

CHAPTER 1

DEVELOPMENT AND PLANNING IN SAUDI ARABIA

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With the implementation of the Fourth Development Plan, the Kingdom will have completed twenty years of planned development. In the past fifteen years Saudi Arabia has undergone a physical transformation which many nations have taken several centuries to achieve. By 1409/10, the dedicated and historically unique effort of two decades will have taken the Kingdom a long way towards realizing its full economic potential and securing the well-being of the majority of its citizens.

1.1 QUALITY AND SCALE OF DEVELOPMENT

The most distinguishing feature of Saudi development has been the inspiring and formative role of Islamic values and institutions. They have been the real structuring forces in directing development according to a particular Saudi pattern. By asserting and invoking Islamic concepts about society, a unique blend of material and social advance has been achieved. While using the same institutional forces as exist in other societies (government and the market economy), the requirements for individual initiative and for social responsibility have been kept in a morally acceptable and creative balance throughout.

This unique quality of the Kingdom's development has been achieved by avoiding the distortions and imbalances which are clearly evident in other developing countries — over-exploitation of natural resources, urban poverty, rural depopulation, high inflation and lack of social security. Because of its comprehensive nature, Saudi development has been successful in avoiding substantial gaps and imbalances between economic sectors or between various segments of the population.

Ever since the First Plan the Kingdom's development objectives have been wide-ranging in scope. Development was conceived as a concerted advance along three dimensions: economic, social and institutional. In the *economic* field it meant advances in infrastructure and in basic industries, as well as in agriculture. In the *social* field the development plans have always taken into consideration the desires, aspirations and capabilities of the Saudi Arabian people. The system of free education has been created and expanded to promote equality of opportunity in attaining skills and to upgrade the level of perception in the population. An elaborate system of free health and social welfare services has been established, giving protection to the old and disabled and those of limited income. Housing has been given priority as well as substantial material support. The *institutional* dimension has seen the establishment of new agencies and regulations to match the growing complexity of economic and social development, thus facilitating expansion in the absorptive capacity of the Kingdom's economy.

Finally, the uniqueness of the Saudi Arabian experience lies also in the *scale* of the development process. In the course of the first three plan periods global sales of crude oil by the Kingdom reached 35 billion barrels, which is equivalent to the combined free world oil consumption in 1980 and 1981. During those fifteen years the amount spent by the Government alone totalled SR 2,000 billion. The scale of the material effort propelled the economy forward at internationally outstanding growth rates, which averaged around 12 percent annually in the non-oil economy. The volume of investment, at around 60 percent of non-oil GDP, represented proportions which are unattainable for most countries.

1.2 DEVELOPMENTS UNDER THE FIRST THREE PLANS (1390 - 1405)

The economic and social development of Saudi Arabia has been an unfolding and accelerating process ever since the unification of the Kingdom under the late King Abdulaziz. At a time when the Saudi Arabian economy was not yet fully integrated into the world economy, development efforts were confined to the development of education, water and agriculture, linking the long distances that divided the Kingdom's population centers, and the expansion of facilities in the Holy Cities. These early development efforts, which were pacesetters for the future, were all problem-oriented, and were based on a desire to upgrade the standard of living for all.

1.2.1 FEATURES OF THE FIRST AND SECOND PLANS

The First Five-Year Plan (1390-1395) was very modest in size, as about SR 80 billion was spent mainly on developing basic infrastructure, particularly public utilities, and on improving government services. During the Second Plan (1395-1400) government expenditure had reached nearly SR 700 billion, almost a nine-fold increase over the First Plan.

It was the Second Plan which finally established many of the essential features of Saudi development: the leading role of the Government and the weight of its contribution to capital formation; the importance of infrastructural development and the associated role of the construction industry.

It was during the Second Plan that the Kingdom faced one of its major challenges, as inflation rose to very high levels mid-way through the implementation of the Plan. Throughout those critical years government policy remained steadfast in allowing the operation of market forces to restore eventual balance in the national economy. Government intervention was limited to protecting the interests of the people. The main motivation behind the Government's decision not to curtail its expenditure program substantially, in response to inflation, was its determination to alleviate shortages in housing, electricity and water supply, and to eradicate the bottlenecks in transportation and the institutions of learning. Thus, the high levels of market demand were eventually matched by increased supplies and an expansion of the Kingdom's absorptive capacity. Furthermore, during this period the Government was fully aware of the negative impacts of inflation on some groups within society, and in this regard, numerous social, welfare and financial arrangements were made to neutralize their effects.

1.2.2 STRATEGY OF THE THIRD PLAN

The Third Plan's strategy moved in three directions to advance the development process a stage further. It pressed for the completion of infrastructural facilities, while emphasizing the need for more output-oriented investment by the public sector, as well as for more output from the producing sectors, and for the continuing development of manpower. In this and other respects the Third Plan strategy ushered in a period of structural change in both government expenditure and Gross Domestic Product.

While in many important ways the Third Plan's concepts and recommendations were already pointing beyond the reality that was being constructed physically, developments in the oil market had re-emphasized the need to complete the country's infrastructure at a faster rate than had been originally conceived. A sizeable influx of foreign labor was the logical consequence. Domestic demand for goods and services rose, thus stimulating private investment to create new facilities for trade and other commercial activities. Simultaneously, private capital, with substantial financial backing from public funds, moved into agriculture (and industry), and through the use of modern technology and large-area cultivation, fundamentally changed that sector's role in the economy.

The second half of the Third Plan period was marked by the disappearance of the special conditions in the international oil market that provided revenues to the Kingdom well above anticipated levels. Thus, the stabilization in world demand for oil caused a sudden downturn in the Kingdom's revenue position, which was subsequently reflected in lower levels of new government investment and a decline in economic growth rates.

1.2.3 MAJOR ACHIEVEMENTS 1390 - 1405

By the end of the Third Plan significant advances have been made in the material and institutional conditions affecting individual and social welfare. The majority of the population is now provided with basic services in housing, health and education. Conditions of poverty, deprivation, illiteracy and poor health have been largely eradicated. A large-scale modern infrastructure is near completion and agricultural output has expanded. Some of the main achievements of the first three plan periods can be summarized as follows:

Infrastructure

- the paved road network expanded from about 8,000 km. to more than 30,000 km.;
- the overall handling capacity of ports increased from about 2 million tons in 1390 to around 50 million tons in 1405;
- the number of working telephone lines rose from 29,000 to 903,000;
- the number of air passengers leaving and arriving at the Kingdom's airports increased from about 1.6 million to 24 million.

Housing

- around 550,000 housing units were built, mostly financed by loans to the private sector.

Health

- the number of doctors in the Kingdom rose from 1,127 to 14,267;
- hospital beds increased from 7,000 to 26,410.

Utilities

- installed electricity generating capacity rose from 418 megawatts in 1390 to 14,578 megawatts in 1404;
- desalination plants increased their water output from about 19,600 cubic meters per day in 1390 to 1.44 million cubic meters per day in 1405.

Education

- school enrollments for boys and girls increased by 192 percent at the elementary level, by 375 percent at the intermediate level, and by 712 percent at the secondary level;
- female enrollment at the elementary level approached parity with that of males, and by the end of the period girls accounted for 42 percent of total enrollment at the elementary level;
- the student population increased from around 597,000 to over 2.0 million;
- the number of male university graduates rose from 808 in 1390 to 6,098 in 1404; female graduates increased from 27 to 3,284;
- seven new universities were established in various parts of the Kingdom and total enrollment in universities reached 86,185 students.

Agriculture

- production of wheat, as a new staple food, grew from 130,000 tons to 1.3 million tons in 1404/05;
- the more traditional staple crop, dates, roughly doubled in production to about 440,000 tons in 1404/05.

Industry

- cement production increased from about 700,000 tons in 1390 to more than 8 million tons in 1404;
- domestic production of fertilizers rose from 24,000 tons to more than 850,000 tons in 1404.

1.3 INTERNATIONAL BENEFITS FROM THE KINGDOM'S DEVELOPMENT

The achievements described above have radically transformed the economic and social life of citizens in little over a decade. Underlying this success has been the Kingdom's fundamental belief in

allowing the forces of free competition to prevail in the market-place, both domestically and internationally, where such forces were in accordance with the public interest. Furthermore, the Kingdom has participated actively in assisting the development process of other countries. These factors have made a major contribution in extending the benefits of Saudi Arabian development to many other countries.

1.3.1 PRIVATE ENTERPRISE

Private enterprise has been vigorously promoted and licenses issued to around 3,000 industrial companies; many thousands of small and medium-sized firms have emerged in the informal, non-licensed sector. Foreign labor has been imported when needed and hundreds of joint ventures with foreign partners have been established. Thus, the benefits of these achievements extend beyond the national boundaries of Saudi Arabia.

1.3.2 FREE TRADE

With the growth and strengthening of the Saudi economy, the country has become one of the leading trading nations of the world. Over the past fifteen years imports of goods and services have amounted to around SR 1,800 billion, of which about 23 percent came from the United States, 35 percent from Europe, 12 percent from Japan and the remaining 30 percent from other countries. Being firmly in favor of free trade, Saudi Arabia has allowed these imports to enter the Kingdom virtually tariff-free and without the administrative barriers which are common elsewhere. It can truly be claimed, therefore, that many trading partners have benefitted from the rapid growth and transformation of the Saudi economy.

1.3.3 INTERNATIONAL COOPERATION

The benefits from development in the Kingdom were not limited to the Kingdom's trading partners or to partners in joint ventures. During the past fifteen years Saudi Arabia has granted development aid totalling SR 136 billion to many developing nations. On an international basis, the Kingdom's development assistance ranks very high in terms of its proportion of Gross Domestic Product.

1.4 LONG-TERM DESIGN FOR THE ECONOMY

The achievement of such balanced development would not have been possible without a comprehensive, consistent and structurally sound design for the economy and society as a whole. Thus, sustained development during the Fourth Plan, and over the longer term, is based on three essential principles:

First: Industry

Based on its experience the Kingdom recognized the *dual character of the oil wealth*: oil can be (and in the long run will be) a source of economic strength; however, it can also be a source of weakness at times, as demand for oil is subject to both cyclical movements in the world economy and technological innovations. Hence, to reduce the resulting uncertainty in planning parameters and the vulnerability of dependence on a single commodity, the Government is determined to expand its oil-related industries (refineries and petrochemicals) and to develop the other producing sectors of the economy through a full range of measures.

Second: Technology

The Kingdom recognizes the essential role of technology and openly welcomes the latest technological developments and their impact on the organization of economic activity and work methods. The Government also recognizes that future welfare will be closely linked to relevant, Kingdom-specific advances in technology. Just as petrochemicals will provide raw materials for the application of many new technologies, further technological innovations will be associated with the expansion of water resources and harnessing the enormous energy potential of the sun.

Third: Free Economy

The Government will continue to support a free economy within the framework of the public interest. This system has proved most efficient on the basis of the Kingdom's experience. Although for special reasons relating to conditions in the Kingdom, the public sector played a significant role in development during a certain period, this does not change the fact that the policy of the Kingdom is based on a free-economy system.

Saudi development now enters the phase where the various considerations about economic and institutional structure (importance of producing sectors, productivity, new technologies) are all coming together to reinforce the importance of the private sector and the market economy.