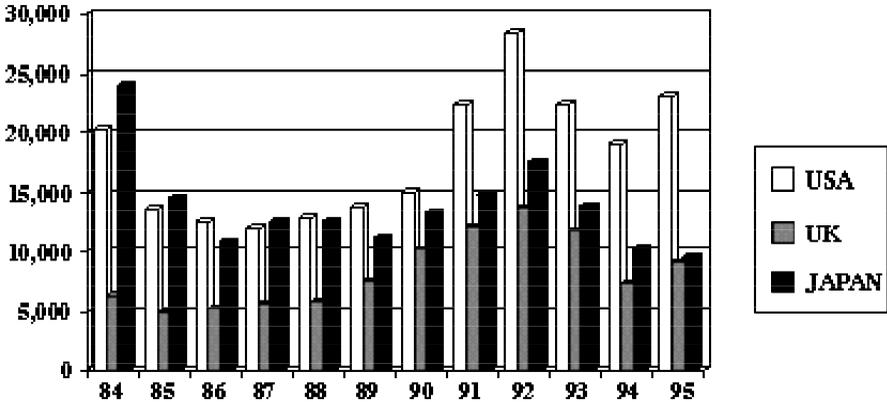
Products Protected by Customs Duties of 20% as at 1994/5

1. Tahina
2. Confectionery products without cocoa
3. Fruit pastes and creams
4. Halaw Teheniah
5. Sweets with nuts and similar fillings
6. Toffees
7. Chewing gum
8. Sugar products with cocoa
9. Chocolates
10. Other sugar products
11. Ice Cream without cocoa
12. Macaroni and spaghetti
13. Oxygen
14. Styrene gas
15. Foam boards/sheets or adhesive/foam tapes
16. Plastic household appliances and crockery
17. Resin and plastic bags/cases and cones
18. Rosary beads
19. Plastic and aluminum bottles, crown caps, table covers, ash trays and household appliances
20. Frames for furniture and electrical wiring conduits
21. Wooden mirrors for photos and mirrors
22. Wooden boxes and cages
23. Signboard and wooden products for animal husbandry and agricultural purposes
24. Toilet paper
25. Paper and hard paper boxes and cans
26. Files with metal fittings
27. Paper tissues and table covers
28. Wooden barrels
29. Woollen textiles for making ibie and mashalih. (Arabian cloaks and over coats)
30. Tooth-picks and clothes hanging hods
31. Foam sheets, foils and tapes made of unhardened rubber.
32. Wooden rosary beads

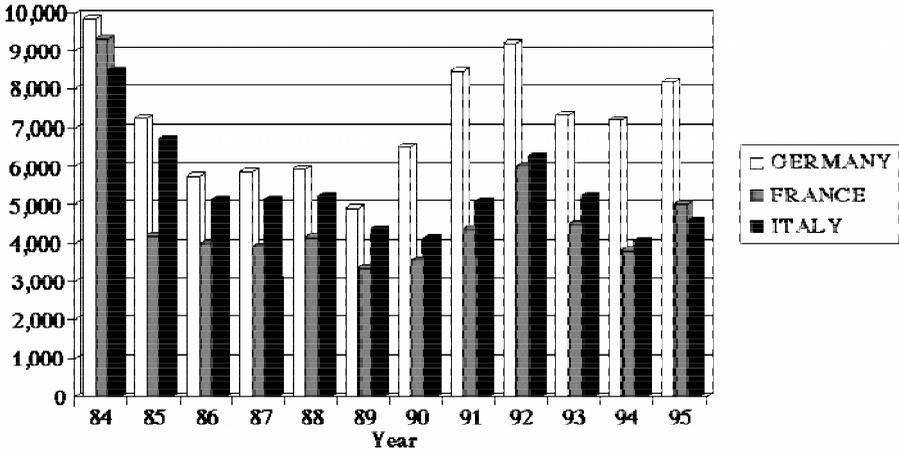
33. Wooden shoes with leather, cork or ropes soles
34. Rough wool textiles
35. Bottles, flasks and flacons
36. Tins, cans, barrels and containers
37. Iron/steel wool fibres and products for cleaning households
38. Metal shelves
39. Tanks and reservoirs
40. Aluminium barrels and tins and cans
41. Office metal cupboards
42. Electric heaters
43. Wood, straw, plastic and metal furniture
44. Mashalih and ibie cloaks and overcoats made of wool or soft hair.

Source: A Guide to Industrial Investment, Saudi Consulting House, 8th Edition, 1992

VALUE OF IMPORTS BY COUNTRY (SR MILLIONS)



**VALUE OF IMPORTS BY COUNTRY
(SR MILLIONS)**



**VALUE OF SAUDI ARABIAN IMPORTS BY COUNTRY GROUPINGS
(SR MILLIONS)**

