

CHAPTER 1

DEVELOPMENT AND DEVELOPMENT PLANNING

IN SAUDI ARABIA

1. DEVELOPMENT AND DEVELOPMENT PLANNING IN SAUDI ARABIA.

1.1 THE PRINCIPLES OF DEVELOPMENT IN SAUDI ARABIA

The distinguishing mark of the Saudi approach to development is that its material and social objectives are derived from the ethical principles of Islam and the cultural values of Saudi society. These principles and values are reflected in:

- the dedication of the Government to upholding Islam and to maintaining its associated cultural values;
- the importance attached both to the social well-being and personal fulfillment of all citizens, and to the creation of a wide range of institutions and services freely provided for these purposes;
- the support for free enterprise, subject to the interests of the community at large.

The main principles underlie the long-term goals of development for Saudi Arabia, which maintain the basic continuity of balanced development through the sequence of five year plans. These goals are:

- To maintain the religious values of Islam, by applying , propagating and fostering God's Sharia;
- To assure the defense of the religion and the country, and maintain the internal security and social stability of the Kingdom;
- To continue balanced economic growth by developing the country's resources, by increasing the income from oil over the long term and by conserving depletable resources, thereby improving the social well-being of all citizens and providing the economic strength to attain all the other fundamental goals of development;
- To reduce dependence on the production of crude oil as the primary source of national income;

- To develop human resources through education, training and the raising of health standards;
- To complete the basic infrastructure which is required for the attainment of these other goals.

1.2 THE ROLE OF PLANNING IN NATIONAL DEVELOPMENT

The main role of planning is to provide an appropriate conceptual and organizational framework for the process of development. The main tasks of planning are to determine the objectives for each of the three dimensions of development: the economic, the social and the institutional; and to design the most effective methods to achieve them. The success of planning depends partly on the comprehensiveness and consistency of its various objectives, partly on the priorities set for each successive plan period, and partly on the practical design of its programs.

The ultimate responsibility of planning is to ensure the consistency of the development process. This means consistency both in the direction of development, which is set by the strategic objectives, and in the functions of development, whereby new programs strengthen the existing socio-economic base as well as reduce its structural weaknesses. The most important immediate concern of planning is the feasibility of the Plan's programs. Experience has shown that for plans to be realistic they have to maintain a sound balance between the Kingdom's own resource base and its related absorptive capacity on the one hand, and its substantially greater international purchasing power on the other. With the help of the latter, it is possible to expand the resource base (for example, by importing foreign labor) so as to accelerate economic growth. However, a higher rate of economic growth based on the extensive participation of foreign labor is only really desirable when it speeds up the building of the foundations for future expansion, such as infrastructural development. Once the essential infrastructure is completed, economic growth led by labor-intensive activities, such as construction, will become less important for its own sake, especially when the Saudi work force is already fully employed. At this stage a new emphasis is required, to give strategic priority to structural change rather than to growth. Accordingly, the Third Plan emphasizes the development of the Kingdom's productive resources and capabilities, and the utilization of its foreign labor force for more capital and skill - intensive development programs.

Table 1-1 illustrates how the issues for development in the Kingdom are conceptualized and formed into a comprehensive system of planning targets. First, the general goals are defined; they represent the principal aims of development in the economic, social and institutional dimensions respectively. Then, the general goals are translated into strategic long-term objectives by identifying the broad functional activities and relationships which would be emphasized to progress toward the goals. The final stage is the identification of the specific programs to achieve the desired strategic objectives over each five year plan period.

1.3 REVIEW OF THE ACHIEVEMENTS AND MAIN ISSUES OF DEVELOPMENT IN SAUDI ARABIA.

1.3.1 The Main Issues In Development

1.3.1.1 The following brief historical review is designed to highlight and explain the most important turning points in the Kingdom's development since the mid-1360s. It presents the successive First, Second and Third Development Plans as parts of a continuous evolutionary process. The emphasis will be on two aspects: the unfolding complexity of development, and the ability of planning to set the pace for, and give direction to, complex development. The most important numerical results are tabulated and presented separately in the four tables at the end of this chapter.

1.3.1.2 The history of the Kingdom's development can be described in terms of the interaction of four basic trends. The first of these is the expansion of the administrative institutions for the diverse functions of the state. The second is the contribution of the oil sector to development through exports and revenues. The third is the thrust of planned economic and social development. The fourth relates to the spontaneous response from society, including the private business sector, to the opportunities offered by development. The interaction of all four has been mutually reinforcing; the higher the level of oil revenues, the broader the scope for development and institutional growth, and the greater is society's involvement in the process. The first three of these trends are under government control, and therefore, can be considered as planning variables.

Table 1-1

THE HIERARCHY OF PLANNING OBJECTIVES IN SAUDI ARABIA

<u>Planning Dimensions</u>	<u>General Goals</u>	<u>Long Term Strategic Objectives</u>	<u>Medium Term Objectives & Programs for Sequential Five Year Plans.</u>
The Domestic Economy	<ul style="list-style-type: none"> - Efficient utilization of resources, - Structural change. - Growth 	<ul style="list-style-type: none"> - Diversification of the economic base. - Development based on natural resources and rising levels of productivity - Balanced sectoral and regional growth. 	<ul style="list-style-type: none"> - Expansion of absorptive capacity through infrastructural growth. - Industrialization based on: <ul style="list-style-type: none"> i) hydrocarbon/energy-intensive activities; ii) market demand and technological capability. - Modernized agriculture. - Efficient network of services.
The Saudi Society	<ul style="list-style-type: none"> - Maintenance of Islamic values, - Improvement in cultural & material standards, - Social well-being, - Development of human resources. 	<ul style="list-style-type: none"> - Creation of an appropriate system of social services. - Socially adequate & regionally balanced economic, settlement and housing policies. 	<ul style="list-style-type: none"> - Development of comprehensive educational, health and social services. - Housing and housing finance programs.
The Institutions	<ul style="list-style-type: none"> - Defense of religion and country. - Efficient government services in both the civilian & non-civilian branches. 	<ul style="list-style-type: none"> - Adequate defense capabilities - Institutional capabilities for economic & social planning; - Measures to administer policy and control the implementation of projects. - Institutional support for the private sector. 	<ul style="list-style-type: none"> - Agency-based expenditure programs to promote specific planning and policy objectives.

1.3.1.3 While the momentum of this interaction can be maintained without much difficulty, the problems - as experienced over the years - lie in the possibility of disproportions and imbalances arising from it. For example, oil revenues can exceed the physical spending capacity of the executive agencies; the supply of domestic resources, facilities and essential services can lag behind their demand; administrative and other inefficiencies can obstruct production schedules and cause damaging delays throughout the economy.

1.3.1.4 The turning points in the Kingdom's history of development were those times when adjustments have been made to synchronize the different growth potentials of the three controllable planning variables. Both contractions and expansions of growth rates have been used depending on the nature of the preferred adjustment, to correct the underlying imbalances in the economy. Thus, in the period 1368-1390, before the First Development Plan, institutional expansion followed the growth in oil revenues. Later, in the first half of the First Development Plan, the rate of expenditure growth was reduced to correspond to the anticipated lower income flow. In the second half of the First Plan period, after the increase in the income flow from oil, the rate of feasible economic growth was determined by the narrow base of domestic resources and the slow increase in the Saudi labor force. The Second Plan which concentrated on building the infrastructure necessary for future development, aimed at maximizing absorptive capacity (including the immigration of foreign labor) to the extent that was compatible with an acceptable rate of inflation. In contrast, the Third Plan will deliberately limit higher levels of expatriate employment, and will rely for growth on the existing base of available manpower and on other elements, particularly improvements in productivity.

1.3.2 Development Before the First Plan Period

The period before the First Development Plan was marked by three main features: first, a steady expansion and improvement of the administrative system; second, serious financial constraints to internal development caused by external factors, in particular a relatively limited demand for oil, the wars and political instability in the Middle East Region; third, steady economic growth and general development.

1.3.2.1 Development Before 1368. Although the first major oil discovery was in 1358, the Second World War prevented the full development of the oil resources of the Kingdom. Until 1364 the Kingdom's total revenues were less than US \$ 4 million (1) each year, but by 1368 they had risen to the appreciable level of US \$ 85 million, with about 60% derived from oil revenues, and for the first time, the Kingdom of Saudi Arabia had some, albeit limited, capital to invest in national development. Before then, the Government had limited revenues from an economy which was poor, with an estimated 90% of the population subsisting as nomads and peasant farmers.

1.3.2.2 The Early Innovations, 1368-1372. The year 1368 may be regarded as a turning point in the history of development in Saudi Arabia, since it marks a period of historic innovations, and the start of the Government's new role in organizing and leading the process of economic development. Against the background of rising oil output and revenues, the first formal national budget was prepared in 1367/1368. Modern port facilities were completed in Jeddah. The first local radio station began broadcasting in 1369. The first municipal electricity system was introduced in Mecca in 1370. The first formal institute for higher education, the Sharia College, was opened in 1369, and the first teachers' training college in 1371, by which time more than 20,000 students were undergoing formal education at all levels.

The Dammam-Riyadh railway was completed in 1371, at a total cost of US \$ 52 million, which was a vital but costly investment in infrastructure at a time when the Kingdom's oil revenue was about US \$ 50 million each year. The year 1372 witnessed the first time that a newspaper was published daily, though the official government gazette had been published weekly since 1345, and two other weekly journals since the mid- 1350's. At the same time the infrastructure for oil production was being completed in the Eastern Region. The Trans- Arabia pipeline was finished in 1370; the Ras Tanura tanker port came into operation, and a small refinery was built. Oil production increased from 1 million barrels per year in 1358, to 60 million barrels in 1366, and to 200 million barrels in 1370.

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- (1) US Dollars are used since they are the currency unit which has least fluctuated in value over the last 30 years. In view of the stabilization and revision of the parity of the Saudi Riyal in 1380, any figures denoted in Saudi Riyals before 1380 would give a misleading impression of the real values involved.

1.3.2.3 Early Development, 1372-1390. The Government managed to sustain steady national development and economic growth at an impressive rate in the period between the first innovations and the First Plan. Statistical data for the early years of development are sparse and not always reliable, but useful data are available for the period 1383 to 1390. During this period the Gross Domestic Product grew at an average annual rate of 10.6% in current prices, and 9.5% in constant prices. Physical infrastructure was developed rapidly, the educational and health services expanded enormously, and manufacturing industry also demonstrated a healthy growth at an average annual rate of 11% after 1383. Furthermore, the demographic and social pattern was undergoing far - reaching changes. Riyadh, Jeddah, Dammam, Mecca, Medina and Hofuf all emerged as substantial metropolitan centers.

1.3.2.4 Oil Production and Revenues, 1372-1390. Limited world demand for oil severely restricted revenues in the period 1372 to 1387. Saudi oil production had been increasing at a rate of 46% per year between 1365 and 1372, with heavy demand from Europe and the Far East during reconstruction after the Second World War and during the Korean War. Then, with a lower rate of increase in demand and a world oil glut, Saudi production increased at an average rate of only 9.2% per year between 1370 and 1380, from an annual level of 200 million barrels in 1370 to 481 million barrels in 1380, while the posted price of Arabian light crude oil remained basically unchanged during this period. World demand grew between 1380 and 1390, and Saudi production increased at an average rate of 11% per year while the estimates of reserves were revised from 80 billion barrels in 1387 to 138 billion barrels in 1390.

An adverse factor affecting the Government's revenue rate was that the revenues from oil exports, derived mainly as royalties and taxes from the oil producing companies, were significantly lower than the export value of the oil at posted prices. This, and the Saudi Government's extensive commitments to aid the Arab cause against Israeli aggression, contributed to a trade deficit in 1388 and 1389 and necessitated drawing on the Government's international reserves. Since a large proportion of the national budget had to be diverted to building up a strong defense capability, severe financial constraints were imposed on national development.

1.3.3 The First Development Plan, 1390-1395

By 1390, the key structural characteristics of the expanding Saudi economy became clearly identified:

First, there were abundant resources for future energy production, and for exports of hydrocarbon products to generate financial capital; but also there was an increasing shortage of indigenous skilled manpower for development.

Second, the trends in the economy showed that the main determining factor in the pattern of output and private sector growth was the concentration by the Government on the development of infrastructure and other logistical priorities.

Thus, two main domestic constraints were emerging: the inadequacy of infrastructural facilities and the shortage of manpower. Added to them were the financial constraints which, however temporary, dictated caution for setting the pace of future growth.

The increasing scale of development, coupled with these financial constraints, required improvements in the mechanisms for coordinating and implementing the programs of the individual government agencies and the private sector. Hence the Government introduced the technique of national development planning, with the First National Development Plan for the period 1390-1395.

1.3.3.1 Strategy of the First Plan. The First Development Plan was drawn up at a time of stringent financial constraints, with a balance of payments deficit for the previous two years, and little appreciable increase in oil revenues for three years. Therefore, the First Plan was cautious, but also flexible in order to allow greater expansion as soon as the financial constraints were overcome, which was in 1393.

The medium term objectives of the First Development Plan were essentially to continue the steady expansion of the economy, especially the infrastructure, and to improve government services and the management of the economy through new administrative programs. The Plan also gave great emphasis to the long term objective of developing the nation's human resources, through extensive investments in education and training.

1.3.3.2 Progress During the First Plan Period. The most outstanding feature of the First Plan period was the complete change in the rate of obtaining revenues from oil, and the degree of control over the Kingdom's oil resources. This change comprised two elements. The first was the success in raising the Government's proportion of revenue from oil exports, partly through

increasing the Government's share in the ownership of the oil sector. The second was the historic action taken by the Organization of Petroleum Exporting Countries (OPEC), and the Organization of Arab Petroleum Exporting Countries (OAPEC), which led not only to increased prices for oil but also to changes in the system of determining prices. Until 1393, crude oil was priced chiefly by the international oil companies - after 1393 the price was set by the producing countries. The fourfold increase in the price of oil between 1391 and 1394 reflected, on the one hand, the value of oil as a depletable source of energy, and on the other, the legitimate interests of the oil producing countries in preserving the international purchasing power of their primary source of revenue (and, for most of them, of development finance).

A parallel feature was the increase in the Kingdom's oil production from an average daily rate of 3.8 million barrels in 1390 to 7.1 million barrels per day in 1395. The practical significance of these developments can be seen in Table 1-2.

Table 1-2
INCREASE IN OIL PRODUCTION AND REVENUE 1370 - 1395

	<u>1370</u>	<u>1380</u>	<u>1390</u>	<u>1391</u>	<u>1393</u>	<u>1394</u>	<u>1395</u>
Year-end posted price, Arabian Light Crude (US \$ per barrel)	1.75	1.80	1.80	2.29	5.04	11.25	12.38
Saudi Arabia crude oil production (million barrels per day)	0.55	1.32	3.80	4.77	7.60	8.48	7.07
Saudi Government annual oil revenues (US \$ million)	57	334	1,214	1,885	4,340	22,574	25,676

The rise in the international price of oil also changed the value relationships in the Saudi economy. The weight of the oil sector in GDP increased from 54.4% in 1389/90 to 79.3% by 1394/5 in value terms, although in volume terms (and because of the parallel growth in the non-oil economy) the increase was from 54.5% to 59%.

In fact, the greatly increased oil revenues allowed a very considerable expansion in total budget allocations during the First Plan period, with positive effects on increasing output in the non-oil economy, which was also undergoing a simultaneous change. The nature and direction of these changes are indicated in the movements of the domestic labor force and in the allocation of foreign manpower by sector.

The significant decline in agricultural employment (though not in the level of activity) was accompanied by the significant employment increase in construction, trade, transportation and government services which absorbed most of the growth of the labor force.

The increased budget allocations also allowed very substantial progress in education, health, social services, and physical infrastructure, during the First Plan period.

1.3.4 The Second Development Plan 1395-1400

Conditions at the beginning of the Second Development Plan were very different from those prevailing five years earlier. The Kingdom's financial strength had become much more favorable, so there were very few financial constraints to development. Rather, economic growth was limited by a variety of infrastructural and manpower constraints. Accordingly, the issue of absorptive capacity, including the problem of inflation, became dominant both in development strategy and in the management of the Kingdom's economy.

1.3.4.1 Strategy of the Second Plan. In contrast to the First Plan, the Second Plan was formulated under conditions of financial independence provided by oil revenues, which gave full cover for both government expenditure and imports. In fact, the prospect of a revenue surplus adding to the foreign exchange reserves, in combination with the volume of oil exports, was considered to be a voluntary contribution on the part of the Kingdom toward the stability of the world economy.

At the same time, the Second Development Plan's expenditure targets were set as the likely maxima for the Government's and the economy's spending abilities in the Plan period. Even so, it was understood that the Plan's real effectiveness and feasibility would depend on completing the high priority programs (especially infrastructure) and that incomplete spending on the total range of development programs would have to be avoided.

The strategy of the Second Plan concentrated on four main areas for development:

- (1) Physical Infrastructure. Great emphasis was placed on the elimination of the constraints which had already been experienced during the First Plan with the result that throughout the Second Plan there was exceptionally heavy investment in physical infrastructure;
- (2) Hydrocarbon Resources. Initial steps were taken to introduce medium and long-term programs designed to maximize the conservation of these resources, and promote energy-intensive industries with their higher value exports;
- (3) Administration. There was a substantial expansion of the network of government institutions, and of related employment;
- (4) The Private Sector. This was stimulated through four main policies:
 - Acceptance as necessary of additions to the foreign labor force in the Kingdom, to assist in the implementation of the development programs during the five year period;
 - Encouragement of internal migration from rural areas with surplus manpower to urban areas with industrial employment opportunities;
 - A major role for private enterprise, with all possible government assistance and financial stimulation, in the development of the productive sectors;
 - Prudent utilization of international cooperation agreements, whereby the Kingdom could acquire access to technical and managerial expertise, and skilled labor.

1.3.4.2. Progress During the Second Plan Period. Overall, the economy registered very impressive growth rates - the average annual growth rate for the whole Gross Domestic Product was 8.04%, while the non-oil sector grew at an average annual rate of 15.13% . Details of development during the Second Plan are provided in Chapter 2.

One of the main features with an effect on future policies was the emergence of the problems of manpower supply and demand as perhaps the most acute and sensitive issues to affect the planning of development at both the national and sectoral levels. Manpower problems have become equivalent in magnitude to the earlier serious issues of absorptive capacity and inflation. The various options for future manpower policy are bound to become the major factors for longer-term planning, because they concern the structure of society as well as the direction and scale of economic development.

Another feature is the changing distribution of population. The effects of development are reflected in the fact that by 1400, 54% of the total population live in towns and cities - 42% in metropolitan centers with a population over 100,000 - while 46% live in the rural areas. In 1390, approximately 36% of the population lived in urban areas.

1.4 THE THIRD DEVELOPMENT PLAN

1.4.1 Conditions at the Beginning of the Third Plan Period

1.4.1.1 There are four outstanding positive features of development in Saudi Arabia at the beginning of the Third Plan period:

- (1)** The Kingdom is now one of the world's foremost financial powers, in addition to its economic role as the major oil exporter of the free world; hence, its rising significance in the international community which the Kingdom has accepted through the exercise of the attendant responsibilities and obligations.
- (2)** The major physical constraints to development have been overcome. By now in 1400, there is an adequate - if not yet fully sufficient - infrastructural framework, due specifically to the concentrated efforts during the first two years of the Second Plan period, facilitated by the immigration of large numbers of foreign labor, and the transfer of Saudi labor from rural to urban areas;
- (3)** The inflationary pressures, which threatened living standards and the price structure of the Kingdom, have been brought under control, chiefly by supply increases;

- (4) The material standard of living of most of the population has improved considerably during the Second Plan period. In real terms, the per capita GDP (including oil) grew by 26.4% between 1395 and 1400, while the average annual income from employment per head of total population increased from an estimated level of approximately SR 4,800 in 1395 to approximately SR 8,200 in 1399 (in constant 1399 prices). In addition to these earned income levels, living standards are also raised by the Social Benefit provided free by the Government representing the value of government financial social services, such as health, education and welfare; which contribute directly to personal welfare and would otherwise have to be purchased by the individual. This Social Benefit constituted an equivalent contribution of an estimated extra 29% to personal income levels during the Second Plan period.

1.4.1.2 The Second Development Plan period has revealed the following manpower-related problem areas which are likely to dominate the Third Plan Period:

- (1) A continuing imbalance between the economy's growing manpower requirements and the number of new Saudi entrants into the labor force;
- (2) The dependence on outmigration from agriculture as an important source of Saudi labor supply for new employment;
- (3) The restrictive effects of the Government's own demand for Saudi labor on the availability of manpower for other sectors;
- (4) The concentration of demand for non-Saudi labor in the private services sectors, together with the Government's concentration on infrastructural development, encouraged the growth of the construction, transportation, and distribution sectors which are "throughput" sectors, contributing primarily in a supportive sense to the growth of GDP, despite their otherwise important functions. Thus the growth of GDP as a whole did not stem mainly from new productive enterprises in agriculture and industry, but from "throughput" sectors which by their nature could offer no long term potential alternatives to oil.

1.4.2 Strategy of the Third Plan

1.4.2.1 The strategy of the Third Plan continues towards the long-term goals for development, but it has significant new focal points, some of which substantially modify the trends and strategies of both the First and Second Plans.

1.4.2.2 The strategies of the First and Second Plans emphasized high growth rates in all sectors, and as a corollary, the relatively free import of foreign labor. The Third Plan emphasizes high growth more selectively, and aims to consolidate rather than expand the foreign labor force. This reduced emphasis on all-round growth constitutes the most important element in the series of structural changes intended for the Third Plan period.

1.4.2.3 Thus, while the Second Plan concentrated on the elimination of physical constraints by means of expansion of the infrastructure and of the absorptive capacity of the non-oil economy, the Third Plan has a deliberate limitation on the future growth of the total number of foreign manpower. Instead, it concentrates on maximizing the utilization of domestic and foreign skilled manpower, through emphasizing capital-intensive development in hydro-carbon and other manufacturing industries, in agriculture and in mining. This will accelerate diversification, which is one of the dominant structural objectives of the whole economic development process.

1.4.3 Objectives and Policies for the Third Plan

The strategy sets three key medium term objectives for the Third Plan and introduces a framework of policy measures to achieve each of them, as follows:

1.4.3.1 Structural Change of the Economy. This will be induced by:

- (1)** Adopting oil and gas production levels which ensure the maximum sustainable lifetime for these resources, while generating sufficient revenue which, together with available monetary reserves, will be sufficient to cover the financial requirements for domestic development;

- (2) Directing a major proportion of the Kingdom's capital and manpower to the producing sectors, such as agriculture, industry and mining, to ensure diversification of the economic base. A key element will be the maximization of domestic value-added from crude oil production through hydrocarbon industries;
- (3) Reducing the percentage share of physical infrastructure in total investment after completion of the continuing commitments from the Second Plan period, except when needed to support productive activities. New investments will be concentrated in those areas with proven potential for growth of productive activities;
- (4) Adopting sound yet flexible fiscal and monetary policies which permit the attainment of development goals without incurring excessive rates of inflation.

1.4.3.2 Participation and Social Welfare in Development. These will be attained through:

- (1) Promoting among the Saudi population an awareness of the Kingdom's development goals and needs, providing guidance for their contribution to the achievement of these goals, and supporting Saudi society to deal with the problems of rapid economic and social change;
- (2) Stimulating the potential of all regions through a system of national, regional and district development service centers.

1.4.3.3 Economic and Administrative Efficiency. These will be increased through:

- (1) Improving the administrative organization and procedures of the Government in order both to utilize manpower more efficiently and to improve individual performance and responsibility;
- (2) Adopting incisive manpower development policies with the objective of replacing foreign manpower by Saudis to the maximum possible extent, through increasing the number and the skills of the Saudi labor force and raising its productivity, both by greater efficiency within sectors and by intersectoral mobility;

- (3) Preserving national fixed capital by improving routine repair and maintenance programs;
- (4) Ensuring sufficient allocations of manpower and finance to operate infrastructural plant and machinery at full capacity;
- (5) Limiting the level of government civilian expenditure so that it should not exceed a total of SR 783 billion, including inflation, and allocating expenditure levels to sectors in accordance with the priorities of the strategy.

1.4.4. Trends in the Composition, Growth and Utilization of the Gross Domestic Product of the Kingdom of Saudi Arabia 1386- 1405.

1.4.4.1 The following four tables give a summary presentation of developments in the growth and structural composition of the Saudi Arabian economy over a thirteen year period up to the end of the Second Development Plan, with some projections for the Third Plan.

1.4.4.2 Table 1-3 analyzes the sectoral composition of the Gross Domestic Product (GDP). The relative shares of the producing and services sectors (in the non-oil GDP) have remained stable over the entire period, as measured in terms of 1389/90 prices. Within these two sector groups, however, there have been significant structural changes. Of particular importance are the marked changes in the position of Agriculture, Construction, Trade, Finance and Government. The projections for the Third Plan illustrate the changes which should be achieved by the Third Plan's strategy.

1.4.4.3 Changes in the structural composition of GDP have a direct link to the trends in sectoral growth rates. Table 1-4 compares sectoral growth rates over successive periods, based on constant 1389/99 prices.

1.4.4.4 Table 1-5 analyzes the pattern both of sectoral income from GDP and of sectoral expenditure on GDP over a thirteen year period. The difference between income and expenditure is shown as domestic surplus. The latter's further allocation between the Kingdom and abroad is not shown.

1.4.4.5 Table 1-6 presents a more detailed picture of the growth in the private sector's domestic surplus. As a percentage of private sector income, the surplus has grown from 14.8 % in the period 1386/87 - 1389/90 to 21.6 % during the Second Plan, thus representing the basis for a potentially large accumulation of private sector financial assets.

Table 1-3

THE STRUCTURAL COMPOSITION OF GDP IN THE PERIOD : 1386/87 TO 1404/05
(Percent of non-oil GDP based on 1389/90 prices)

1. <u>Producing Sectors</u>	<u>1386/87</u>	<u>1389/90</u>	<u>1394/95⁽¹⁾</u>		<u>1399/1400⁽²⁾</u>	<u>1404/05</u>
			(a)	(b)		
Agriculture	13.9	12.6	8.7	9.1	5.8	5.1
Other Mining	0.6	0.6	0.7	0.6	0.7	0.7
Other Manu- facturing	4.8	5.5	5.5	5.6	5.6	8.9
Utilities	3.1	3.5	3.4	2.5	3.8	8.9
Construction	13.3	12.0	16.2	19.1	21.3	12.6
Subtotal	35.7	34.2	34.5	36.9	37.2	36.2
2. <u>Service Sectors</u>						
Trade	11.8	12.9	14.3	14.9	19.9	19.9
Transport	14.5	15.9	20.1	10.0	12.8	15.8
Finance	12.1	12.4	10.6	16.8	15.3	14.5
Other services	2.8	3.1	2.5	2.5	2.3	1.8
Government	23.1	21.5	18.0	18.9	12.5	11.8
Subtotal	64.3	65.8	65.5	63.1	62.8	63.8
3. <u>Non-Oil Economy</u>	100.0	100.0	100.0	100.0	100.0	100.0
4. <u>Oil Sector (includ- ing refining)</u>	109.1	119.8	137.6	144.5	89.5	64.1

(1) New data have been incorporated by the CDS in the revised estimates for the years from 1394/95 onwards (except for Agriculture). For this reason, figures from 1394/95 onwards are not strictly comparable with figures for earlier years.

The column (a) shown above for 1394/95 is based on the old system of prices; the second column (b) is based on the revised data.

(2) MOP Estimate

Table 1-4

THE GROWTH OF GDP IN THE PERIOD 1386/87 TO 1404/05

Annual Compound Growth Per Cent Per Year.

(In 1389/90 prices)

	<u>1386/87 to 1389/90</u>	<u>First Plan 1390/91 to 1394/95</u>	<u>Second Plan⁽¹⁾ 1395/96 to 1399/1400</u>	<u>Third Plan 1400/01 to 1404/05</u>
1. <u>Producing Sectors</u>				
Agriculture	3.62	3.59	5.40	5.35
Other mining	5.56	21.07	17.14	9.78
Other manufacturing	11.76	11.39	15.37	18.83
Utilities	11.31	10.93	24.41	29.46
Construction	3.32	18.57	17.78	(2.48) ⁽²⁾
2. <u>Service Sectors</u>				
Trade	10.09	13.94	22.06	8.42
Transport	10.58	16.97	21.13	12.93
Finance	7.94	8.16	12.99	7.29
Other services	9.76	7.09	13.91	2.95
Government	4.39	7.75	5.96	7.16
3. <u>Non-Oil Economy</u>	6.96	11.66	15.13	6.19
4. <u>Oil Sector (including refining)</u>	10.34	14.80	4.78	1.34
5. <u>Total Economy</u>	8.75	13.41	8.04	3.28

Note: See Note in Table 1-3. Sectoral data for the 1st Plan period shown above include the old constant price system, the 2nd and the 3rd Plan figures, however, use the revised price system for each sector. Values for the non-oil economy, the oil sector and the total economy for the Second and Third Plans are in 1399/1400 prices, partly because the 1404/05 composition of the oil sector's output has no equivalent in 1389/90.

(1) MOP Estimate

(2) Negative Growth Rate

Table 1-5

THE SECTORAL PATTERN OF GDP INCOME AND EXPENDITURE

(based on aggregated income and expenditure values per period calculated at current prices)

	1386/87-1389/90 (4 years)	First Plan 1390/91-1394/95 (5 years)	Second Plan 1395/96-1398/99 ⁽¹⁾ (4 years)
	%	%	%
1. GDP (as income)	100.0	100.0	100.0
of which:			
Private Sector Income	49.1	23.8	37.9
Oil Sector operating surplus	50.9	76.2	62.1
2. <u>GDP (as Expenditure)</u>	100.0	100.0	100.0
2.1 <u>Final Consumption</u>			
Private	32.4	14.8	20.9
Government	19.4	11.9	20.6
Subtotal:	51.8	26.7	41.5
2.2 <u>Capital Formation</u>			
Private sector (incl. increase in stocks)	9.2	4.4	9.4
Government and oil sectors	9.8	7.6	19.4
Subtotal:	19.0	12.0	28.8
2.3 <u>Domestic Surplus</u>			
Private Sector	7.5	4.6	7.6
Government Sector	21.7	56.7	22.1
Subtotal:	29.2	61.3	29.7

(1) MOP Estimate

Table 1-6

SOURCE AND ALLOCATION OF PRIVATE SECTOR INCOME

(Percent of total sectoral income in the period concerned)⁽¹⁾

	<u>1386/87-1389/90</u>	<u>First Plan 1390/91-1394/95</u>	<u>Second Plan ⁽²⁾ 1395/96-1398/99</u>
<u>Income</u>			
of which:			
Employee Compensation	54.6	51.8	52.7
Non-oil Operating Surplus	45.4	48.2	47.3
	<hr/> 100.0	<hr/> 100.0	<hr/> 100.0
<u>Allocation</u>			
of which:			
Private final Consumption	66.3	62.0	54.1
Private Capital Formation (including increase in stocks)	18.9	18.5	24.3
Surplus	14.8	19.5	21.6
	<hr/> 100.0	<hr/> 100.0	<hr/> 100.0

(1) Derived from current price data.

(2) MOP Estimate.