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The Saudi Arabian Economy

Policies, Achievements and Challenges

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CHAPTER 10

SAUDI ARABIA AND THE WTO

Overview

- Saudi Arabia acceded to the **WTO in December 2005** after 12 years of negotiations. It became the 149th member.
- The objective was to benefit from being a member of a global organization that will allow the Kingdom to enjoy the benefits of a **globalized economic system**.
- By globalization, we generally mean international integration in commodity, capital and labor markets.

(Contd...)

- There have been **waves of globalization** over the past decades marked by periods of both accelerated integration as well as a break down of the system.
- Certain key **technological developments** have often been catalysts for globalization, especially in movement of goods and people (development of the jet engine, road infrastructure, revolution in IT technology).
- Sometimes there has been a link between **globalization and political developments** eg. the fall of the Soviet Union, emergence of the European Union, emergence of China as a major power etc.

Table 10.1. Globalization main events.

<i>Time</i>	<i>Economic</i>	<i>Political</i>	<i>Technological</i>
1940s	<ul style="list-style-type: none"> • Establishment of the Bretton Woods System, a new international monetary system (1944-71) 	<ul style="list-style-type: none"> • Foundation of the United Nations (1945) 	<ul style="list-style-type: none"> • Expansion of plastics and fibre products
	<ul style="list-style-type: none"> • Establishment of GATT (1947) entering into force in January 1948 	<ul style="list-style-type: none"> • Launch of the Marshall Plan (1948—57), a European recovery programme • Founding of the Organization for European Economic Cooperation (1948) 	
	<ul style="list-style-type: none"> • Soviet Union establishes the Council for Mutual Economic Assistance (CMEA) for economic cooperation among communist countries (1949-91) 	<ul style="list-style-type: none"> • Decolonization starts (1948-1962). 	<ul style="list-style-type: none"> • Discovery of large oil fields in the Middle East, especially in Saudi Arabia (1948)
1950s	<ul style="list-style-type: none"> • Treaty of Rome establishes the European Community (1957). EC and the European Free Trade Association (1959) favour west European integration 	<ul style="list-style-type: none"> • Korean war (1950-53) • Suez crisis (1956) 	<ul style="list-style-type: none"> • Increased use of oil from the Middle East in Europe and Japan
	<ul style="list-style-type: none"> • Major currencies become convertible (1958-64) 	<ul style="list-style-type: none"> • Decolonization in Africa (15 countries become independent between 1958 and 1962) 	<ul style="list-style-type: none"> • Increasing usage of jet engines in air transport (1957-72)
1960s	<ul style="list-style-type: none"> • Foundation of the Organization of the Petroleum Exporting Countries (OPEC) (1960) 		
	<ul style="list-style-type: none"> • Development of the Eurodollar Market in London which contributed to the expansion of international liquidity 		<ul style="list-style-type: none"> • Integrated circuits become commercially available (1961) • Offshore oil and gas production developed
	<ul style="list-style-type: none"> • Kennedy Round, 6th session of the GATT (1964-69) • Rapid spread of automobiles and highways in the North accelerates demand and shift in fuels consumption (from coal to oil) 	<ul style="list-style-type: none"> • Erection of Berlin Wall (1961) and Cuban missile crisis (1962) 	<ul style="list-style-type: none"> • Green Revolution – transforming agricultural production in developing countries (1960s onwards)
1970s	<ul style="list-style-type: none"> • Departure from US dollar exchange rate gold standard (1971) 	<ul style="list-style-type: none"> • 1973 war helps to trigger oil price hike 	<ul style="list-style-type: none"> • First single chip microprocessor (Intel 4004) is introduced (1971)
	<ul style="list-style-type: none"> • Tokyo Round of the GATT (1973-79) 	<ul style="list-style-type: none"> • EU enlargement to nine members (1973) 	
	<ul style="list-style-type: none"> • Rise of Asian newly industrialized countries • China's economic reform (1978) 		<ul style="list-style-type: none"> • Microsoft Windows introduced (1985)

Table 10.1. Globalization main events (Contd...).

<i>Time</i>	<i>Economic</i>	<i>Political</i>	<i>Technological</i>
1980s			• IBM introduces the first personal computer (1981)
	<ul style="list-style-type: none"> • Developing country debt crisis • Mexico starts market reforms and joins the GATT in 1986 	<ul style="list-style-type: none"> • Enlargement of the EU to 12 members • Establishment of the Gulf Cooperation Council (GCC) 1981. 	
	• Louvre Accord promotes stabilisation of major exchange rates (1987)	• Fall of the Berlin wall (1989)	
1990s	<ul style="list-style-type: none"> • Indian economic reforms launched in 1991 • Establishment of the North American Free Trade Agreement (1994) • Asian financial crisis (1997) 	<ul style="list-style-type: none"> • Dissolution of the Soviet Union (1991) leads to the formation of 13 independent states 	<ul style="list-style-type: none"> • Eurotunnel opens in 1994 linking the United Kingdom to continent • The number of mobile phones increases due to the introduction of second generation (2G) networks using digital technology
	• Establishment of the WTO (1995) following Uruguay Round (1986-94)		• Invention of the World Wide Web by Tim Berners-Lee (1989)- first web site put online in 1991. Number of internet users rises to 300 million by 2000
	• Adoption of the euro by 11 European countries (1999)	• Maastricht Treaty (formally, the Treaty on European Union) signed (1992)	
2000s	• Dotcom crisis (2001)		• Container ships transport more than 70 per cent of the seaborne trade in value terms
	<ul style="list-style-type: none"> • China joins WTO (2001) • Saudi Arabia joins WTO (2005) 		• Number of internet users rises to 1.8 billion in 2008.
	• Global financial crisis 2007/08	• Enlargement of the EU to 27 members	• 3 G Technology introduced.

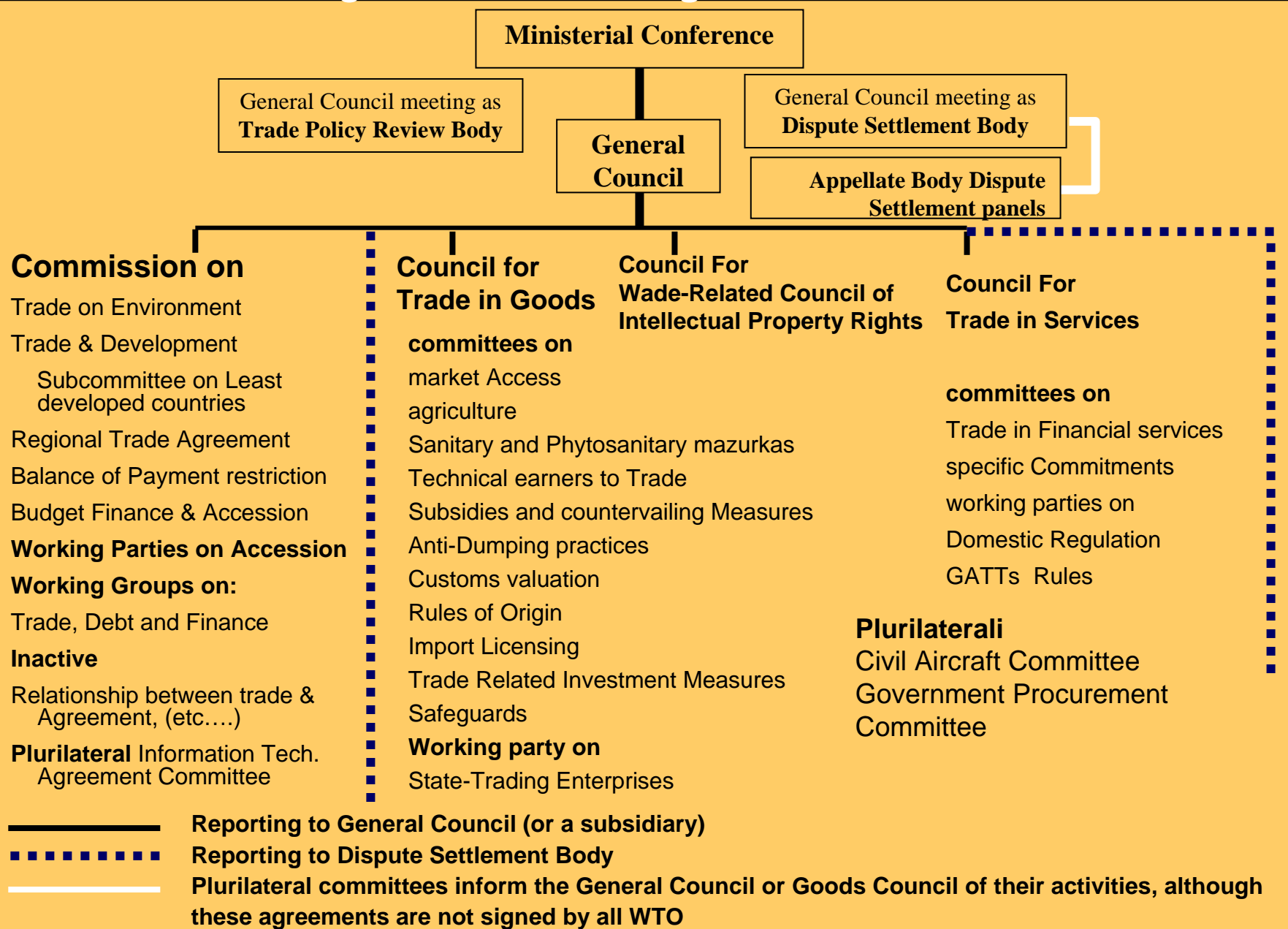
Benefits and costs of trade liberalization

- The integration of any country into the global economy brings both benefits and challenges.
- It is the **adjustment** period and **costs** associated with trade liberalization (eg. reduction in import tariffs) that causes some **uncertainty**, especially to domestic industries that will face intense foreign competition.
- The World Trade Organization (WTO) is the **only** international body that deals with the rules of trade between nations.

Benefits and costs of trade liberalization II

- At the heart of the WTO are **binding** legal agreements that are negotiated and signed on accession to the WTO.
- The WTO, unlike the IMF or World Bank, is run by its member governments and **all** major decisions are made by all members as a whole.
- The WTO is headquartered in Geneva and has a specific governing structure.

Figure 10.1. WTO Organizational Structure



WTO's basic operating principles

- The **basic operating principles** aimed at ensuring a smooth trading regime should be:
 - **Without discrimination.** All countries are granted “most-favored” nation (MFN) status with no discrimination between its own and foreign products, services or nationals. MFN is a very important principle for WTO.
 - **Freer.** Barriers to trade to come down.
 - **Predictable.** Foreign companies, investors and governments should be confident that trade barriers (including tariffs, non-tariffs barriers etc.) should not be raised arbitrarily.
 - **More competitive.** By discouraging “unfair” practices such as export subsidies and dumping of products.
 - **More beneficial for less developed countries.** By giving them more time to adjust, greater flexibility and special privileges.

Historical overview of the General Agreement on Tariff and Trade (GATT) and the WTO

- WTO came into being on **1st January 1995** after many GATT rounds before it to try and improve on the world trading system.
- There were **7 GATT ‘rounds’** before the WTO was created, but WTO took trade into new areas which were not covered by GATT.
- These areas were:
 - **GATS:** General Agreement on Trade in Services
 - **TRIPS:** Trade Related Aspects of Intellectual Property.
 - ***Dispute Settlement Procedures.***

Table 10.2. The GATT Trade Rounds

<i>Year</i>	<i>Place</i>	<i>Subjects Covered</i>	<i>Countries</i>
1948	Havana	Tariffs	23
1949	Annecy France	Tariffs	13
1951	Torquay UK	Tariffs	38
1956	Geneva	Tariffs	26
1960-61	Geneva (Million)	Tariffs	26
1964-67	Geneva (Kennels)	Tariffs and ant-dumping	62
1973-79	Geneva (Tokyo)	Tariffs and non-tariffs measures, framework agreements	102
1986-94	Geneva (Uruguay)	Tariffs, Non-tariffs, rules, services, intellectual property, dispute settlement, textiles, agriculture, creation of WTO.	123
1994-	Doha Round	All plus financial services.	147

Source: *WTO*

Figure 10.2. Structure of WTO agreement areas

	<i>GOODS</i>	<i>SERVICES</i>	<i>INTELLECTUAL PROPERTY</i>	<i>DISPUTES</i>
• BASIC PRINCIPLES	GATT (General Agreement on Tariff and Trade)	GATs (General Agreement on Trade in Services)	TRIPS (Trade related aspects of Intellectual property)	Dispute Settlement
• ADDITIONAL DETAILS	Other goods agreements and annexes	Services Annexes		
• MARKET ACCESS COMMITMENT	Countries schedules of commitments	Countries schedule of commitments (and most favoured nation exemptions)		

Source: WTO

Saudi Arabia WTO accession: a long and hard road

- Saudi Arabia **acceded to the WTO on 11th Dec. 2005, becoming the 149th member after 12 years of “on-off” negotiations.**
- In 2010, only Russia was the last remaining world economic power outside the WTO.
- To become a member, Saudi Arabia **had to make major commitments** and carry out some necessary legislative reforms.

(Contd...)

- **Saudi Arabia committed to immediately carry out the following on accession.**
 - Reduce import tariffs from around 15% to 7%.
 - “Binding” tariffs on individual products to private sector and agriculture.
 - Phasing out government subsidies to private sector and agriculture.
 - Applying non-discriminatory treatment to the goods and services of other WTO members.
 - Enforcing intellectual property rights.
 - Allowing majority foreign ownership of investment projects.
 - Opening up the services sector.

Other commitments were made

- Treating foreign and local investors-equally (removal of local sponsorship agents or **WAKEELS**, allowing of foreigners to own real estate).
- Establishing new trademark laws.
- Removing technical barriers to trade by easing of travel visa requirements.
- Signing Basic Telecommunications Agreement to allow competition in telecommunications services.
- Changing competition laws to provide anti-trust protection and consumer protection.

(Contd..):

Before WTO accession, the Kingdom provided the WTO with:

- **94 basic laws and regulations (7,000 pages).**
- **Held 13 working parties.**
- **Engaged in 314 rounds of bilateral market access negotiations.**
- **Replied to 3,400 questions from the WTO.**
- **Signed 38 bilateral agreements prior to WTO accession.**
- **Approved 42 new regulations domestically.**

Benefits of WTO membership

- Protects the Kingdom from **discriminatory trade policies** of other nations.
- Involves Saudi Arabia in **settlement procedures** to resolve trade disputes.
- Saudi Arabia is no longer subject to **anti-dumping** practices.
- Saudi exports to WTO members will be granted **Most Favored Nation (MFN)** status.

(Contd...)

- WTO membership will **accelerate** privatization and domestic economic reforms.
- WTO membership could also institute greater **domestic efficiency** and cost cutting measures in the economy.

However, there are perceived **short and long term impacts of globalization.**

Table 10.3 Impact of globalization on Saudi Arabian economy

<i>Impact</i>	<i>Short-Term Impact</i>	<i>Long-Term Impact</i>
<i>Positive</i>	<ul style="list-style-type: none"> • Lower priced imported inputs • Higher multinational investment in local industry with implementation of international patent laws 	<ul style="list-style-type: none"> • Shift from exporting primary products to exporting value-added industrial products • Local firms restructuring • Formation of international strategic alliances with brand name manufacturers • Development of specialized expertise in range of products • Higher multinational investment in local industry with implementation of international patent laws • Wider variety of technology transfers
<i>Negative</i>	<ul style="list-style-type: none"> • Encouraging more imports to Saudi Arabia, with balance of payment implications • Weaker local producers under competitive strain • Govt. procurement policy giving local priority will be scrapped, making some local firms unable to effectively compete against foreign competition • Export sales may not go up due to quality considerations • Growth in some sectors could slow down, with unemployment consideration • Implementation of international patent laws will have impact on certain sectors, such as pharmaceuticals and chemicals • Less efficient service providers in Insurance, banking and telecommunications will be negatively affected by competition 	<ul style="list-style-type: none"> • Questions about the ability of some Saudi industries to meet modernization challenges and adjustment costs. • Potential structural unemployment • Exit of some industries due to reduction of subsidies, subsidized loans and tariff protection • Foreign ownership of certain strategically deemed sectors (e.g. Communications)

Source: Authors survey, Eastern Province Chamber of Commerce, 2006.

The WTO Agreements: Implications for Saudi Industry

- The **impact** of the Kingdom's WTO accession on Saudi industries is **varied** with some benefiting and some feeling the pressure of globalization.
- The Kingdom's WTO agreements are also **specific** to Saudi commercial sectors and as such there are **potential impacts arising from the signed agreements.**

The next set of tables analyzes the impact of the various agreements on different Saudi economic sectors.

Table 10.4 Saudi Arabia's WTO agreements and potential impact on economic sectors.

<i>Sector</i>	<i>Agreements</i>	<i>Impact on Saudi Arabia.</i>
(A) AGRICULTURE	<ul style="list-style-type: none"> • Saudi Arabia will “bind” over 90% of all agricultural tariffs at 15% or lower. Although some reductions are implemented over 5 years, the majority of bound rate commitments will be in effect upon accession. • Approximately 75% of agricultural exports to KSA will have access at the low rates (corn, rice, barley, corn oil, soybean meal, almonds, apples, raisins, cheeses, potato chips, frozen fries, bakery goods and processed foods). • After implementation, the average bound goods will be 7% tariffs. 	<ul style="list-style-type: none"> ▪ Major impact on Saudi agricultural/dairy industry. ▪ Subsidies range from 30% cash subsidy on poultry equipment, plus SR 160 per tonne on imported feedstock. ▪ 20% custom duties exist on agricultural imports. ▪ Edible oil industry will face less pressure as fairly cost efficient and export orientated in some areas. There are 11 operating units with capacity of around 380,000 tonnes. Current market demand around 300,000 tonnes. Industry investment around SR 500 million. ▪ Dairy industry enjoys up to 30% of total cost subsidies and SIDF loans. A SR 12 billion industry with domestic demand around 1.4 million tonnes p.a. 61 operating units employing 8,000 workers.

Table 10.4 (Contd....)

Sector	Agreements	Impact on Saudi Arabia.
(B) SANITARY AND PHYTOSANITARY MEASURES	<ul style="list-style-type: none"> ▪ Saudi Arabia is committed to applying science-based sanitary and Phytosanitary standards to all agricultural goods, including grains, meats and fruits/vegetables. ▪ Saudi Arabia will eliminate its prohibition on importing beef and other meat products from animals treated with growth promoting hormones. ▪ Saudi Arabia will facilitate U.S. meat and poultry exports by recognizing an official USDA Food Safety and Inspection Service Export Certificate. 	<ul style="list-style-type: none"> ▪ Could cause concern amongst Saudi consumers relating to hormone treated products. ▪ Saudi poultry industry is around SR 6 billion with 2 companies having 50% of the market. Another 450 companies operate in this sector could be damaged. ▪ Industry is subsidized (30% cash subsidy on poultry equipment, plus SR 160 per tonne on imported feed stocks) 20% custom duties.

Table 10.4 (Contd....)

Sector	Agreements	Impact on Saudi Arabia.
(C) INDUSTRIAL GOODS MARKET ACCESS	<ul style="list-style-type: none"> ▪ General Agreement on Tariffs and Trade (GATT). KSA will take on the obligations of GATT 1994 plus: ▪ Tariff Reductions: Cuts in Saudi tariffs on industrial goods. Some reductions are implemented over 5 years, the majority are in effect upon accession. Saudi Arabia will bind its tariffs on over three-fourths of exports of industrial goods at an average rate of 3.2%, many other key exports at less. <p><u>Specifically</u></p> <ul style="list-style-type: none"> ▪ Participation in the Information Technology Agreement with elimination on tariffs on computers, semi-conductors and other information technology products. These to be eliminated by Jan.1, 2008. ▪ Eliminate all tariffs on pharmaceuticals and trade in civil aircraft upon accession. ▪ Saudi Arabia will implement the tariff rates required by the WTO's chemical tariff harmonization agreement. This covers nearly 1,100 products and harmonization will be in effect for the vast majority of these on accession. ▪ For a small number, harmonization will be in 2 phases with final effect on January 1, 2010. 	<ul style="list-style-type: none"> ▪ Those Saudi industries with heavy custom duties protection will suffer (eg. Aluminum – shielded at 20% custom duties, Steel and base metals will be affected as protection exists for 116 items out of 740 lines, with 20% custom on imports). ▪ There is around 215 projects in steel and base metals, employing around 25,000 workers and investment of SR 8 billion. Annual demand 2.5 million tonnes. 16 of the Saudi projects are joint ventures. There are 26 aluminum operating units with capacity of 120,000 tonnes with 4 units producing 95,000 tonnes. No aluminum smelters yet in Saudi, reliant on imported aluminum imports. The furniture industry is a SR 5 billion market with 65% imported. There are 125 large units operating and 7,000 small units. Tariffs set 12% on imports plus 20% protected each. ▪ Refrigeration will suffer (SIDF loans at 50%), Technologies will be affected given the short period for tariff elimination. ▪ Furniture industry will suffer (tariffs set at 12% on imports plus 20% on protected items). ▪ Pharmaceuticals will be affected. This is a SR 6-8 billion market and growing. However, major producers are Saudi-foreign joint ventures and could assume smooth transition for many. ▪ Annual demand now around 2.5 million tonnes for whole GCC with Saudi share growing.

Table 10.4 (Contd....)

Sector	Agreements	Impact on Saudi Arabia.
<p>(C) INDUSTRIAL GOODS MARKET ACCESS</p>	<p><u>Removal of Non-Tariff Barriers</u></p> <ul style="list-style-type: none"> ▪ Non-tariff barriers will be removed, to allow for free trade in commercially traded information technology products such as cell phones, computers, and cameras. ▪ KSA has agreed to bind all other duties and charges on industrial goods at ZERO on accession. ▪ KSA has also agreed to charge fees for costumes and port services on imports based on the <u>cost of services rendered</u> and terminate certificate of origin authentication and customs certificates by Saudi consulates. ▪ KSA committed to remove its export ban on all scrap metals prior to accession and will not apply export duties to these products. <p><u>Import Licensing</u></p> <ul style="list-style-type: none"> ▪ Commits to principles of “national treatment” and non-discrimination. ▪ Import licenses not conditioned on performance requirements of any kind, such as local content, export performance, technology transfer or research and development or whether competing domestic suppliers exist 	<ul style="list-style-type: none"> ▪ Will affect Saudi industries who are receiving discriminatory national treatment in supplying “local content” for government related projects. The removal of technology transfer and R+D requirements will hit Saudi Arabia’s need for such items

Table 10.4 (Contd....)

Sector	<u>Agreements</u>	Impact on Saudi Arabia.
(D) TRIPS (Trade Related Aspects of Intellectual Property Rights).	<ul style="list-style-type: none"> ▪ Saudi Arabia fully committed to implement TRIPS upon accession without any transition period. ▪ Saudi Arabia committed to protecting pharmaceutical and agricultural chemical test data submitted to obtain marketing approval against unfair commercial use for a period of 5 years and will not register a generic form of a pharmaceutical when a patent application is on file. 	<ul style="list-style-type: none"> ▪ No major impact as Saudi Arabia has already established stringent TRIPS regulation and Ministry of Commerce inspections. ▪ Pharmaceutical and chemical test data is not sufficiently strong domestically to be affected. ▪ Significant progress made on TRIPS since WTO accession and in 2010 Saudi Arabia removed from USA copyright watch list due to progress in enforcement of intellectual property rights.

Table 10.4 (Contd....)

Sector	Agreements	Impact on Saudi Arabia.
(E) SERVICES MARKET ACCESS	<p>1. <u>Banking and Securities</u></p> <ul style="list-style-type: none"> ▪ Immediately upon accession, foreign banks will be able to establish direct branches to be regulated on the basis of world-wide capital. Foreign equity can increase from current 40% to 60%. KSA also provided assurances regarding management control. ▪ Cross-border market access commitments are comparable or superior to those of OECD countries. Foreign firms are afforded non-discriminatory treatments or “national treatment” across all financial services sub-sectors. 	<ul style="list-style-type: none"> ▪ Foreign wholly owned bank licenses are already granted. Issue is whether Saudi market can absorb more foreign bank entry but foreign banks can now operate under “cross-border” basis without local presence

Table 10.4 (Contd....)

Sector	Agreements	Impact on Saudi Arabia.
(E) SERVICES MARKET ACCESS	<ul style="list-style-type: none"> ▪ Asset management and financial advisory services may be provided through banks or non-bank financial institutions. Foreign financial institutions will be permitted to provide pension funds supplementary to public pension schemes at the same time that Saudi financial institutions are permitted to do so. 	<ul style="list-style-type: none"> ▪ Pension fund management is a big untapped market and this is where Saudi banks have not developed expertise and could lose market share.
	<p>2. <u>Insurance</u>: After accession SAMA will issue operating licenses to foreign insurance companies as follows:</p> <ul style="list-style-type: none"> • Allow direct branching by foreign insurance providers. Foreign insurance can also establish a cooperative insurance company in KSA with up to 60% equity stake. • A company may keep 90% of the profits and redistribute 10% to the policy holders. • Foreign insurance companies will receive national treatment. • Existing foreign insurance company providers in KSA are allowed to continue operations without disruption and offer new products and services to new and existing customers until April, 2008 after which they must convert to either a branch of a foreign insurance company or a Saudi cooperative insurance company. 	<ul style="list-style-type: none"> ▪ Large scale foreign entry into this market forecasted, aided by government regulation to impose mandatory health, and car accident insurance. ▪ The amount of foreign profit repatriation is quite high and not much will be left for domestic recycling or long term investment.

Table 10.4 (Contd....)

Sector	Agreements	Impact on Saudi Arabia.
E. Services Market Access	<ul style="list-style-type: none"> Foreign insurance providers may now solicit and sell reinsurance and a number of product lines for large sophisticated customers on a cross-border basis without establishing in KSA. 	<ul style="list-style-type: none"> Will take away business from Saudi companies, especially for those bidding for mega projects.
	<p>3. <u>Telecoms.</u></p> <ul style="list-style-type: none"> Committed to market access without limitation for cross-border supply and consumption abroad. By end of 2008, there will be 70% foreign equity ownership allowed. Commitments include basic telecommunication services and value-added telecom services through any means of technology. KSA to establish an independent regulator and obligations to prevent anti-competitive behavior by dominant supplier 	<ul style="list-style-type: none"> Saudi Telecom Company market share will be further eroded and profitability could be dented. Since WTO accession, three other foreign telecom providers have entered the Saudi market.

Table 10.4 (Contd....)

Sector	Agreements	Impact on Saudi Arabia.
(E) SERVICES MARKET ACCESS	<p>4. <u>Audio-visual services.</u></p> <ul style="list-style-type: none"> ▪ KSA commitment for motion picture and home video entertainment distribution services includes video tapes and DVD's, while leaving open the door to new home entertainment technologies in the future. ▪ Commitment for radio and TV production and distribution services covers both the production of radio and TV programs and their distribution. 	<p>Impact on Saudi Arabia.</p> <ul style="list-style-type: none"> ▪ Not much impact as this industry is infant or non-existent for radio and TV production in private sector as mostly government controlled. ▪ However, there is a domestic CVD, home video cassette production industry.
	<p>5. <u>Energy Services</u></p> <ul style="list-style-type: none"> ▪ Allows for energy services companies to compete on level playing fields in areas of oil and gas exploration and development, pipeline transportation of fuels, management consulting, technical testing and analysis, and repair and maintenance of equipment 	<ul style="list-style-type: none"> ▪ Foreign pipeline transportation could cause current Saudi operators to lose out on "local content" mandated business as well as some Saudi energy services companies, unless they have already established foreign joint ventures or partnerships. ▪ Since WTO accession there have been some major wholly owned foreign company entry in this sector

Table 10.4 (Contd....)

Sector	Agreements	Impact on Saudi Arabia.
(E) SERVICES MARKET ACCESS	<p>6. <u>Express Delivery.</u></p> <ul style="list-style-type: none"> ▪ Unrestricted delivery of documents, parcels, packages and goods and other items through all relevant modes of supply, and guarantee that foreign express delivery service operators will receive treatment no less favorable than that accorded to the Postal Office. 	<ul style="list-style-type: none"> ▪ Will impact current Saudi sponsors of international brand names (Fed Ex, DHL etc.) who could now operate independently plus see other names come into the market in the long term but so far local joint venture agreements operating.
	<p>7. <u>Transportation Services.</u></p> <ul style="list-style-type: none"> ▪ KSA will open its markets for maintenance and repair of aircraft and computer reservation systems. 	<ul style="list-style-type: none"> ▪ Nascent Saudi aircraft maintenance companies such as Al Salaam will be hit by competition.
	<p>8. <u>Business Service</u></p> <ul style="list-style-type: none"> ▪ KSA will provide improved market access for professional and business service providers (lawyers, accountants, architects, engineers, consultants, advertising marketing executives and veterinarians). ▪ KSA guaranteed the rights of the these service companies to hold up to 75% equity in firms established in Saudi Arabia while it would be 100% in the computer and related services. 	<ul style="list-style-type: none"> ▪ Local Law firms and other professional bodies who already have foreign association could see these associations loosen and new foreign independent operating names appear. ▪ Will hit hard all emerging Saudi IT and computer related industries unless carried out on joint venture basis.

Table 10.4 (Contd....)

Sector	Agreements	Impact on Saudi Arabia.
(E) SERVICES MARKET ACCESS	<p>9. <u>Distribution Services</u></p> <p>▪ KSA will liberalize the wholesale, retail and franchise sectors. Foreign service providers may establish joint-ventures and retain 51% share. Three years after accession, the foreign equity limitations can be increased to 75%.</p>	<p>▪ Major foreign wholesale and retail names already exist but under agency agreements. These could be re-examined and new foreign retailers appear without sponsors and this has been evident since WTO accession with foreign brand names operating independently.</p>
	<p>10. <u>Environmental Services</u></p> <p>KSA will liberalize their environmental market. U.S. service providers may provide a wide range of services (sewage services, noise-abatement) without limitation on market access or national treatment.</p>	<p>▪ Limited impact on Saudi environmental service providers, as these are not yet well established.</p>

Table 10.4 (Contd....)

Sector	Agreements	Impact on Saudi Arabia.
(E) SERVICES MARKET ACCESS	<p><u>11. Hotels and Restaurants</u></p> <ul style="list-style-type: none"> ▪ KSA will open its market to encourage increased foreign investment in the Saudi hotel industry as well as opening opportunities for foreign hotel management companies. 	<ul style="list-style-type: none"> ▪ Pressure on Saudi Hotel and Resorts Company and other private hoteliers if new brand names come in or existing management contracts re-negotiated. Some foreign brand names now operating independently since WTO accession.
	<ul style="list-style-type: none"> ▪ KSA will comply with all obligations under the WTO Agreement on technical barriers to trade from date of accession without recourse to any transition period. 	
	<ul style="list-style-type: none"> ▪ KSA has to enact new legislation and establish new institutions and procedures to ensure transparency and non-discrimination as follows: <ul style="list-style-type: none"> - Establishment of Ministry of Commerce and Industry as the authority responsible for making notifications to the WTO, - Establishment of SASO of a single point for information and mandate SASO to follow the code of good practice for preparation, adoption and application of standards, - Establishment of a non-discriminatory and cost-based fee structure for assessing the conformity of products. - The application of national treatment and non-discrimination with respect to products. 	<ul style="list-style-type: none"> ▪ Already in process and established by Ministry of Commerce ▪ SASO has high standards. ▪ Non-discriminatory fee structure could be a problem

Table 10.4 (Contd....)

Sector	Agreements	Impact on Saudi Arabia.
(F) AGREEMENT ON TECHNICAL BARRIERS TO TRADE	<ul style="list-style-type: none"> ▪ Ensuring that state-owned or controlled enterprises or those with special or exclusive privileges will make purchases and sales of goods and services based on commercial considerations, and that firms from WTO members will be allowed to compete for sales to, and purchase from, these Saudi enterprises on a non-discriminatory terms. 	<ul style="list-style-type: none"> ▪ This is potentially one of the most damaging clauses of the new agreements as substantial business is generated by Saudi companies receiving discriminatory national treatment.

Saudi commitments on Trade Related Aspects of Intellectual Property (TRIPS)

- The Kingdom made significant efforts in this respect and by 2010 had the **lowest level of software privacy in the Middle East and the lowest level of privacy losses in the world** (\$7 million losses compared with the USA's \$9,143 million losses).
- To achieve this, the Kingdom **enacted a range of legislation even prior to WTO accession, such as:**
 - Copyright Law of August 2003.
 - Copyright Law Implementing Regulations 2004.
 - Law on Patents, Layout Design (2004).
 - Trademark Law (2002)
 - Rules of Protection Trade Secrets (2005).

**Table 10.5. Global software piracy 2008:
Top 10 countries and selected Middle East countries.**

(A) Highest Piracy Rates

<i>Rank</i>	<i>Country</i>	<i>Rate</i>
1	Georgia	95%
2	Bangladesh	92%
3	Armenia	92%
4	Zimbabwe	92%
5	Sri Lanka	90%
6	Azerbaijan	90%
7	Moldova	96%
8	Yemen	89%
9	Libya	87%
10	Pakistan	86%

(B) Highest Piracy Losses

<i>Rank</i>	<i>Country</i>	<i>Losses \$ Million</i>
1	United States	\$9,143
2	China	\$6,677
3	Russia	\$4,215
4	India	\$2,768
5	France	\$2,760
6	United Kingdom	\$2,181
7	Germany	\$2,152
8	Italy	\$1,895
9	Brazil	\$1,645
10	Japan	\$1,495

Other Middle East

▪	<i>Saudi Arabia</i>	<i>52%</i>
▪	Bahrain	55%
▪	Egypt	59%
▪	Kuwait	61%
▪	Lebanon	74%

▪	<i>Saudi Arabia</i>	<i>\$7</i>
▪	Bahrain	\$27
▪	Egypt	\$158
▪	Kuwait	\$69
▪	Lebanon	\$49

Source: *Business Software Alliance, IDC, 2009*

WTO and dispute settlement

- One key benefit attributed to WTO membership is having access to **WTO's dispute settlement process**.
- The procedure can be quite **lengthy**, and cases can take more than one year if not settled amicably between members.
- Even if a case has been arbitrated by the WTO, a lot more is involved before penalties in the form of trade sanctions are imposed.

WTO and dispute settlement

- It is incumbent upon the **PRIVATE SECTOR** of WTO members states to **initiate the legal process** which can be very costly, sometimes over \$ 1 million.
- The proof of “**DUMPING**” is put on the **IMPORTING** country, **not** the **EXPORTING** country, to avoid frivolous cases and to prove that this not a one -off case of a trade sale, but a **consistent pattern** over many years.

Table 10.6. Duration of dispute settlement cycle at WTO

<i>Duration of Dispute-Settlement - WTO</i>	
60 days	Consultations, mediation, etc.
45 days	Panel set up and panelists appointed
6 months	First panel report to parties
3 weeks.	Final panel report to WTO members
60 days	Dispute Settlement Body adopts report (if no appeal)
Total = 1 year	(without appeal)
60-90 days	Appeals report
30 days	Dispute Settlement Body adopts appeals report
Total = 15 months	(without appeal)

Source: WTO

The Saudi Hydrocarbon sector and WTO accession

- The Kingdom placed great hopes on its **hydrocarbon sector** following WTO accession.
- Two components of the hydrocarbon equation – **oil and petrochemicals**.
- Crude oil was not **explicitly** addressed by GATT 1949 or subsequent rounds due to the exhaustible nature of oil and its uneven geographical distribution.

(Contd....)

- Oil **derived products** are listed on WTO commodity schedules and are subject to the provisions of market access agreements.
- **Petrochemical products** now play an important role in some GCC countries, especially Saudi Arabia. Some face high tariff and non-tariff barriers in the USA, Japan, and some SE Asian countries.

Saudi Petrochemicals

- Following WTO accession, Kingdom made **no commitment to change the pricing of “feedstock”**, thus giving it comparative advantage.
- Second, the **“chemical tariff harmonization agreement”** reduced tariffs **globally** on chemical imports, which included all of the 64 chemicals exported by SABIC.
- This gave Saudi Arabia an added global advantage and will allow Saudi petrochemical producers to offer **lower** prices to tariff protected markets such as the EU, USA and Japan.

Table 10.7. Chemical tariff harmonization tariffs (%)

	<i>1995</i>	<i>2000</i>	<i>2010</i>
▪ Ethylene Bi Glycol	8.0	5.5	5.5
▪ Ethylene	0.0	0.0	0.0
▪ Ethylene Glycol	13.0	9.25	5.5
▪ Melamine	8.5	6.5	6.5
▪ Methyltert Butyl ether (MBTBE)	7.4	5.5	5.5
▪ Methanol	13.0	9.25	5.5
▪ Propylene	0.0	0.0	0.0
▪ Styrene	6.0	0.0	0.0
▪ Polyethylene LDPE-LLDPE-HDPE	12.5	9.5	6.5
▪ Polystyrene & Poly-vinychloride (PVC)	12.5	9.5	6.5

WTO and “*Saudization*”

- There was some **concern prior to WTO accession** that Saudi Arabia would open up its labor market to **free movement of workers**.
- Agreements signed did not impact the government’s “*Saudization*” policy, as labour issues do not fall under WTO mandate, **except** in matters that affect traded goods and services across **borders**.
- WTO was concerned however with the degree to which **foreign companies operating in the Kingdom** are treated **equally** with national companies – ie. given the same “***NATIONAL TREATMENT***”.

(Contd....)

- Saudi Arabia successfully obtained exemption from this “**national treatment**” and imposed some **Saudization** requirements on foreign companies.
- At the same time, Saudi regulations require certain job categories in companies are **reserved for Saudis**, especially those dealing with governments departments.
- Post WTO accession expatriates **still require Saudi sponsors, but foreign companies can now sponsor their own employees.**

The WTO and the Saudi legal system

- Saudi Arabia's WTO accession provided an **impetus** to carry out both legal and judicial reforms to comply with international agreements.
- New **WTO related laws and regulations** originating in various Saudi Ministries that have authority over the subject matter (eg. in health, finance, commerce, agriculture etc.) have been introduced.
- At the same time, Saudi Arabia has established a **WTO grievance and redress procedure for dispute resolution through the Saudi Board of Grievance.** This has been welcomed by foreign investors.

Table 10.8 Key Saudi supervisory bodies relating to WTO legal issues.

<i>Saudi supervisory body</i>	<i>Related area</i>
▪ Ministry of Commerce and Industry	▪ The principal government agency concerned with formulation and conduct of trade policies. It implemented the laws and regulations relating to trade- the Companies Law, the Law on Commercial Registration and the Law on Commercial Agencies.
▪ Ministry of Finance	▪ The Ministry of Finance is concerned with formulation and conduct of financial and fiscal policies and with international. economic issues. It is also the parent Ministry of the Department of Custom, Department of Zakat and Income Tax.
▪ Ministry of Petroleum and Mineral Resources	▪ The Ministry formulates and implements the oil policies of the Kingdom and supervises concessions in the oil and mining sectors.
▪ Ministry of Agriculture	▪ The Ministry formulates and implements agricultural policies and was responsible for matters relating to Sanitary and Phytosanitary measures.
▪ Ministry of Health	▪ The Ministry of Health is responsible for supervising the health industry and for matters related to the import and sale of medicines and medical supplies.
▪ Ministry of Information and Culture	▪ Responsible for implementation of the Copyrights Law and matters relating thereto
▪ The King Abdulaziz City for Science and Technology KACST	▪ Responsible for the implementation of the Patents Law and matters relating to it.
▪ The Saudi Arabian Standard Organization (SASO)	▪ SASO established and approved the voluntary standards and mandatory technical regulations for imported and domestically produced goods.
▪ The Saudi Arabian Monetary Agency (SAMA)	▪ SAMA acts as the central bank of Saudi Arabia and is responsible for the monetary and exchange rate policies and the supervision of banking and cooperative insurance.

Source: *Ministry of Commerce WTO Agreements, 2005.*

Conclusion

- The WTO accession in 2005 has brought the Kingdom to the **mainstream** of a global multi-lateral trading system.
- Saudi Arabia is now in a position to **shape and influence trade policies** from the *inside* and protect its trading interests and increase its trade in competitive products without discrimination.
- WTO accession is also a means to **further accelerate domestic economic and structural reforms.**