TRADE

16.1 FOREIGN TRADE

16.1.1 Introduction

Under the Eighth Development Plan, foreign trade improved considerably, as reflected in its higher contribution to GDP; as well as in its enhanced role of providing the requirements of development projects for capital and intermediate goods, transforming comparative advantages into competitive advantages, and supplying the needs of domestic market of consumer goods. An important part of these developments is attributable to continued economic openness, the substantial rise in international oil prices and the consequent high surpluses in the trade balance and the current account of the balance of payments.

The Ninth Development Plan will continue efforts to reinforce the role of foreign trade in economic and social development and in diversifying the economic base, as well as to increase its contribution to GDP. The Plan will also seek to create an enabling environment for the development of non-oil exports, rationalize imports, and reduce the deficit in the services and transfers balance, in order to improve the balance of payments. In addition, it will strive to attract foreign investment and joint projects that contribute to the development of national exports, and address challenges to foreign trade.

This chapter examines the current conditions of the foreign trade sector, explaining developments under the Eighth Development Plan, and reviewing key issues and challenges that must be addressed under the Ninth Development Plan. It also highlights the future vision, objectives, policies and targets for the sector under the Ninth Development Plan.

16.1.2 Current Conditions

16.1.2.1 Trade in merchandise

Trade in merchandise developed remarkably over the first four years of the Eighth Development Plan, with its value rising at current prices from about SR650.1 billion in 2004 to about SR1,607.2 billion in 2008, an average annual rate of growth of 25.4%. This is attributable, among other factors, to the rise in world oil prices, food and intermediate goods, and to the low exchange rates of the dollar against most major currencies.

A measure of the degree of openness to the global economy is the ratio of the volume of external trade in merchandise to GDP, which was about 91.4% in 2008, compared with about 69.3% in 2004, reflecting advanced integration in the global economy. Furthermore, the structure of exports and imports developed positively, with an increase in the proportion of non-oil exports to total exports, and a decrease of the proportion of consumer goods imports to total imports. Developments in commodity trade are highlighted in the following:

- ***Commodity exports***

Over the first four years of the Eighth Development Plan, the total value of commodity exports at current prices grew at an annual rate of 25.6%, up from SR472.4 billion in 2004 to SR1,175.5 billion 2008, constituting 73.1% of total merchandise trade. The increase in the value of commodity exports is attributable, in the first place, to the increase in the value of oil exports, resulting from the rise in international oil prices until October 2008, with the value of crude oil exports increasing at an average annual rate of 28.5%, from SR348.2 billion to SR948.8 billion, leading to a higher relative contribution to the total value of commodity exports to 80.7% in 2008, compared with about 73.7% in 2004. However, these rates highlight the need to intensify efforts to diversify exports, which, in turn, require diversification of the economic base.

The value of exports of refined petroleum products grew at an average annual rate of 12.3% over the first four years of the Plan, from SR66 billion to SR104.9 billion. Yet, its relative contribution to the total value of commodity exports declined from 14% to 8.9% (Table 16.1.1).

Table 16.1.1
Development of Commodity Exports
Eighth Development Plan *

(SR billion)

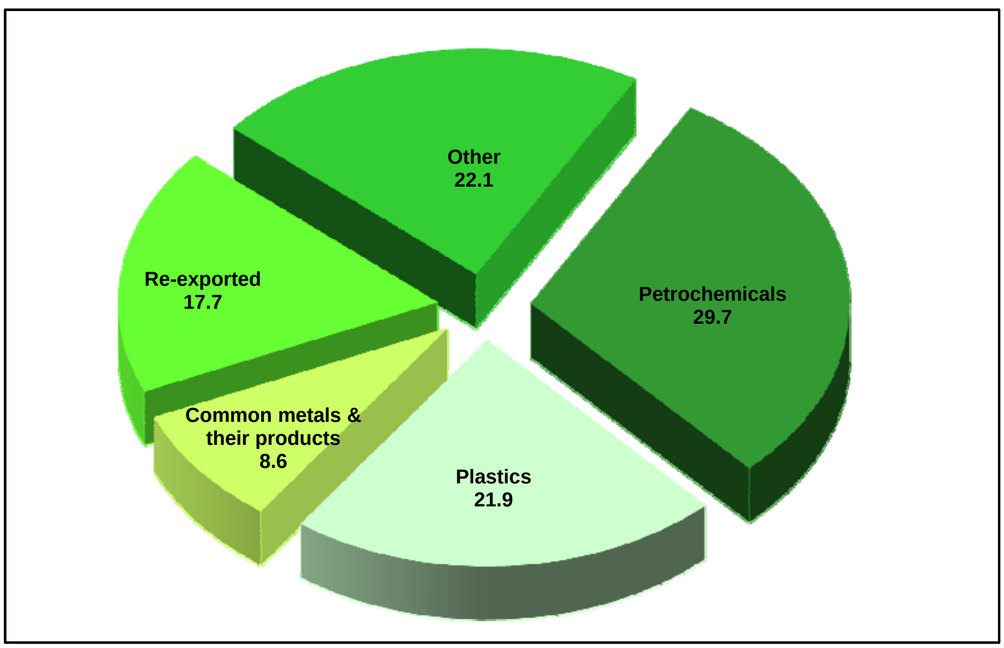
	2004		2008		Average Annual Growth Rate (%)
	Value	Share (%)	Value	Share (%)	
Crude Oil	348.2	73.7	948.8	80.7	28.5
Petroleum Products (refined)	66.0	14.0	104.9	8.9	12.3
Non-Oil Exports	58.2	12.3	121.8	10.4	20.3
Total	**472.4**	**100**	**1175.5**	**100**	**25.6**

* Up to the end of the fourth year of the Eighth Development Plan.
Source: Central Department of Statistics and Information.

Non-oil exports rose from about SR58.2 billion in 2004 to about SR121.8 billion in 2008. However, their relative contribution to total exports fell from 12.3% to 10.4%. In 2008, the 29.7% share of petrochemicals was the largest of non-oil exports, followed by exports of plastics with a share of 21.9%, and re-exported goods at 17.7% (Figure 16.1.1).

Figure 16.1.1
Percentage Distribution of Non-Oil Exports by Major Item
2008

(%)



Source: Central Department of Statistics and Information.

As for the distribution of the total value of commodity exports by major groups of countries, Asian countries (non-Arab, non-Islamic) accounted for the largest share, about 51.4%, with exports to this group amounting to SR604.6 billion in 2008, compared with SR210.9 billion and a share of about 44.6% in 2004, which translates to an average annual rate of growth of 30.1%. North American countries came second, with their value of exports increasing over the same period from SR84.9 billion to SR203.2 billion, but with their share falling slightly from about 18% to about 17.3%. Western European countries came third, though their share declined over the same period from 16.4% to 10.6%. The GCC countries ranked fourth with SR82.7 billion, and an estimated share of 7% (Table 16.1.2).

Table 16.1.2
Commodity Exports by Major Group of Countries
Eighth Development Plan(*)

(SR billion)

Country Group	2004		2008		Average Annual Growth Rate (%)
	Value	Share (%)	Value	Share (%)	
GCC Countries	30.8	6.52	82.7	7.04	28.0
Other Arab Countries	24.3	5.14	63.9	5.44	27.3
Islamic Countries (Non-Arab)	24.8	5.25	54.6	4.64	21.8
Asian Countries (Non-Islamic, Non- Arab)	210.9	44.64	604.6	51.43	30.1
African Countries (Non-Islamic, Non-Arab)	12.2	2.58	24.8	2.11	19.4
Australia	1.5	0.32	3.2	0.27	20.9
North America	84.9	17.97	203.2	17.29	24.4
South America	5.5	1.16	13	1.11	24.0
Western Europe	77.4	16.38	125	10.63	12.7
Eastern Europe	0.1	0.02	0.4	0.03	41.4
Other Countries	0.1	0.02	0.1	0.01	0.0
Total	**472.5**	**100**	**1175.5**	**100**	**25.6**

(*) Up to the end of the fourth year of the Eighth Development Plan.

Source: Central Department of Statistics and Information.

❑ *Commodity imports*

The total value of commodity imports grew at current prices from SR177.7 billion in 2004 to SR431.7 billion in 2008, an average annual growth rate of about 24.8%. The share of imports of capital goods in total commodity imports increased significantly, from 17.5% in 2004 to 24.7% in 2008, while the share of imports of intermediate goods rose from 44.2% to 45.7%. Thus, the total share of capital and intermediate goods imports increased from 61.7% to 70.4%, which is a positive indicator, given the importance of both capital and intermediate goods in the implementation of development projects. In contrast, due to inflation and rising import prices, the share of consumer goods in total commodity imports declined over the same period from 38.3% to 29.6% (Table 16.1.3).

Table 16.1.3
Commodity Imports
Eighth Development Plan*

(SR billion)

	2004		2008		Average Annual Growth Rate (%)
	Value	Share (%)	Value	Share (%)	
Capital Goods	31.2	17.5	106.5	24.7	35.9
Intermediate Goods	78.5	44.2	197.2	45.7	25.9
Consumer Goods	68.0	38.3	128.0	29.6	17.1
Total	**177.7**	**100**	**431.7**	**100**	**24.8**

* Up to the end of the fourth year of the Eighth Development Plan.

Source: Central Department of Statistics and Information.

16.1.2.2 Trade in services

In 2008, trade in services between the Kingdom and the outside world was valued at SR335.7 billion, compared with about SR295.6 billion in 2007, an increase of about 13.6%. This is attributable to a significant growth in the value of imports of services by 19%, i.e. from SR234.9 billion to SR279.6 billion.

In contrast, exports of services declined in 2008 compared with the previous year by 7.6%, from SR60.7 billion to SR56.1 billion. These exports, which include transport, travel, communications, government services and other services, constitute a modest proportion of total trade in services, amounting to about 16.7% in 2008. This underlines the importance of improving the balance of services, through accelerated growth of service sectors and the development of exports of services (Table 16.1.4).

Table 16.1.4
Exports and Imports of Services

(SR billion)

Description	2007		2008		Change (%)	
	Exports	Imports	Exports	Imports	Exports	Imports
Transport	6.9	34.4	9.3	58.4	34.8	69.8
Travel	22.4	75.6	22.2	56.7	–0.9	–25.0
Communications	0.9	3.0	1.5	2.6	66.7	–13.3
Construction	–	23.7	–	16.8	–	–29.1
Insurance	–	3.7	–	6.8	–	83.8
Financial	–	9.5	–	5.7	–	–40.0
Government	0.9	62.8	0.9	96.2	0.0	53.2
Other Services	29.6	22.2	22.2	36.4	–25.0	64.0
Total	**60.7**	**234.9**	**56.1**	**279.6**	**–7.6**	**19.0**

Source: Central Department of Statistics and Information.

16.1.2.3 Inter-trade

Inter-trade with countries of the Gulf Cooperation Council (GCC) underwent some developments under the Eighth Development Plan. The value of imports of goods from these countries increased to about SR18.7 billion in 2008 compared with about SR8.2 billion in 2004, an average annual growth rate of about 22.7%. Notwithstanding this significant growth, the relative share of imports of goods from GCC countries in total imports is still modest; it is estimated at about 4.3% in 2008, compared with about 4.6 % in 2004. The United Arab

Emirates comes first in terms of value of imports, with a share in the total value of imports from GCC countries in 2008 amounting to 58%, followed ,with a large margin, by the Kingdom of Bahrain at 23.7%.

Over the same period, non-oil exports to GCC countries rose only slightly to around SR28.3 billion in 2008, from about SR27.3 billion in 2004, which translates into an average annual growth rate of only 0.8%. This modest rate is attributable to the significant decline in the value of exports to the Kingdom of Bahrain, at an estimated average annual rate of -24.8%. The overall relative importance of exports to GCC countries remained modest, accounting for about 23.2% of the total non-oil exports in 2008, compared with about 46.9% in 2004 (Table 16.1.5).

Table 16.1.5
Non-oil Trade with GCC Countries
Eighth Development Plan(*)

(SR Million)

	2004		2008		Average Annual Growth Rate (%)	
	Exports	**Imports**	**Exports**	**Imports**	**Exports**	**Imports**
Emirates	10045	4450	12612	10814	5.9	24.9
Qatar	1588	706	4934	478	32.8	–9.3
Kuwait	3687	770	4785	1168	6.7	11.0
Bahrain	11062	1690	3543	4429	–24.8	27.2
Oman	933	604	2379	1763	26.4	30.7
Total	**27315**	**8220**	**28253**	**18652**	**0.8**	**22.7**

(*) Up to the end of the fourth year of the Eighth Development Plan.
Source: Central Department of Statistics and Information.

Exports to other Arab countries increased from SR24.3 billion in 2004 to SR63.9 billion in 2008, an average annual growth rate of 27.3%. Similarly, imports from these countries increased over the same period at an average annual rate of 22.8%, from SR5.9 billion to SR13.4 billion. Although the surplus in the balance of trade with Arab countries is in favour of the Kingdom, there is still a need to intensify efforts to develop inter-Arab trade within the framework of the Greater Arab Free Trade Zone.

16.1.2.4 Balance of payments

The data in Table 16.1.6 show that the balance of payments improved significantly over the period 2004–2008 due to the large increase in the balance of trade surplus, despite the steady increase in the deficit of the balance of services and transfers. The most important indicators derived from this table are as follows:

Table 16.1.6
Main Items of Balance of Payments
Eighth Development Plan (*)

(SR billion)

Year / Items	2004	2005	2006	2007	2008
Balance of Trade Surplus (FOB)	308.3	472.6	552.0	564.9	795.0
% of GDP	32.8	40.0	41.3	39.2	45.2
Current Account Surplus	184.8	337.5	371.0	350.0	502.7
% of GDP	19.7	28.5	27.8	24.3	28.6
Deficit of Balance of services and Transfers	–123.4	–79.7	–118.1	–151.0	–206.0
Annual Percentage Change	–	35.4	48.2	27.9	36.4

(*) Up to the end of the fourth year of the Eighth Development Plan. Values and ratios are calculated at current prices.

Source: Saudi Arabian Monetary Agency.

- The surplus in the balance of trade was about SR795 billion in 2008, compared with SR308.3 billion in 2004, which amounts to an overall increase of about 158%. As a result, its ratio to GDP rose from 32.8% to 45.2%.
- The current account surplus increased from SR184.8 billion in 2004 to about SR502.7 billion in 2008. As a result, its ratio to GDP rose from 19.7% to 28.6%.
- Over the same period, there was a steady increase in the deficit of the balance of services and transfers, which rose by 67% from SR123.4 billion in 2004 to SR206 billion in 2008.

16.1.2.5 Institutional and organizational development

Under the Eighth Development Plan, the foreign trade sector achieved significant institutional and regulatory progress; most notably accession to the World Trade Organization (WTO) in 2005, which will lead to opening of the markets of member states to Saudi products, and correspondingly opening the local market to competition by products from these countries. In addition, a number of resolutions aimed at boosting exports were issued, including Council of Ministers Resolution 59 of 2007, which approved establishment of an independent government body, the Saudi Exports Development Authority, to foster development of non-oil exports. The tasks of the Authority include: participation in formulating state policies for development of non-oil exports; improving the export environment, through development of programmes, offering incentives to exporters, and protecting investments; providing administrative and technical assistance and advisory services and incentives to exporters; assisting local companies in joint investments with foreign companies, and linking investment to exports. In addition, in an effort to reduce inflation, the Supreme Economic Council Resolution No. 11 of 2008 stipulated that 50% of port charges be borne by the state for a period of 3 years.

16.1.3 Issues and Challenges

16.1.3.1 The global financial crisis

In the last quarter of 2008, the global financial crisis broke out. As a result, global economic growth slowed down, banks reduced financing of importing companies, and protectionist policies and tendencies emerged. These developments had an impact on the Kingdom's foreign trade. International oil prices dropped, leading to a decline in revenues from oil exports, and, consequently, a reduction in the budget surplus. Moreover, as a result of falling global demand for non-oil products, implementation of horizontal and vertical expansion projects that contribute the most to development of non-oil exports will likely slow down. Furthermore, foreign direct investment may also decline.

Addressing the challenges posed by the global financial crisis calls for adoption of flexible policies and measures, monitoring their implementation and evaluating their results, in view of international developments.

16.1.3.2 Non-oil exports

Under the Eighth Development Plan, intensive efforts were exerted to promote non-oil exports, remove obstacles that hinder their development, and provide a range of incentives and funding facilities, credit and marketing, through the Saudi Export Programme, managed by the Saudi Fund for Development, which aims to help Saudi exporters overcome the risks of recovering export earnings, and through the Saudi Export Development Centre and the Saudi Exports Development Authority.

Despite the efforts made and the achievements realised, there is still a need for adopting a long-term strategy for developing non-oil exports. Such a strategy would aim at expanding production for export, increasing competitiveness of exported goods, and creating an enabling environment for their development; in addition to continuing to strengthen the Saudi Export Programme of the Saudi Fund for Development, the Saudi Export Development Centre of the Council of Saudi Chambers, and intensify the efforts made by Chambers of Commerce and Industry to develop export awareness and follow changes and developments in regional and global markets.

16.1.3.3 Free zones

Global experience in development of exports underlines the important role of free trade zones in contributing to the development of foreign trade, through attracting foreign direct investment and joint ventures.

Factors of success of free zones in the Kingdom are numerous: appropriate locations, infrastructure, facilities, and material and human resources. Yet, the delay in establishing such zones is hampering development of non-oil exports, given their importance in increasing the relative contribution of re-export activities. Free zones contributed an estimated 17.6% of the value of non-oil exports in 2008 (Figure 16.1.2).

To address this issue and boost non-oil exports, particular re-exports, free trade zones need to be established, taking care to provide an excellent geographic location, appropriate infrastructure, incentives, and physical and organizational facilities.

Figure 16.1.2
Non-Oil Exports and Re-Exported Goods
Eighth Development Plan(*)

(*) Up to the end of the fourth year of the Eighth Development Plan.

Source: Central Department of Statistics and Information.

16.1.3.4 Balance of services and transfers

The deficit in the balance of services and transfers is attributable to the growth of imports of services, the steady increase in private transfers abroad, without a corresponding growth in service exports or investment returns.

Reducing this deficit requires incentivizing the formation of national and joint companies providing shipping and insurance services to both the public and the private sectors, providing more appropriate investment opportunities to expatriates, and encouraging commercial banks to provide them with adequate savings channels.

16.1.3.5 Competitiveness of national exports

Invigorating national exports requires specialized information databases that meet the needs of both regional and international exporters for data, for example, on: volume of demand of major foreign markets for the products to be exported and the rate of change of the demand, marketing channels suitable for promoting products, main importers, competing products and commodities and their prices, technical specifications and packaging requirements of key export markets, means of improving competitiveness, ways of obtaining technical assistance, and the most important regional and international developments and how to deal with them. In establishing the information databases, account should be taken of the most modern competitiveness intelligence systems for business to help develop non-oil exports, rationalize imports and protect national products from unfair competition from some imported goods.

In this context, a survey of highly competitive non-oil exports (Table 16.1.7) shows a group of highly competitive goods that displayed an average annual growth rate of more than 25%. A second group, comprising goods with an average annual growth rate between 8% and 24.9%, has the potential of achieving greater excellence through effective policies and programmes designed to develop them and promote them in international markets.

Such data would be useful in guiding the decisions of exporters and producers, as well as in conducting studies and research, and marketing and export plans aimed at improving competitiveness of non-oil exports.

Table 16.1.7
Competitive Non-oil Exports
2004–2007 (*)

Group with an Average Growth Rate of More than 25%			Group with an Average Growth Rate of Less than 25%		
Code	**Commodity**	**Average Annual Growth Rate (%)**	**Code**	**Commodity**	**Average Annual Growth Rate (%)**
343	Natural gas	114.5	334	Refined oil products	24.8
598	Miscellaneous chemical products	64.3	048	Cereals or flour preparations (starch)	24.6
575	Basic plastic materials	60.5	682	Copper	22.8
773	Electrical distribution equipment	58.4	522	Other non-organic chemicals	22.8
781	Passenger motor vehicles; not for public transport	57.5	611	Leather & leather products	22.0
782	Motor vehicles for the transport of goods	53.9	893	Various plastic materials	20.7
581	Plastic tubes, pipes & hoses	50.1	012	Meat & meat products	19.9
641	Paper and paperboard	48.3	741	Heating & air conditioning	19.2
723	Civil engineering Equipment	45.3	533	Paints & derivatives	19.1
542	Medicaments (including veterinary medicaments)	44.7	897	Jewellery& precious Materials	18.6
574	Polyacetals & polycarbonates	43.9	642	Paper products	18.5
024	Cheeses & curds (fresh and dry)	42.4	573	Polymers of vinyl chloride	17.4
513	Carboxylic acids & derivatives	40.9	022	Milk and milk products	16.9
691	Iron, steel or aluminium structures	36.5	511	Hydrocarbons & derivatives	16.5
111	Non-alcoholic beverages	35.9	673	Various steel products	15.9
571	Polymers of ethylene in primary Forms	33.1	554	Soap, cleansing & polishing preparations	15.5
821	Furniture & beddings	32.5	692	Metal containers for storages & transport	14.2
661	Lime, cement & ready mixed building material	28.7	059	Fruit & vegetable juices	11.7
676	Iron & steel bars& sections	26.7	664	Glass	9.6
562	Fertilizers	26.7	784	Vehicle spare-parts & accessories	9.2
679	Iron tubes & pipes	26.1	864	Aluminium	8.7
421	Vegetable fats & oils	25.6	659	Floor coverings	8.6
699	Basic mineral products	25.3			
553	Perfumes, toiletries and cosmetics	25.1			

(*) Average annual growth rates calculated over 2004–2007. Goods are listed in descending order based on average annual growth rate.

Source: Central Department of Statistics and Information.

16.1.4 Development Strategy

16.1.4.1 Future vision

Reducing dependence on crude oil exports, rationalizing imports, improving competitiveness of non-oil national products in domestic and foreign markets, developing the service sector, and providing rewarding investment opportunities to attract expatriate savings to reduce the persistent deficit in the balance of services and transfers, as well as to achieve maximum benefit from Arab and Gulf economic integration to raise the relative importance of inter-trade.

16.1.4.2 Objectives

- Developing non-oil national exports and enhancing their competitiveness.
- Rationalizing imports to reduce opportunities for the inflow of counterfeit and pirated goods, and promote the developmental role of imports by providing intermediate and capital goods.
- Reducing the chronic deficit in the balance of services and transfers, in order to improve the balance of payments and strengthen foreign reserves.
- Upgrading and raising the efficiency of government and private agencies concerned with development and promotion of exports.

16.1.4.3 Policies

- Dealing efficiently and flexibly with the consequences of the global financial crisis and its impact on revenues from oil and non-oil exports.
- Increasing effectiveness of non-oil exports' development programmes and promoting these exports in international markets.
- Intensifying technical, administrative and marketing advisory services related to development of non-oil exports.

- Coordinating long-term export development plans and short- and medium-term export promotion programmes.
- Taking appropriate measures to combat dumping and reduce inflow of fake and counterfeit goods from abroad.
- Establishing industrial export zones, and considering establishment of "free trade zones" in appropriate locations, providing them with infrastructure and providing various incentives to attract national and foreign private investments to contribute to the development of re-export activities.
- Developing an integrated system for export data and information, enhancing it with specialized databases to meet the needs of exporters and investors.
- Adopting an integrated set of measures to reduce the persistent deficit in the balance of services and transfers, within the framework of policies designed to improve balance of payments.

16.1.4.4 Targets

The main targets for the development of external trade sector under the Ninth Development Plan (at current prices) are as follows:

- Increasing total exports by an average annual rate of about 5.5%.
- Increasing total exports of refined oil by an average annual rate of about 11.3%.
- Increasing petrochemical exports by an average annual rate of about 8.4%.
- Increasing service exports by an average annual rate of about 13.9%.
- Increasing total imports by an average annual rate of about 12%.

16.2 DOMESTIC TRADE

16.2.1 Introduction

Under the Eighth Development Plan, domestic trade underwent several developments: expansion in registrations of companies, individual-owned establishments, agencies and trademarks; increase in licenses for offices of professional services and private laboratories; increase in calibration of weights and measurements, and inspection of local and imported goods and materials; and increase in the facilities and funding and marketing support provided by government for small and medium enterprises.

Despite the developments witnessed by the sector, the Ninth Development Plan covers issues and challenges that should be addressed; notably, the need for a classification of business activities, the provision of an integrated database, continued efforts to overcome obstacles to development of SMEs, raising the employment rate of national labour in the sector, the reduction of monopolistic practices, enforcement of commercial fraud combat regulations, and providing effective solutions to problems of trade fronting and Non-Sufficient Funds (NSF) cheques.

This part of the chapter examines the current conditions in the domestic trade sector, explains developments under the Eighth Development Plan, and reviews the key issues and challenges that must be addressed during the Ninth Development Plan. It also highlights the future vision, objectives, policies and targets for the sector under the Ninth Development Plan.

16.2.2 Current Conditions

16.2.2.1 Domestic trade indicators

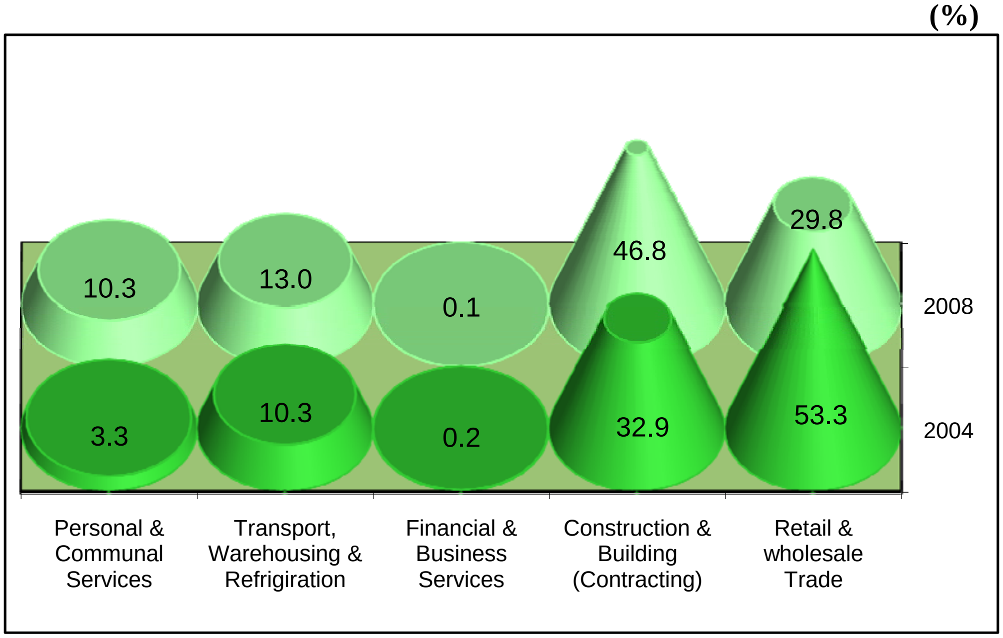
Domestic trade contributes to the development of national income, sources, in addition to providing goods and services and employment opportunities to citizens. The sector includes a large number of individual-owned enterprises that operate freely within a regulatory framework. The sector is monitored and guided by the Ministry of Commerce and Industry, with Chambers of Commerce and Industry cooperating with the Ministry in looking after the interests of companies and enterprises operating in the sector.

The sector witnessed substantial activity over the first four years of the Eighth Plan, with the number of registrations nearly doubling, from 37,322 to 68,412 between 2004 and 2008, which translates into an average annual growth rate of about 16.4%. At an average annual rate of increase in the number of registrations of about 54.3%, the personal and community services sub-sector was the fastest growing; followed by the building and construction sub-sector, at about 27.1%; and the transport and storage sub-sector at 23.2%.

The wholesale and retail trade, construction and building (contracting), and transport, storage and refrigeration sub-sectors accounted for the majority of existing registrations, although their total share of total registrations declined from 96.5% in 2004 to 89.6% in 2008 (Figure 16.2.1).

Figure 16.2.1
Structure of Existing Registers for Activities of Domestic Trade
Eighth Development Plan(*)

(%)



(*) Up to the end of the fourth year of the Eighth Development Plan.
Source: Ministry of Commerce and Industry.

The data of Table 16.2.1 show the evolution of the number of registered companies, and the number of licenses and certificates of origin and standards that have been issued over the period 2004–2008. A total of 191 trade fairs were held in 2008, including 7 for national industries, 9 for consumer products, and 56 held in hotels and charity bazaars. A number of regulations were issued, including Council of Ministers Resolution No. 45 of 2007 on continuation of Saudization of gold and jewellery shops, and the Anti-Commercial Fraud Law issued by Royal Decree M/ 19 of 2008. These contributed to improving the performance of the sector, which achieved an estimated annual average growth rate of 5.6% over the first four years of the Eighth Development Plan; a rate close to the target of about 5.7%.

Table 16.2.1
Activities of Domestic Trade and its Services
Eighth development Plan(*)

Activity and Service	Measurement Unit	2004	2008	Average Annual Rate Of Growth (%)
Company registrations	company	1148	2831	25.3
Individually-owned company registrations	enterprise	25418	63279	25.6
Commercial agency registrations	agency	162	430	27.6
Trademark registrations	Trademarks	5606	16463	30.9
Professional services office licenses	office	450	610	7.9
Gold shop and workshop licenses	shop	101	320	33.4
Certificates of origin for domestic products	certificate	182499	259193	9.2
Calibration of weights, measurements and standards equipment	calibration	9029	17538	18.1
Inspection and analysis of local and imported goods and materials	sample	348470	2915118	70.1

(*) Up to the end of the fourth year of Eighth Development Plan.

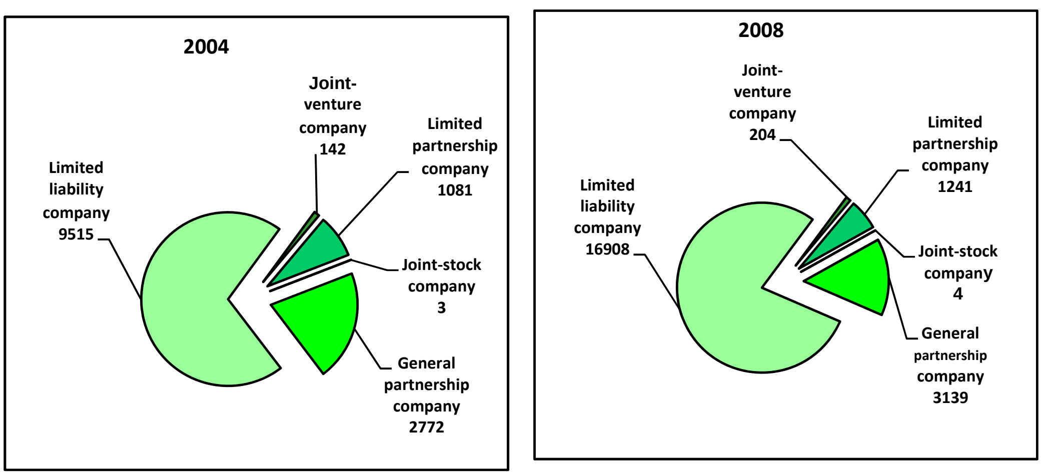
Source: Ministry of Commerce and Industry.

16.2.2.2 Commercial Companies

Organization and structure of domestic-trade companies developed under the Eighth Development Plan, and numerous constraints faced by small enterprises were eased, encouraging an increase in capital investment in this sector. Data in Figure 16.2.2 show the most important developments by type of company over the period 2004-2008. These are summarized in the following:

- The number of limited-partnership companies increased by about 14.8%; Joint-stock companies by 33.3%; general partnerships companies by 13.2%; limited liability companies by 77.7%; and joint-ventures by 43.7%.
- The total capital of these companies increased by about 188.6% in 2008, compared with 2004.

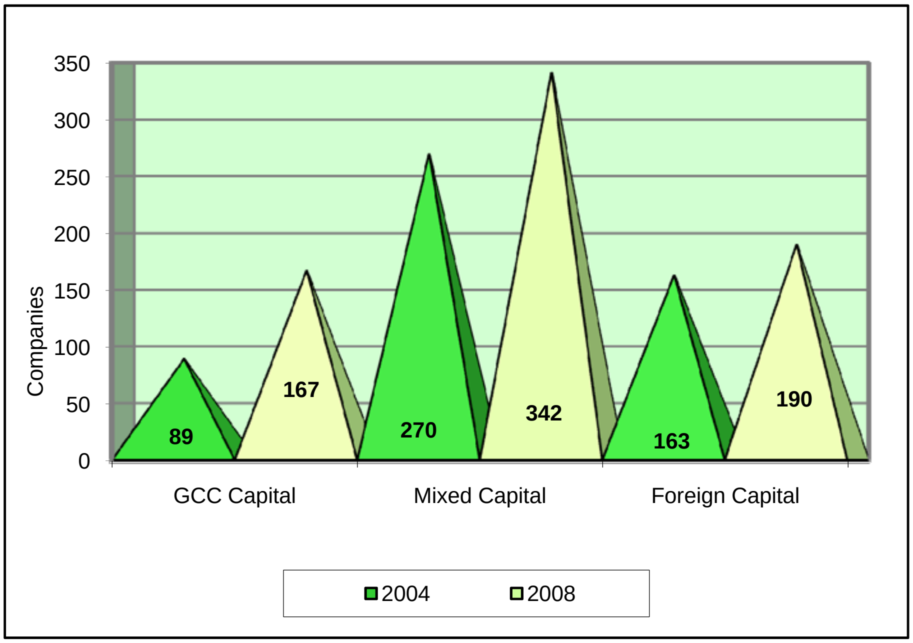
Figure 16.2.2
The Number of Companies
Eighth Development Plan(*)



(*) Up to the end of the fourth year of the Eighth Development Plan.
Source: Ministry of Commerce and Industry.

The data in Figure 16.2.3 show the notable growth of both the number of domestic-trade companies (GCC, mixed and foreign) and their invested capital over the period 2004–2008. The number of these companies grew by about 33.9% and their invested capital by about 81.3%, reflecting the improvement of the investment climate in Saudi Arabia.

Figure 16.2.3
Number of GCC, Mixed and Foreign Companies
Eighth Development Plan (*)



(*) Up to the end of the fourth year of the Eighth Development Plan.
Source: Ministry of Commerce and Industry.

16.2.2.3 Specifications and standards

The Board of Directors of the Saudi Standards, Metrology and Quality Organization (SASO) decided to adopt international standards. This, in addition to the obligations arising from accession to the World Trade Organization (WTO), led to approval of a large number of international standards. 14,434 Saudi standard specifications were approved under the Eighth Development Plan, raising the total number by the end of the Plan to 16,721. Moreover, 2,151 specifications were modified and updated, raising the total number to 2,399. 4,425 industrial licenses were investigated to confirm compliance of products with approved standards, raising the total number investigated to 23,048. The right to use a quality designation was granted to 108 national enterprises, raising the total number to 283, and 17 laboratories were approved within the special programme for approving private-sector laboratories, raising the total number of approved laboratories to 31.

SASO finalized the Saudi Building Code within the timeframe envisaged by the Eighth Development Plan. This will have a positive impact on the building and construction sector, since the code encompasses technical building specifications and conditions. SASO also issued 2,087 export certificates to national factories, and offered 2,599 technical consultations to various agencies. In addition, 2,287 measurement calibrations were carried out in the calibration and standards laboratories affiliated to SASO.

16.2.2.4 Institutional and organizational development

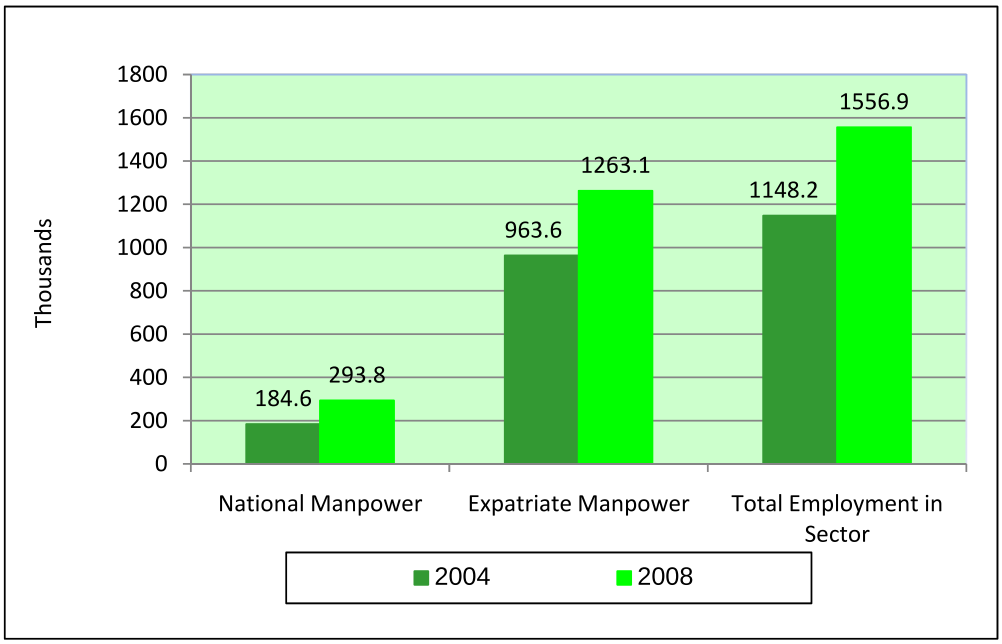
To enhance the efficiency of commercial activity and improve the investment environment, as well as to meet the requirements of the WTO, development of trade regulations and by-laws received considerable attention during the Eighth Development Plan. An agency for Consumer Affairs was established under the Ministry of Commerce and Industry, as was an independent civil association for consumer protection. In addition, several by-laws and regulations were issued, such as: the National Committee for Consumer Protection regulation, the mortgage regulation, the anti-fronting regulation, the general competition regulation, the sales-by-instalment regulation, the warehousing regulation, the trade fraud control regulation, the protection of confidential business information regulation, the control of joint-stock real estate ventures regulation, the executive law of the common trade policy of GCC countries, the trademarks for GCC countries regulation, the consolidated anti-dumping regulation, and the compensation and pre-emption measures for GCC countries.

As for standards and specifications, the Regulations for Energy Efficiency Card for Electrical Appliances was adopted and implemented. In collaboration with the Communications and Information Technology Commission, 57 technical regulations for communications and information technology equipment were adopted as mandatory Saudi standards. SASO, in cooperation with the Ministry of Water and Electricity, is conducting a study to standardize electric voltage in the Kingdom with the international system.

16.2.2.5 Employment

The data in Figure 16.2.4 show that employment in the domestic trade sector increased from 1.15 million workers in 2004 to 1.56 million in 2008, which translates into an average annual growth rate of 7.9%. Over the same period, the share of the sector in total employment rose from 16% to 19.5%, while the share of Saudi nationals in total employment rose from 16.1% to 18.9%. Nevertheless, the sector needs to intensify efforts to enhance employment opportunities for Saudi manpower.

Figure 16.2.4
Employment in Domestic Trade Sector
Eighth Development Plan(*)



(*) Up to the end of the fourth year of the Eighth Development Plan.
Source: Central Department of Statistics and Information.

16.2.3 Issues and Challenges

16.2.3.1 Classification of trade activities

There is an urgent need for providing integrated databases that cross-classify the activities of domestic trade, both by sector and by major group of goods and services. Such databases would aid in determining appropriate policies and programmes for developing the sector and addressing its structural problems, in an effort to enhance its efficiency and its contribution to GDP.

Hence, the Ministry of Commerce and Industry will intensify its efforts, in cooperation with the Central Department of Statistics and Information, the Council of Saudi Chambers, and all other agencies concerned, on several fronts, including:

- Preparing studies on the classification of domestic-trade activities, based on international experience, along with developing standards for monitoring performance, both by sector and by major group of goods and services.
- Conducting field surveys to provide appropriate databases reflecting the current conditions of domestic trade activities as well as a complete integrated database about the various activities in this sector.

16.2.3.2 Small and Medium Enterprises (SMEs)

Constraints, such as poor financial, organizational and marketing capabilities, lower efficiency and performance of most SMEs, constitute an important challenge to the developmental role of domestic trade. Hence, the Ninth Development Plan seeks to overcome the obstacles to the development of SMEs, through intensification of the following government and private-sector initiatives:

- Supporting the "Kafalah" Programme for SMEs financing, which is managed by the Saudi Industrial Development Fund and removing the obstacle impeding its development and the expansion of its activities, with the programme issuing annual reports highlighting its performance indicators and opportunities for developing them.
- Building databases on SMEs classifying them by type of activity, capital and manpower, to enable monitoring their growth indicators and their contribution to the development of domestic trade.

- Expanding provision of technical assistance to SMEs, either during preparation of feasibility studies or to ease regulatory and marketing constraints.
- Taking advantage of international programmes for developing SMEs, such as World Bank and UNIDO programmes, focusing on coordination between government and private initiatives, and encouraging Chambers of Commerce and Industry to establish special regional administrative units to support SMEs.
- Promoting the culture of self-employment in the community, through various media, to highlight the role of SMEs in reducing unemployment rates.
- Continuing to support the Saudi Credit and Saving Bank, to enable it to expand provision of professional loans and help the development of various domestic-trade activities.

16.2.3.3 Inflationary pressures

The impact of intermittent inflationary pressures, particularly on prices of food products and basic commodities and materials, such as building materials, needs to be limited. Over the past few years, Saudi Arabia faced inflationary pressures mostly due to external causes, but it was able to contain them, through a range of measures, helped later by the decline in international prices of some commodities following the global financial crisis. However, the evolution of inflation indicators over the last few years shows a number of contributory domestic factors. These were addressed by Council of Ministers Resolution No. 11of 2008 with a system of urgent policies and procedures, including:

- Actively enforcing the competition system.
- Preventing all forms of monopoly practices and reconsidering the system of commercial agencies to guard against monopoly.
- Finalizing the proposed food-supply policy system, as a matter of urgency.

- Intensifying efforts to control prices and combat commercial fraud.

- The Ministry of Commerce and Industry, the Ministry of Economy and Planning (Central Department of Statistics and Information), the Ministry of Finance (Customs Department), and other concerned agencies continuing to conduct periodic (weekly and monthly) field surveys to monitor and publish information on price movements in the markets.

Under the Ninth Development Plan, continuing to enhance protection of the domestic trade sector from inflationary pressures requires implementation of the resolutions issued, especially with regard to prevention of monopolistic practices, it requires active enforcement of the competition regulation, price controls, and toughening penalties for manipulation of domestic prices of food, and other essential goods.

16.2.3.4 Commercial and industrial fraud and counterfeit goods

Commercial and industrial fraud and counterfeit goods, which tend to be more widespread in the markets of developing countries, pose economic, social and health risks. To remove this negative phenomenon, the Ninth Development Plan aims to apply the anti-commercial fraud system issued by Royal Decree No. M / 19 of 2008, which focuses on:

- Reinvigorating the control and executive agencies responsible for preventing circulation of counterfeit and fraudulent goods.

- Supporting the material and human resources of anti-commercial fraud committees, increasing monitoring missions of local markets, carried out by the Ministry of Commerce and Industry, to seize fraudulent and counterfeit goods, and take necessary actions against their dealers.

- Increasing the number of laboratories at customs points to expand examination of imported goods.

- Toughening sanctions to deter offenders who produce, sell or promote fraudulent and counterfeit goods.
- Supporting and bolstering the Consumer Protection Association, and raising consumer awareness.
- Coordinating Gulf and Arab efforts aimed at developing common mechanisms for combatting commercial and industrial fraud and counterfeit goods.

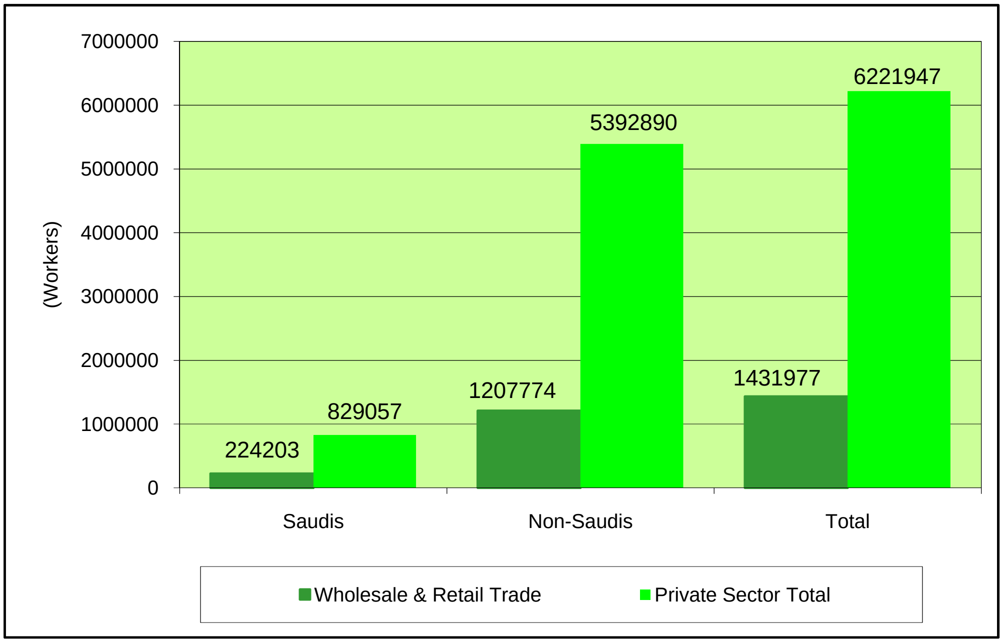
16.2.3.5 Contribution of Saudi manpower

Despite the efforts of various ministries and agencies to increase employment opportunities for Saudi labour, the domestic trade sector is still suffering from low Saudi labour force participation, especially in respect of implementation of Council of Ministers Resolution No. 50 of 1994, stipulating increasing the employment of Saudi manpower in establishments and companies by 5% annually; and the resolutions to Saudize some commercial activities. Data of the Ministry of Labour on registered workers indicate that in 2008 Saudi participation in wholesale and retail trade was 15.7%; better than their overall participation in all private-sector activities, which was 13.3% (Figure 16.2.5). Nevertheless, there is still great potential for creating job opportunities for Saudis by replacing expatriates in numerous wholesale- and retail-trade activities. Hence, the Ninth Development Plan attaches particular importance to developing mechanisms for employing Saudi manpower in domestic trade, within the framework of the National Employment Strategy.

16.2.3.6 Fronting and issuance of NSF Cheques

With the expansion of economic, trade and service activities, and with the spatial development of urban and rural areas in various regions, fronting has become a problem. Issuance of the anti-fronting regulations is expected to limit its spread. The Ninth Development Plan aims to improve performance of the administrative control and inspection personnel and intensify efforts to saudize commercial activities afflicted by fronting.

Figure 16.2.5
Number of Workers in Wholesale and Retail Trade
(2008)



Source: Ministry of Labour.

Despite criminalization of non-sufficient-funds (NSF) cheques, persistence of this problem leads to loss of confidence in cheques as a payment tool, with consequent negative impacts on overall commercial activities.

The Ninth Development Plan seeks to eliminate this problem, protect dealing with cheques as a payment tool, and continue intensive efforts to raise awareness of importance of cheques in commercial and civil transactions; along with adopting appropriate mechanisms to enhance dealings with cheques, including reviewing the sanctions in the commercial instruments regulations.

16.2.3.7 Joint-stock real estate ventures

Joint-stock real estate ventures play an important role in development and reinvigoration of real estate to serve other production and service sectors. However, under the Eighth Plan, about 47 joint-stock real estate ventures failed. Investment in these failed ventures amounted to SR6,928 million; about 52% of the total value of joint-stock real estate ventures licensed by the Ministry of Commerce and Industry.

The Ministry of Commerce and Industry has taken measures to liquidate these failed ventures, while ensuring shareholder rights, and has succeeded in doing so in several cases.

However, in view of continuing reliance on joint-stock real estate ventures, and to address the reasons for the failure of some such ventures and safeguard the rights of shareholders, Council of Ministers Resolution No. 220 of 2005 established a real estate investment fund, in accordance with regulations set by the Ministry of Commerce and Industry, in collaboration with the Capital Market Authority.

In addition, Council of Ministers Resolution No. 130 of 2008 called for accelerated liquidation of failed joint-stock real estate ventures. The Ninth Development Plan pays particular attention to establishing effective regulatory and institutional frameworks for monitoring performance of joint-stock real estate ventures, as well as for enhancing their role in developing the real estate sector.

16.2.4 Development Strategy

16.2.4.1 Future vision

Enhancing the developmental role of the domestic trade sector, by increasing its contribution to the development of productive and service sectors and to the provision of employment opportunities for Saudi manpower; in addition to meeting the needs of the domestic market for local and imported products and achieving food security; all within the framework of competition and elimination of all forms of monopolistic practices.

16.2.4.2 Objectives

- Developing domestic trade and directing it towards fulfilling the needs of the national economy, and increasing its relative contribution to GDP.

- Stimulating private investment in this sector, while encouraging national enterprises to merge, forming bigger, more competitive entities enjoying the benefits of economies of scale.
- Qualifying Saudi manpower to replace expatriate workers.
- Ensuring meeting the needs of local markets, in all regions, of goods and services, in accordance with national and international specifications, at reasonable prices through a competitive market.
- Reducing harmful practices, such as commercial fraud, dumping, fronting, and monopolistic practices.
- Further developing the Saudi standards specifications and quality systems, and raising the level of compliance with approved specifications, especially in the national industries.

16.2.4.3 Policies

- Reviewing, developing and facilitating ways, procedures and methods of doing business, in response to the needs of the national economy.
- Classifying domestic-trade activities, both by sector and by major group of goods and services, and conducting field surveys to provide a comprehensive database of information on the status of domestic trade.
- Continuing efforts to remove obstacles to the development of SMEs, with a focus on supporting and developing the "Kafalah" Programme run by the Saudi Industrial Development Fund; providing a comprehensive database of information on the evolution of SMEs; and spreading the culture of self-employment.
- Developing mechanisms for ensuring full implementation of the anti-commercial fraud regulations established by Royal Decree No. M / 19 of 2008; while intensifying control and inspection campaigns, introducing stiffer penalties, supporting the Consumer Protection Association, and coordinating efforts with Gulf and Arab countries to combat

commercial fraud.

- Intensifying efforts to increase participation of Saudi manpower in this sector, through identification of the requirements of businesses providing appropriate education and training programmes.
- Enhancing confidence in dealing in commercial instruments, combating dumping of goods and trade fronting, stiffening penalties for monopolistic practices, and reinvigorating the Competition Protection Council, to ensure strict application of competition regulations.
- Continuing efforts to liquidate failed joint-stock real estate ventures, while safeguarding the rights of shareholders, in implementation of Council of Ministers Resolution No. 130 of 2008.
- Increasing consumer awareness among citizens, through familiarising them with ways for verifying quality of goods, and their validity and conformity to specifications, while toughening sanctions on violation of specifications.
- Coordinating and reinforcing government and private initiatives to raise environmental awareness among workers in the sector, through joint awareness programmes, sponsored by the Ministry of Trade and Industry and Chambers of Commerce and Industry.
- Supporting the efforts of the Saudi Industrial Development Fund in providing technical advice, by assisting in feasibility studies or easing technical, regulatory and marketing constraints.
- Intensifying efforts of Chambers of Commerce and Industry to increase importers' awareness of the importance of developing their activities and their abilities to deal with developments in domestic and international markets.
- Providing strategic stocks of basic food supplies, in order to guard against sudden price increases, meet any shortfalls in supply, and respond effectively to emergent crises.

16.2.4.4 Targets

- Supporting and developing the "Kafalah" Programme and monitoring its performance by having it issue an annual report.
- Providing a comprehensive database of the various domestic-trade activities, properly classified by sector and by major group of goods and services.
- Achieving a steady increase, commensurate with increasing demand, in registrations of companies, establishments and commercial agencies, as well as in trademarks, certificates of origin, and licenses of private laboratories.

16.2.5 Financial Requirements

The financial requirements allocated for the Saudi Standards, Metrology and Quality Organization are SR598.1 million, while the financial requirements allocated for the trade sector are included within the Ministry of Commerce and Industry allocations.