2000 Country Reports on Economic Policy and Trade Practices
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SAUDI ARABIA

Key Economic Indicators 1/
(Billions of U.S. dollars unless otherwise indicated)

	1998	1999	2000 2/
Income, Production and Employment:			
Nominal GDP	128.9	140.0	168.7
Real GDP Growth (pct)	1.6	0.4	4.0
GDP by Sector:			
Agriculture	9.1	N/A	N/A
Manufacturing (including oil)	12.6	N/A	N/A
Services	57.5	N/A	N/A
Government	34.2	N/A	N/A
Per Capita GDP (US$)	6,195	6,584	6,972
Labor Force (millions)	6.5	7.8	7.8
Unemployment Rate (pct)	N/A	N/A	14
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	2.5	8.2	1.0
Consumer Price Inflation	-0.2	1.0	N/A
Exchange Rate (SR/US$ annual average)			
Official	3.745	3.745	3.745
Balance of Payments and Trade:			
Total Exports FOB	39.7	37.5	N/A
Exports to U.S.	5.1	8.9	7.1
Total Imports FOB	-27.5	-27.4	N/A
Imports from U.S.	5.9	7.9	2.8
Trade Balance	12.1	10.0	N/A
Balance with U.S.	N/A	N/A	N/A
Current Account Deficit/GDP (pct)	-13	-3.9	21
External Public Debt	N/A	N/A	N/A
Debt Service Payments/GDP (pct)	5.3	5.1	N/A
Fiscal Deficit/GDP (pct)	8.8	7.0	N/A
Gold and Foreign Exchange Reserves	17.8	17.8	17.8
Aid from U.S.	0	0	0
Aid from All Other Sources	0	0	0

1/ Sources: IMF International Statistics Yearbook 1999; Saudi-American Bank Economic and Market Update; U.S. Embassy Riyadh 2000 Saudi Economic Trends Report; IMF Saudi Arabia Statistical Index; Saudi Arabian Monetary Agency, Thirty-Sixth Annual Report, 2000.

2/ 2000 figures are projections. Exports and imports with U.S. are for the period Jan.-June 2000.

1. General Policy Framework

Saudi Arabia's leadership is moving towards establishing a free market economy. Although parastatals still dominate the economic output, there has been decisive movement by the Crown Prince to open up the economy to foreign investment and level the playing field for foreign investors.

Since about 1970, Saudi Arabia has published a series of five-year development plans, focusing on infrastructure and industrialization. Development plans, however, are presented as planning tools, not as centralized controls, and the government emphasizes that its development plans rely on significant private sector involvement. The Council of Ministers approved the country's seventh Five-Year Plan on August 28, 2000. Highlights of the new plan include achieving an average annual GDP growth of 3.1 percent (the private sector is expected to grow at an average annual rate of 5 percent), promoting further diversification of the economy away from its heavy reliance on the oil sector, and providing employment to a growing number of unemployed Saudi citizens.

The Saudi government is also undertaking a number of reforms designed to bring its trade regime in line with the standards required for accession to WTO. Other economic reform measures include the formation of the Supreme Economic Council and the Supreme Petroleum and Minerals Council in late 1999. Saudi Arabia's Council of Ministers also approved a new Foreign Investment Law on April 10, 2000, which should make it easier for foreign companies to establish themselves in Saudi Arabia (see Section 9 below). The law establishes a framework for future legislative and regulatory activities in order to enhance the foreign investment climate in the country. The newly established Saudi Arabian General Investment Authority (SAGIA) will manage investments under the new code.

The oil and public sectors remain the engines of the Saudi economy. Parastatal enterprises, such as Saudi ARAMCO (oil) and Saudi Basic Industries Corporation (SABIC - petrochemicals), and utilities, among others, dominate the economy. Spending decisions taken by the few large state companies reverberate throughout the economy. Concerned with the security challenges posed by its neighbors, Saudi Arabia has been a large purchaser of advanced military technology.

In 1999 oil sector revenues comprised 30 to 40 percent of GDP, and an estimated 75 percent of budget revenues. Other government revenues, including items such as customs duties, investment income, and fees for services, are to a large degree indirectly tied to oil, as capital available for consumption and investment is generally derived from oil receipts. In addition, the manufacturing and services sectors are largely dependent on petroleum and petrochemical activities.

Starting with the oil boom in 1973, Saudi Arabia maintained annual budget surpluses until 1982, when the decline in oil prices led to a renewed budget deficit, a situation that continued over the next 17 years. Initially, the deficits were financed by a drawdown of foreign exchange reserves. Starting in 1987, the government began financing deficits through internal borrowing. Public sector debt, largely in the form of central government bonds held by domestic banks and the government pension fund, exceeded 120 percent of GDP at the end of 1999.

Following the collapse in oil prices in late November 1997, Saudi oil revenues dropped by 35 percent in 1998, leading to a deficit of $12.3 billion, or almost 10 percent of GDP. Oil prices rebounded in 1999 and 2000. The budget deficit was reduced to four percent of GDP in 1999 and a budget surplus is widely expected in 2000. Oil revenues for 2000 are projected to be on the order of $77 billion.

Money supply is regulated through the Saudi Arabian Monetary Agency (SAMA), which has statutory authority to set monetary reserve requirements for Saudi Arabian banks, impose limits on their total loan portfolio, and regulate the minimum ratio of domestic assets to their total assets. It also manages the bond market, and can repurchase development bonds and treasury bills as required. There is a limit to the amount of bonds that can be repurchased. In January 1999 the United Saudi bank merged with the Saudi-American Bank (SAMBA), leaving a total of nine banks in the banking community. All nine banks have majority private ownership, with the exception of National Commercial Bank (NCB). NCB sold 50 percent of its shares to the government-run Public Investment Fund (PIF) as part of a change of management and ownership. The government intends to sell back the shares as the local capital markets are able to absorb them.

2. Exchange Rate Policy

The exchange rate for the Saudi Arabian Riyal is SR 3.745 = $1.00. This rate has been consistent since 1986. There are no taxes on the purchase or sale of foreign exchange.

Generally speaking, there are few foreign exchange controls for either residents or nonresidents, in keeping with the government policy to encourage an open economy. Of the few restrictions, the most noteworthy are: direct commercial transactions with Israel and Israeli-registered corporations are prohibited, as are most transactions with Iraq; and local banks are prohibited from inviting foreign banks to participate in riyal-denominated transactions without prior SAMA approval.

3. Structural Policies

Regulatory Policies: The government does maintain price controls for many utilities and agricultural products. Petroleum products and feedstocks for petrochemical industries are provided at below world market pricing, presumably reflecting discounts for lower costs in production and transport. Agricultural subsidies were dramatically curtailed in the early 1990s and have been reduced in recent budgets, in line with the government's deficit reduction plans and its goal to reduce water consumption. In an ongoing attempt to increase and diversify its revenue sources, the government raised electricity rates, introduced an airport tax for departing expatriates, and doubled its visa fees in 1999. However, the government will have to grapple with reducing subsidies and raising taxes while running a hefty budget surplus. The Saudi authorities announced it would reduce electricity rates for some categories of consumers in late 2000.

Tax Policies: The Saudi Arabian government imposes few taxes, relying on oil revenues, customs duties, and licensing fees for most government revenue. Saudi Arabian nationals pay no income tax, but are obliged to pay "zakat," a 2.5 percent Islamic assessment based on net wealth (not income). Zakat is designed to support the Islamic community (e.g., schools, support for the indigent). Saudi-owned businesses do not pay corporate tax beyond the "zakat." Foreign companies and self-employed foreigners pay an income tax, but do not pay zakat. Business income tax rates range from 25 percent on annual profits of less than $26,667 to a maximum rate of 45 percent for profits of more than $266,667. Some foreign investors avoid taxation either in part or totally, by taking advantage of various investment incentives, such as 10-year tax holidays for investments in approved projects meeting specified requirements. Import tariffs are generally 12 percent ad valorem (CIF), except on products imported from other member states of the Gulf Cooperation Council (GCC). Certain specified essential commodities (e.g., defense purchases) are not subject to custom duties.

The GCC states agreed in November 1999 to form a customs union by 2005. In doing so, the GCC states agreed to harmonize the tariff rates applied to trade from non-GCC countries by that date. This change would bring Saudi tariffs down from its current range of 12 to 20 percent to a range of 5.5 to 7.5 percent.

4. Debt Management Policies

Saudi Arabia is a net creditor in world financial markets. SAMA manages foreign assets of roughly $54 billion in its issues and banking departments, and an estimated $29 billion for autonomous government institutions, including the Saudi Pension Fund, the Saudi Fund for Development, and the General Organization for Social Insurance. In addition to overseas assets managed by SAMA, the commercial banking system has an estimated net foreign asset position of $11.4 billion.

Public sector foreign debt, which stood at $1.8 billion at the beginning of 1995, was retired in May of that year. Domestic banks, Saudi ARAMCO, Saudi Arabian Airlines, and other state-owned enterprises, however, have overseas liabilities.

Government domestic borrowing has a short history in Saudi Arabia. The government began borrowing to finance budget deficits in 1987 by selling government development bonds having two-to-five year maturities. After the massive defense expenditures of the 1991 Gulf War, the government expanded its borrowing by signing loan syndications with international and domestic banks, and by introducing treasury bills. This debt, owed almost entirely to domestic creditors, such as autonomous government institutions, commercial banks, and individuals, exceeded 120 percent of GDP at the end of 1999. In addition, the government issued a series of bonds to farmers and some other private sector creditors (mainly contractors) for past due amounts. Paying down this debt is now a priority for the government and there are indications that additional oil revenues in 2000 are being used to pay down this debt.

Non-governmental external debt stood at $28 billion in 1998, up from $16 billion in 1996. This debt is serviceable, especially in light of improved oil revenues.

5. Significant Barriers to U.S. Exports

Saudi Arabia is currently in the process of negotiating accession to the World Trade Organization (WTO). WTO membership will bring changes to a number of current regulations that have the potential to restrict entry of U.S. exports and investments.

Import licensing requirements protect Saudi Arabian industries or enhance Saudi Arabian businesses. In most cases, foreign companies must operate through a Saudi Arabian agent. Contractors for public projects must purchase equipment and most supplies through Saudi agents. (This agency requirement does not apply to defense-related imports). Saudi Arabia requires licenses to import agricultural products.

Saudi Arabia's pre-shipment inspection regime, known as the International Conformity Certification Program (ICCP), is designed to protect Saudi Arabian consumers from inferior foreign products. The ICCP has elements that can be viewed as barriers to free trade, such as an ad valorem-based fee schedule, and remains controversial. It adds inspection costs to imported civilian products, may delay shipments to Saudi Arabia, and can increase exporter overhead.

Restrictions on shelf life labeling standards in Saudi Arabia may make it difficult for some U.S. food producers to compete in the Saudi market. In July 2000 Saudi Arabia announced a ban on all genetically modified (GMO) food products. This was soon replaced by a labeling requirement and companies were given a six-month grace period to comply with the new regulations scheduled to take effect on February 1, 2001. On December 21, 2000 the Commerce Minister extended the grace period for implementing the labeling requirement until December 1, 2001 and banned the importation of GMO animal products. Therefore, if a product contains one or more genetically modified and plant ingredients, the information is supposed to be clearly communicated to the consumer in the required label. The Minister also required that GMO imports must be accompanied by a certificate issued by the producing country stating that the product was approved for consumption in the country of origin.

Saudi Arabia gives preference to imports from other members of the Gulf Cooperation Council (GCC) in government purchasing, with a 10 percent price preference over non-GCC products for government procurement.

Saudi Arabia requires foreign civilian contractors to subcontract 30 percent of the value in public works contracts to Saudi owned companies. Many firms have reported that this has not been enforced consistently. Some U.S. businessmen have complained that this is a barrier to the export of U.S. engineering and construction services. Other service industries are restricted to government-owned companies, e.g., certain insurance and transportation services.

Saudi labor law requires companies to employ Saudi nationals, but foreigners account for at least 65 percent of the private sector labor force. Large companies are required to increase their percentage of Saudi employees by a certain percentage annually or face restrictions. This emphasis on "Saudiization" is increasing as the number of unemployed/underemployed Saudis increases with the growth in population.

6. Export Subsidies Policies

Saudi Arabian planners say that there are no export subsidy programs for industrial projects. Because feedstock prices are relatively low in Saudi Arabia, industrial production of petroleum and related downstream products is comparatively attractive. The government argues that this is simply a reflection of the low cost of domestic oil production. On January 1, 1998 the Saudi government announced a 50 percent across-the-board increase in natural gas prices from $.50/million btu to $.75/million btu. The government has reduced subsidies to agriculture, which has resulted in reduced agricultural production available for export.

7. Protection of U.S. Intellectual Property

Although the terms of legislation in Saudi Arabia to protect intellectual property rights are generally sufficient, enforcement of IPR is lacking and abuses are common. Saudi Arabia has applied to join the WTO and is revising all of its intellectual property laws to make them conform with the WTO's Trade Related Aspects of Intellectual Property (TRIPS) standards. Saudi Arabia remains on the USTR's "Special 301 Watch List," having moved up in 1996 from the program's "Priority Watch List" in recognition of progress made in intellectual property rights protection. Saudi Arabia has joined the Universal Copyright Convention, and is a member of the World Intellectual Property Organization (WIPO), though not a contracting party to any of the treaties administered by WIPO. Efforts to protect intellectual property rights are uneven, and audio, video and software companies want greater protection of their product content in the Kingdom. The Ministry of Interior is responsible for enforcement of IPR violations.

Patents: Saudi Arabia has enacted a patent regulation in 1989 and established a patent office at the King Abdulaziz City for Science & Technology (KACST). The regulation was patterned along the lines of the U.S. patent law, but does not reproduce it. The terms of patent protection are generally adequate, but the period of protection is fifteen years, five years less than the international TRIPS standards. The regulation permits compulsory licensing if the patent holder refuses to use the patent, or for other public policy reasons, on a wider basis than permitted under TRIPS. KACST is currently implementing a three-year action plan to bring the regulation into compliance by 2002. The Patent Office suffers from inadequate resources to enable it to carry out is work effectively. The office has received several thousand patent applications since 1989, but has only completed thirty-four of them. The GCC established a parallel patent office in October 1998, and may eventually be able to help alleviate the backlog. The GCC Patent Office hopes to issues its first patents by the end of 2000.

Revisions to the GCC patent law were approved at the GCC Supreme Council Summit in Riyadh on November 27-28, 1999. Amendments to the Implementing By-laws were approved this past April and entered into force on August 15, 2000. These changes include extension of the term of protection from 15 years to 20 years (from the date of filing of the patent application with the GCC patent office), and the extension of protection to pharmaceutical products in all GCC states, including product and process protection.

Trademarks: Trademarks are registered at the Ministry of Commerce. The registration process is relatively uncomplicated, although some companies have complained that registration and search fees are high. Legal remedies for infringement of a trademark do exist, but enforcement of trademark protection is inconsistent. The most pervasive problem in Saudi Arabia regarding IPR infringements is the proliferation of pirate manufacturers and importers of unauthorized copies of brand name products. It is estimated that from 25 to upward of 50 percent of all major brand consumer goods sold in Saudi Arabia are illegal copies.

Copyright: Saudi Arabia has indicated that it is in the process of amending the current copyright law to comply with the provisions of the TRIPS Agreement. The current level of enforcement has been insufficient to deter piracy. Saudi Arabia has also told WTO members that it will not fully implement TRIPS until 2002. The most pressing problem in Saudi Arabia in this regard is the unauthorized copying and sale of computer software. In some cases the sales of unauthorized software copies exceed 90 percent market share. While a few raids have been conducted, overall enforcement in not carried out with sufficient regularity and is not accompanied by the appropriate level of publicity and sentences to reduce the level of piracy. Estimates of losses to U.S. copyright-based industries due to piracy in 1999 were $86.2 million.

8. Worker Rights

a. *The Right of Association:* Saudi regulations prohibit labor associations.

b. *The Right to Organize and Bargain Collectively:* Expatriates perform much skilled and almost all unskilled labor. Non-Saudi workers who seek to organize may be deported. In 1999, however, foreign hospital, food processing, and construction workers staged work stoppages in Jeddah to protest against a failure to pay salaries for several months. Similar "walk-outs" have taken place in 2000, involving foreign workers in Jeddah and Dammam.

c. *Prohibition of Forced or Compulsory Labor:* Forced labor is prohibited. However, employers have significant control over the movements of foreign employees, which sometimes gives rise to situations that involve forced labor, especially in the case of domestic servants or in remote areas where workers are unable to leave their place or work. During the past three years, the government has expelled many workers without proper work permits.

d. *Minimum Age for Employment of Children:* The labor law states that "a juvenile who has not completed 13 years of age shall not be employed." This restriction may be waived by application to the Ministry of Labor with the consent of the juvenile's parent or guardian. Children under 18 and women may not be employed in hazardous or unhealthy occupations. Wholly-owned family businesses and family-run farms are exempt from these rules.

e. *Acceptable Conditions of Work:* Labor laws limit the work week to 48 hours, including no more than eight hours a day and no more than five hours without a break for rest, prayer, and food. Laws require employers to provide health insurance to protect workers from job-related hazards and diseases and to pay time-and-one-half for hours (up to 12) over the 44 hours normally worked per week. The average wage generally provides a decent standard of living for a worker and family. While expatriate laborers come to Saudi Arabia because they can earn more than they could at home, there have been many reports of workers whose employers refused to pay several months, or even years, of accumulated salary or other promised benefits.

f. *Rights in Sectors with U.S. Investment:* Worker rights in sectors with U.S. investment do not differ from those elsewhere. Conditions of work at major U.S. firms and joint-venture enterprises are generally better than elsewhere in the Saudi economy. Workers in U.S. firms normally work a five to five-and-one-half day week (i.e., 44 hours) with paid overtime. Overall compensation tends to be at levels that make employment with U.S. firms attractive.

9. New Foreign Investment Law

The Council of Ministers endorsed a new foreign investment law on April 10, 2000. The new law aims to create a more attractive environment for foreign investors in Saudi Arabia. The main aspects of the new law are as follows:

A. Without prejudice to the requirements of regulations and agreements, the General Investment Authority shall issue a license for a Foreign Capital Investment in any investment activity in the Kingdom, whether permanent or temporary. The Authority shall make a decision about the investment application within thirty days after the completion of documents provided for in the Rules of Implementation. In the event that the specified period elapsed without the Authority rendering a decision about the application it shall be obligated to issue the required license for the investor. If the Authority shall deny the said application within the specified period, then the pertinent decision of denial shall be justified, and the party against whom the decision of denial had been issued shall have the right to contest such decision according to regulations.

B. The Supreme Economic Council shall have the authority to issue a list of activities excluded from Foreign Investment.

C. The Foreign Investor may obtain more than one license in different activities, and the Rules shall specify the necessary measures.

D. Foreign investments licensed under the provision of this Act may be in either of the following forms: Facilities owned by a national and a Foreign Investor; Facilities wholly owned by a Foreign Investor. The legal form of the Facility shall be determined according to regulations and directives.

E. A project licensed under this Act shall enjoy all the benefits, incentives and guarantees enjoyed by a national project according to regulations and directives.

F. The Foreign Investor shall have the right to reallocate his share as derived from the selling of his equity, or from the liquidation surplus or profits generated by the facility, out of the Kingdom or to use by any other legal means, and he shall also be entitled to transfer the required amounts to settle any contractual obligations pertaining to the project.

G. The foreign facility licensed under this Act shall be entitled to possess the required real estate as might be reasonable for practicing the licensed activity or for the housing of all or some of the staff as per the provisions for non-Saudi nationals real estate acquisition.

H. The Foreign Investor and his non-Saudi staff shall be sponsored by the licensed facility.

I. The Authority shall provide all those interested persons in investment with all necessary information, clarifications and statistics, together with all services and procedures to facilitate and accomplish all matters pertaining to the investments.

J. Investments related to the Foreign Investor shall not be confiscated wholly or partially without a court order, moreover, it may not be subject to expropriation wholly or partially except for public interest against an equitable compensation according to Regulations and Directives.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment in Saudi Arabia on a Historical Cost Basis—1999

Generally it is assumed that the true value of U.S. direct investment in Saudi Arabia is in the range of $7 to 8 billion with the large majority in the petrochemical field. Antitrust concerns and general difficulties in gathering statistics make the exact aggregation of data impossible.

(Millions of U.S. dollars)

Category		Amount
Petroleum		237
Total Manufacturing		144
Food & Kindred Products	(1)	
Chemicals & Allied Products	74	
Primary & Fabricated Metals	15	
Industrial Machinery and Equipment	(1)	

Electric & Electronic Equipment	2	
Transportation Equipment	(1)	
Other Manufacturing	(1)	
Wholesale Trade		97
Banking		(1)
Finance/Insurance/Real Estate		1,701
Services		290
Other Industries		(1)
TOTAL ALL INDUSTRIES		4,231

(1) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.