SUMMARY

(1) THE ECONOMIC ENVIRONMENT

1. Since its accession to the WTO in December 2005, the Kingdom of Saudi Arabia has continued a development strategy aimed at, *inter alia*, diversifying its economy away from crude oil and natural gas (23% of real GDP, 91% of government income and 86% of export earnings in 2010). This is being done by promoting downstream industries, improving education and health services, and modernizing infrastructure. The development strategy has been centred on a liberal trade regime and has been accompanied by structural reforms that have created a more business-friendly environment.

2. Saudi Arabia's development strategy has resulted in a positive economic performance during 2005-10: real GDP grew at an annual average rate of 3.2%; the inflation rate averaged 4.6% per year; and there were surpluses in both its overall fiscal position (except for 2009) and external current account. However, the global economic crisis caused a sharp deterioration of those macroeconomic indicators in 2009. Saudi Arabia responded with a countercyclical policy, mainly through a sizeable fiscal stimulus (US$400 billion investment and development programme during 2009-13) that limited the impact of the crisis and supported solid growth of the non-oil sector. As a member of the G20, Saudi Arabia has exercised restraint over the imposition of new trade restrictions despite the global downturn.

3. With a population of around 27 million (31% expatriates, i.e. 80% of the labour force), given that the oil sector is not labour-intensive and that increasing public-sector employment is not sustainable in the long-run, Saudi Arabia's main economic and social challenge, according to the authorities, is to provide more employment opportunities for its citizens. Thus, the "Saudization" programme is being implemented to match Saudis' qualifications and private sector needs. Other important challenges include scaling back reliance on the public sector to absorb domestic labour, and gradually reforming domestic energy pricing to create a more energy-efficient economy.

4. The Saudi Arabian riyal (SAR) has been pegged to the U.S. dollar (SAR 3.75 per US$) since 1986. In December 2009, Bahrain, Kuwait, Qatar, and Saudi Arabia ratified an agreement to establish a monetary union; Oman and the United Arab Emirates, the other Gulf Cooperation Council (GCC) members, are not joining the monetary union. Technical details of the monetary union are currently under discussion in the Gulf Monetary Council. The date for introducing a single currency is yet to be determined.

5. Saudi Arabia's economy is increasingly dependent on international trade: the ratio of merchandise and services trade (exports and imports) to GDP rose from 89% in 2005 to 97% in 2010, with a peak of 105% in 2008. In 2010, Saudi Arabia ranked 12th among world merchandise exporters and 21st among importers (considering the EU countries together and excluding intra-EU trade). In services trade, Saudi Arabia ranked 33rd among exporters and 11th among importers. Saudi Arabia is, increasingly, a net importer of services, with a deficit averaging around US$50,000 million per year during 2005-10.

6. Saudi Arabia has become the eighth biggest recipient of FDI in the world, with an annual average of about US$25,000 million over 2005-10. This has been the result of steps taken to open up certain key economic activities to foreign investment (e.g. mining, petrochemicals, gas, and telecommunications), as well as to develop four economic cities and special economic zones. Nevertheless, foreign companies still face investment restrictions in certain activities such as fisheries, and oil exploration/drilling/production.

(2) INSTITUTIONAL FRAMEWORK

7. Formulation and implementation of Saudi Arabia's trade policy is the responsibility of the Ministry of Commerce and Industry (MCI), in coordination with other ministries, such as the Supreme Economic Council (headed by the King), and the Saudi Negotiating Team in charge of discussing and assessing WTO-related issues. The private sector provides inputs to trade policy formulation by communicating its views either directly to the MCI or through the chambers of commerce and industry on an *ad hoc* basis. Saudi Arabia is taking steps to boost its participation in the multilateral trading system, commensurate with its growing importance worldwide, including through the establishment of its WTO mission in June 2010.

8. The WTO Agreements and the GCC Treaty are the main factors underlying Saudi Arabia's trade policy. As part of its WTO accession negotiations, Saudi Arabia bound 100% of its tariff lines; made extensive commitments under the GATS; and became a signatory to the Information Technology Agreement (ITA). Saudi Arabia has not been involved in any dispute under the WTO Dispute Settlement Mechanism directly, but has participated as a third party in six cases. Up to March 2011, Saudi Arabia had 15 notifications outstanding.

9. Saudi Arabia participates in two overlapping regional trade agreements, the GCC and the Pan-Arab Free Trade Area (PAFTA). As a group, the GCC has concluded free-trade agreements with EFTA States and Singapore, which are in the process of ratification. The GCC is also involved in trade negotiations with Australia, China, EU, India, Japan, Korea, MERCOSUR, New Zealand, Pakistan, and Turkey. GCC Heads of States have agreed that any new preferential agreement concluded by a member would apply *pari passu* to all members, except for agreements with the United States.

(3) TRADE POLICY INSTRUMENTS

10. Since 2003, Saudi Arabia has been aligning its tariff to the GCC common external tariff (CET). Initially, a transition period of three years (31 December 2005) was envisaged to complete the CET alignment, but this was extended until the end of 2011. Saudi Arabia has a relatively simple MFN tariff; 98.6% of all rates are *ad valorem*, 19 tariff lines have mixed rates (on tobacco and tobacco-related products), and 81 lines correspond to products prohibited for religious reasons e.g. alcoholic beverages, live swine and swine products. There are no tariff quotas, no applied seasonal tariffs, and no other duties and charges on imports. Saudi Arabia does not impose VAT, excise duties or any other internal tax or charges on domestically produced or imported products.

11. Saudi Arabia's average MFN applied tariff is 5.2%. On the basis of the WTO definition, tariffs average 6.1% on agricultural products, and 5% on non-agricultural products. Upon its accession to the WTO, Saudi Arabia bound its tariff at rates ranging up to 200% (on tobacco and tobacco-related products) and averaging 10.9%, i.e. average bound rates of 15.4% on agricultural products, and 10.1% on non-agricultural goods. The overall average MFN applied tariff, at 5.7 percentage points lower than the bound rate, presents an element of uncertainty as it gives the authorities some margin for increasing applied MFN tariffs. Saudi Arabia also made seasonal tariff binding commitments on some fruits and vegetables.

12. On aggregate, Saudi Arabia's tariff displays positive escalation, from first-stage processed products, with an average tariff of 4.2%, to semi-finished goods, with an average rate of 5%, and fully processed products, on which tariffs average 5.5%. At a more disaggregate level, there are mixed results: tariff escalation is positive from the first to the final stage of processing in some industries (e.g. textiles and apparel, and wood products), thereby providing higher levels of effective protection

to those industries than that reflected by the nominal rates; mixed (negative from the first to the second stage, and then positive) in the food, beverages, and tobacco industry (reflecting the high rates on tobacco) and non-metallic mineral products; and negative from the first to the final stage of processing in chemicals and plastics, partly because of duty-free imports of pharmaceuticals.

13. On the basis of commitments undertaken during its WTO accession negotiations, Saudi Arabia eliminated the requirement to authenticate import documentation, as of 31 December 2007. The use of a Saudi commercial agent is required only to import or export agricultural machinery. Import and export prohibitions and restrictions are maintained on a number of products, mainly for health, security, moral, and religious reasons, but also on SPS grounds. Saudi Arabia is harmonizing its regime on standards and technical regulations at the GCC level, and accepted the TBT Code of Good Practice in 2006.

14. Saudi Arabia has adopted the GCC Treaty provisions on contingency trade remedies, but has never imposed any anti-dumping, countervailing or safeguard measures. The GCC Ministerial Committee has not applied any trade remedy measures, although it initiated two safeguard investigations, both of which were terminated due to lack of injury.

15. Saudi Arabia applies only one export duty, to untanned hides and skins, which will be eliminated on 10 September 2013. It maintains export bans on 11 categories of products, including Arabian breeding horses and wood. Saudi Arabia continues its efforts to diversify its export base, including through various finance and credit insurance operations on exports.

16. In addition to import duty concessions, other general incentives available to all investors, include: no personal income tax; 20% tax on profits while losses may be transferred indefinitely; medium- or long-term loans from the Saudi Industrial Development Fund of up to 50% of the project cost with competitive interest rates; land at competitive rates; supply of electricity, fuel, water, and natural gas at competitive industrial prices; support activities related to qualifying, training, and recruitment of Saudi workforce under the Human Resources Development Fund; and large R&D endowments.

17. Saudi Arabia notified the WTO that it does not maintain any state-trading enterprises. Despite some privatizations, state ownership remains significant throughout the economy, with the public sector being one of the largest employers.

18. Saudi Arabia's government procurement regime does not apply to certain procurements, including weapons and military equipment; consultancy; and goods and services available only through one supplier. It also provides for price preferences of 10% and 5% for local and GCC products, respectively. Saudi Arabia has been an observer to the plurilateral Government Procurement Agreement (GPA) since December 2007; it has yet to begin negotiations for GPA membership.

19. Saudi Arabia's competition legislation applies to all establishments, with the exception of public and wholly state-owned corporations. It addresses agreements between Saudi and foreign companies or between foreign companies, even when the agreements are concluded outside Saudi Arabia. There are no free zones or free economic zones. Some goods and services are subject to price regulation, e.g. wheat flour, fuel, gas, electricity, energy transportation services, and pharmaceuticals (subject to profit regulation). During the last few years, Saudi Arabia has made significant progress in enforcing IPR protection.

(4) SECTORAL POLICIES

20. The mining and energy sector has underpinned Saudi Arabia's economic development. The simple average applied MFN tariff on mining and quarrying (major division 2 of ISIC, Revision 2) is 5%. Saudi Arabia is the world's largest exporter of oil and one of the biggest producers of oil and natural gas. It retains the largest additional oil production capacity within OPEC, and has invested to increase its total production capacity to 12.5 million barrels per day (mbpd) (current production is around 8.5 mbpd). Recent years have seen a substantial increase in domestic and foreign investment in gas. Saudi Arabia is also encouraging a reduction in the domestic consumption of oil through gas replacement, and is trialling solar thermal and other sustainable electricity generation methods. The fully state-owned Saudi Arabian Oil Company (Saudi Aramco) benefits from certain concessionary rights and privileges with respect to the production of crude oil, for example on (upstream) oil extraction, and certain exclusive rights and privileges in gas.

21. Services constitute a crucial component in Saudi Arabia's overall policy of economic diversification. In 2010, the sector accounted for 50.6% of real GDP and employed about three quarters of the workforce. Several state-owned enterprises participate in the sector on the basis of commercial considerations, according to the authorities. These include the National Commercial Bank, Tawuniya, Saudi Arabian Airlines Company, and Saudi Telecom Company. Financial services, notably banking and cooperative insurance, have expanded substantially since Saudi Arabia's accession to the WTO.

22. Manufacturing contributed 12.6% to Saudi Arabia's real GDP in 2010. The sector benefits from its relatively large endowment of hydrocarbons, which are used as inputs by industries producing cement, petrochemicals, metals, and fertilizers. The simple average applied MFN tariff on manufacturing (major division 3 of ISIC, Revision 2) is 5.3%. The Government is an important shareholder in key manufacturing companies, e.g. Saudi Arabian Basic Industries Corporation (SABIC). Four economic cities are being constructed, focusing mainly on heavy industries, comprising petrochemical, copper refinery and smelter, and aluminium complexes.

23. Despite its relatively small share of total real GDP (4.6% in 2010), agriculture is of key importance in the economy because of Saudi Arabia's food security objective. This is to be achieved mainly through relatively low customs tariffs (3.5%, major division 1 of ISIC, Revision 2). In order to increase food security, Saudi Arabia has encouraged private companies to invest in farm projects abroad. The private sector has played a major role in the development of Saudi agriculture, mostly due to government programmes that offer, *inter alia*, long-term, interest-free loans; low-cost water, fuel and electricity; and reduced duties on imports of raw materials and machinery.