



UNITED NATIONS

الاسواق  
ESCWA

Economic and Social Commission for Western Asia



Distr.  
LIMITED  
E/ESCWA/EDID/2019/WP.8  
6 May 2019  
ORIGINAL: ENGLISH



# TRADE PERFORMANCE AND STRUCTURE PROFILES<sup>1</sup>

## Saudi Arabia

<sup>1</sup> For additional information on the used data and the techniques of estimation, please contact Mr. Mohamed Chemingui, Chief of Regional Integration section at EDID, email: [cheminguim@un.org](mailto:cheminguim@un.org) and/or Mr. Mehmet Eris, Economic Affairs Officer at the Regional Integration section/EDID, email: [eris@un.org](mailto:eris@un.org).

Note: This document has been reproduced in the form in which it was received, without formal editing. The opinions expressed are those of the authors and do not necessarily reflect the views of ESCWA.

# TABLE OF CONTENTS

TRADE PERFORMANCE AND STRUCTURE PROFILES: SAUDI ARABIA	3
I. Trends in Trade and Investment	3
II. Merchandise trade structure and indicators performance	6
Exports	6
Imports	6
Exported Products	7
Imported Products	7
III. Trade Policy	16

# TABLE OF FIGURES

Figure 1: Merchandise Exports and Imports, as a share of GDP	3
Figure 2: The share in world merchandise exports and imports	4
Figure 3: Saudi Arabia's Services Trade, 1995-2017, as a share of GDP	5
Figure 4: Net FDI inflows and outflows, 1996-2017, percent of GDP	5
Figure 5: Top export destinations and import sources, as a share of total exports and imports, 2016	6
Figure 6: Top products exported and imported, 2016 (as a share of exports and imports)	7
Figure 7: Trade Intensity Index	7
Figure 8: Trade Complementarity Index	8
Figure 9: Hirschman-Herfindahl Index (bilateral export portfolio diversification)	9
Figure 10: Export Diversification Index	9
Figure 11: Export Sophistication	10
Figure 12: Export Market Penetration Index	10
Figure 13: Export Similarity Index	11
Figure 14: Hummels-Klenow intensive and extensive margins (product)	12
Figure 15: Hummels-Klenow intensive and extensive margins (market)	13
Figure 16: Intra-industry Trade Index	14
Figure 17: The composition of the change in bilateral merchandise exports between 2000 and 2016 along intensive and extensive margins	14
Figure 18: MFN and applied tariff rates for all products, simple and weighted means	16
Figure 19: Services Trade Restrictiveness Index, 2010	16

# TRADE PERFORMANCE AND STRUCTURE PROFILES: SAUDI ARABIA

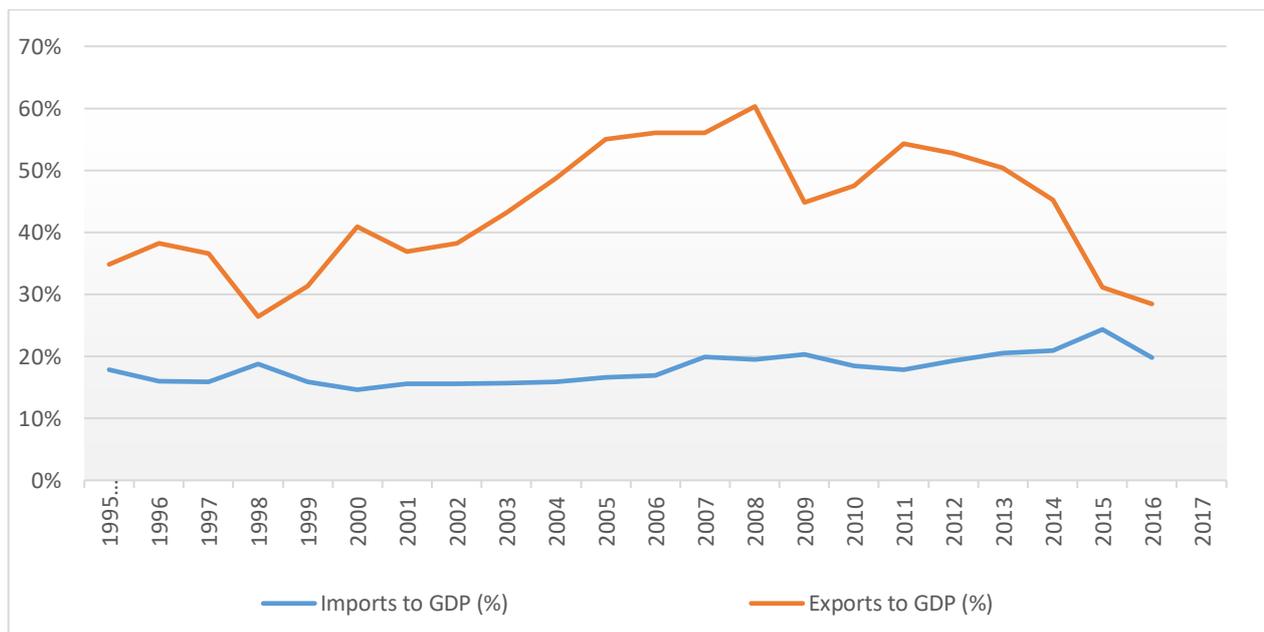
Saudi Arabia's performance over the past two decades in merchandise trade and attracting foreign direct investment has been mixed. Its merchandise exports, as a share of GDP, have not maintained the peak level achieved in 2008 and have more than halved by 2016 compared to the peak level. Its merchandise imports, though, sustained similar levels over the past two decades. Saudi Arabia's trade in services has shown significant variation since 1995 but its level remains rather low.

Net FDI inflows into Saudi Arabia had been dormant before 2005. Relatively short-lived but high levels of FDI inflows were recorded in the second half of the 2000s, followed by a weaker but stable stream of inflows. Traditional destinations for Saudi Arabia's exports have mainly been PAFTA and ASEAN countries.

PAFTA and sub-Saharan African countries hold relatively favorable prospects for Saudi Arabia's exports, which show signs of shifting towards sophisticated products with limited diversity.

## I. Trends in Trade and Investment

Figure 1: Merchandise Exports and Imports, as a share of GDP

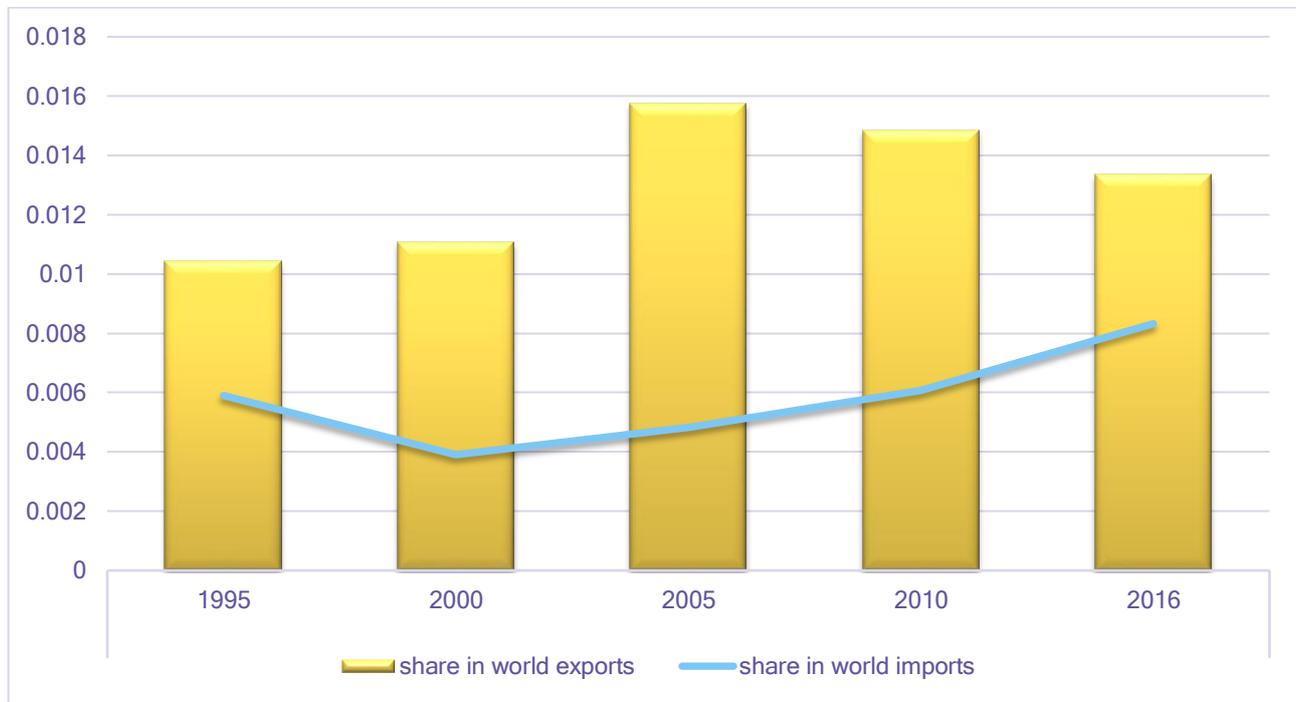


Source: ESCWA calculations using the World Development Indicators database (accessed October 2018).

Saudi Arabia's merchandise exports have experienced substantial fluctuations over the past two decades, mostly reflecting movements in global oil prices. The GDP share of exports has essentially halved between 2008 and 2016, completely offsetting a relatively steady increase between 1998 and 2008.

*Merchandise imports on the other hand have been rather stable since 1995.*

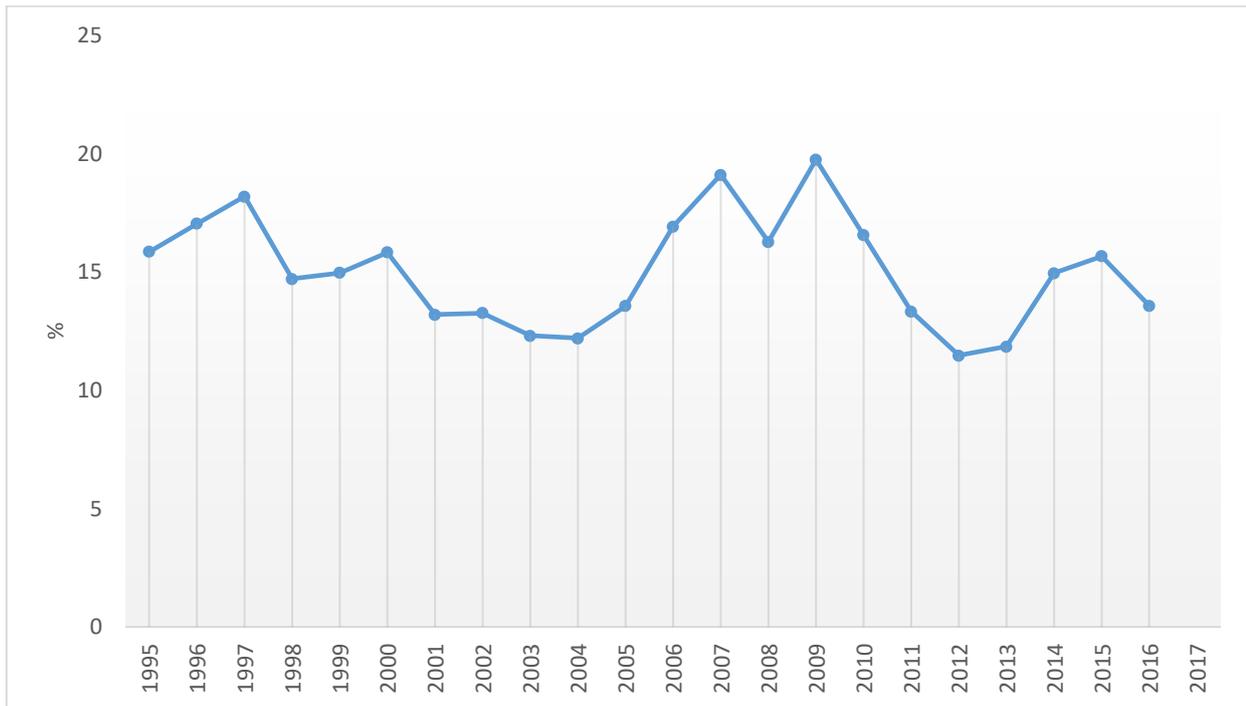
Figure 2: The share in world merchandise exports and imports



Source: ESCWA calculations using COMTRADE data (accessed October 2018).

Saudi Arabia's share in world export has gone up since 1995 but has been on a downward slide since the peak reached in 2005. Saudi Arabia's import share, after moderating in the second half of the 1990s, has gone up progressively since 2000.

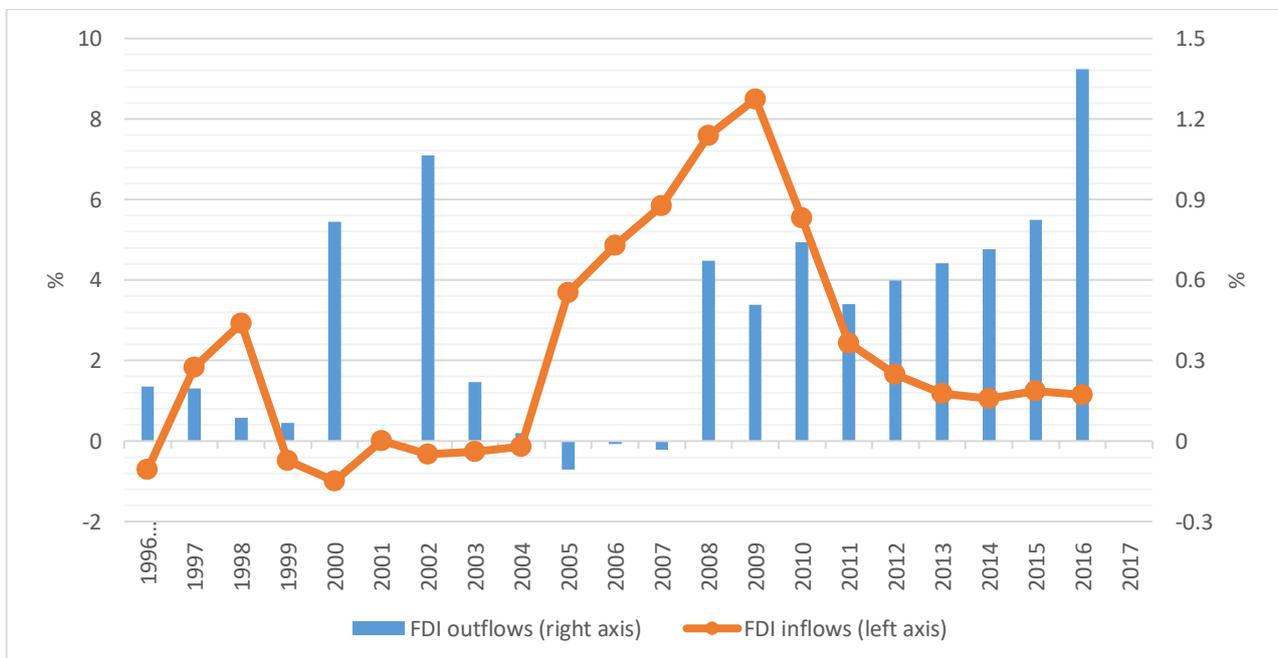
Figure 3: Saudi Arabia's Services Trade, 1995-2017, as a share of GDP



Source: ESCWA calculations using the World Development Indicators database (accessed October 2018).

Saudi Arabia's trade in services has shown significant variation since 1995. For instance, it had nearly doubled between 2004 and 2007, and halved between 2009 and 2012.

Figure 4: Net FDI inflows and outflows, 1996-2017, percent of GDP



Source: ESCWA calculations using the World Development Indicators database (accessed October 2018).

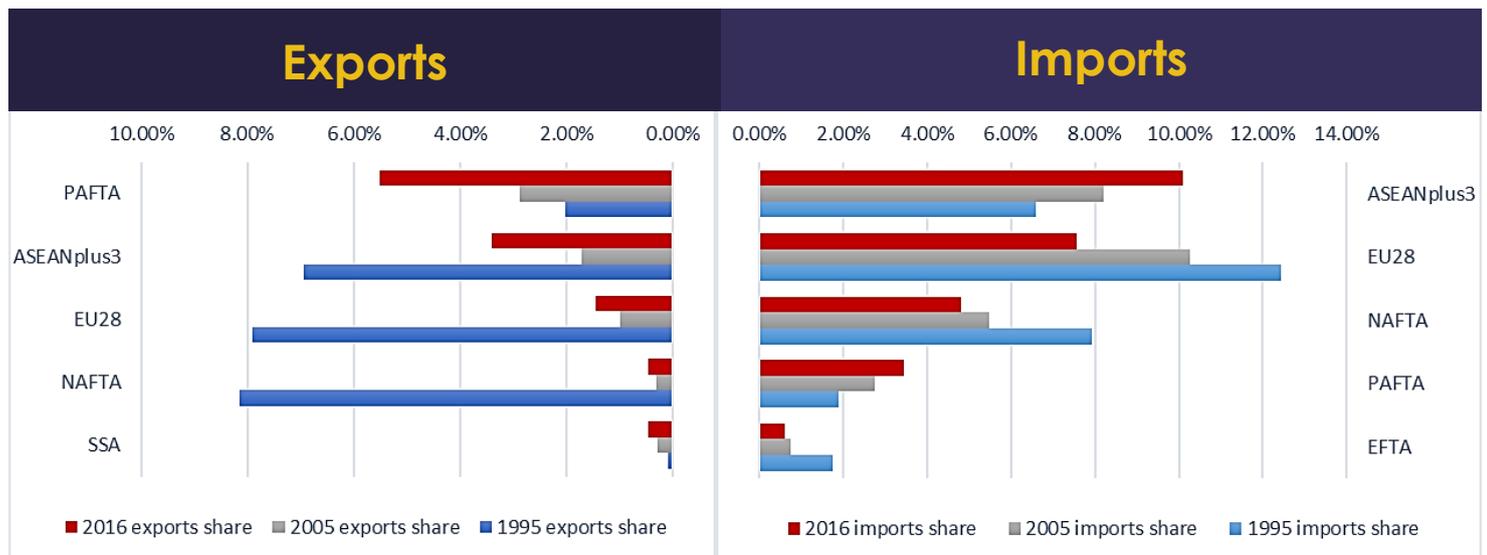
Net FDI inflows into Saudi Arabia had been dormant before 2005. Though relatively short-lived, high levels of FDI inflows were recorded in the second half of the 2000s, followed by

a weaker but stable stream of inflows. FDI outflows have historically been not high but they edged up in the 2010s and have been more subdued as of late.

## II. Merchandise trade structure and indicators performance

This section assesses the trade performance and structure of Saudi Arabia, employing a range of indicators and indices created using highly disaggregated product-level data.

Figure 5: Top export destinations and import sources, as a share of total exports and imports, 2016



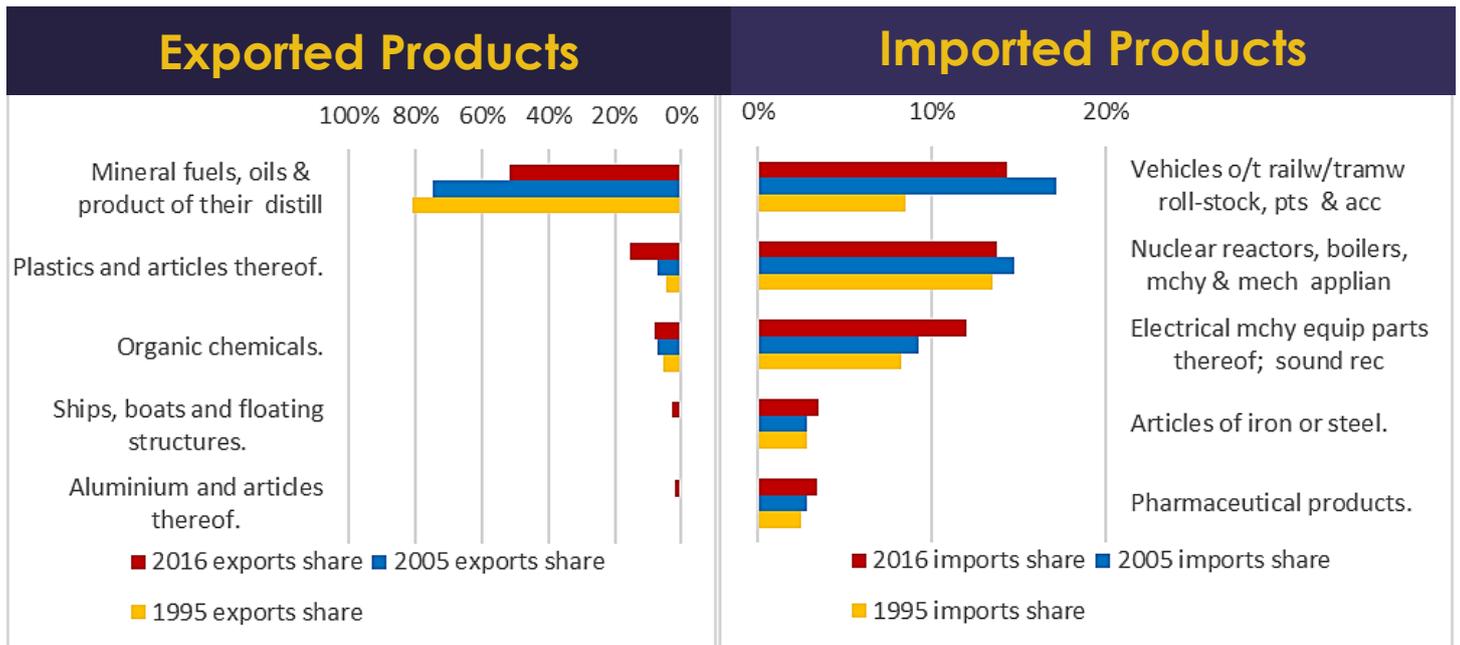
Source: ESCWA calculations using COMTRADE data (accessed October 2018).

Based on COMTRADE data, which rely on data, declared by countries and might miss partner-level detail<sup>2</sup>, PAFTA is the top destination for the exports of Saudi Arabia and its share in Saudi Arabia has gone up significantly since 1995. ASEAN+++, the EU and NAFTA also feature among top export destinations for the exports of Saudi Arabia and they all have seen huge declines in their shares since 1995.

**ASEAN+++ is the top import source for Saudi Arabia as a partner bloc and have been gaining ground at the expense formerly top two partners the EU and NAFTA, as well as EFTA.**

<sup>2</sup> This appears to case with Saudi Arabia, for which a large share of its merchandise exports is not assigned to identified partner in COMTRADE data.

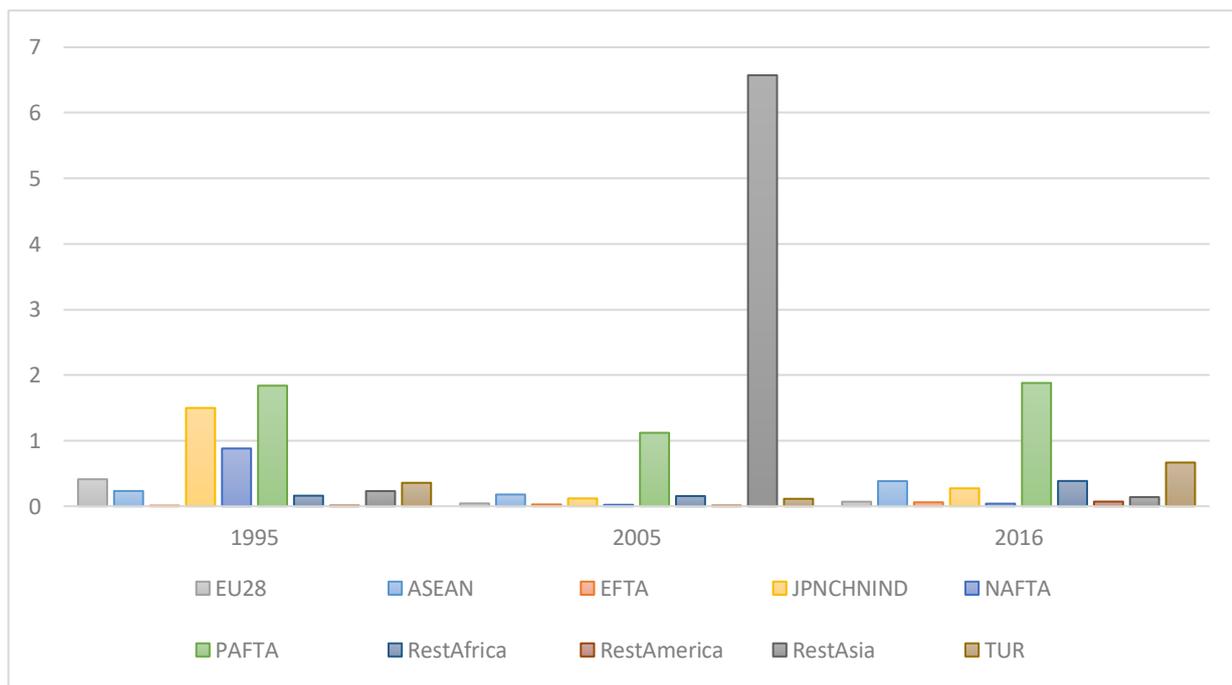
Figure 6: Top products exported and imported, 2016 (as a share of exports and imports)



Source: ESCWA calculations using COMTRADE data (accessed October 2018).

The share of mineral fuels, oils and their distillation products in Saudi Arabia's merchandise exports, while still rather dominant, has come down significantly from around 80% in 1995 to around 50% in 2016. The emergence of plastics and plastic articles, and organic chemicals in Saudi Arabia's export basket is also notable. Vehicles and vehicle parts, nuclear reactors, boilers, machinery and mechanical appliances, and electrical machinery and equipment have been products with high import shares.

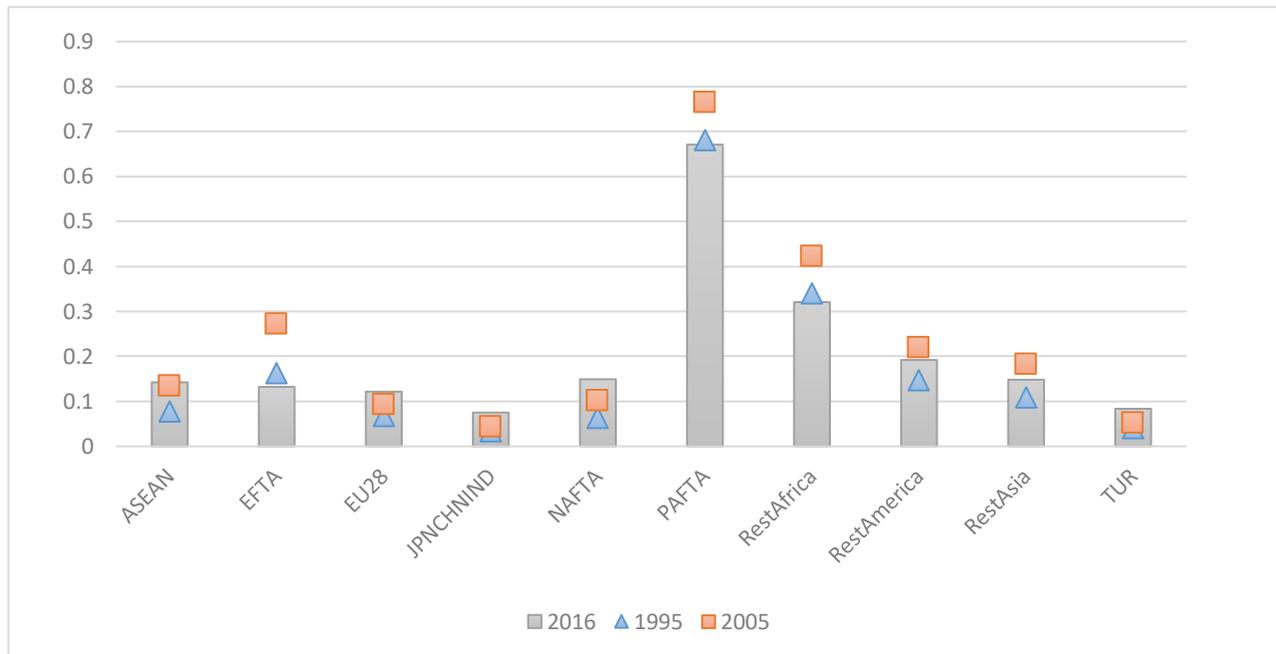
Figure 7: Trade Intensity Index



Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

The trade intensity index captures whether the value of trade between a reporter and partner is greater or smaller than would be expected on the basis of their importance in world trade. Saudi Arabia traditionally traded more intensively with PAFTA and earlier with Japan, and China.

Figure 8: Trade Complementarity Index

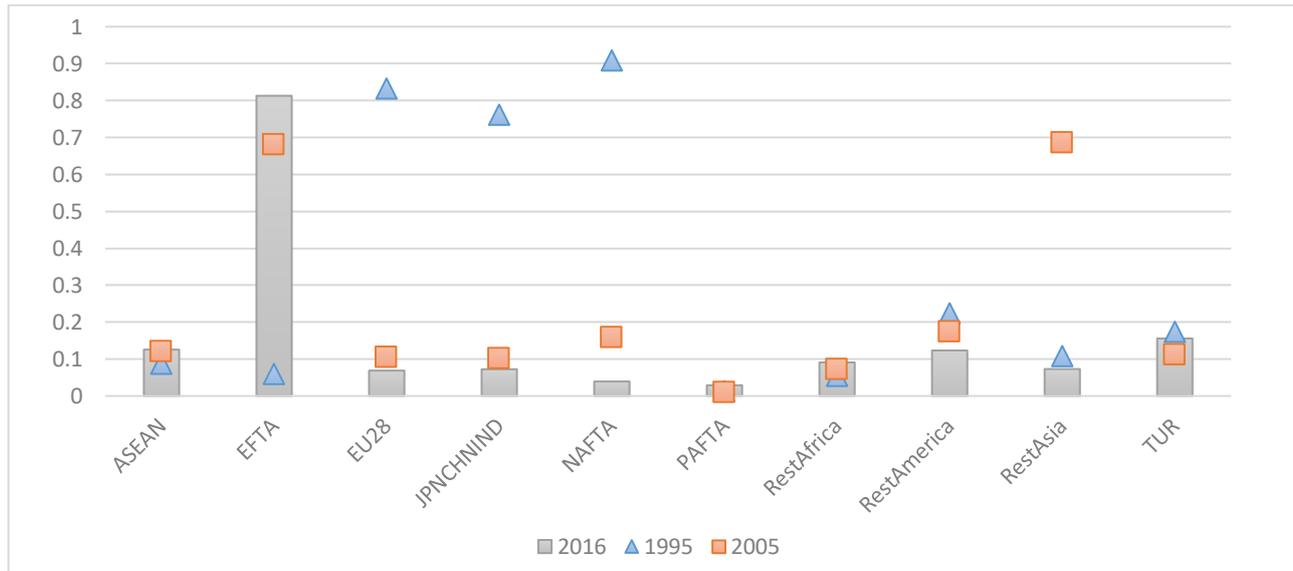


Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

The trade complementarity index captures how well the structures of a country's exports and its partner's imports match, showing the extent of prospects for further exchange. The index takes on the value zero when no goods are exported by one country or imported by the other and 1 when the export and import shares exactly match.

The index for Saudi Arabia attains relatively higher values with PAFTA and, to a lesser extent, sub-Saharan African countries as partners.

Figure 9: Hirschman-Herfindahl Index (bilateral export portfolio diversification)

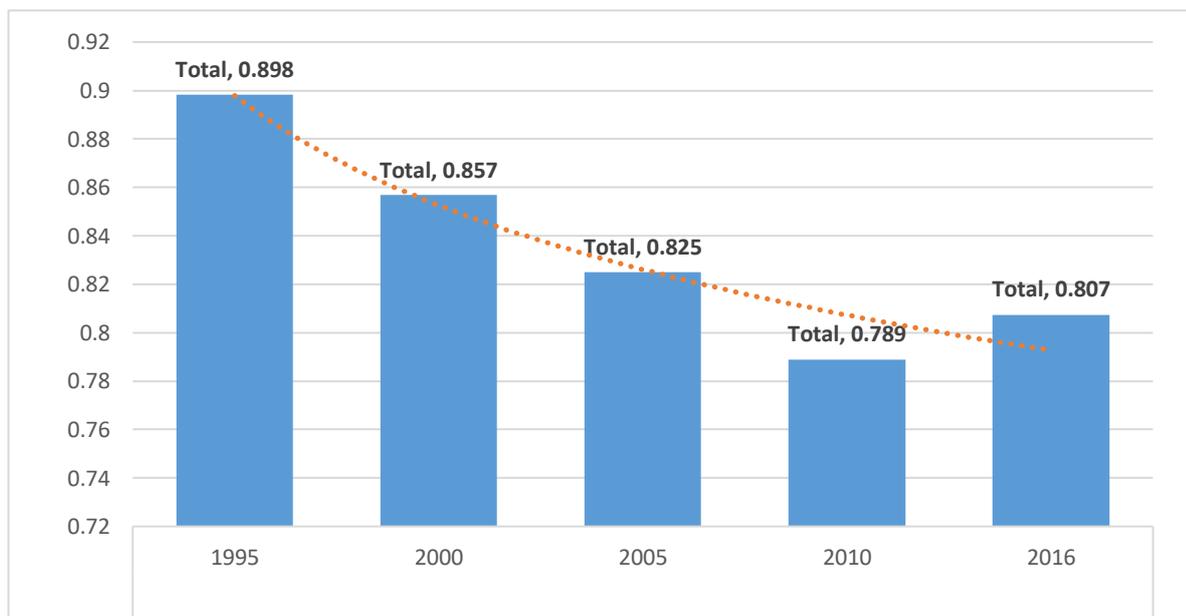


Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

The Hirschman-Herfindahl Index captures how diversified a bilateral export portfolio is. A country with a perfectly diversified export portfolio will have an index close to zero, whereas a country which exports only one product would attain the value of unity (least diversified).

Saudi Arabia appears to have diversified export portfolios vis-à-vis most of its partners, with the notable exception of ASEAN and EFTA countries, as measured by the Hirschman-Herfindahl Index. The extent of diversification of its export portfolio vis-à-vis EU and NAFTA countries, China, India and Japan is rather striking.

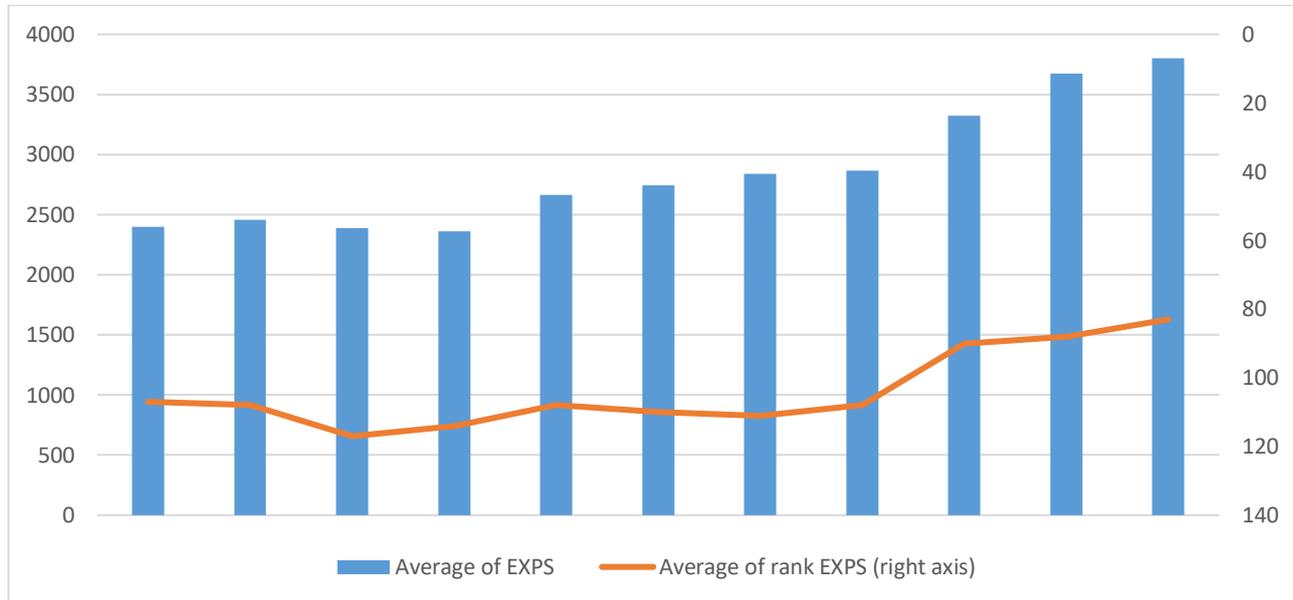
Figure 10: Export Diversification Index



Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

Export diversification index measures whether a country is highly dependent on relatively few products or its export portfolio is diversified. The lower the index, the less concentrated are a country's exports. As measured by this index, Saudi Arabia had diversified of its export portfolio until 2010 but has experienced some deterioration since then.

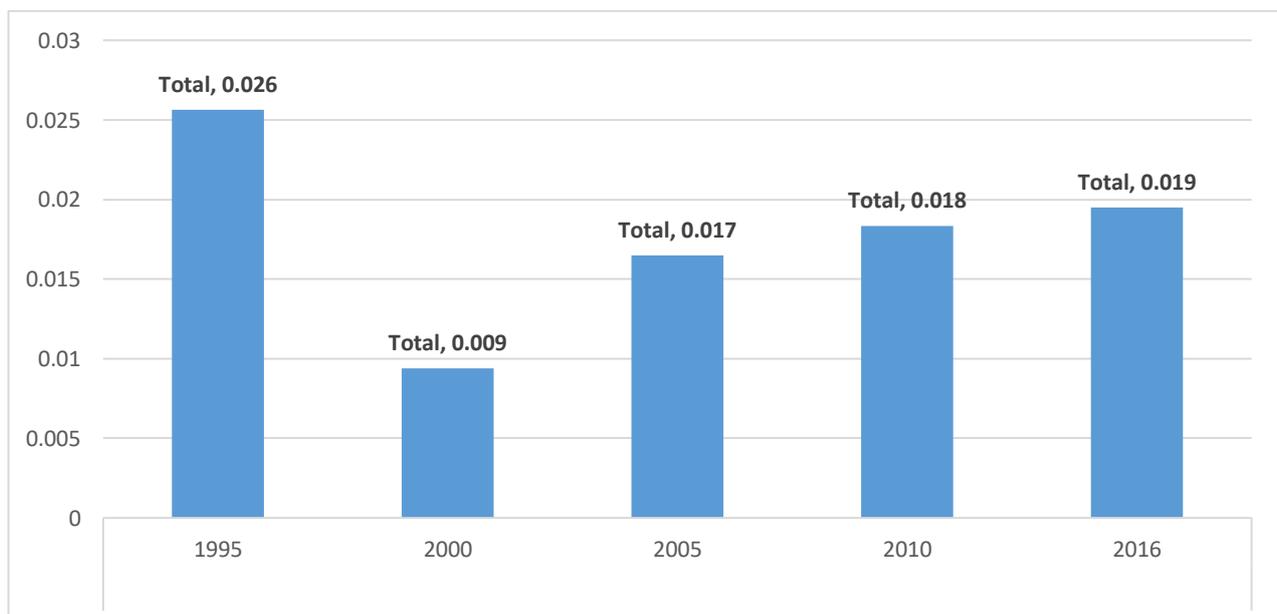
Figure 11: Export Sophistication



Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

Saudi Arabia has been able to specialize in more sophisticated products over the past decade and the pace of progress has been particularly marked since 2013. Saudi Arabia has climbed around twenty spots in global rankings, albeit from a rather low initial rank.

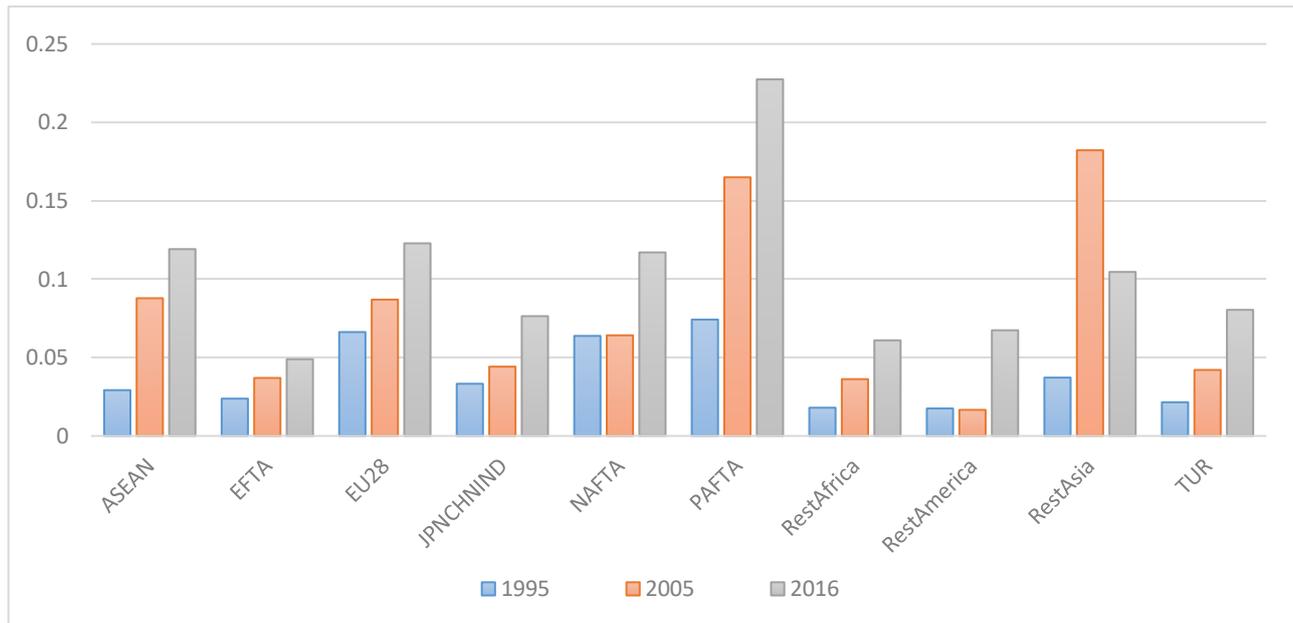
Figure 12: Export Market Penetration Index



Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

Saudi Arabia's penetration into export markets have been improving steadily since 2000 but overall progress since 2000 has not offset the large drop registered in the second half of the 1990s, as measured by the Export Market Penetration index. The index is essentially the share of the actual number of export relationships (at the country-product level) forged by the country of question in the maximum possible number of export relationships it can form given its exports.

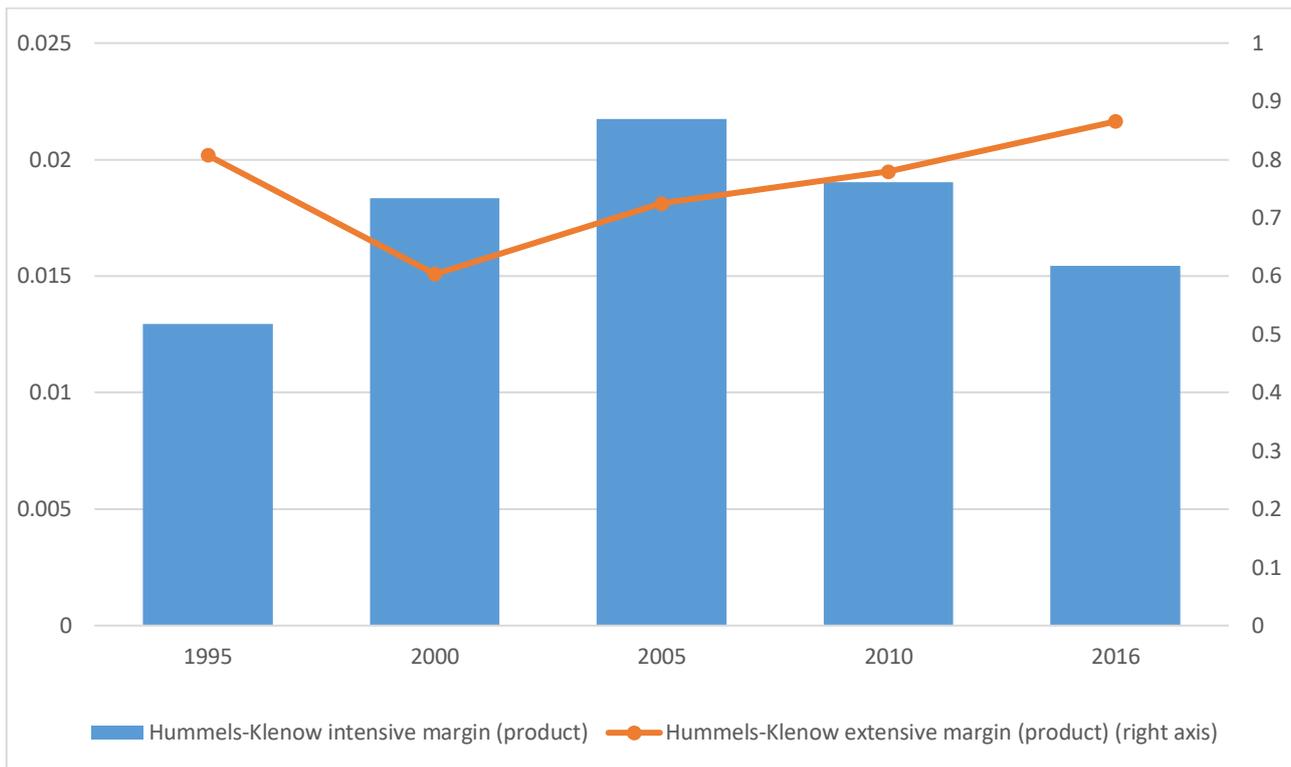
Figure 13: Export Similarity Index



Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

The export similarity index captures the extent to which two entities in question are competitors in a common market. The index value of zero suggests that there is no competition between the two countries and of one that they are perfect competitors. Based on the export similarity index, Saudi Arabia's main competitors in world markets are PAFTA countries, overtaking ASEAN and other Asian countries excluding PAFTA members, China, India, Japan and Turkey.

Figure 14: Hummels-Klenow intensive and extensive margins (product)

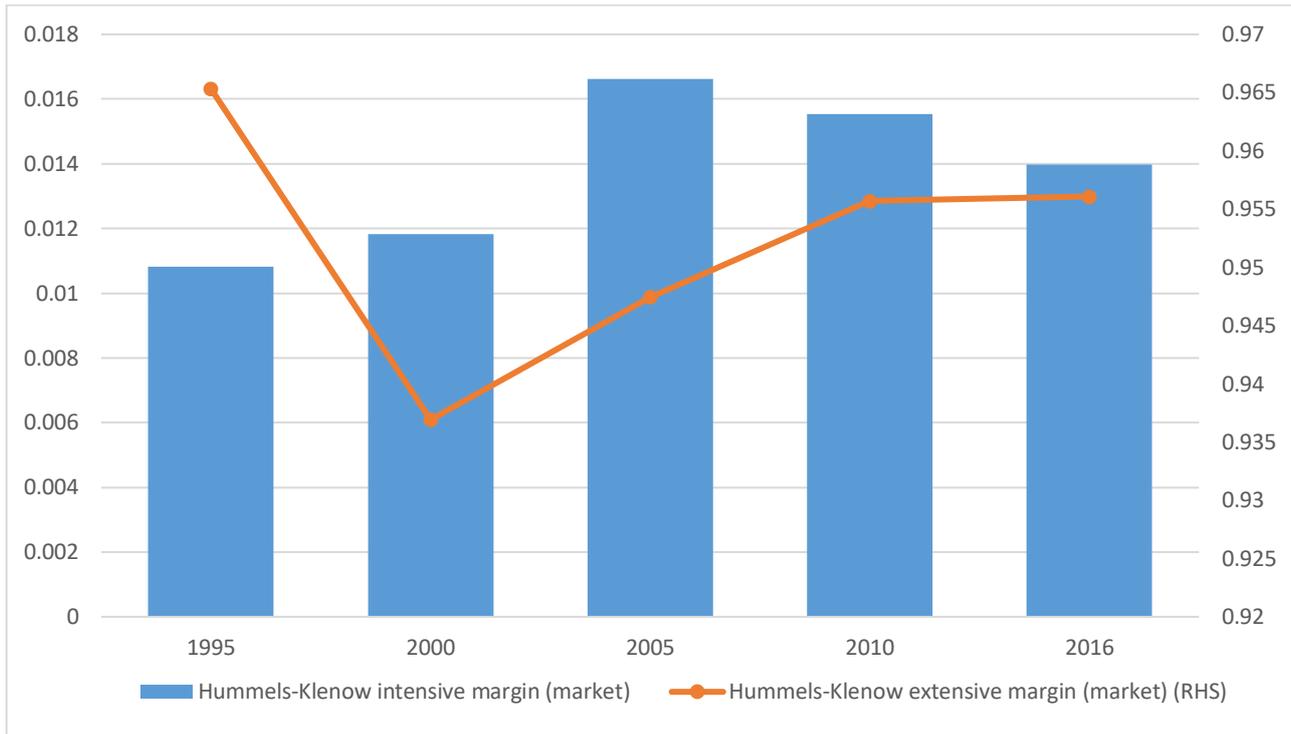


*Source: ESCWA calculations based on COMTRADE data (accessed October 2018).*

It is interesting to explore whether Saudi Arabia exports larger quantities or a greater variety of goods. To measure the first, the Hummels-Klenow intensive margin in products could be employed, which essentially captures the share of Saudi Arabia's exports in the world exports of products that Saudi Arabia exports. Based on this index, Saudi Arabia had claimed increasing shares between 1995 and 2005 but has lost ground since 2005, though those initial gains have not been completely offset as of 2016.

Saudi Arabia has also experienced a rather limited increase, after a relatively sizable drop in the second half of the 1990s, in the share of the products Saudi Arabia exports in total world exports of all goods, also referred to as the Hummels-Klenow extensive margin in products and gives an indication of how comprehensive the set of goods a country exports is.

Figure 15: Hummels-Klenow intensive and extensive margins (market)

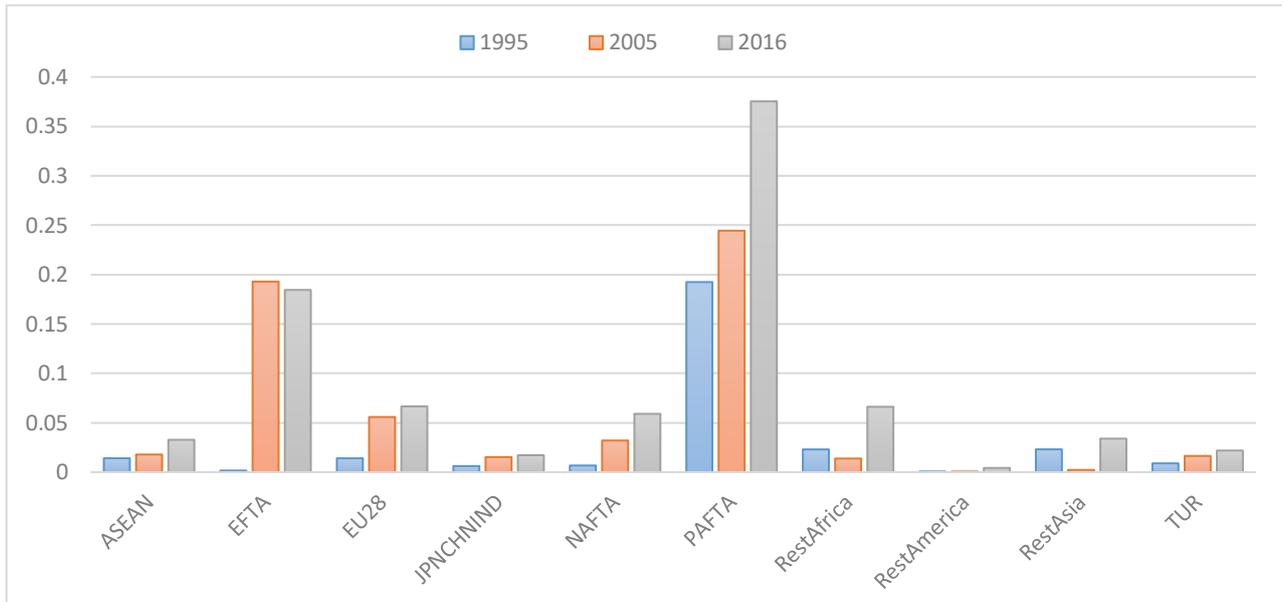


Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

Another instructive angle to look into is as to whether Saudi Arabia has exported larger amounts to its existing trade partners or expanded into new markets. As a measure of the former, Saudi Arabia's share in the total world exports to only those countries that Saudi Arabia exports to, also referred to as the Hummels-Klenow intensive margin in markets, has gone up since until 2005 but has declined, though to a more limited extent, since then.

After a relatively sharp decline in the second half of the 1990s, Saudi Arabia has experienced a steady increase in the share of the world exports to only those countries that Saudi Arabia exports to in total world exports of all goods, which is at very high levels already and referred to as the Hummels-Klenow extensive margin in markets and captures the extent of expansion into new export markets.

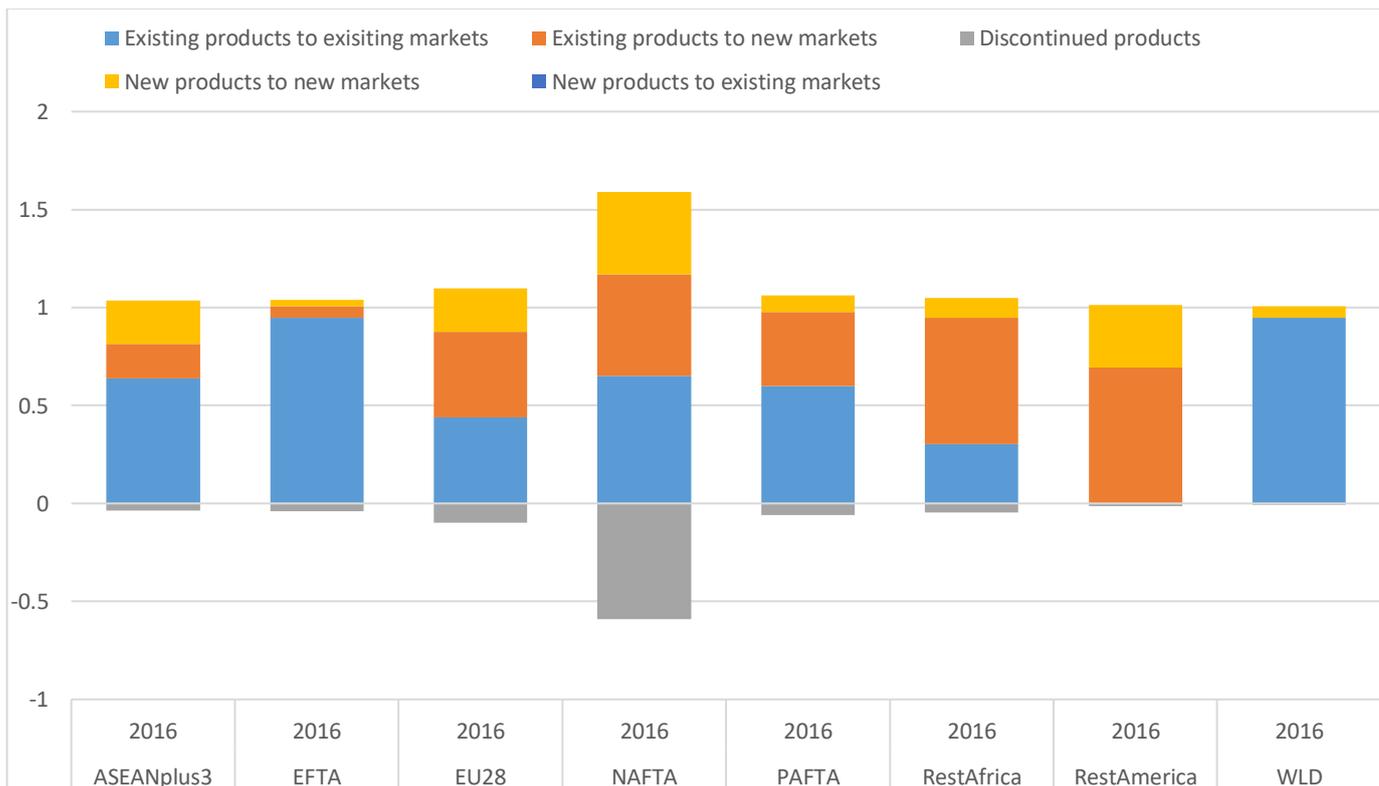
Figure 16: Intra-industry Trade Index



Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

The intra-industry trade index measures the extent to which products that belong to the same industry were being traded between two countries, ranging between 0 and 1 and with values close to 1 corresponding to a high level of intra industry trade. Saudi Arabia has engaged in intra-industry trade to a considerable extent with PAFTA.

Figure 17: The composition of the change in bilateral merchandise exports between 2000 and 2016 along intensive and extensive margins



Source: ESCWA calculations using COMTRADE data.

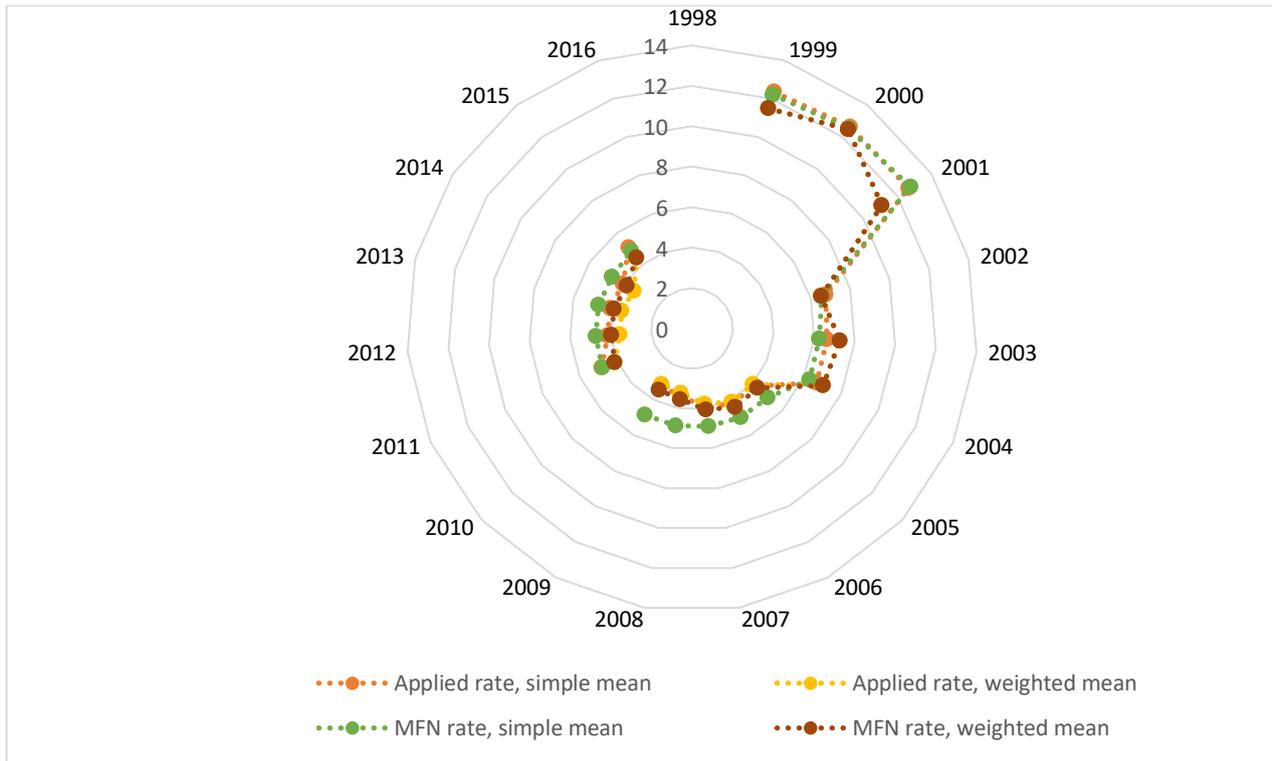
*Notes: The abbreviations and the list of the countries included in each group are as follows. The Association of Southeast Asian Nations (ASEAN) is created using Indonesia, Malaysia, Philippines, Thailand, and Vietnam, not including Brunei, Cambodia, Laos, Myanmar, and Singapore. [to be completed]*

Between 2000 and 2016, only very limited share of the change in the exports of Saudi Arabia has come from expanding into new products and/or markets. This share is around 60% for the United Arab Emirates and Bahrain, and 25% for Viet Nam. Across different destinations, American, sub-Saharan African, EU, and PAFTA countries stand out as blocs new markets for the exports of Saudi Arabia.

***In terms of new products, American countries are more dynamic markets for Saudi Arabia.***

### III. Trade Policy

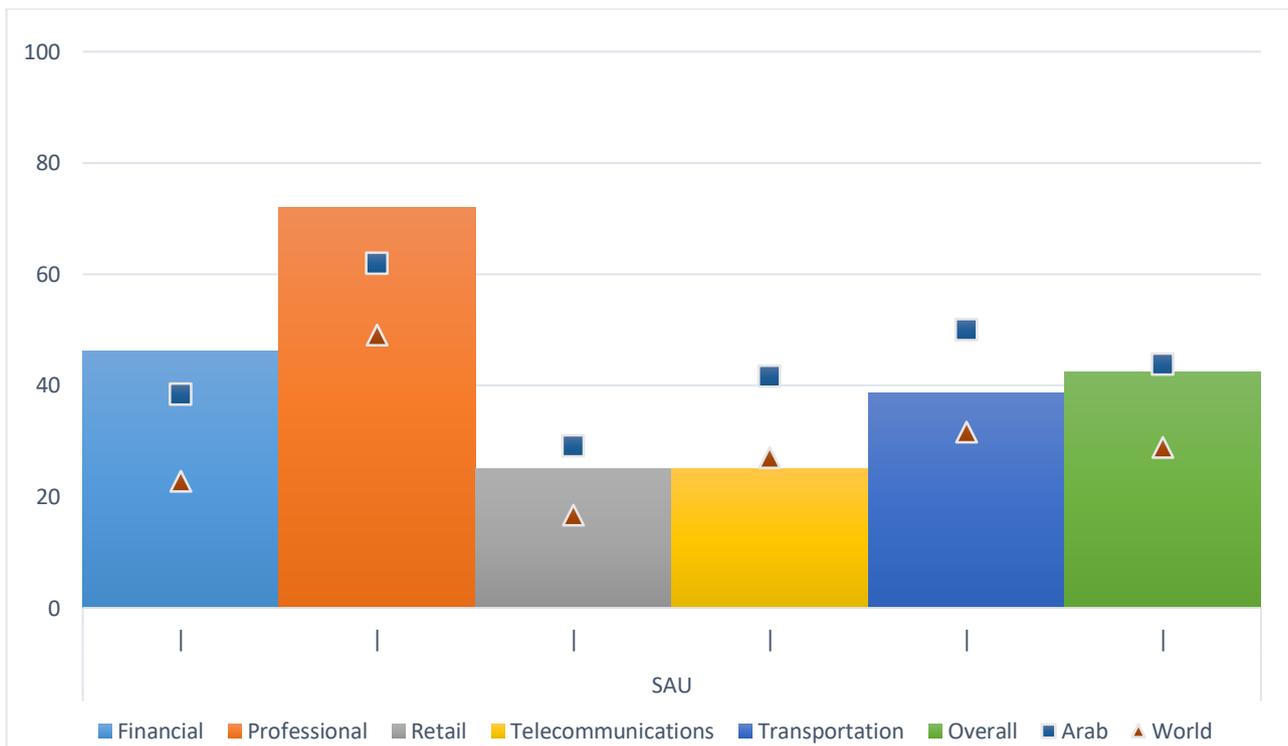
Figure 18: MFN and applied tariff rates for all products, simple and weighted means



Source: ESCWA calculations using the World Development Indicators database (accessed October 2018).

Saudi Arabia has significantly lifted tariff protection. Over the past two decades, both applied and MFN tariff rates have come down markedly and applied rates appear particularly low.

Figure 19: Services Trade Restrictiveness Index, 2010



Source: Borchert, Gottiiz and Mattoo (2014).

The restrictiveness of policies and regulations on Saudi Arabia's services trade vary across different services sectors. Telecommunications stand out as a fairly liberal sector among the services sectors for which data are available. Policies and regulations on financial and professional services on the other hand are rather stringent, even by regional comparison.

## **END NOTE**

Although Saudi Arabia's has made some progress in diversifying its merchandise exports and specializing in more sophisticated products over the past two decades, its performance in trade and investment mostly reflects short-lived gains. Transforming Saudi Arabia's economy from a hydrocarbon-based one to a more diversified and broad-based is a challenge and appears to call for an equally ambitious, broad and comprehensive policy response, well beyond trade policy alone.