USSABC Economic Brief
U.S.-Saudi Trade Relationship Update

Overview

The United States and Saudi Arabia enjoy a strong reciprocal trading relationship and the latest 2019 data reflects this continued partnership. The U.S. remains the second largest source of goods imported by Saudi Arabia while Saudi Arabia is the 24th largest export market for the U.S., accounting for SAR53.6 billion ($14.3 billion) of U.S. goods.

In recent years, the U.S. has become less dependent on imports of crude oil and downstream petroleum products due to the proliferation of shale oil production. This trend has continued in 2019 with Saudi Arabia's top two non-oil exports, petroleum derivatives and chemicals, declining along with overall crude oil imports. However, the U.S. has remained a top 10 export market for Saudi Arabia's non-oil goods as primary metal manufactures, machinery, plastics, and other manufactured goods grew as a percentage of U.S. imports.

Saudi Arabia's Vision 2030 objectives aim to stimulate a new phase of industrialization to accelerate its non-oil exports by building localized value chains and developing a robust manufacturing base. In 2019, we can see the beginning of an evolution in the U.S.-Saudi trading relationship away from crude towards one based more on manufacturing and industrial outputs. The fastest growing Saudi import from the U.S. was ferrous scrap material, a common industrial input, while aluminum manufactures exported from Saudi Arabia to the U.S. have soared.

Defense-related goods remain the top U.S. export to Saudi Arabia followed by industrial machinery, pharmaceuticals, metal fabrications, and electronics. Although the Kingdom's capacity-building plans for its domestic military industries remain a priority, we see the U.S. continuing to play a leading role as a defense supplier as economic offset programs embedded in U.S. defense contracts remain a top development strategy.
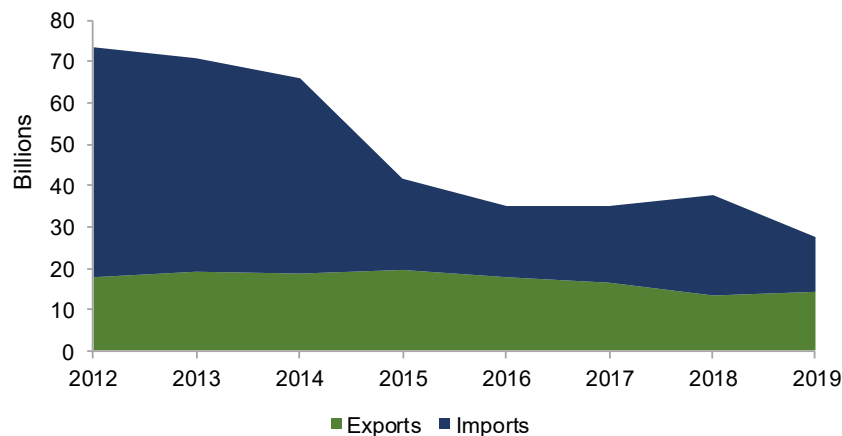
Saudi Exports to the U.S.

Saudi Arabia's top export to the United States remains crude oil, representing SAR42 billion ($11.2 billion) of SAR50.4 billion ($13.4 billion) total exports. Declining demand for foreign oil has driven overall U.S.

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imports of Saudi goods lower and oil as a percentage of total imports declined in four of the last five years. Crude oil accounted for 83.4 percent of Saudi Arabia's exports to the U.S. in 2019 compared to 95.4 percent in 2014.

The U.S. has run a sizable trade deficit with Saudi Arabia in previous decades due to the predominance of crude oil imports. In 2019, U.S. exports outweighed imports from Saudi Arabia by SAR3.2 billion ($846.4 million), only the second annual U.S. surplus in more than 20 years. The shale oil boom starting in the mid-2010s and growing U.S. crude production led to a sustained decline in crude oil imports from Saudi Arabia. The U.S. became a net exporter of crude oil in November 2019 though it still recorded a deficit on a yearly basis. The International Energy Agency (IEA) projects the U.S. will become a sustained net oil exporter by late 2020 or early 2021.

U.S.-Saudi Arabia Trade Balance (USD)

Source: U.S. Census Bureau

Additionally, the U.S. became a net natural gas exporter in 2017 and has remained so through 2019. The U.S. Energy Information Administration (EIA) projects it will remain a net natural gas exporter through 2050. IEA also projects that growth in U.S. crude oil and natural gas production will continue through 2025, domestic consumption will soften over that same period, and renewables will become a higher proportion of the energy mix. Due to these trends, we do not expect a return to high reliance on Saudi Arabia's exports of oil and its derivatives to satisfy U.S. energy demand.

Non-oil goods exports from Saudi Arabia to the U.S. accounted for SAR8.3 billion ($2.2 billion) in 2019. The top non-oil commodity, petroleum and coal products, which are classified as manufactured goods as opposed to primary extractive goods like crude oil, accounted for SAR3.2 billion ($856.5 million). This export segment represented 38.4 percent of non-oil exports to the U.S. Petroleum and coal manufactures declined 24.1 percent YoY and crude oil exports declined 47.7 percent YoY, the primary drivers of the overall decline in Saudi exports to the U.S. in 2019.
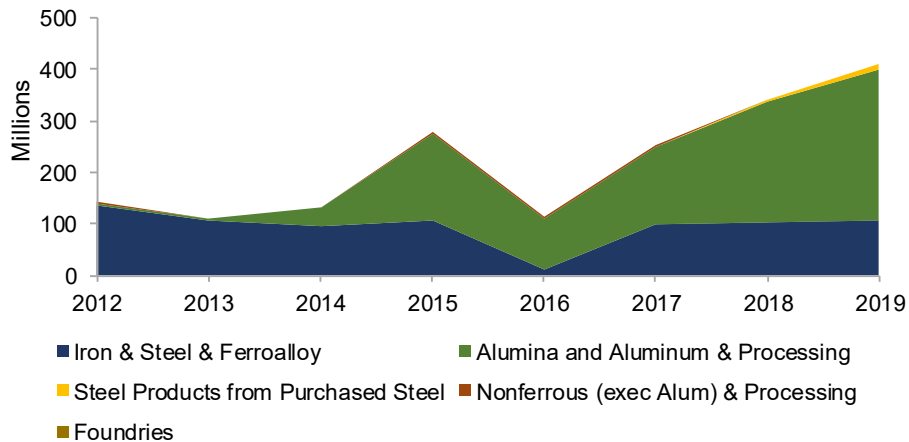
Chemical exports to the U.S. were Saudi Arabia's second largest non-oil export worth SAR2 billion ($532.2 million) in 2019. This segment represents 23.8 percent of non-oil exports. Organic and inorganic basic chemicals produced through processes like thermal cracking and distillation accounted for 41.2 percent of these exports while the remaining goods were intermediate and end products produced by additional value-added processing. The top intermediate and end products were pesticides, fertilizer, and other agrochemical manufacturing which accounted for 43.3 percent of chemical exports while resin,

synthetic rubber, and synthetic fiber and filament manufacturing represented 14.7 percent of chemical exports. On a yearly basis, chemical exports to the U.S. declined 21.4 percent.

Notably, Saudi primary metal manufacturing exports grew 20.1 percent YoY in 2019 and now represent the third largest non-oil export segment of Saudi Arabia. The value of primary metal manufactures exported to the U.S. grew at a 25.7 percent compounded annual growth rate (CAGR) since 2014, a positive indicator of growth in the Kingdom's manufacturing base. Primary metal manufacturing exports to the U.S. accounted for SAR1.5 billion ($411.8 million) or 18.4 percent of all non-oil exports in 2019.
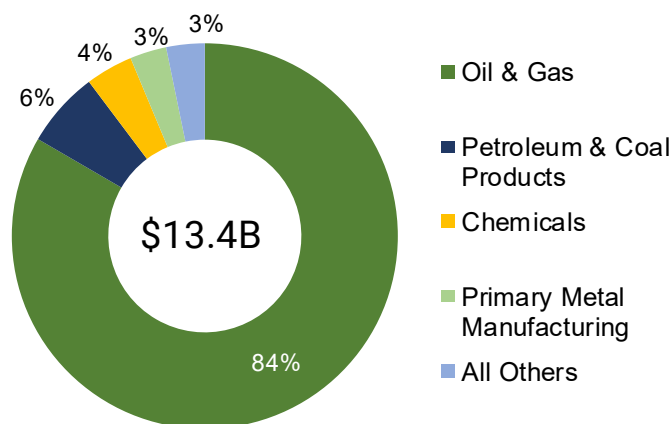
Primary Metal Manufacturing Exports (USD)

Source: U.S. Census Bureau

Iron, steel mill, and ferroalloy exports have remained relatively steady around SAR375 million ($100 million) while aluminum exports have grown substantially from SAR12 million ($3.2 million) in 2012 to SAR1.1 billion ($294.7 million) in 2019, a CAGR of 90.8 percent. The completion of the mine-to-metal integrated aluminum complex in Ras Al Khair Industrial City in 2014, undertaken by the Ma'aden-Alcoa joint venture, played a key role in increasing Saudi Arabia's manufactured aluminum output along with other efforts to localize mining value chains. Primary metal manufacturing grew at a CAGR of 25.7 percent to account for 3 percent of Saudi Arabia's total exports to the U.S. in 2019 compared to 0.3 percent in 2014.

Saudi Arabia Exports to the U.S. (2019)

Source: U.S. Census Bureau

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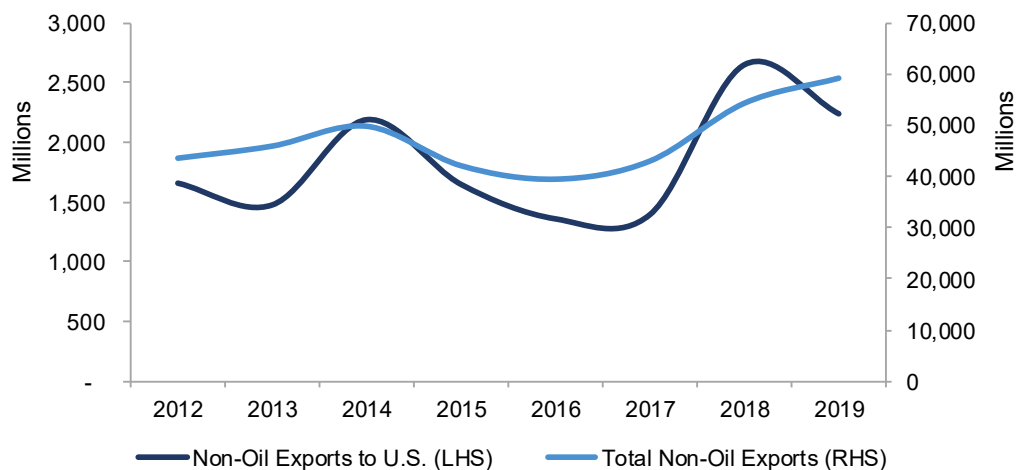مجلس الأعمال السعودي الأمريكي

U.S. reimported goods and goods returned to Canada as exports represent the fourth largest category of non-oil exports to the U.S. but available data does not provide further information of the type of goods or economic activity involved. Textiles and fabrics, the fifth largest non-oil export, grew 27.3 percent YoY in 2019 and accounted for SAR157 million ($41.9 million), or 1.9 percent of non-oil exports. Fabric mill manufactures accounted for nearly all the exported goods.

The Kingdom has shown a commitment to boosting its trade balance and local manufacturing capabilities across the logistics, industrial, downstream energy, and mining sectors with the National Industrial Development and Logistics Program (NIDLP), one of several Vision Realization Programs (VRPs) aimed at diversifying Saudi Arabia's export profile. Saudi Arabia's global non-oil exports grew 9 percent YoY in 2019 while non-oil exports to the U.S. declined 15.5 percent YoY. This can be primarily attributed to a decline in U.S. imports of petroleum and coal product manufactures which fell broadly with its top trading partners in 2019. Globally, Saudi Arabia's top non-oil exports, plastics and chemicals, declined 8.8 percent YoY and 9.3 percent YoY respectively.

The non-oil sector grew 3.8 percent YoY in 2019 despite a 3.6 percent decline in the oil sector according to the General Authority for Statistics. However, Saudi Arabia's manufacturing sector contracted 1.3 percent over the same period. While non-oil exports to the U.S. grew from SAR6.2 billion ($1.65 billion) in 2012 to SAR8.3 billion ($2.2 billion) in 2019, the overall trend has not been linear. However, there are promising signs of emerging manufacturing exports including a 105.9 percent increase in miscellaneous manufactured commodities, a 95.2 percent increase in paper manufactures, as well as previously mentioned increases in primary metal and fabric manufactures which collectively account for SAR1.7 billion ($456.9 million). There are also emerging signs of mining sector growth. Non-metallic mineral products exported to the U.S. accounted for SAR40.3 million ($10.7 million) in 2019, growing at a CAGR of 15.65 percent since 2014.

U.S. and Global Non-Oil Exports from Saudi Arabia (USD)

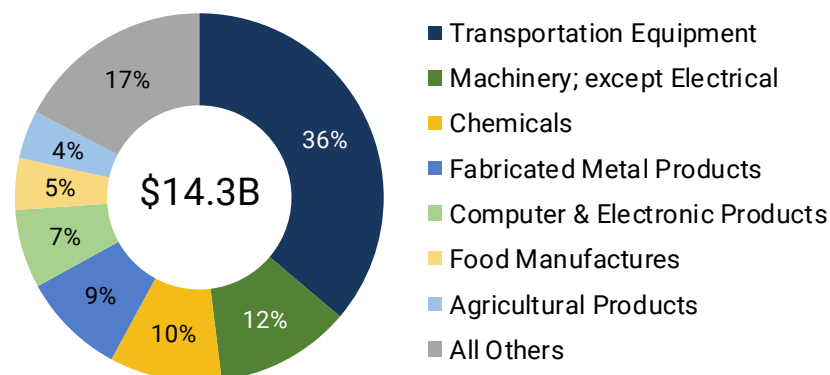Source: U.S. Census Bureau, General Authority for Statistics

U.S. Exports to Saudi Arabia

The U.S. remained the world's largest exporter of arms in 2019 and Saudi Arabia remains one of the world's top importer of arms. Defense-related goods remain an important component of the U.S.-Saudi trading relationship. Under the official North American Industrial Classification System (NAICS), civilian and defense aircraft, passenger vehicles, and various defense equipment including guided missiles and vehicle propulsion units are broadly labelled as 'Transportation equipment'. Transportation equipment remained the top U.S. export in 2019, accounting for SAR19.4 billion ($5.2 billion) or 36.2 percent of all exports. Aerospace products and parts were worth SAR12.4 billion ($3.3 billion), or 63.7 percent of all transportation equipment. Motor vehicles were 30.3 percent and motor vehicle parts were 2.7 percent of transportation exports.

Machinery was the second largest export of the U.S. to Saudi Arabia, representing SAR6.4 billion ($1.7 billion) in goods. Agricultural, construction, and mining machinery exports were worth SAR1.6 billion ($425.1 million) while engines, turbines, and power transmission equipment were worth SAR1.4 billion ($385.1 million). HVAC and commercial refrigeration equipment accounted for SAR640.5 million ($170.8 million), or 10 percent of all machinery exports. According to U.S. trade data, 29.7 percent of machinery exports from the U.S. are classified as "other general-purpose machinery" which includes industrial, packaging, welding, and fluid power pump machinery as well as SAR388.9 million ($103.7 million) in parts for boring or sinking machinery.

Chemical exports to Saudi Arabia were worth SAR5.3 billion ($1.4 billion), or 9.9 percent of total exports. Pharmaceuticals and medicines was the largest subcategory, representing SAR1.3 billion ($336.7 million) and 23.9 percent of U.S. chemical exports. Resin, synthetic rubber, synthetic fibers and filaments accounted for SAR606.4 million ($161.7 million), 11.5 percent, while soaps and cleaning compounds were worth SAR425.3 million ($113.4 million), 8.1 percent of chemical exports.

U.S. Exports to Saudi Arabia (2019)

Legend:
- Transportation Equipment — 36%
- Machinery; except Electrical — 12%
- Chemicals — 10%
- Fabricated Metal Products — 9%
- Computer & Electronic Products — 7%
- Food Manufactures — 5%
- Agricultural Products — 4%
- All Others — 17%

Center: $14.3B

Source: U.S. Census Bureau

Fabricated metal products accounted for SAR4.9 billion ($1.3 billion), or 9.1 percent of all U.S. exports. Saudi Arabia also exported fabricated metal products worth SAR17 million ($4.5 million) in 2019 and this export segment has grown at a CAGR of 30.2 percent. However, the U.S. remains a net exporter of this segment. According to NAICS data, 89.5 percent of fabricated metal product exports to Saudi Arabia were classified as "Other", a category that includes small arms, ordnance, and ammunitions. Under the

Harmonized System (HS) trade classification, exports of arms and ammunition were valued at SAR6.2 billion ($1.7 billion) in 2019 which likely includes some crossover with other manufactures categories.

Computer and electronic products were the fifth largest export from the U.S. at SAR3.7 billion ($987.2 million), representing 6.9 percent of total exports. Navigational, measuring, medical, and control equipment accounted for 61.4 percent of this segment, totaling SAR2.3 billion ($606 million). Communications equipment such as phones, radio and television equipment accounted for SAR606.8 million ($161.8 million). Computer, computer peripherals, and data storage equipment accounted for SAR400 million ($106.6 million) in exports while semiconductors and other electronic components accounted for SAR245.8 million ($65.6 million) in 2019.

Food manufactures and agricultural products accounted for 4.6 and 4.2 percent of U.S. exports to Saudi Arabia respectively, including SAR423.8 million ($113 million) in corn and SAR360 million ($96 million) in rice. Electrical equipment including appliances and components exported to Saudi Arabia were worth SAR1.9 billion ($518.6 million). Optic, photo, medical, and surgical instruments were worth SAR1.8 billion ($489 million).

Waste and scrap exports, which grew 307 percent YoY and valued at SAR442.8 ($118.1 million), was the fastest growing export segment to Saudi Arabia in 2019. This segment includes SAR350.3 million ($93.4 million) in ferrous scrap which is commonly used as a manufacturing input in steel mills where it can be remelted and recast.

While Saudi Arabia continues to import defense-related goods from the U.S., the Kingdom aims to reduce the country's reliance on foreign sources for its security needs through the development of its own capacity-building for armaments and high-tech military equipment. The National Industrial Strategy within NIDLP identifies the automotive, aviation, and military industries as targets for localization, all of which represent key U.S. export segments. Saudi Arabia also aims to raise military procurement in the Kingdom from 2 percent to 50 percent in 2030 and views equipment and machinery related to defense as having a high import substitution potential.
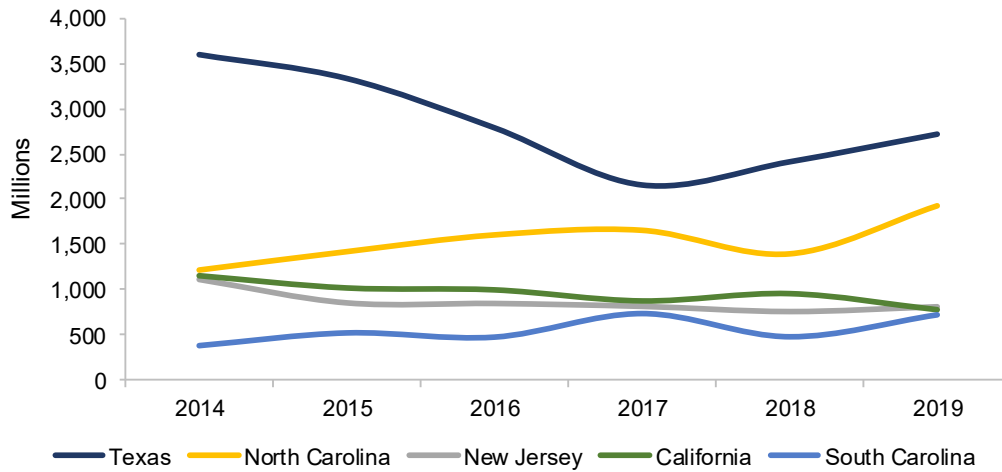
In the long-term, we expect the Kingdom to progress towards its localization objectives but also see the U.S.-Saudi business partnership as necessary to building up localization capabilities in the near-term. Saudi Arabia's economic offset programs often involve localized production requirements, training, or technology transfer in exchange for large defense contracts.

Top Exporting U.S. States

U.S. goods exports totaling SAR53.6 billion ($14.3 billion) supported an estimated 73,077 U.S. jobs in 2019 according to USSABC estimates. In 2019, the top five exporting U.S. states to Saudi Arabia were Texas, North Carolina, New Jersey, California, and South Carolina. Texas remains the top exporter but its share of trade with Saudi Arabia has declined due to a lower volume of agricultural machinery and aerospace parts, including defense equipment. North Carolina's exports to Saudi Arabia have grown at a CAGR of 9.53 percent due primarily to an increase of defense-related exports. These top five U.S. states represent 48.5 percent of the total value of U.S. exports to Saudi Arabia in 2019.

Top U.S. States Exporting to Saudi Arabia by Value (USD)

Source: U.S. Census Bureau

Texas accounted for SAR10.2 billion ($2.7 billion) in U.S. exports to Saudi Arabia in 2019, supporting an estimated 13,878 jobs. The top exported good from Texas was transportation equipment with motor vehicle exports worth SAR1.9 billion ($522.5 million) and aerospace products and parts worth SAR1.6 billion ($416.3 million). Texas also exported SAR1.9 billion ($510.5 million) in machinery including SAR870.5 million ($232 million) in agriculture and construction machinery. Other top exports included chemicals, valued at SAR1.3 billion ($338.3 million), and fabricated metal products, valued at SAR839 million ($223.8 million).

North Carolina exported SAR7.2 billion ($1.9 billion) of goods to Saudi Arabia in 2019, supporting an estimated 9,875 U.S. jobs. Transportation equipment was the top export with aerospace products and parts accounting for 95.5 percent of all transportation equipment and 70.2 percent of all exports from North Carolina. Aerospace products and parts exports to Saudi Arabia were valued at SAR5.1 billion ($1.4 billion) in 2019. These exports include SAR2.8 billion ($749.8 million) in airplane and helicopter parts, SAR2.4 billion ($638.4 million) in bombs, mines, or ammunition, and SAR382.9 million ($102.1 million) in various military equipment.

New Jersey accounted for SAR3 billion ($805.4 million) in goods exported, supporting an estimated 4,119 U.S. jobs. Aerospace products and parts accounted for 35.2 percent of all exports including SAR939 million ($250.4 million) in airplane and helicopter parts, SAR178.7 million ($47.7 million) in motor vehicle parts, and SAR16 million ($4.3 million) in civilian aircraft and parts. New Jersey also exported SAR235.2 million ($62.7 million) in food manufactures of which 44 percent were fixed vegetable oils and SAR195 million ($52 million) in ferrous waste and scrap.

California accounted for SAR2.9 billion ($765.3 million) in U.S. exports which supported an estimated 3,914 jobs. Agricultural products were 33.7 percent of California's exports to Saudi Arabia. Fruit and tree nut exports accounted for SAR581.1 million ($155 million) with top items including almonds, pistachios, walnuts, strawberries, and raspberries. Navigation, medical, measuring equipment, and communications equipment were other top exports. Computer and electronic products collectively accounted for SAR561

million ($149.6 million) of California's exports.

South Carolina exported SAR2.7 billion ($722.9 million) in goods to Saudi Arabia in 2019, supporting an estimated 3,697 jobs. Transportation equipment exported from South Carolina was worth $2.4 billion ($642.8 million) and represented 88.9 percent of all goods exported. Most transportation equipment exported was civilian aircraft, engines, and parts which accounted for SAR2.3 billion ($606.2 million). Chemicals were also a top export, worth SAR104 million ($27.8 million), with chemical residuals, polyethlene, and supported catalysts with precious metals were top products.

Top Trading U.S. Ports

The Port of Wilmington in North Carolina is the most active exporting port to Saudi Arabia, accounting for SAR8.3 billion ($2.2 billion) in goods and 15.5 percent of all exports. Wilmington was the top port in 2018 and has been among the top 10 exporting U.S. ports to Saudi Arabia for the past six years along with the Port of Houston in Texas, JFK International Airport in New York City, and the Norfolk-Newport News Port in Virginia. Ammunitions, aircraft parts, and motor vehicles are the top products from the most active exporting ports with Saudi Arabia.

The Port of Richmond in California and Port Arthur in Texas remain the top two ports for Saudi Arabian imports for the past three years. Expectedly, port activity is dominated by crude imports which represent the top good for most ports. The Port of New Orleans is one exception which imports primarily chemicals including nitrogenous fertilizers worth SAR392.3 million (104.6 million) and ethers, propylene polymers, ferroalloys, and acyclic hydrocarbons which are collectively valued at SAR412.1 million ($109.9 million).

The top aluminum importing ports are Houston, TX ($109.9 million) and Newark, NJ ($46 million), and Charleston, SC ($45.192 million).

Top U.S. Ports Exporting to Saudi Arabia (2019)					
Rank	Port Location	Total Value ($)	% Total Exports	Top Product by Value	Rank Change from 2018
1	Wilmington, NC	2,220,895,765	15.54%	Ammunitions, explosives, ordnance	-
2	Houston, TX	1,564,688,300	10.95%	Ammunitions, explosives, ordnance	1
3	JFK International Airport, NY	1,059,499,051	7.41%	Aircraft and spacecraft parts	-1
4	Charleston, SC	759,271,067	5.31%	Civilian aircraft, engines, and parts	3
5	Wilmington, DE	740,538,250	5.18%	Motor vehicles	7
6	Freeport, TX	632,483,851	4.43%	Motor vehicles	-1
7	Houston Intercontinental Airport,	613,289,406	4.29%	Taps, cocks, valves for pipes, tanks	-1
8	Savannah, GA	607,589,641	4.25%	Chemical reaction initiators, accelerators, catalysts	-
9	Norfolk-Newport News, VA	506,201,446	3.54%	Chemical reaction initiators, accelerators, catalysts	1
10	Jacksonville, FL	491,587,098	3.44%	Motor vehicles	1

Source: U.S. Census Bureau

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Top U.S. Ports Importing from Saudi Arabia					
Rank	Port Location	Total Value ($)	% of Total Imports	Top Product by Value	Rank Change from 2018
1	Richmond, CA	3,141,297,653	23.37%	Crude Oil	1
2	Port Arthur, TX	2,348,236,595	17.47%	Crude Oil	-1
3	Philadelphia, PA	2,163,423,025	16.09%	Crude Oil	-
4	Texas City, TX	855,077,351	6.36%	Crude Oil	11
5	El Segundo, CA	818,110,202	6.09%	Crude Oil	1
6	Long Beach, CA	652,137,568	4.85%	Crude Oil	-2
7	Houston, TX	569,815,061	4.24%	Oil (Not crude)	-2
8	Lake Charles, LA	369,439,694	2.75%	Crude Oil	-1
9	Newark, NJ	302,267,212	2.25%	Oil (Not crude)	-1
10	New Orleans, LA	243,614,831	1.81%	Mineral or chemical fertilizers	3

Source: U.S. Census Bureau

Top U.S. Districts Exporting to Saudi Arabia

The top districts exporting to Saudi Arabia in 2019 were Houston-Galveston in Texas, Wilmington in North Carolina, and New York City. Goods exported from the Houston-Galveston area represent a substantial 19.7 percent of all U.S. goods exported to the Kingdom. The top products by value from Houston-Galveston were motor vehicles, military ammunitions, industrial pipe equipment including pumps and taps, and machinery. These products are broadly representative of the export profiles of Wilmington, New York City, Philadelphia, and Tampa in addition to medicaments, intermediate and end chemical products, and various metal fabrications. New York City is also the largest exporter of ferrous scrap to Saudi Arabia.

Charleston and Los Angeles export civilian aircraft and motor vehicles but do not export defense-related goods. Los Angeles exports a high volume of agricultural goods to Saudi Arabia including hay, fruit, nuts, seeds, and oils collectively worth SAR883 million ($235.5 million). Similarly, New Orleans exports primarily agricultural goods like corn as well as refined chemicals and medical equipment. The top 10 districts collectively account for 81 percent of U.S. goods exported to Saudi Arabia.

Top U.S. Districts Exporting to Saudi Arabia (2019)			
Rank	Location	Total Value ($)	Top Product
1	Houston-Galveston, TX	2,811,465,588	Motor vehicles
2	Wilmington, NC	2,222,721,976	Guided missiles
3	New York City, NY	1,965,579,003	Military airplane, helicopter parts
4	Savannah, GA	880,818,207	Turbojets, turbopropellers, and other gas turbines
5	Philadelphia, PA	762,790,690	Motor vehicles
6	Charleston, SC	759,271,067	Civilian aircraft, engines, parts
7	Los Angeles, CA	615,469,960	Alfalfa hay
8	Tampa, FL	565,104,727	Motor vehicles
9	Norfolk, VA	506,296,191	Supported chemical catalysts
10	New Orleans, LA	488,777,784	Corn

Source: U.S. Census Bureau

Top U.S. Districts Importing from Saudi Arabia (2019)			
Rank	Location	Total Value ($)	Top Product
1	San Francisco, CA	3,507,057,368	Crude oil
2	Port Arthur, TX	2,364,482,665	Crude oil
3	Philadelphia, PA	2,183,028,811	Crude oil
4	Los Angeles, CA	1,713,916,978	Crude oil
5	Houston-Galveston, TX	1,483,952,496	Crude oil
6	New Orleans, LA	805,057,223	Crude oil
7	New York City, NY	372,510,868	Crude oil
8	Charleston, SC	142,616,750	Aluminum plates
9	Miami, FL	118,635,137	Oil (Not crude)
10	Seattle, WA	111,595,247	Crude oil

Source: U.S. Census Bureau

The export profile of the U.S. remains diversified across the defense, automotive, pharmaceutical, electronic, and agricultural sectors. We expect Saudi Arabia to remain a top export market for a variety of goods in the foreseeable future. Globally, Saudi Arabia's top non-oil exports are plastics and chemicals. However, U.S. imports of petroleum and coal derivatives from its top trading partners, Canada and Russia, both declined at a comparable rate to Saudi Arabia. This is a global trend in U.S. trade and we expect it to continue along with overall lower imports of Saudi crude.

The success of Saudi Arabia's diversification away from a reliance on crude exports will depend on the sustained growth across industrial and manufacturing sectors. There are promising signs such as increased imports of manufacturing inputs and emerging U.S. import market segments in mining and metal, machinery, and other manufactures from Saudi Arabia. Vision Realization Plans (VRPs) like the National Companies Program focus on supporting national champions like Ma'aden in the mining sector or SABIC in the petrochemicals sector to build up localized value chains across new and diversified value-added activities.