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IMPACT OF THE OPERATIONS OF TRANSNATIONAL CORPORATIONS ON DEVELOPMENT IN SAUDI ARABIA

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Development Planning Division
Joint ESCWA/CTC Unit
on Transnational Corporations

IMPACT OF THE OPERATIONS OF TRANSNATIONAL CORPORATIONS ON DEVELOPMENT IN SAUDI ARABIA

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Mention of firm names and commercial projects does not imply the endorsement of the United Nations.

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EXPLANATORY NOTES

The following symbols are used in tables:

Two dots (..) indicates that no information is available.

A dash (-) indicates that the amount is nil or negligible, unless otherwise specified.

A minus sign (-) before a figure indicates a decrease, unless otherwise specified.

Figures do not necessarily add up to totals, because of rounding.

INTRODUCTION

International economic relations lie at the very core of international co-operation and understanding and, in many cases, constitute the principal factor influencing the political decisions of States. Transnational (or multinational) corporations, whose role to a great extent has been established since the Second World War, represent one aspect of such relations. What is noticeable is the continued growth in the role of these corporations in international trade and the world economy, to the extent that their decisions and actions are of vital importance for international economic relations in general and for the economies of countries that deal with these corporations in particular. Surveys carried out by United Nations agencies concerned with the phenomenon of transnational corporations indicate that these corporations expanded their external activities during the 1970s much faster than the rate of expansion of operations carried out in their home countries. A sample of the largest transnational corporations shows that the ratio of sales by foreign affiliates to total sales rose from about 30 per cent in 1971 to about 40 per cent in 1980. Flows of foreign direct investment to developing countries amounted to some $11 billion per annum in 1978-1980, while flows among developed countries during the same period amounted to $26 billion per year. 1/

In order to understand this international economic phenomenon and the role it can play in developing the economies of developing countries, it is necessary to go back to its actual beginnings after the feudal era in Europe.

The roots of this phenomenon go back a long way to the time when multiple forms of commercial exchange between various nations and peoples first began within the framework of prevailing economic concepts. Foreign trade assumed an important position following the collapse of the feudal system in Europe and the emergence of independent European States in what is known as the mercantile era. During this period, which lasted from the middle of the fifteenth century to the middle of the eighteenth century, European States developed an interest in international trade as a source of wealth. A State could accumulate enormous quantities of precious metals (gold and silver) provided it could establish a surplus in its trade balance. This policy encouraged an increase in the number of colonial corporations that seeking raw materials in developing countries that were required for industries at home. The end of the eighteenth century saw the appearance of a number of economic theories that advocated freedom of trade and labour and emphasized the importance of specialization and the division of labour on a local or international level, in accordance with the relative capacities (advantages) of each State. The spread and acceptance of these theories led to a flow of direct investment into the developing countries for the purpose of developing sources of raw materials. These investments differed from their forerunners in that they became fixed assets in the developing countries in the shape of factories and mining corporations affiliated to establishments that formed the initial nucleus of transnational corporations.

1/ Transnational Corporations in World Development. Third Survey (United Nations publication, Sales No. E.83.11.A.14), pp. 2-3.

It should be noted that this form of investment differed in a number of ways from the colonial corporations that had existed previously. The sole concern of colonial corporations was to seek raw materials that would meet the needs of industries in their home countries; they took no apparent interest in the development of the local economy. Instead of contributing to the development of local industries, which to some extent is the case with transnational corporations, the colonial corporations existed in almost total isolation. Their economic effects were more visible in the countries that provided the investment than in those which received them.

The number and scope of activities of transnational corporations increased in the nineteenth century as a result of economic prosperity in Europe and the overall rise in demand for goods and services which resulted from the growth in population. Gradual changes took place, and the main concern of industrial States was no longer the problem of how to obtain raw materials but how to market their product - manufactured and capital goods and services. The interest in seeking markets took precedence over that of seeking sources of raw materials. 1/

Regardless of whether transnational corporations expand raw materials or markets where they can dispose of their products, the end result and principal objective is to increase profit yields. This is achieved by increasing the volume of their sales through the penetration of new international markets. If affiliates are established in other countries, it may be possible to overcome import restrictions and to reduce the impact of fluctuations in exchange rates. The transnational corporations can also take advantage of low wages and low raw material prices in certain countries, or even reduced transportation costs by virtue of their proximity to major markets, etc.

Apart from their huge material, managerial and technical capabilities, these corporations have an additional advantage over local companies by virtue of their presence in more than one country and their determination to exploit the various circumstances and capabilities of those countries to further their own interests.

Thus, transnational (or multinational) corporations are those which carry out activities in more than one country. The United Nations regards a transnational corporation as an "enterprise comprising entities in two or more countries, regardless of the legal form and fields of activity of these entities, which operates under a system of decision-making, permitting coherent policies and a common strategy through one or more decision-making centres, in which the entities are so linked, by ownership or otherwise, that one or more of them may be able to exercise a significant influence over the activities of others and, in particular, to share knowledge, resources and responsibilities with the others". 2/ In other words, they are business institutions that own and control the means of production and provide services in more than one country.

1/ E. J. Kolde, International Business Enterprise (Englewood Cliffs, New Jersey, Prentice-Hall Inc., 1973), pp. 131-149.

2/ United Nations Economic and Social Commission for Western Asia, Regional Intergovernmental Meeting of the Countries of Western Asia on the United Nations Code of Conduct on Transnational Corporations. Reference file. (E/ESCWA/UNCTC/85/IG.1/WP.1) (Baghdad, November 1985), p. 8.

Opinions differ as to the extent of the participation of transnational corporations participation in the economic development of host countries. There is no doubt that transnational corporations possess the economic, administrative and technical resources that permit them to operate as effective instruments in developing the economies of developing countries. However, opinions differ as a result of distinct experiences on the part of various countries with respect to this type of corporation, as well as of the economic and technical circumstances of host countries, the nature of investment and the administrative and organizational structures of the countries concerned. Some economists believe that the presence of transnational corporations favours the process of economic development by providing the capital needed by most developing countries to attract foreign technology, expertise, skills and assorted capabilities which allow them to take advantage of investment opportunities and manage and organize projects. Their presence also bolsters the local economy by raising the community's value added (wages, profits and other revenues); they may also improve the balance-of-payments situation by promoting exports and reducing imports.

However, the misconduct of certain corporations - and there are many examples of these - is a source of real concern at both the national and international level with respect to their negative impact on economic development in host countries, in addition to political and social factors.

Corporations are able to manipulate their levels of production in different countries and switch production from one country to another, thus causing harm to the various sectors of a country's economy. Their entry into local markets may also impede the growth of local productive capabilities. Moreover, they may not constitute the ideal means of acquiring technology: most corporations make use of very advanced technologies that are difficult to absorb, have only a limited transferability, and necessitate the employment of personnel from outside the host country. Some corporations also make use of what is known as transfer pricing. By reducing the prices of locally produced raw materials, for example, they can make a profit on products that are finished in another country in order to avoid foreign exchange restrictions or the payment of local taxes. Corporations may also have a negative effect on the social customs and values of the host country, as well as on political decisions.

The developing countries' awareness of the economic and technical capabilities of transnational corporations and the extent to which they can help to promote economic development, on the one hand, and their anxiety over the possible misuse of their resources and capabilities, on the other, has led developing countries to insist on the need to regulate the conduct of these corporations. Consequently, efforts have been directed towards establishing an international framework that will reduce the negative effects of the activities of transnational corporations and promote their positive participation in development. These international efforts have resulted in the compilation of a number of international codes of conduct and guidelines for transnational corporations. The international regulation of transnational corporations has now become a matter of concern for various United Nations agencies, regional organizations and other international bodies. 1/

1/ Transnational Corporations in World Development. Third Survey (United Nations publication, Sales No. E.83.11.A.14), p. 105.

The purpose of this study is to provide an evaluation of the contribution of transnational corporations to Saudi Arabia's economic development. The first chapter discusses the features of Saudi Arabia's policy towards the transnational corporations and the second reviews the corporations' forms of participation. The third chapter attempts to measure the extent to which the corporations contribute to the development of the local economy, on the basis of their contribution to gross domestic product, employment and the balance of payments. The fourth chapter deals with the effects of the corporations' role in the transfer of technology, their influence on patterns of production and consumption and their use of transfer pricing. The chapter closes with an attempt to assess the prospects of the corporations and their future role in the Saudi Arabian economy. The study concludes with the presentation of a number of proposals and recommendations.

I. FEATURES OF SAUDI ARABIAN POLICY TOWARDS TRANSNATIONAL CORPORATIONS

Saudi Arabia has pursued a policy of planned development since A.H. 1390 (A.D. 1970), when the first five-year plan was published. This was followed by three further five-year development plans, the latest of which covers the period A.H. 1405-1410 (1985-1990). In the first and second plans, emphasis was placed on making the best use of rising oil revenues to build the country's infrastructure and develop its labour force. They covered the construction of roads, airports and ports, the provision of education, training, public health and social welfare services and the adoption of programmes to improve other government services. The Third Development Plan (A.H. 1400-1405) was designed to complete the achievements of the first two plans and to push the development process to even higher levels, particularly after the elimination of most of the bottle-necks encountered during the Second Development Plan. Besides continuing the completion of the infrastructure and the development of human resources, the Plan directed more investment towards the production sectors in industry, agriculture and ancillary services with a view to raising and diversifying production in order to reduce the dependence on oil as almost the only source of income. The Fourth Development Plan (A.H. 1405-1410) emphasized competence and effectiveness in the use of resources and the continued development of the production sectors. It also stipulated that the private sector should be encouraged to play a positive role in building up the economy in order to offset the reduced role of the Government in this respect. 1/

As a result of the Government's increased spending on development programmes, together with the provision of generous incentives and privileges to local and foreign investors and its adherence to a free-market system, large numbers of foreign corporations flowed in to work on contracts and to invest in the various economic sectors. The form and extent of this influx were also affected by other local economic factors, including, for example, the shortage of local - and particularly trained - labour and the limited possibilities and capabilities in the areas of technology, organization and management.

The corporations' conduct of their business in Saudi Arabia was marked by numerous violations, both of the clauses of the contracts into which they had entered and of local rules and regulations. The Government, therefore, has devoted greater attention to the business practices of foreign corporations in Saudi Arabia with a view to regulating their conduct and relations with various local economic sectors and reducing their negative effects, including their impact on the values and customs of the community.

Before addressing the two aspects of government policy (support and encouragement on the one hand, and control and regulation on the other) towards foreign corporations, it may be useful to recall the initial phase when Saudi

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1/ Saudi Arabia, Ministry of Planning, Khittat al-Tanmiyah al-Rabi'ah 1405-1410 (Fourth Development Plan, A.H. 1405-1410), (Riyadh, 1985), pp. 38-75.

Arabia first welcomed transnational corporations. The process began in 1933 when Standard Oil of California (SOCAL) was granted a concession to explore for oil. SOCAL was joined by Texaco in 1936 and by Exxon and Mobil in 1947, which took equal shares in the Arabian-American Oil Company (ARAMCO); Mobil, however, was allocated only 10 per cent of the company's shares. In 1949, the Getty Oil Company entered the region, and was followed by the (Japanese) Arabian Oil Company in 1957. For this study these corporations are of significance as they are among the largest transnational corporations in the world. However, it should be noted that their influence began to wane in the mid-1970s as the Saudi Arabian Government took over 35 per cent of ARAMCO at the beginning of the 1970s and increased its share to 60 per cent in early 1974. The company became fully Saudi-owned in 1976 and compensation claims were settled in 1980. 1/

A. Policies of support and encouragement for foreign participation

The policies designed to encourage direct foreign investment can be divided into the following three categories:

1. Privileges and incentives granted under the Foreign Capital Investment Code

In view of the importance of foreign investment, the Government took a number of measures to encourage such investment which led to the promulgation in A.H. 1399 (1979) of the Foreign Capital Investment Code (see annex I). In order to enjoy the privileges laid down in the Code, foreign capital must be:

(a) Directed towards development projects, apart from projects for the extraction of oil and minerals, which are covered by other arrangements;

(b) Accompanied by the investment of foreign technical expertise;

(c) In possession of a licence issued by the Ministry of Industry and Electricity to establish the project.

If foreign capital meets the above conditions, it can benefit from the following:

(i) All of the privileges enjoyed by national capital (in the industrial sector), as mentioned in the Code for the Protection and Encouragement of National Industries, published in 23 Dhu'l-Hijjah A.H. 1381 (1961), which includes the following: 2/

a. Exemption from customs duty on all of the imports required for an industrial project, including machinery, equipment, raw materials and and apparatus required to implement it;

1/ Saudi Arabia, General Petroleum and Mineral Organization (PETROMIN), Al-Taqrir al-Sanawi 1403/1404 (Annual Report A.H. 1403/1404), p. 28.

2/ Saudi Consultants' Services Corporation, Dalil al-Istithmar al-Sana'i (Guide to Industrial Investment), (Riyadh, A.H. 1404), p. 136.

b. The grant of plots of land required to construct a factory and workers' accommodation for a token rent;

c. Protection of local production, where appropriate;

d. Financial support;

e. Exemption from duties and taxes on exported products.

(ii) Exemption from income and corporation taxes for a period of 10 years for an industrial or agricultural project in which foreign capital is invested and exemption from these taxes for a period of five years for other projects. One of the conditions for exemption is that at least 25 per cent of the project should be owned by national capital, and this proportion should be maintained throughout the period of exemption. Exemption becomes effective from the date on which production begins. Tax on foreign corporations is assessed at between 25 and 45 per cent of profits);

(iii) The ownership of property in accordance with the code relating to the ownership of property by non-Saudi Arabians.

2. Banking privileges and facilities

Medium-term concessionary loans (without interest) on up to 50 per cent of the total value of a project can be obtained for industrial projects. The Saudi Industrial Development Fund (SIDF) was established in A.H. 1394 to finance industrial projects in the private sector, as well as to provide technical and managerial advice to those who invest in this area. Corporations with foreign investors are permitted to take advantage of this facility. The proportion financed by the Fund is reduced if the shares of Saudi Arabian partners amount to less than 50 per cent. Three hundred and nine joint projects were financed by the Fund up to the middle of A.H. 1407 (late 1986). The total value of loans allocated to these projects amounted to some 5.5 billion Saudi Arabian riyals (SRls), which represents 47 per cent of the total capital of the projects and 39 per cent of the total volume of loans made by the Fund (see table 1). Joint projects such as the Saudi Basic Industries Corporation (SABIC) and the General Petroleum and Mineral Organization (PETROMIN), which links foreign capital and public institutions also enjoy concessionary credit facilities offered by the Public Investments Fund, which was established in A.H. 1391 (1971). 1/

3. Other privileges

Foreign participatory capital can also take advantage of other basic facilities which the State undertakes to provide such as roads, warehouses and other services supplied by industrial cities throughout the country and the

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1/ Saudi Arabia, Ministry of Finance and National Economy, Saudi Industrial Development Fund, Al-Taqrir al-Sanawi lil-Am al-Mali 1403/1404 (Annual Report for the Financial Year A.H. 1403/1404) (Riyadh).

recently established industrial cities of Jubail and Yanbu. Industrial investment (including foreign industrial investment) can take advantage of energy and water services which are supplied at a token cost. They can also obtain assistance from the Ministry of Labour to train their labour force. Corporations that invest in the country can also obtain finance from local commercial banks on terms that are more favourable than those available from foreign banks. Finally, the Government prefers local products to imported equivalents when negotiating purchases for Government projects and obliges various subsidiary agencies to give priority to local products. 1/

B. Policies of control and regulation

The influx of large numbers of foreign corporations, particularly contracting firms during the 1970s and early 1980s led to the spread of abuse. There were several reasons for these negative developments. The first was the sharp increase in the number of development projects, the greed and fraudulence of certain corporations when they fixed prices and specifications, their skill in drawing up contracts to further their own interests, coupled with the limited capacity of local administrative and organizational arrangements to cope with this growth. This was evident from the vague clauses in contracts concluded with foreign corporations and the limited ability of technical and administrative personnel to understand the technical, economic and legal aspects of many projects, together with shortcomings in the procedure of monitoring the application of regulations and contracts and difficulties in applying the appropriate sanctions. Abuses of this sort reached a climax in the second half of the 1970s. After that they gradually began to fall off with the development of administrative regulations and control and monitoring systems.

A number of conclusions can be drawn about the abuses and negative developments that resulted from the presence and operation of foreign corporations in Saudi Arabia by reviewing the relevant royal decrees and decisions of the Council of Ministers which were issued between 1976 and 1983:

1. Council of Ministers' Decision No. 1977 of 17 Dhu'l-Qa'dah A.H. 1396 (1976) instructs the technical offices in ministries, public institutions and consulting firms that work with the State to give priority to local industrial products when drawing up specifications for Government projects.

2. Council of Ministers Decision No. 3/C/5061 of 9 Rabi' I A.H. 1397 (1977) includes the following provisions:

(a) Reconsideration of the contracts of consulting firms that plan levels and specifications for projects in excess of the desired practical objectives;

(b) Elimination of all exorbitantly priced bids;

1/ Saudi Consultants' Services Corporation, Dalil al-Istithmar al-Sana'i (Riyadh, A.H. 1404).

Table 1. Total loans granted to joint ventures up to the end of 1986

(Millions of SRls)

Sector	Number of projects	Total loans	Expenditure	Foreign partner's share	Total project costs
Construction materials (excluding cement)	63	923	635	256	1 965
Cement	2	800	1 245	380	3 172
Chemical products	68	997	757	282	2 223
Consumer products	60	863	699	267	1 793
Engineering products	110	1 833	1 337	404	3 598
Other industrial products	6	86	55	18	188
Total	309	5 500	4 728	1 607	12 939

Source: Compiled from data supplied by the Saudi Industrial Development Fund.

(c) Prevention of corporations that persist in inflating their prices from participating in bids for government contracts, and their exclusion as legal entitities or individuals from the conduct of business in the country;

(d) Reconsideration of business with institutions and corporations that set prices above the international prices for goods and services;

(e) Prevention of corporations from seeking the assistance of brokers and intermediaries, but allowing them to be assisted by Saudi Arabian businessmen acting as agents in accordance with the rules laid down by the Council of Ministers.

3. Royal Decree No. 34851 of 5 Shawwal A.H. 1397 (1977) forbids the establishment by corporations under contract to government agencies of local factories producing certain raw materials and intermediate goods, on the grounds that such products should be used for the implementation of contracts in connection with their business with these agencies.

4. Royal Decree No. 4/N/4804 of 1 Rabi' I A.H. 1399 (1979) forbids the establishment of any factory without the prior approval of the Ministry of Industry, and authorizes the Ministries of Industry and the Interior to close any factory established in an irregular manner. The aim of this decree is to curtail the practice whereby certain foreign contracting firms establish factories that compete with existing national factories.

5. Royal Decree No. 3601 of 10 Safar A.H. 1401 (1981) restricts contracts for ordinary roads and bridges and small- and medium-sized buildings to Saudi Arabian contractors only.

6. Royal Decree No. 23401 of 18 Shawwal A.H. 1401 (1981) restricts non-construction contracts in areas such as catering, maintenance, operation, cleaning, transport, the supply of raw materials, etc., to Saudi Arabian contractors.

7. Council of Ministers Decision No. 124 of 29 Jumada I A.H. 1403 (1983) contains the following provisions:

(a) Obliges all non-Saudi Arabian contractors to assign at least 30 per cent of the business included in their contracts to purely Saudi Arabian contractors;

(b) Obliges all contractors to purchase the tools and equipment required to fulfil their contracts from local Saudi Arabian agents, and allows them to import only their own used equipment directly from abroad;

(c) Obliges contractors to obtain the following services from local Saudi Arabian enterprises:

(i) In-country transport of goods and personnel, if the contractor does not perform such services himself, using equipment owned by the contractor and staff who work directly for him;

(ii) Local insurance;

(iii) Banking services;

(iv) Rental and purchase of land and buildings;

(v) Catering and supply of foodstuffs;

The Decision also obliges government agencies to apply these rules to contracts that are drawn up with foreign corporations, and to ensure that they are adhered to

C. Control and monitoring of implementation: the Foreign Capital Investment Committee (and Office)

Although the Saudi Arabian Government has long pursued a policy of encouraging and supporting foreign investment in all sectors, there was no specific code relating to this policy until A.H. 1399 (1979). The Foreign Capital Investment Code contains 26 articles that specify projects in which investment is desired, the procedures and forms of support and assistance, and the ways in which to monitor the investing corporations' implementation and management of their projects.

In order to facilitate the application of the Code, article 4 provides that a committee, the Foreign Capital Investment Committee, should be set up within the Ministry of Industry and Electricity, that it include two representatives each from the Ministries of Planning, Finance and National Economy, Petroleum and Mineral Resources, Agriculture and Water and Commerce, and that it be under the chairmanship of the Under-Secretary for Industry and Electricity. The Committee is empowered to study and review foreign investment applications, hear related disputes and complaints, issue recommendations and propose regulations governing foreign investment.

The Code also provides for the establishment of a Foreign Capital Investment Office within the Ministry of Industry and Electricity, which will act as a technical and administrative adjunct of the Foreign Capital Investment Committee. The duties of this Office include the following:

1. To inform the international market of development projects in Saudi Arabia and of the privileges available under the Foreign Capital Investment Code;

2. To provide information to those wishing to invest, and to make the necessary facilities available;

3. To receive applications for licences and to assess these applications in collaboration with the Licence Department of the Ministry of Industry;

4. To monitor the execution of authorized projects and the extent to which they adhere to the provisions and protocol of the Investment Code;

5. To draw up the necessary reports and studies and to submit them to the authorities concerned.

II. FORMS OF PARTICIPATION OF TRANSNATIONAL CORPORATIONS IN SAUDI ARABIA

Countries are aware of the limitations of their economic resources and of the extent to which their availability and suitability differ from one country to another. This has been of major significance in activating and accelerating international commercial exchanges and opening up the economies of various countries to each other. Participation in the international economy can lead to an improvement in economic growth rates (economic development in the case of developing countries) and to a rise in living standards. This can be achieved in the following ways: 1/

1. By opening up the market to the products of those countries, to the extent that the whole world can become a potential market. This means creating new investment opportunities, which increase employment and the productivity of local resources.

2. By facilitating the acquisition of the community's requirements in terms of goods and production components and directing local resources into the production of goods in which the community is relatively successful. The advantages of being open to the outside world include having easier access to technology and avoiding the drawbacks of self-sufficiency policies.

3. By promoting the opportunities of making use of the savings of richer nations to bolster local savings and raise investment rates through the flow of foreign capital into a community. In many cases, foreign capital is obtained in the form of direct investment and should be accompanied by technology, as is the case in Saudi Arabia.

A. Types of participation

As has been stated, transnational corporations constitute one of the major elements of interconnection and interdependence between the economies of different countries. The corporations are able to carry out their activities in different States using several channels, which include the following. 2/

1. Direct investment

Transnational (multinational) corporations play a major role in the area of direct investment, in the form of foreign affiliates of the parent corporation or joint ventures.

1/ T. Killick, Policy Economics: A Textbook of Applied Economics on Developing Countries (London, Heinemann, 1981), p. 188.

2/ S. S. Martan, "Hatmiyyat al-ta'awun al-Khaliji li-intiqa' al-taqniyyah al-mula'imah" (The Inevitability of Gulf Co-operation in the Choice of Appropriate Technology), Buhuth Mukhtasah min Nadwat al-Takamul al-Iqtisadi li-Duwal Majlis al-Ta'awun li-Duwal al-Khalij al-Arabiyyah (Selected Studies from the Seminar on Economic Integration among Countries of the Arab Gulf Co-operation Council), (Riyadh, King Saud University, A.H. 1406), p. 222.

In the case of foreign affiliates, the capital is generally owned by the parent company, and the affiliate follows a central strategy laid down by the parent company. The local corporation may embrace a number of transnational corporations sharing its capital, as in the case of ARAMCO. As a result of the policy of "Saudiization", no fully foreign-owned corporation remained in A.H. 1404, and some 15 corporations with capital amounting to SRls 21.6 million were wound-up in the course of that year. 1/

Joint ventures (or investments) are usually established between a foreign corporation and a local partner, which could be a private company or a public institution such as SABIC or PETROMIN. The foreign (transnational) corporation provides technical and managerial expertise and a portion of the capital, in return for the provision of a larger share of the capital by the local partner, who is expected to facilitate the acquisition of natural resources and the concession of certain other benefits, as laid down in the agreement. The foreign partner (the transnational corporation) may be asked to guarantee sales for a certain proportion of production, as is the case with corporations associated with SABIC in the Saudi Arabian petrochemical industry.

Although this often constitutes one of the best arrangements for the transfer of technology and the supply of foreign capital, the benefits that accrue to the community may otherwise be limited, and sometimes even less than the costs of the alternative. The reasons for this in are as follows: 2/

(a) A number of transnational corporations exaggerate estimates of the costs of the equipment, machinery and technical and managerial services they provide;

(b) They exploit their technical and managerial capacities and knowledge to resolve disputes with local partners in their favour;

(c) They lack a commitment to training local staff and implementing the transfer of technology;

(d) They manipulate of the level of returns through so-called "transfer pricing", which is made possible by the multiplicity of areas in which transnational corporations and their branches operate, in order to control the quantities and prices of products, as well as their sales.

1/ Saudi Arabian Monetary Agency, Al-Taqrir al-Sanawi li-Am 1405 (Annual Report for A.H. 1405), (Riyadh) p. 109.

2/ M. W. Badawi and others, "Dirasah awwaliyyah an asalib al-tiknulujiya wa-alaqatha bi-mashakil al-tasni' fi duwal al-khalij al-arabiyyah" (preliminary study on forms of technology and their relation to problems of industrialization in the Arab Gulf States), Afaq Iqtisadiyyah (United Arab Emirates), No. 1 (January 1980), p. 58.

2. Agreements for the use of licences, patents and trade marks

Under this arrangement, a local corporation obtains the right to use a specific technology or specific invention to produce a certain item under a specific trade mark. The trade mark is usually well known, as in the case of certain brands of carbonated water, restaurant chains, etc. In return, the corporation which owns the trade mark receives a proportion of the profits, an annual sum as agreed, or other benefits. A number of national corporations have used such agreements to produce and market certain light consumer goods, such as various paper products, cleaning materials (Tide, Camay, Lux, Floorex, etc.), foodstuffs (such as various types of biscuits, macaroni, corn flakes, etc.), carbonated drinks (Pepsi Cola, Seven Up, etc.), fast-food restaurants (Kentucky Fried Chicken, Hardees, etc.), domestic appliances (such as washing machines, air conditioners and refrigerators) and construction materials.

What is notable under this arrangement is that corporations which own an invention or trade mark often impose certain restrictions on the licensee, such as a ban on entry into specific markets in other countries, in order to prevent competition between their products and those of another licensee. They also impose restrictions on the import of machinery and spare parts and request the licensee to assume the costs of publicity and local advertising. Among the most important drawbacks are the limitations imposed on research and development and the increase in technical dependence. 1/

3. Operation, management and training agreements

These agreements are usually concluded with certain corporations which enjoy a good reputation or have solid experience in a certain area. In many cases, these are corporations which set up or equipped a project, as in the case of turnkey projects, or the previous holder of a concession, as, for example, ARAMCO following its take-over by the Saudi Arabian Government. These foreign corporations have a subtle and significant influence over the decisions and economic returns of local corporations and institutions. Other examples of this type of agreement include those between nationalized banks and their former owners. In the late 1970s and early 1980s, a number of foreign banks were taken over by the Saudi Arabians, including the Saudi Cairo Bank, the Saudi American Bank, the Saudi British Bank, Bank al-Jazira, the Arab National Bank, the United Bank and the Saudi Dutch Bank. The original owners, such as the United States' Citibank and others, agreed to provide managerial and technical services for a number of years. A number of luxury and first-class hotels also signed contracts for management and the use of trade marks with major transnational hotel corporations such as Intercontinental, Marriott, Hyatt Regency, Sheraton, Ramada Inn, Holiday Inn, Meridien and Frantel.

1/ A. Karam, Al-Arab amam Tahaddiyyat al-Tiknulujiya (The Arabs in the face of the Challenges of Technology) (Kuwait, Alam al-Ma'rifah, 1982), p. 31.

4. Turnkey projects

Countries usually avail themselves of this arrangement because of the ease and speed with which it is possible to execute projects. It can include all elements of the project, beginning with the feasibility study and ending with delivery of the factory or project ready for operation. In the case of major projects, the agreements include special clauses for project operation and the training of personnel and, in some cases, the possible provision of technical, managerial and marketing services. Almost all government projects come under this heading.

B. Forms of transnational corporations operating in Saudi Arabia

Transnational corporations conduct their activities in Saudi Arabia in several ways. Some enter by means of direct foreign investment, either individually, as in the case of oil companies, or as partners, as in the case of corporations associated with SABIC, PETROMIN and the private sector. Others use maintenance, training and management contracts, which are offered by most government agencies, or licensing agreements concluded on a wide scale in co-operation with units of the private sector in light industries that are designed to meet the requirements of the local market. The most important of all is the turnkey agreement, which was the arrangement used by the Government to carry out most of its construction and development projects, particularly in the 1970s and early 1980s. 1/

Corporations operating in Saudi Arabia are classified either as foreign corporations (including all those whose capital is entirely foreign, regardless of the type of activity in which they are engaged), mixed corporations (those whose capital is shared with a local partner, including contracting firms, investment corporations in manufacturing industries and the agricultural sector, corporations providing services, etc.) or other service corporations (such as those operating in the banking sector, hotels, insurance companies, tourism companies, etc.).

1. Foreign corporations

About 800 foreign corporations were under contract in Saudi Arabia during the period A.H. 1397-1405 (1977-1985). Of these, 117 (14.6 per cent) were based in the United States, 97 (12 per cent) in the Federal Republic of Germany and 93 (11.5 per cent) in the United Kingdom (see table 2). Those based in

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1/ There is a shortage of information about these corporations. Ministry of Commerce statistics provide a minimum of information on mixed corporations registered over the last 10 years, but they are incomplete and imprecise, making classification very difficult. The information on foreign corporations is limited only to their names and nationalities. There is no information on service corporations, foreign affiliates or licensing agreements.

Western European countries as a whole amounted to 439, i.e. 55 per cent of the foreign corporations operating in the country during that period. The number of Asian corporations, excluding those from Arab countries, was 122 (15 per cent), while those comprising more than one nationality numbered approximately 62 (7.7 per cent).

The table also shows that the number of annual registrations of corporations reached a peak in A.H. 1399 (1979) and A.H. 1400 (1980). This coincided with the end of the period covered by the Second Development Plan, when Government spending was at its highest, viz. SRls 188 billion and SRls 236.6 billion respectively.

The number of registrations of foreign corporations subsequently began to decline, particularly after A.H. 1403, reflecting the reduction of government spending on projects on the one hand, and the continuation and growth of the participation of local companies in project execution on the other. Apart from this, some foreign corporations opted for participation with local partners in order to maintain their share in the local market and reap the benefits of the privileges accorded to national companies.

The importance of the role played by these corporations can be seen if the values of contracts concluded during the period in question are examined. A study carried out by the Riyadh Chamber of Commerce and Industry 1/ indicates that the value of contracts concluded by foreign corporations operating in Saudi Arabia during the period A.H. 1397-1401 (1977-1981) amounted to approximately SRls 161 billion. In the forefront were corporations from the Republic of Korea, with contracts amounting to SRls 33 billion, followed by corporations from the Federal Republic of Germany (SRls 24 billion) and the United States (about SRls 18.7 billion) (see table 3). It can also be seen that the highest total value (SRls 71 billion) was recorded in A.H. 1398 (1978), after which values began to decline. 2/

The major government contracting agency was the Ministry of Defence and Aviation, with a total of SRls 25.3 billion, followed by the Saudi Arabian Ports Authority (SRls 15.4 billion), the Ministry of Posts, Telegraphs and Telecommunications (SRls 15.1 billion) and the Saline Water Conversion Corporation (SRls 13.7 billion) (see table 4).

1/ Saudi Arabia, Chamber of Commerce and Industry Research Department, _Al-Sharikat Muta'ddidat al-Jinsiyyat, ma laha wa-ma alayha_ (The Multinational Corporations: their pros and cons), (Riyadh) (hereinafter referred to as _Al-Sharikat_).

2/ The discrepancies in the numbers of corporations shown in the tables are owing to the fact that the figures in table 2 are based on the date the corporation was registered with the Ministry of Commerce, whereas table 3 indicates the number of corporations actually under contract during that period.

Table 2. Number of foreign corporations registered, A.H. 1397-1405

Nationality A.H.	1397 (1977)	1398 (1978)	1399 (1979)	1400 (1980)	1401 (1981)	1402 (1982)	1403 (1983)	1404 (1984)	1405 (1985)	Total
United States	10	9	19	22	24	15	10	7	1	117
Japan	1	3	4	7	5	9	3	1	3	36
Federal Republic of Germany	11	18	15	14	12	14	4	8	1	97
United Kingdom	9	11	16	15	20	11	3	3	4	92
France	6	8	12	13	2	10	5	2	9	67
Other European countries	18	29	29	19	16	32	18	12	10	183
Arab countries	6	3	2	2	4	4	1	1	–	23
Other Asian countries	10	17	11	18	7	9	5	6	3	86
Multinational	8	8	8	6	10	6	7	4	5	62
Other countries	6	6	7	3	4	7	3	1	–	37
Total	85	112	123	119	104	117	59	45	36	800

Source: Compiled from figures supplied by the Ministry of Commerce, Riyadh.

Table 3. Number of foreign corporations under contract and value of contracts, by home country, A.H. 1397-1401

(Millions of SRls)

Country A.H.	1397 (1977)		1398 (1978)		1399 (1979)		1400 (1980)		1401 (1981)		Total	
	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value
United States	15	4 821.9	12	981.4	20	3 127.2	20	6 830.4	12	2 935.6	79	18 696.5
Federal Republic of Germany	13	5 467.1	18	14 525.8	16	1 791.4	13	1 501.7	5	1 293.6	65	24 579.6
United Kingdom	9	830.9	11	4 421.2	16	717.2	14	570.7	6	13.2	56	6 527.2
Republic of Korea	6	12 769.3	15	13 986.7	14	4 560.3	12	1 390.5	2	194.2	49	32 901.0
France	6	1 341.4	9	2 547.1	16	3 045.0	15	1 127.5	2	1 134.6	48	9 195.6
Italy	12	4 023.3	13	1 373.6	8	850.2	10	784.4	-	-	43	7 531.5
Japan	1	797.0	4	698.9	11	3 853.9	15	3 562.2	2	83.2	33	8 995.2
Arab countries	6	112.8	6	86.3	2	81.1	3	5.3	-	-	17	285.4
Islamic countries	4	425.0	4	304.8	-	-	3	412.9	-	-	11	1 143.2
Others	25	2 627.9	33	31 836.2	35	12 692.9	16	2 848.1	6	815.3	115	50 470.5
Total	97	33 217.1	125	71 262.0	138	30 720.1	121	19 033.6	35	6 469.7	516	160 702.5

Source: Riyadh Chamber of Commerce and Industry, Rights and Obligations of Multinational Corporations, p. 34.

With regard to the types of economic activity in which these corporations are engaged, it can be seen that the residential buildings sector took first place (with a total of SRls 24.9 billion), followed by ports (SRls 19.15 billion), military works (SRls 18.3 billion) and posts, telegraphs and telecommunications (SRls 17.3 billion) (see table 5).

Other statistics show that the number of foreign corporations issued with provisional licences (contracting firms) amounted to 895 by the end of 1986, and that the value of their contracts reached about SRls 496 billion. 1/

2. Mixed corporations (joint-ventures)

In view of Saudi Arabia's political stability and the numerous privileges extended by the State to national companies and foreign capital, as well as the labour and investment opportunities provided during the second half of the 1970s, foreign corporations wishing to operate in Saudi Arabia adopted a policy of association with local partners, private companies or even public institutions. The total number of corporations of this type rose from 30 in A.H. 1395 (1975) to 1,269 at the end of A.H. 1405 (1985). European corporations formed the largest number of Saudi Arabian associated corporations, namely 433 (34 per cent), followed by multinational corporations comprising various nationalities, which totalled 274 (21.6 per cent). Next came Arab corporations with 201 (15.8 per cent), of which 50 per cent were Lebanese, followed by Palestinian. United States corporations numbered about 185 (14.6 per cent). Table 6 shows that A.H. 1399 (1979) saw the highest number of registrations of mixed corporations, with a total of some 183 (14.4 per cent), followed by A.H. 1398 (1978) with 171. This period, as has already been stated, was the peak period for project expenditure under the Second Development Plan.

With regard to the activities of corporations, it can be seen that 75 per cent were contracting firms of various types, while the remaining 25 per cent were investment companies operating under the terms of the Foreign Capital Investment Code. Of the former, 307 (24 per cent) specialized in various forms of construction work, such as buildings, roads and airports, while 176 (14 per cent) were active in maintenance and training. One hundred and sixty nine corporations (13.3 per cent) were engaged in electricity and mechanical work, i.e. the third largest number of contracting firms (see table 7).

(Unofficial) statistics from the Ministry of Commerce indicate that the number of Saudi Arabian corporations with mixed capital amounted to some 1,404 by the middle of A.H. 1407 (late 1986), and that their capital was valued at SRls 14.12 billion (see table 8).

1/ Compiled by the author from information supplied by the Ministry of Commerce.

Table 4. Number of foreign corporations under contract to government agencies and value of contracts, by agency, A.H. 1397-1401

(Millions of SRls)

Agency A.H.	1397 (1977)		1398 (1978)		1399 (1979)		1400 (1980)		1401 (1981)		Total	
	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value
Ministry of Defence	8	15 035.5	8	9 901.1	16	5 698.8	21	5 472.3	7	2 689.9	60	25 265.6
SWCC	1	583.5	1	-	13	568.5	21	5 559.6	4	3 008.4	40	13 720.0
Agriculture and Water	7	1 303.1	11	4 976.5	10	394.4	8	644.5	2	42.0	38	7 360.5
Saudi Arabian Ports Authority	6	3 481.4	4	8 284.9	10	792.5	10	2 659.1	5	147.1	35	15 365.0
Ministry of Communications	11	2 312.2	13	888.5	6	642.9	4	214.6	-	-	34	4 058.2
Posts, Telgraphs and Telecommunications	5	1 914.2	12	12 311.1	9	596.7	5	301.5	-	-	31	15 123.5
PETROMIN	5	485.5	3	80.7	10	5 303.1	5	345.3	2	98.8	25	6 304.4
Royal Commission for Jubail and Yanbu	2	29.3	1	46.3	5	62.0	9	1 357.0	7	340.4	24	1 835.0
Industry and Electricity (Electricity Department)	5	885.4	6	1 347.6	4	126.7	5	181.6	2	40.0	22	2 581.3
Civil Aviation	-	-	2	7 537.0	9	2 682.7	5	355.4	2	-	18	10 575.1
Ministry of Health	4	580.5	4	3 290.1	2	127.1	5	683.0	-	-	15	4 680.7
Water and Sewage Board	-	-	7	671.3	-	-	4	440.4	-	-	11	1 111.7
Ministry of the Interior	-	-	2	382.5	5	1 030.4	3	200.5	-	-	10	1 613.4
Ministry of Education	5	133.9	1	19.4	3	69.6	1	7.1	-	-	10	2 093.5
Ministry of Information	3	336.0	2	1 202.0	3	162.1	1	6.5	-	-	9	1 706.7
Youth Welfare	5	133.9	2	76.1	1	483.7	-	-	-	-	8	693.7
National Guard	3	1 571.1	-	-	1	5.0	2	84.2	1	-	7	1 660.3
Other agencies	27	16 100.1	46	20 246.8	31	7 973.9	12	521.0	3	112.1	119	44 953.9
Total	97	33 217.1	125	71 263.0	138	30 720.1	121	19 033.6	35	6 469.7	516	160 702.5

Source: Riyadh Chamber of Commerce and Industry, Rights and Obligations of Multinational Corporations, pp. 37-38.

Table 5. Number and value of contracts concluded by foreign corporations, by area of economic activity, A.H. 1397-1401

(Millions of SRls)

Economic activity A.H.	1397 (1977)		1398 (1978)		1399 (1979)		1400 (1980)		1401 (1981)		Total	
	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value
Residential buildings	25	5 878	20	15 495	20	3 013	5	462	-	-	70	24 848
Water and sewage systems	13	1 243	22	2 138	9	760	21	2 095	5	3 051	70	9 287
Roads and bridges	21	1 876	20	1 920	9	1 683	11	27	-	-	61	5 506
Desalination plants	5	925	4	2 811	17	3 233	29	5 060	2	7	57	12 036
Electricity	12	2 765	10	1 441	12	2 723	13	1 143	1	58	48	8 130
Ports	9	4 574	7	9 747	16	1 919	12	2 768	2	139	46	19 147
Administrative and government buildings	14	2 576	14	1 179	6	802	8	183	3	82	45	4 822
Military works	7	188	13	4 325	9	4 637	7	4 922	7	2 214	43	18 286
Schools, institutes and colleges	15	3 228	11	1 829	11	1 566	2	224	1	98	40	6 945
Posts, telegraphs and telecommunications	10	2 110	13	13 992	10	702	4	170	-	-	37	17 174
Hospitals	8	2 542	5	642	7	542	8	776	1	16	29	4 518
Airports	4	708	3	7 634	14	3 487	6	452	1	31	28	12 312
Petroleum and mining sector	5	456	2	16	8	2 363	3	112	1	6	19	2 953
Agricultural sector	3	325	5	99	5	139	5	117	1	12	19	692
Sport and youth affairs	5	512	7	535	1	484	-	-	-	-	13	1 531
Industrial zones	2	371	6	836	2	36	1	1	1	1	12	1 235
Systems analysis/computers	2	175	3	249	4	822	-	-	1	3	10	1 249
Radio and television	4	578	1	1 119	6	200	-	-	1	33	8	2 010
Others	15	1 187	23	5 185	16	1 609	15	322	7	719	76	9 022
Total	179	33 217	189	71 262	178	30 720	150	19 034	35	6 470	731	160 703

Source: Riyadh Chamber of Commerce and Industry, Rights and Obligations of Multinational Corporations, p. 42.

Table 6. Number of joint-ventures registered, A.H. 1395-1405

Country A.H.	1395 (1975)	1396 (1976)	1397 (1977)	1398 (1978)	1399 (1979)	1400 (1980)	1401 (1981)	1402 (1982)	1403 (1983)	1404 (1984)	1405 (1985)	Total	Percentage share, by country
United States	3	22	21	25	35	20	10	20	15	6	11	185	14.6
Japan	-	2	4	3	2	4	8	3	7	1	-	34	2.7
Federal Republic of Germany	-	3	6	7	9	3	5	8	7	6	5	59	4.6
United Kingdom	6	8	13	18	10	11	10	9	10	2	7	104	8.2
France	1	-	5	6	7	3	7	9	5	7	5	55	4.3
Other European countries	2	9	21	27	34	20	36	29	25	5	6	214	16.9
Arab countries	5	15	15	31	21	27	20	26	16	10	15	201	15.8
Other Asian countries	-	-	-	10	14	9	14	9	14	4	4	78	6.2
Multinational	13	17	29	40	38	27	22	32	21	18	17	274	21.6
Other countries	-	3	3	4	13	11	10	5	9	3	1	65	5.1
Total	30	79	117	171	183	135	142	150	129	62	71	1 269	100.0
(percentage)	2.4	6.2	9.2	13.5	14.4	10.6	11.2	11.8	10.2	4.9	5.6	100.0	

Source: Compiled from figures supplied by the Ministry of Commerce, Riyadh.

Table 7. Distribution of joint-ventures, by economic activity, A.H. 1395-1405*

Activity (A.H.)	1395 (1975)	1396 (1976)	1397 (1977)	1398 (1978)	1399 (1979)	1400 (1980)	1401 (1981)	1402 (1982)	1403 (1983)	1404 (1984)	1405 (1985)	Total
Contracting jobs:												
Construction	4	22	33	62	50	39	36	27	23	7	4	307
Water, sewage, forestry	–	–	3	7	10	1	1	3	3	3	1	32
Transport and storage	4	4	6	11	6	6	5	9	4	1	1	57
Petroleum, gas, chemicals and minerals	1	6	4	5	10	2	8	7	4	1	3	51
Electrical, mechanical and engineering	4	10	12	15	23	17	16	27	29	9	7	169
Maintenance, administration and training	4	5	10	17	26	19	18	24	22	16	15	167
Other contracting jobs[a]	2	10	19	14	22	19	21	15	17	6	12	157
Production (investment) activities	12	18	34	39	34	36	33	40	27	19	28	320
Total	31	75	121	170	181	139	138	152	129	62	71	1 269

Source: Compiled from figures supplied by the Ministry of Commerce, Riyadh.

* This information may not be entirely correct, given the difficulty of assigning categories to certain jobs, such as the installation and maintenance of oil, gas and water pipelines, which could be placed under petroleum and gas, maintenance or water.

a/ Including all forms of survey work, internal insulation of buildings, provisioning services, road painting, environmental conservation, etc.

Table 8. Changes in the numbers of Saudi Arabian corporations with mixed capital, A.H. 1401-1407

Year	Number of corporations	Capital
Prior to A.H. 1401	762	7 206
A.H. 1401	135	2 449
A.H. 1402	150	2 674
A.H. 1403	140	749
A.H. 1404	74	362
A.H. 1405	79	399
A.H. 1406	43	187
A.H. 1407	21	92
Total	1 404	14 118

Source: Compiled from data supplied by the Ministry of Commerce, Riyadh.

With regard to mixed investments registered under the Foreign Capital Investment Code, according to statistics compiled by the Ministry of Industry and Electricity, the number of factories rose from 40 in A.H. 1395 (1975) to 344 in A.H. 1404 (1984). The number of factories manufacturing metal products and construction, engineering and electrical materials amounted to some 133, followed by those involved in chemical industries (82) and foodstuffs (33).

In terms of capital, first place went to the chemical industries, with total financing over the 10 year period amounting to about SRls 16 billion, of which foreign partners provided approximately 48.6 per cent. China, earthenware and construction materials industries came next, with total financing amounting to SRls 4.2 billion, of which the proportion provided by foreign partners was approximately 28 per cent. Then came the basic metal products industry (iron and steel factories), with total financing of SRls 3.7 billion, of which the foreign partners' share was 5 per cent, followed by the metal products industry for construction, engineering and electricity purposes, with total financing of SRls 3.02 billion and foreign partners' share of 53 per cent.

Total financing for these industries during the period A.H. 1395-1404 (1975-1984) amounted to approximately SRls 29 billion, of which foreign partners provided about 38 per cent. It can be noted that petrochemical industries accounted for over 50 per cent of total financing for all mixed industries during the period in question, by virtue of the massive amount of investment in this sector. Foreign investment in the petrochemical industries, some SRls 7.8 billion, accounted for 70 per cent of the total investment of all foreign partners during the period (which amounted to about SRls 11 billion. (see table 9).

Table 9. Distribution of foreign investment by industrial sector, A.H. 1395-1404

A.H.	1395 (1975)			1396 (1976)			1397 (1977)			1398 (1978)		
Activity	No.	Total funding	Foreign partner's share	No.	Total funding	Foreign partner's share	No.	Total funding	Foreign partner's share	No.	Total funding	Foreign partner's share
Foodstuffs and beverages	7	273.1	77.5	3	457.6	65.3	5	156.2	31.6	1	5.3	1.8
Textiles and leather	-	-	-	1	11.5	9.2	1	25.2	25.2	2	190.6	47.6
Furniture, wood and wooden furnishings	1	7.7	5.7	2	4.7	4.5	1	1.5	0.7	1	16.0	16.0
Paper, printing and publications	3	3.9	1.5	1	33.8	6.8	4	131.6	65.1	2	50.7	16.1
Chemical industries, including petrochemicals, coal and plastics	11	404.9	156.1	8	143.6	58.9	12	352.2	170.4	7	171.4	74.0
China, earthenware and porcelain products, construction materials and glass	8	358.6	189.6	14	1 420.1	271.1	15	397.8	150.0	9	248.4	124.5
Basic metal products	-	-	-	-	-	-	-	-	-	-	-	-
Metal products for construction, engineering and electricity	10	331.1	117.1	21	884.8	273.4	26	337.9	161.0	19	253.3	90.6
Other industries	-	-	-	1	120.0	66.5	-	-	-	-	-	-
Total	40	1 379.3	547.6	51	3 076.1	755.7	64	1 402.4	604.0	41	935.6	370.6
Foreign partners' percentage share			(39.7)			(24.6)			(43.1)			(39.9)

Table 9. (continued)

A.H.	1399 (1989)			1400 (1980)			1401 (1981)			1402 (1982)		
Activity	No.	Total funding	Foreign partner's share	No.	Total funding	Foreign partner's share	No.	Total funding	Foreign partner's share	No.	Total funding	Foreign partner's share
Foodstuffs and beverages	4	82.1	23.6	3	59.0	34.1	-	-	-	4	99.0	44.5
Textiles and leather	-	-	-	-	-	-	1	2.0	1.0	1	13.0	9.7
Furniture, wood and wooden furnishings	-	-	-	2	13.6	5.5	2	4.2	2.9	2	69.8	32.3
Paper, printing and publications	-	-	-	1	97.4	34.11	-	-	-	2	144.8	70.9
Chemical industries, including petrochemicals, coal and plastics	8	533.1	172.1	13	5 175.6	2 579.5	16	9 070.4	4 499.5	5	106.1	44.3
China, earthenware and porcelain products, construction materials and glass	3	1 460.8	285.4	5	158.2	65.5	3	64.3	24.9	3	65.0	63.1
Basic metal products	2	3 667.0	196.9	-	-	-	-	-	-	-	-	-
Metal products for construction, engineering and electricity	9	163.9	46.6	16	360.5	124.7	11	109.9	41.9	14	254.1	134.8
Other industries	1	22.6	7.7	1	19.7	11.8	-	-	-	2	7.4	3.6
Total	27	5 929.6	732.4	41	5 884.1	2 885.3	33	9 250.8	4 570.2	33	759.2	403.3
Foreign partners' percentage share			(12.4)			(48.5)			(49.4)			(53.1)

Table 9. (continued)

A.H.	1403 (1983)			1404 (1983)			Total		
Activity	No.	Total funding	Foreign partner's share	No.	Total funding	Foreign partner's share	No.	Total funding	Foreign partner's share
Foodstuffs and beverages	2	7.3	2.0	3	78.2	21.0	32	1 218.0	301.5 (24.8)
Textiles and leather	-	-	-	-	-	-	6	242.3	92.7 (38.3)
Furniture, wood and wooden furnishings	-	-	-	-	-	-	11	117.4	67.6 (57.6)
Paper, printing and publications	-	-	-	-	-	-	13	462.3	194.5 (42.1)
Chemical industries, including petrochemicals, coal and plastics	-	-	-	2	16.0	5.2	82	15 973.3	7 726.5 (48.6)
China, earthernware and porcelain products, construction materials and glass	-	-	-	1	11.1	3.7	61	4 184.4	1 594.3 (28.1)
Basic metal products	-	-	-	-	-	-	2	3,667.0	196.9 (5.4)
Metal products for construction, engineering and electricity	5	121.8	29.1	1	206.0	103.0	132	3 023.1	1 121.6 (37.1)
Other industries	-	-	-	-	-	-	5	169.8	89.7 (52.8)
Total	7	129.1	31.1	7	311.5	132.9	344	29 057.6	11 012.8
Foreign partners' percentage share			(24.1)			(42.7)			(37.9)

Source: Ministry of Industry and Electricity, List of Producing Factories Authorized under the Code for Protection and Encouragement of National Industries and the Foreign Capital Investment Code up to the End of A.H. 1404 (1984) (Riyadh).

III. ROLE OF TRANSNATIONAL CORPORATIONS IN THE SAUDI ARABIAN ECONOMY

One the most distinctive features of contemporary transnational corporations is their enormous financial and technical capacities and massive resources in terms of managerial and marketing experience. It is only natural that the capacity of these corporations to generate flows of investment should have a significant effect - both negative and positive - on the economies of host countries, as well as on social and political factors.

This chapter will discuss the role of transnational corporations in Saudi Arabian economic affairs, showing the corporations' contribution to economic changes with respect to gross domestic product (GDP), the level of employment, international trade and the balance of payments and, finally, Government revenue and prices.

A. Contribution of transnational corporations to gross domestic product

Foreign investment constitutes a form of external financing for countries: it provides them with additional resources, alleviates the bottle-necks caused by business with the outside world, reduces local financial burdens and subsequently contributes to GDP.

While the immediate effects of foreign investment may be seen in the direct contribution it makes to production and employment and the reduction of economic bottle-necks, it has many other positive effects. The technical skills brought in by corporations, their modern administrative systems and marketing capabilities constitute one of the cornerstones of a country's economic growth, so long as the country in question draws up and implements appropriate plans to absorb and make use of such benefits.

The technical capabilities of corporations may increase the local capacity to utilize the resources provided, while managerial and marketing skills can raise the productivity of those responsible for production, which will lead to the creation of more goods and services. New investments may also make a positive contribution to the economy through the connection and involvement of other economic sectors. In other words, transnational corporations may contribute to a rise in the community's value added by increasing production and productivity or by bringing about positive changes in wages, profits, yields and capital appreciation. This, of course, depends on the form that transnational corporations assume (see chapter II of this study).

Despite the positive contribution to GDP made by transnational corporations, they may also have negative effects: flows of foreign capital (temporarily) increase the resources of the host country, but they can also cause large amounts of capital in the form of profits and other revenue to flow out of the country. The development of local production capacities may be hampered by the establishment of foreign affiliates. Corporations may also disregard the priorities of the local economy when, for example, they do not comply with instructions to accord preference to local products and resources, fail to make any real effort to establish linkages with the local economy, or do not fulfil commitments to transfer technology and train local personnel. All of these have an adverse effect on the local industrial sector, value-added, the trade balance and GDP.

The role of transnational corporations in Saudi Arabia has been positive to some extent, as can be seen from the following.

Table 10 shows that the petroleum sector accounted for about 59 per cent of GDP during the period A.H. 1394/1395-1404/1405 (1974-1985). This proportion has now declined, as a result of both growth in other sectors and the fall in oil income after A.H. 1401. For most years the proportion of Government income provided by the petroleum sector averaged approximately 90 per cent.1/

As has already been mentioned, the corporations that have concessions to produce oil in Saudi Arabia are among the seven largest transnational oil corporations in the world. In the early 1970s, ARAMCO controlled the production and marketing policies of more than 95 per cent of Saudi Arabian oil. It paid royalties to the country on oil production amounting to approximately $US 0.20 per barrel. In 1950 the two sides (the Government and ARAMCO) concluded a profit-sharing agreement whereby the Government imposed an income tax on ARAMCO profits, bringing the country's total share of net profits to 50 per cent.

The international oil industry's concentration in the hands of a small number of transnational corporations led to an increase in the corporations' control over production and prices. Posted prices did not rise above $2.00 until 1958, and they subsequently fell back to less than $2.00, remaining at that level until 1971. This deterioration in prices led to the establishment of the Organization of the Petroleum Exporting Countries (OPEC) in 1960, which had the aim of strengthening the producing countries' negotiating position in relation to the oil companies. OPEC began to assert itself in 1971 through the so-called Tehran Agreement, which led to an increase in posted prices,2/ particularly in 1973/1974.

1/ Saudi Arabia, Ministry of Planning, Munjazat Khitat al-Tanmiyah: Haqa'iq wa-Arqam 1390-1403 (Development Plan Achievements: Facts and Figures, A.H. 1390-1403), (Riyadh), p. 153.

2/ Said S. Martan, Domestic Development and the Management of Oil Revenues in the Economy of Saudi Arabia, Ph.D. dissertation, University of Nebraska, Lincoln, United States of America, 1980, pp. 16-29.

Table 10. Contributions of the oil sector and direct investment to gross domestic product and volume of contracts with foreign corporations, A.H. 1394/1395-1403/1404

A.H.	1394/1395	1395/1396	1396/1397	1397/1398	1398/1399	1399/1400	1400/1401	1401/1402	1402/1403	1403/1404	1404/1405
Gross domestic product	139.20	163.90	203.90	223.80	247.60	383.60	581.00	522.20	411.80	367.60	334.50
Petroleum sector	104.70	109.60	128.50	126.20	131.10	237.20	341.00	323.30	192.90	143.20	115.40
Direct investment in the non-petroleum sector[a/]	..	0.55	0.67	0.60	0.37	0.73	2.90	4.60	0.40	0.30	..
Volume of direct investment[b/]	-13.30	6.60	-1.30	2.80	2.20	-4.50	-10.60	21.80	38.20	17.40	18.40
Percentage share of direct investment in gross domestic product	9.60	4.00	-0.60	1.30	0.90	-1.20	-2.00	4.20	9.30	4.60	..
Value of contracts with foreign corporations	..	..	..	33.20	71.30	30.70	19.00	6.50	..	..	..
Value of contracts with mixed corporations[c/]	..	..	..	..	..	..	..	..	..	..	..
Percentage share of petroleum sector in gross domestic product	75.20	66.90	63.00	56.40	55.20	61.80	65.80	61.90	46.80	39.00	34.50
Percentage share of contracts with foreign corporations in gross domestic product	..	..	..	14.80	28.80	8.00	3.70	1.20	..	..	..

a/ Ministry of Industry and Electricity, List of Producing Factories Authorized under the Code for Protection and Encouragement of National Industries and the Foreign Capital Investment Code up to the End of A.H. 1404 (1984) (Riyadh).

b/ Compiled from figures in United Nations Centre on Transnational Corporations, Transnational Corporations in World Development, Third Survey, (New York 1983); International Monetary Fund, Balance of payments Statistics, 1985 Yearbook; and International Monetary Fund, International Financial Statistics, 1984 Yearbook, (Washington). Statistics were compiled according to the Gregorian calendar and converted to A.H., e.g. A.H. 1394/1395 corresponds to 1974, etc. Some figures were converted from Special Drawing Rights and US dollars into Saudi Arabian riyals, in order to facilitate comparison. See also Saudi Arabia, Ministry of Planning, Development Plan Achievements 1970-1985 (Riyadh), p. 170.

c/ No information is available on this; it is included in the table in order to emphasize the importance and significance of these corporatons in the execution of most contracts, particularly in recent years.

Although the oil companies with concessions no longer own the assets of ARAMCO, the country's principal oil producer, and no longer decide production volumes, prices, etc., they still exercise some influence over the country's oil industry. This influence is manifested in their managerial supervision and domination of technical exploration and production operations, as well as other downstream operations such as marketing and distribution.

The presence of transnational corporations in the country and their role in the economy can be gauged by considering the net level of direct foreign investments in Saudi Arabia during the period A.H. 1394/1395-1403/1404, when foreign investments amounted to approximately SRls 56 billion, mostly in the oil sector. Statistics published by the Ministry of Industry and Electricity indicate that the amount of foreign capital in basic and manufacturing industries over the same period was SRls 11 billion, most of which was directed towards the petrochemical industry.

The importance of these figures is not just confined to the influx of equipment, machinery and apparatus which it represents. It can also be seen in the amount of value added in the Saudi Arabian economy in the form of production revenue, the provision of better opportunities for resource utilization and the attraction of technology and management and marketing techniques. These are the elements on which Saudi Arabia's Foreign Capital Investment Code and industrialization and development strategies are based.

Among the most important industries to benefit from the contribution of foreign capital, and which have a significant effect on GDP, apart from the oil sector, are the basic and petrochemical industries associated with SABIC,[1/] the refining, petroleum derivatives extraction and mining industries associated with PETROMIN,[2/] the support and infrastructure industries that derive from the above-mentioned sectors, in co-operation with the Royal Commission for Jubail and Yanbu,[3/] together with other manufacturing industries associated with the private sector.

Transnational corporations, particularly those participating in the petrochemical industry, have been accused of exaggerating the values of their capital assets, studies and technical advice. There is also the danger that corporations may influence the prices or volume of petrochemical production

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1/ SABIC, a Saudi Arabian joint-stock company in which the Saudi Arabian Government owns a major share, was founded in A.H. 1396 (1976) to establish, produce and market basic industries' products that derived from local hydrocarbon and mineral resources and other complementary and supporting industries.

2/ PETROMIN was founded in A.H. 1383 (1963) to develop petroleum and mineral activities in Saudi Arabia.

3/ The Royal Commission for Jubail and Yanbu was founded on 16 Ramadan A.H. 1395 to implement the infrastructure plan required to convert Jubail and Yanbu into industrial cities.

Table 11. SABIC corporations and their foreign partners, up to 1985

No.	Name of corporation (industry)	Date of establishment	Main products	Foreign partner	Commencement of operations or projected commencement
1	Hadeed	20 March 1979	Reinforcing rods and bars	D.E.G. (Federal Republic of Germany)	January 1983
2	Sulb	1962(expanded 1979)	Reinforcing bars	Kurt Handel (Federal Republic of Germany)	Early 1960s
3	SAFCO	1965	Urea, sulphuric acid, melamine	None	1969
4	Samad	1979	Urea	Taiwan Fertilizer Co.	1983
5	Ar-Razi	1979	Chemical-grade methanol	Mitsubishi (Japan)	1983
6	Ibn Sina	1981	Methanol	Celanese and Texas Eastern (United States)	1984
7	Sadaf	1980	Ethylene, ethylene dichloride styrene, ethanol, caustic soda, low-density polyethylene	Celanese and Texas Eastern (United States)	1984
8	Kemya	1980	Low-density polyethylene	Arabian Pecten, owned by Shell (United States)	1984
9	Yanpet	1980	Ethylene, ethylene glycol, polyethylene	Mobil (United States)	1984
10	Petrokemya	1981	Ethylene, polystyrene, blothin I	None	1985
11	Sharq	1981	Polyethylene, ethylene glycol	Japanese consortium led by Mitsubishi	1984
12	Gas	1983	Nitrogen, oxygen	None	1984
13	Ibn haiyan	1984	Vinyl-chloride-monomer	Lucky (Republic of Korea)	1986
14	Ibn al-Bitar	1985	Ammonia	None	1988
15	Ibn Zahr	1984	Methyl-tertiary-butyl ether	Arabian Apicorp, Neste Oy (Finland) and Enichem (Italy)	1988

Source: Compiled from various SABIC publications.

in order to increase their share of the profits. This is not unusual in corporations of such size and international influence, and applies not only to the petrochemical industry but to other complementary and, possibly, alternative industries (see the list of participating corporations in table 11). The corporations have also been accused of not making a serious effort to effect the transfer of technology or train local staff, with the result that the local parties (SABIC, PETROMIN and the Royal Commission for Jubail and Yanbu) have launched their own training programmes, separately from their foreign partners. The corporations have also been criticized for being totally biased in favour of their home countries. When they draw up specifications for an industry or an installation, they deliberately match them to the products of one of their associated companies, or to those of their home country, which creates a form of monopoly, as well as problems in terms of maintenance.

With regard to contracting firms, table 10 shows that the value of contracts concluded over a period of five years amounted to approximately SRls 161 billion. On the one hand, this figure shows the enormity and significance of the achievements made during the period in question, and the extent to which they contributed to development of the local economy and overall GDP growth. However, it can also be seen as an indication of the huge leakage from the local economy over those years. The proportion of overall GDP accounted for by contracts with foreign corporations was 15 per cent in A.H. 1397/1398, rising to 29 per cent in A.H. 1398/1399. However, this proportion began to decline gradually in subsequent years. The main accusations and criticisms directed at certain transnational contracting firms operating in the country include the following:[1/]

1. Their disregard, in many cases, of the regulations that accord preference to local products and their deliberate selection of specifications that match products manufactured in their countries of origin;

2. Their violation of regulations by sub-contracting to less experienced companies;

3. Their collusion with each other to establish cartels or special agreements when bidding for certain Government contracts, with a view to reducing competition and maximizing profits;

4. Their importation of workers from their home countries, or from countries that possess a cheap labour force. The presence of large numbers of foreign workers with different religious, social and economic backgrounds has had an adverse effect on social values and has led to the emergence of undesirable phenomena such as crime, drugs, etc.;

5. Their lack of commitment to contribute to the transfer of technology, as it is rare for any of these corporations to have a local centre for research and development.

1/ Saudi Arabia, Chamber of Commerce and Industry Research Department, Al-Sharikat.

B. Role of transnational corporations in employment

One of the contributions made by transnational corporations is the number of people they employ in their various activities. One of the reasons why transnational corporations open affiliates or establish specific industries in certain developing countries (such as the countries of East Asia) is the low cost of production, especially wages. This leads to the provision of more employment opportunities and an improvement in income levels. The contribution to employment is also enhanced by the work opportunities provided by other activities that derive from the corporation's main business or emerge to service such activities. The contribution takes the form of employment, increased wages and an improvement in the level of performance of countries that are affected by unemployment. Transnational corporations could play a more positive role if the employment of local staff and the improvement of their performance levels was included among their goals.

Other factors that limit the extent to which transnational corporations contribute to the employment of local staff in host countries in general include the following:

1. Their use of capital-intensive production methods, which limits employment opportunities to individuals who possess superior technical skills; these may only be available in the home countries where the corporations are based;

2. The absence, in many cases, of any intention, to facilitate the transfer of skills and modern production methods to the developing countries;

3. The ability of developing countries to absorb skills and modern production methods because of a shortage of competent human resources;

4. The practice by certain corporations of importing cheap labour from other countries, as in the building and construction industries;

5. The possible disappearance of work opportunities if certain existing national enterprises collapse as a result of a reduced ability to compete with the transnational corporations.

The situation of Saudi Arabia is very different from that of most developing countries, since it suffers from a shortage of local labour, both trained or untrained. The industrialization policy has therefore been directed towards the adoption of capital-intensive methods. The Fourth Development Plan (A.H. 1405-1410)[1/] shows that the number of foreign workers rose during the period covered by the Third Development Plan (A.H. 1400-1405,

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1/ Saudi Arabia, Ministry of Planning, Khittat al-Tanmiyah al-Rabi'ah.

equivalent to 1980-1985) by about 1.12 million.1/ This number represents approximately 60 per cent of the total number of workers in the country. However, as a result of the country's economic situation, the reduction in construction and building activities, an increase in the supply of Saudi Arabian workers and the use of capital-intensive production methods, the number is expected to fall by some 22.6 per cent to 2.06 million by the end of the Fourth Plan.

The extent to which transnational corporations contribute to the employment of Saudi Arabian labour depends on the type of corporation (temporary contracting firm, investment corporation, foreign-owned or mixed). For example, corporations that operate in the extraction industries' sector, or in that of basic and financing industries, employ a far greater proportion of Saudi Arabians than those in the contracting sector. This can be explained by the nature of their work, the continuity of their presence and the contracts concluded with local partners, which insist on local participation and the need to train Saudi Arabians to take the place of non-Saudi Arabians at the earliest opportunity. This is true of SABIC, PETROMIN, the Royal Commission for Jubail and Yanbu, branches of foreign banks that have been "Saudiized", and other mixed corporations.

In view of the above, Saudi Arabia is attempting to use capital-intensive methods to reduce the number of imported workers, while at the same time it includes conditions for the employment of Saudi Arabians in its contracts and adopts appropriate training programmes to bring national elements into the operation of its industries. For example, SABIC projects are the most capital-intensive in the country. Its investment in projects up to the end of A.H. 1405 amounted to about SRls 38 billion, with a total of 700 workers, of whom 47 per cent were Saudi Arabian. The Corporation is now training more Saudi Arabian nationals through applied (on-the-job) training, overseas training or co-operation with foreign partners. The aim is to bring the proportion of Saudi Arabians up to 75 per cent in future years. 2/

By the end of A.H. 1403/1404, the total number of workers employed in all PETROMIN projects, including joint-ventures, was some 11,965, of whom 73 per cent were Saudi Arabians. The proportion of Saudi Arabians will increase in years to come as a result of continuing training programmes.

In the building and construction sector - the biggest contributor to GDP since A.H. 1395 (1975) - the contribution of the transnational corporations to the employment and training of Saudi Arabian workers has been very limited. This may be owing to the temporary nature of the jobs carried out, and the unavailability of Saudi Arabians wanting to work in this sector. The Saudi Arabians' reluctance to work in such corporations can be attributed to the nature of some of the jobs such as maintenance, cleaning and construction, and to the low wages offered, as well as the corporations' deliberate importation of workers from their own or other countries and the creation of certain problems for local workers.

1/ These figures apparently do not include Yemeni workers.

Employment in the building and construction sector reached a peak in A.H. 1402 (A.D. 1982), when the number of those directly employed in any form of building or construction activity was estimated to be about 950,000. The number had fallen to 886,000 by the end of the Third Development Plan. The average participation of Saudi Arabians did not exceed 9 per cent. The number of employees in this sector represented 20 per cent of the total work-force. In A.H. 1404/1405 (1984), the number of workers engaged in the production of construction materials, together with those indirectly involved in such activities, was estimated to be approximately 1.15 million, or 26 per cent of the total work-force. The total number of those employed in the sector was about 2.04 million (or 46 per cent of the total work-force) in A.H. 1404/1405. The proportion of workers employed in this sector is expected to fall to 13.8 per cent of the total work-force by the end of the Fourth Plan.1/

C. Influence of transnational corporations on the balance of payments

A transnational corporation affects the host country's balance of payments because of its influence on exports, imports, the movement of capital and the transfer of production revenue. The production of goods by a transnational corporation in response to local market requirements (import substitution), or for export purposes may lead to an improvement in the country's trade balance. The opposite effect may be true, however, if a transnational corporation resorts to the importation of large quantities of raw materials and other production components.

The ability of foreign corporations to transfer large quantities of capital and investment revenue out of the country can lead to a deterioration of the host country's economic situation, cause fluctuations in the external rate of its currency, and reduce the effectiveness of its financial policy. Furthermore, the ability of corporations to make huge investments in local industries, particularly strategic industries, gives them more influence over the country's financial resources and balance of payments, which ultimately means that they are able to play a significant role in local economic and political decisions.

Transnational corporations that operate in Saudi Arabia may be classified in various ways, as follows::

(a) Production corporations, including the following:

(i) Those with investments in industrial and agricultural activities that are designed to achieve import substitution as, for example, when there is foreign participation with the private sector in certain traditional industries;

(ii) Those with export-oriented investments as, for example, the extraction industries such as petroleum and mining and other manufacturing industries such as petrochemicals;

1/ Saudi Arabia, Ministry of Planning, Khittat al-Tanmiyah al-Rabi'ah (Fourth Development Plan).

(b) Contracting firms, whether foreign-owned or mixed with local capital;

(c) Service corporations, such as tourism companies, hotels, banks, insurance companies, airlines and foreign engineering consultants' offices.

Table 12 shows that the oil companies exercise the greatest influence over the balance of payments, with oil exports accounting for about 99 per cent of the country's exports. The average return on foreign investment in the country amounted to approximately 8.5 per cent of export receipts during the period 1974-1984. These outflows in the form of investment returns represent an increase in the country's payments to the outside world, which therefore have a negative effect on the balance of payments.

The volume of direct investment has fluctuated to some extent in recent times, but it grew considerably during the period 1981-1984, reaching a level of some SRls 96 billion. The short-term effect is undoubtedly positive, but in the long term it will result in an increase in the country's debt commitments to the outside world, apart from the annual profits that are transferred abroad.

Direct investment in non-petroleum industries amounted to approximately SRls 11 billion during the period 1974-1984. It is expected to have a more positive effect once the industries that benefit from this investment, (export-oriented industries), are brought into operation.

The table also shows that the value of contracts with foreign corporations over a period of five years amounted to some SRls 161 billion. These may have a positive effect by helping to establish infrastructure and factories which may play a positive role in increasing GDP, and subsequently raising exports and reducing imports, thus supporting the country's international balance of payments. In the short term, however, their effect is negative as a result of increased demand for imports of raw materials, for example, and the transfers of production receipts in the form of wages, profits, etc.

One consideration that must, however, not be ignored is the country's excellent financial position in recent years. By virtue of its enormous oil exports, a surplus was achieved in its current account for all the years referred to, with the exception of 1978 and the years following 1981. Thus, the adverse effects on the balance of payments were not significant in comparison with the net receipts and developmental achievements attained during the period. Nevertheless, oil revenue began to decline in 1982, and attention must therefore be paid to such flows of funds in order to limit their effects on the country's balance of payments.

D. Influence of transnational corporations on revenue and prices

Oil revenue, including sales of crude and locally refined oil, made up about 86.1 per cent of annual budget income over the period A.H. 1394/1395-1403/1404. The proportion began to fall in A.H. 1401 (A.D. 1981),

Table 12. Exports, current account, foreign investments, investment returns and values of contracts, 1974-1984

(Billions of SRls)

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Total exports	126.2	104.4	135.2	153.2	138.2	213.2	362.9	405.5	271.1	157.8	131.7
Oil exports	123.0	100.9	132.7	141.8	125.3	194.0	334.5	375.3	250.0	154.3	127.3
Current account	82.4	50.3	50.3	42.3	-7.5	37.5	13.8	129.7	-3.6	-56.3	-84.7
Direct investments	-13.3	6.6	-1.3	2.8	2.2	-4.5	-10.6	21.8	38.2	17.4	18.4
Direct industrial (non-oil) investments	–	0.55	0.67	0.60	0.37	0.73	2.8	4.6	0.40	0.03	–
Return (due) on direct foreign investments	17.7	7.5	11.6	14.4	15.3	6.9	23.0	32.5	21.3	14.8	12.7
Percentage ratio of investment returns to total exports	14.0	7.2	8.6	9.4	11.1	3.2	6.3	8.0	7.9	9.4	9.6
Value of contracts with foreign corporations	–	–	–	33.2	71.3	30.7	19.0	6.5	–	–	–
Value of contracts with mixed corporations	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	–	–	–	–	–

Source: International Monetary Fund, Balance of Payments Statistics, Yearbook (various years); preceding tables.

descending in A.H. 1403/1404 to about 67 per cent.1/ The remaining income was derived from non-petroleum sectors such as customs duties on imports and the token fees charged by the Government for services such as water, electricity and telephones. Receipts from sales of petrochemicals by the member companies of SABIC remain very limited, and the same is true of revenue from taxes on foreign capital in manufacturing industries. As noted in chapter I, the Government accords a 10-year exemption to foreign capital provided that certain conditions are fulfilled.

Although they provide valuable technology, the transnational corporations are directly responsible for increasing government expenditures. High-quality sophisticated designs which make use of advanced technology require continuous and sophisticated maintenance which is also costly. It is therefore to be expected that the maintenance of certain Government projects will in the future place a heavy burden on the State budget, particularly now that oil receipts have begun to decline.

With regard to prices, Government expenditure - which rose sharply and suddenly from 1974 onwards - caused high inflation, which reached its peak (about 40 to 45 per cent) in the mid-1970s. In this context, the role of the transnational corporations may be seen in their increased expenditure on services such as, inter alia, housing and catering.

The profitable contracts which the corporations concluded with the Government for the implementation of projects had an inflationary role in increasing government expenditures, governments had to pay high rates for their services. Local companies began to copy the foreign corporations by paying high rates for services. This increase in expenditure, together with the country's limited capacity in terms of ports, roads, warehouses and miscellaneous services, caused a surge of inflation which affected all sectors. Furthermore, both in-the-field experience and studies in Saudi Arabia clearly demonstrate that a certain degree of discrimination was practised by some transnational corporations exporting to the country: they set higher prices for products exported to Saudi Arabia than they did for exports to other developing countries.2/

It was pointed out in chapter I that certain corporations operating in the country set exorbitant prices for their contracts, through connivance among corporations in the form of pacts or the formation of cartels, etc. One of the other ways in which foreign corporations in Saudi Arabia attempted to maximize their profits was their practice, observed on many occasions, of carrying out a study and drawing up plans with specifications matching the products of specific producers. The Government authorities became aware of this tactic and imposed a rule that specifications should not be limited to any individual industry and should be accompanied by alternatives.

1/ Saudi Arabian Monetary Agency, Al-Taqrir al-Sanawi (Annual Report), p. 21.

2/ Saudi Arabia, Ministry of Planning, Trade Margins Study: Executive Summary, (Riyadh, 1977).

IV. EFFECTS OF THE TRANSNATIONAL CORPORATIONS' PRESENCE ON CERTAIN SECTORS

The presence of transnational corporations affects the course and achievements of economic development in various countries, as well as patterns of production and consumption and social customs and values. Countries wishing to make use of the capacities and capabilities of the transnational corporations therefore seek to establish formulas and codes with a view to encouraging and absorbing the positive effects of such corporations and limiting, as far as possible, their negative effects.

These codes translate, in practical terms, into clauses which are added to the contracts to establish certain corporations or to the contracts for project execution, loans and other facilities.

This chapter reviews the effect of the transnational corporations with respect to the transfer of technology and patterns of production and consumption, followed by their cultural and social effects. The end of the chapter contains a summary of the corporations' expected role in years to come.

A. Transfer of technology

There can be no doubt as to the role of modern technology in the development of industrial societies. Its contribution, which is not confined to economic and industrial aspects, has covered all spheres and activities, including social, political and environmental affairs. It has played a demonstrable role in changing the pattern of life of many peoples and institutions. It has also led to the emergence of management and production procedures and institutions which are better able to meet the requirements of peoples. A less positive contribution is the current inundation of third world markets with consumer goods and products and the instruments of war, as well as the growth of Western political, economic and social influence, which is simply the result of the technological lead attained by Western countries.

Technology may be described as the sum of accumulated and available knowledge, experience and skills and the material and organizational instruments and methods used by man to perform a certain function in order to meet material and moral requirements at both the individual and the community levels.

The developing countries' awareness of the importance of technology and its prominent role in the development process has made them seek the shortest route to its acquisition. However, the drive for a transfer of foreign technology is a temporary phase rather than the ultimate objective and should not take place at the expense of neglect of local technologies, which originated and developed in accordance with the environmental and social conditions and values of their societies.

The transfer of technology is appropriate if based on a selection of what is suitable and supported by the capacity and ability to apply, adapt and improve it. When these conditions - or most of them - are met, the operation is referred to as a vertical transfer of technology; if not, it is known as a horizontal transfer.

The transfer is therefore considered successful when the transferred technology is absorbed by local institutions and applied efficiently without disturbing the country's economic, social and environmental structures.

The transnational corporations' role in the transfer of technology to Saudi Arabia has been very limited, and any transfer that has taken place has been dictated by the country's labour conditions. Although one of the objectives of bringing foreign investment into the country is to acquire the accompanying technology and despite the fact that some contracts contain an almost synonymous clause (providing for training, refinement of skills, etc.), the return is very limited. The various government agencies have become aware of this, with the result that they have begun to seek alternatives, however they may, to the transfer of technology, which in reality has to be taken rather than given. Certain agencies in the public and private sectors have therefore begun to plan various ways of acquiring technology by means of, for example, training and compelling foreign partners to train Saudis at their main factories in their home countries (as is the case with SABIC), requesting permission for some Saudis to contribute to the designs of certain simple projects (as in the Royal Commission for Jubail and Yanbu) or through management contracts with foreign corporations. This arrangement has worked successfully for some private sector enterprises, affording possibilities for administrative participation in decision-making by the placement of Saudi co-managers, and has been used, <u>inter alia</u>, by the Royal Commission for Jubail and Yanbu.

Since the degree of the transfer differs from one institution or sector to another, in accordance with the nature of the transnational corporation's work, the different types of transfer of technology may be classified as follows:

1. <u>Import of goods and equipment</u>

Goods and equipment of this sort represent a specific technology which may be acquired, for example, by taking the machinery apart and seeing how the parts fit together. However, this method is not particularly easy and can be used only when a society attains a high level of science and technology. Despite the huge quantities of goods and equipment imported by Saudi Arabia in recent years, very limited technical benefit is being derived from them at the present time.

2. <u>Turnkey projects</u>

Saudi Arabia has resorted to this procedure for most, if not all, government projects because of its ease and facility of execution. In fact, technology can be acquired by means of this arrangement only during the training and administration stage, and even then at a restricted level. The weakness of these projects is the lack of participation by national elements during the stages of project design, elaboration of plans and installation of equipment.

3. Films, publications, scientific displays, international exhibits and other information media

Media such as these may be used for the transfer of much information and many technologies and programmes. They are expected to play a more substantial role in the future if they are properly used in accordance with the plans for them.

4. Operation, management and training agreements

Agreements of this sort are usually concluded with certain corporations enjoying a good reputation and possessing expertise in a specific area. For example, a management agreement was concluded between Saudi Arabia and the corporations which used to own ARAMCO, and the same applies to the foreign banks which were "Saudiized" and other sectors. Although this is one of the best arrangements, its success in ensuring the transfer of technology depends on the efficiency of the controlling authorities and the extent to which national skills are used in leading posts.

5. Agreements for the use of licences, patents and trade marks

Under this arrangement, a local company or enterprise is granted the right to make use of a specific technology or invention to produce an item or market it under a specific trade mark. The trade mark is usually well known, as in the case of certain types of carbonated water, restaurant chains, etc. In return, the foreign corporation receives a proportion of the profits, an agreed annual sum or other benefits.

This arrangement is not without its defects as the corporation which owns the invention or trade mark often imposes restrictions on the user, prohibiting, for example, entry into certain markets in other countries in order to prevent competition with its products or those of another user. It also imposes restrictions on the importation of machinery and spare parts and asks the user to bear the costs of local publicity and advertising. Other negative features are the obstruction of research and development and an increase in technical dependence.[1/]

6. Direct foreign investment

The multinational corporations generally play the major role in direct foreign investment. Like any other business enterprise, they aim to maximize their return on investments and to secure markets which are open to their products. They therefore do not welcome the transfer of technology to host countries unless circumstances demand or require such a transfer.

As an example of the corporations' behaviour in Saudi Arabia, the higher technical, managerial and engineering positions in the oil companies - which first entered the region over 40 years ago - have over the decades been restricted to the (more loyal) foreign employees, with opportunities being provided to nationals only in less important jobs.

1/ A. Karam, Al-Arab amam Tahaddiyat al-Tiknulujiya (The Arabs in the Face of the Challenges of Technology) (Kuwait, Alam al-Marifah, 1982), p. 31.

Another form of foreign investment may be seen in joint ventures between a local enterprise or company and a foreign corporation. The foreign corporation provides the technical and managerial expertise and part of the capital in return for the local partner's providing a greater share of the capital, natural resources and other benefits.

This arrangement has met with general acceptance in Saudi Arabia because the foreign partner, apart from providing technical and managerial expertise, also guarantees to market a certain proportion of production in international markets. It also makes it possible for the host country to influence the decisions which are taken and to see that they are in its interest. However, criticisms of this arrangement include the following:

(a) The setting of exorbitant prices by some foreign partners for the equipment, machinery and technical and managerial advice they provide;

(b) The foreign partner's use of his resources and technical and managerial knowledge to settle disputes with the local partner to his advantage;

(c) Lack of serious effort by the foreign partner to train local staff;

(d) The possibility of the foreign partner using certain projects as experiments for the purpose of selecting a technology, by employing new methods whose practical success has not yet been demonstrated.

In order to compensate for these defects, developing countries, including Saudi Arabia, include a number of conditions and incentives in contracts with these corporations.1/

7. <u>Services of consultants' offices</u>

The various types of consultants' offices and planning firms constitute one of the most important channels for the transfer of technology, and Saudi Arabia still suffers from a lack of local enterprises in this field. Such firms are distinguished by their ability to gather expertise and skills from various sources and to make an effective contribution to the transfer of technology, by means of economic or technical studies, the elaboration of plans, the provision of advice, participation in contract formulation or the establishment of managerial or other systems. The country undoubtedly needs offices of this sort; most of the existing ones are administered by enterprises which are foreign in all but name. Nevertheless, despite the small numbers of Saudis who belong to such enterprises, it is necessary to encourage existing ones and to persuade them to attract more nationals, since real skills and expertise can be developed only by means of practice.

1/ M. W. Badawi and others, "Dirasah awwaliyyah an asalib al-tiknulyjiya wa-alaqatha bi-mashakil al-tasni' fi dunal al-khalij al-arabiyyah" (preliminary study on forms of technology and their relation to problems of industrialization in the Arab Gulf States), <u>Afaq Iqtisadiyyah</u> (United Arab Emirates), No. 1 (Janaury 1980), p. 62.

B. Patterns of production and consumption

The arrival of the transnational corporations has helped to bring about improved patterns of production, as a result of participation by foreign corporations, management contracts, studies and consultants' advice or imitation and assimilation. These have led to an increase in productivity and more rational use of resources and time. With regard to consumer patterns, the effect has been mostly negative, given the introduction of trends which are to some extent considered to be inappropriate from the social and health point of view. These include the proliferation of fast-food restaurants and the resulting breakdown of social cohesion at the family level, as well as the inundation of markets with canned and frozen food products of limited nutritional value, the spread of other types of goods which have economic or social drawbacks, such as tobacco products and cosmetics, and video and cinema films.

C. Cultural and social impact of transnational corporations

The transnational corporations have played a major role in introducing customs and modes of behaviour affecting the country's cultural and social system. The presence of workers of different cultures and beliefs affected the community's values and lifestyles. The rate of thefts and delinquency increased. The corporations have also had an adverse effect on consumer trends, the quality of goods available in local markets and production structures.

D. Role of transnational corporations in the development process: prospects for the future

Saudi Arabia can be said to have acquired much useful knowledge, expertise and experience from its dealings with the transnational corporations. It can make use of this experience in order to deal with these corporations with a view to obtaining the greatest possible benefit and reducing the damage and negative consequences.

It should be noted that the current - and (predicted) future - economic situation differs significantly from the prevailing in the 1970s and early 1980s. The most important differences are as follows:

1. The large decrease in government spending as a result of the decline in oil revenue, meaning a fall in demand for projects and in the number of foreign corporations able to take part in their execution, entailing both advantages and disadvantages;

2. The increase in the Saudi economy's absorption capacity as a result of massive investment in infrastructure, meaning the elimination of bottle-necks in ports, roads, warehouses, housing, etc.;

3. The growth in the country's technological and managerial base, enabling it to exercise technical and managerial choice and control, to supervise and monitor project execution and to organize and regulate the investments and operations of foreign corporations;

4. The increase in the numbers of educated and skilled Saudi Arabians and the spread of local expertise to replace many non-Saudi Arabians;

5. The growth in the number of local investment companies and the growing acquisition of foreign management, marketing and business techniques by the private sector, providing it with greater bargaining power and varied sources from which to draw technology, goods and services.

The period 1974-1982 can be regarded as abnormal for Saudi Arabia and a time when the country's economic and social circumstances constituted a major reason for most of the negative aspects of the transnational corporations' activities. The equitable division of benefits between the transnational corporations and those doing business with them cannot be ensured unless there is equivalence between the two partners' requirements and managerial and technical capacities. Transnational corporations operating in Saudi Arabia are therefore expected to play a more positive role in the future. There will be fewer of them than in the past, and the country will have greater opportunities to choose as a result of the following two factors:

1. The increase in the number of corporations seeking work and investment opportunities at a time of reduced demand caused by the local and international economic situation;

2. The increased managerial, technical and organizational efficiency of local bodies, following the devotion of particular attention to the quantitative and qualitative development of such bodies to meet the constant demand for their services.

V. CONCLUSION AND RECOMMENDATIONS

A. Conclusions

1. The expansion of Saudi Arabian Government spending on development programmes during the 1970s and early 1980s, its award of generous incentives and privileges to foreign corporations and pursuit of the free market system caused a large influx of transnational corporations into the country. A total of 800 foreign corporations concluded contracts with Saudi Arabia during the period A.H. 1397-1405 (A.D. 1977-1985), while the number of corporations with mixed capital and Saudi partners at the end of A.H. 1405 (A.D. 1985) amounted to 1,269.

2. During the period in question, the Saudi Government adopted a number of measures and arrangements to attract foreign capital. The most important of these was the Foreign Capital Investment Code, issued in 1979, which stipulated that foreign capital as represented by transnational corporations should be accompanied by technical, managerial and marketing possibilities and capabilities to serve the needs of local development. Among the incentives granted to foreign capital were enjoyment of the privileges accorded to national capital in industry, a 10-year tax exemption and the award of concessionary loans for up to 50 per cent of the total amount needed to finance the project.

3. By the end of 1986, a total of 309 joint-capital projects had benefited from concessionary loans provided by the Saudi Industrial Development Fund. The total amount of loans amounted to SRls 5.5 billion, i.e. approximately 47 per cent of the projects' overall capital and some 39 per cent of all the loans made by the Fund over the period.

4. As a result of limited local managerial and technical capabilities, imprecision in contract clauses, shortcomings in monitoring procedures and application of regulations and the greed of many corporations, the massive influx of foreign corporations (and particularly of contracting firms) into the country led to some abuses. These included, for example, disregard on the part of certain corporations of the rules according preference to local products, the deliberate fixing of specifications to match goods manufactured in their home countries, the conclusion of internal contracts with less experienced companies, collusion to establish monopolistic consortiums (cartels) when bidding for government contracts and a lack of serious effort to train local staff and transfer technology. A number of regulations and guidelines were subsequently introduced with a view to checking these abuses.

5. About 800 foreign corporations concluded contracts with Saudi Arabia during the period A.H. 1397-1405 (A.D. 1977-1985), of which the United States' share amounted to 14.6 per cent, followed by the Federal Republic of Germany (12 per cent) and the United Kingdom (11.5 per cent). The share of Europe as a whole was some 55 per cent. The value of contracts concluded during the period A.H. 1397-1401 (A.D. 1977-1981) was about SRls 161 billion, of which corporations from the Republic of Korea were responsible for about 20 per cent, corporations from the Federal Republic of Germany 15 per cent and United States corporations 12 per cent. The list of contracting government agencies

was headed by the Ministry of Defence and Aviation (15.7 per cent), the Saudi Arabian Ports Authority (9.6 per cent) and the Ministry of Posts, Telegraphs and Telecommunications (9.4 per cent). With regard to the area of activity, the residential buildings sector occupied first place (15.5 per cent), followed by ports (12 per cent) and military works (11.4 per cent).

6. By the end of A.H. 1405 (A.D. 1985), the number of corporations with mixed (foreign and Saudi) capital amounted to 1,269. European corporations were responsible for 34 per cent of such participation, multinationals for 21.6 per cent, Arab corporations for 15.8 per cent and United States corporations for 14.6 per cent. Contracting firms accounted for about 75 per cent of the total, the rest (25 per cent) being made up of investment corporations. The proportion of corporations engaged in construction work amounted to 24 per cent, followed by maintenance and training (14 per cent) and electrical and mechanical activities (13.3 per cent).

7. A total of 344 factories had been registered under the Foreign Capital Investment Code by A.H. 1404, with total funding amounting to SR 29 billion, of which foreign partners were responsible for about 38 per cent. 38 per cent of these factories were engaged in the manufacture of metal, construction, engineering and electrical products, 24 per cent in chemical industries and 9 per cent in foodstuffs. From the point of view of capital, the field was led by the chemical industries, with total funding of SRls 16 billion, of which foreign partners were responsible for 48.6 per cent, followed by the china, earthenware and construction materials industry, with funding amounting to SR 4.2 billion, the foreign partners' share being 28 per cent, and the basic products industry, with funding of SRls 3.7 billion, of which foreign partners were responsible for 5 per cent.

8. Foreign investment in the form of joint ventures is considered to be the most acceptable arrangement for Saudi Arabia because it helps to provide technical and managerial expertise and marketing possibilities. It is the arrangement favoured by the Foreign Capital Investment Code, as well as the predominant procedure for chemical projects in association with SABIC, those of the oil-refining and mineral-extraction industry in association with PETROMIN and certain private-sector projects. However, it is to be noted that the corporations exaggerate the values of their capital assets, studies and technical advice. To this we may add their lack of serious concern to train local staff or to transfer technology, their failure - in some cases - to adhere to the quotas which they undertake to market in their contracts and their effect on prices and production volume.

9. There is an overall trend in Saudi Arabian industry to adopt capital-intensive methods in order to compensate for the shortage of local labour and reduce the number of foreign workers. This trend can be seen in SABIC and PETROMIN projects. At the end of A.H. 1405 (A.D. 1985), there were about 700 workers (of whom 47 per cent were Saudi Arabian) in SABIC projects, against capital investment estimated at some SRls 38 billion.

10. In private sector production, there is a discernible trend towards light industries (import substitution) under agreements for the use of licences and trade marks. However, the benefits which can be gained from such agreements are very limited, whether from the point of view of technology or employment.

11. Most contracts with foreign corporations involved in investments and projects provide for compulsory training of Saudi Arabian staff against a portion of the contract price. However, the results appear to be disappointing and such clauses have now become a means of increasing contract prices.

12. In an attempt to improve their performance, government agencies entered - independently of each other - into contracts with certain foreign corporations for the use of computer services. The result was the duplication of computer systems in the various agencies, with capacities in excess of the agencies' requirements - at exorbitant prices - and limited local ability to put them to use. Accordingly, successive contracts have been signed with the corporations for operation of the computers and the training of local staff.

13. Despite the technical capabilities of the corporations contracted by government agencies, the benefits reaped by the agencies from the accompanying technology and expertise were almost non-existent, which is incompatible with the country's long-term interests.

14. The services of consultants' offices and planning firms constitute one of the most important channels for the transfer of technology. Although the number of local enterprises is increasing every day, it is feared that a large number of them are run exclusively by foreign elements, so that they do not achieve the desired objectives.

B. Recommendations

1. The time may be ripe for a reformulation of the rules and regulations governing relations between corporations and contracting agencies in light of the new development situation. Contract clauses should also be set out clearly in order to facilitate their interpretation.

2. In the case of joint ventures, local partners are advised to step up their efforts to seek new markets, to adopt a policy of internal on-the-job training, to oblige their partners to establish local research and development centres with participation by local personnel and to use local incentives such as loans, as instruments of pressure to fulfil local objectives.

3. The dangers in adopting a capital-intensive investment policy lie in the country's limited inherent capacity to maintain and develop this type of capital. Such arrangements may prove incapable of competing in a world which is characterized by rapid technological development. It is therefore necessary to devote attention to the creation of local research and development centres and to take these factors into account whenever new contracts are concluded.

4. With regard to the private sector's drive to establish light industries through the use of licences and trade marks, the relevant authorities must exercise control over the drafting of clauses in such contracts in order to avoid prejudicing the rights of local producers and national interests. Local producers must also be guided towards appropriate means of transferring technology and reducing their total dependence on parent companies.

5. With regard to contract clauses providing for the training of Saudi Arabian staff, it is recommended that they should be revised, as far as is feasible, and that policies of independent training be adopted under the supervision of the government agencies concerned.

6. Co-ordination is recommended with respect to the use of computers, in order to ensure that resources and experience are shared. Use may also be made of the universities' expertise in this regard.

7. It is also recommended that research, development and information centres should be set up in the ministries and government agencies concerned, with responsibility for the collection of information, the transfer of skills and the involvement of local staff in certain jobs.

8. In order to counter the monopolistic conditions imposed by the technology-importing corporations, it may be useful to pursue the idea of bringing in experts and skilled personnel through research, development and information centres in Saudi Arabia's government agencies and companies. The conclusion of contracts with various experts from different countries will relieve the country of the monopolistic pressure exerted by certain foreign corporations. It should also be possible to seek to attract Arab and Islamic experts from other countries if clear and specific programmes and plans are drawn up which ensure appropriate social and material conditions for them as well as a sense of security and stability.

9. The long-term objective must be to establish domestic technical capabilities. In order to fulfil that objective, it is recommended that efforts should be concentrated on a national science and technology plan within the framework of the Fifth Development Plan.

Annex

THE FOREIGN CAPITAL INVESTMENT CODE ISSUED UNDER ROYAL DECREE NO. M/4 OF 2 SAFAR A.H. 1399 IN ACCORDANCE WITH COUNCIL OF MINISTERS DECISION NO. 17 OF 18 MUHARRAM 1399

INVESTMENT OF FOREIGN CAPITAL REGULATION

No. M/4 of 2.2.1399 A.H.

With the help of Gof Almighty;

We Khaled ben abdil Aziz Al Seud,
Monarch of the Saudi Arabian Kingdom;

Having perused:

Articles 19 and 20 of the Council of Ministers' Regulation, enacted by royal Decree No. 38 of 22.10.1377 A.H.;

Royal Decree No. 35 of 11.10.1383 A.H.; and Resolution No. 17 passed by the Council of Ministers on 18.1.1399 A.H.;

Have decreed the following:

First: The Investment of Foreign Capital Regulation the text of which is attached is hereby approved;

Second: The Deputy Chairman of the Council of Ministers and the Ministers shall each within his jurisdiction implement this Decree of Ours.

Article 1. In this Law foreign capital shall mean the monies, financial securities, negotiable instruments, machinery, equipment, spare parts, raw materials, products, means of transport, intangible rights (such as patent rights and trade marks) and similar rights, which are owned by a non-Saudi national, or which are owned by a person sui juris the shares in whose capital are held by other than Saudi nationals.

Article 2. Notwithstanding the provisions of other Laws, the investment of foreign capital shall be subject to the grant of a licence issued by the Minister of Industry and Electricity upon the recommendation of the Investments Committee, provided the following two conditions are satisfied:

(1) that the foreign capital is to be invested in development enterprises, which for the purposes hereof do not include enterprises for the extraction of petroleum and mining; and

(2) that the foreign capital is accompanied by foreign technical expertise.

Article 3. The Minister of Industry and Electricity shall, upon the motion of the Investments Committee, issue an order determining the development enterprises in conformity with the Development Plan.

Article 4. A 'Foreign Capital Investments Committee', to be made up as follows, shall be created in the Ministry of Industry and Electricity:

The Under Secretary of the Ministry of Industry and Electricity or anyone acting for him in his absence .... Chairman

A delegate from the Ministry of Planning............ Member

A delegate from the Ministry of Finance and National Economy.. Member

A delegate from the Ministry of Agriculture and Water.. Member

A delegate from the Ministry of Petroleum and Mineral Wealth.................................. Member

A delegate from the Ministry of Trade............... Member

provided that the grade of any of the delegated members of the Committee is not inferior to the tenth grade; the Head of the Investment Bureau of the Ministry of Industry and Electricity shall perform the duties of the Secretary General of the Committee; the Minister of Industry and Electricity shall appoint a legal advisor for the Committee; the Committee may hear the opinion of any expert who may not vote when resolutions are put to the vote; the presence of at least four of the members of the Committee, including the Chairman, shall constitute a quorum; the deliberations of the Committee shall be deemed to be secret; resolutions shall be passed by a majority vote of those present and in case of equality of votes the Chairman shall have a casting vote; the resolutions shall not be rendered final until the Minister of Industry and Electricity has approved them.

Article 5. The Committee referred to in Article 4 hereof shall be competent to:

(i) submit proposals for development enterprises as deemed expedient;

(ii) consider applications for investments;

(iii) discuss any complaints or disputes raised by foreign investors and other persons which arise out of the application of the provisions hereof and sumbit its relevant recommendations to the authorities concerned;

(iv) recommend the penalties which it considers should be imposed on enterprises violating the provisions hereof;

(v) consider the bill of the implementing regulations hereto;

(vi) consider matters concerning the provisions hereof which may be referred to it by the Minister of Industry and Electricity.

Article 6. The Bureau for Investment of Foreign Capital of the Ministry of Industry and Electricity shall supply all information, explanations and statistics to any person requiring the same who wishes to invest foreign capital in the Kingdom; the said Bureau shall also facilitate and complement the formalities pertaining to foreign capital which has been licensed for business; both the Ministries of Foreign and Home Affairs shall grant investors, their employees and workers who have been licensed hereunder, entry and exit visas, as well as residence permits.

Article 7. Foreign capital, which has satisfied the conditions laid down herein, shall enjoy the following benefits:

(i) all the privileges that pertain to national capital pursuant to the Protection and Encouragement of National Industries Regulation but only in regard to industrial enterprises;

(ii) exemption for an industrial or agricultural enterprise in which foreign capital has been invested from both Income and Companies tax for ten years; other enterprises shall be exempt from said taxes for five years.

Enterprises which benefit from exemptions on the date of operation of this Law shall benefit from the exemptions provided for in this paragraph.

In order to take advantage of this said exemption 25 per cent at least of the capital of the enterprise shall be held by Saudi nationals which participation shall continue for the duration of the exemption.

The period of exemption shall run from the date of commencement of production.

The Council of Ministers may amend this paragraph.

(iii) the acquisition of land needed, in conformity with the Appropriation of Realties Law by non-Saudis.

Article 8. Notwithstanding the provisions hereof, enterprises which enjoy the aforementioned benefits shall be governed by the Labour Law, Social Securities Law and other laws in force in the Kingdom.

Article 9. The provisions hereof shall not apply to enterprises in which foreign capital has been invested in the following cases:

(a) where the enterprise exists legally prior to the operation hereof; nevertheless, when such enterprises carry on their activities or increase their capital, they shall be governed by the provisions hereof;

(b) where the enterprise is permitted to carry on their activities in the Kingdom pursuant to specific laws or agreements.

Article 10. Where an establishment licensed hereunder violates the provisions hereof the Minister of Industry and Electricity shall cause a notice to be served on it requiring compliance with these provisions within a time-limit set down by him; if the establishment fails to comply, the Minister may upon the recommendation of the Investment Committee withdraw the licence granted to such establishment or put the business into liquidation.

Instead of withdrawing the licence the Minister may upon the recommendation of the said Committee decide to deprive the establishment of all or some of the privileges provided for herein.

The persons concerned may within thirty days of the date of official service of the Minister's order imposing the penalty refer the matter to the Grievance Board.

The award of the Grievance Board shall be final and absolute.

Article 11. The Minister of Industry and Electricity shall enact the implementing regulations hereto which shall be promulgated in the Official Gazette.

Article 12. This Regulation shall be promulgated in the Official Gazette and shall operate after the expiry of thirty days from the date of its promulgation; the Investment of Foreign Capital Regulation enacted by Royal Decree No. 35 of 11.10.1383 shall be repealed from the operation date hereof.

Official Gazette No. 2757 of 26 January 1979 A.D.
corresponding to 28 Safar 1399 A.H.

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