

## **CHAPTER 3**

### **MAIN OBJECTIVES AND THEME OF THE FOURTH PLAN**



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The objectives of the Fourth Plan were formulated to ensure continuity with the strategy of the Third Plan. Their emphasis, as in the Third Plan, is on efficiency in the use of resources, on the development of the producing sectors and of human resources. The objectives represent an all-encompassing framework for structural change.

#### **3.1 THE OBJECTIVES OF THE FOURTH DEVELOPMENT PLAN (1405/1410)**

1. To safeguard Islamic values, duly observing, disseminating and confirming Allah's Sharia (God's Divine Law);
2. To defend the Faith and the Nation; and to uphold security and social stability;
3. To form productive citizen-workers by providing them with education and health services, ensuring their livelihood, and rewarding them on the basis of their work;
4. To develop human resources, thus ensuring a constant supply of manpower, and to upgrade and improve its efficiency to serve all sectors;
5. To raise cultural standards to keep pace with the Kingdom's development;
6. To reduce dependence on the production and export of crude oil as the main source of national income;
7. To continue with real structural changes in the Kingdom's economy to produce a diversified economic base with due emphasis on industry and agriculture;
8. To develop mineral resources and to encourage discovery and utilization thereof;
9. To concentrate on qualitative development through improving the performance of the utilities and facilities already established during the three previous Plan periods;
10. To complete the infrastructural projects necessary to achieve overall development;
11. To achieve economic and social integration between the Arab Gulf Cooperation Council (GCC) countries.

#### **3.2 STRUCTURAL CHANGE**

In the Fourth Plan period the economy will continue to undergo structural change. The essence of the expected structural changes is the relative, and in some cases even absolute, decline of sectors which are primarily dependent on budget expenditures such as construction, distributive trade, transport and communications. The producing sectors, in particular manufacturing and agriculture, and the financial and business services sector, will be helped to forge ahead and thus contribute to the economy's diversification. In pursuance of a policy of structural change, substantial financial support will be built into the expenditure program of the Fourth Development Plan to encourage the private

sector to take the initiative, and mobilize its own resources. The outlines of the future, towards which the Fourth Plan is the main stage of transition, can be considered in the three aspects described below as new linkages, new opportunities and new responsibilities.

### **3.2.1 NEW LINKAGES**

Economic growth, especially when guided by the market, resembles organic growth. New linkages, new functional connections and new elements reinforce existing ones and provide for new opportunities. This kind of process has already taken place in the Saudi economy: the growth of the public sector gave impetus to the private sector's own expansion; infrastructural links now connect the Kingdom and promote the expansion of production activities. In the future the producing sectors will strengthen their links with the service industries, the financial intermediaries, and at some later point, with knowledge-based activities.

Modern service activities cannot usually develop without an industrial base and their advance remains conditional on the producing sectors. Likewise, knowledge-based activities will need scope for creative applications through links with production problems. All these prospects for expansion must also be related to the Saudi population's growth, and the demands of an educated young population to share in the work, as well as in the rewards, of an economy also expanding in complexity.

### **3.2.2 NEW OPPORTUNITIES AND EXPANDED MARKET**

The growing strength of the private sector will be reinforced by increasingly closer links to the GCC area. This regional grouping already represents one of the highest per capita purchasing power areas in the world. Although the economic structure of GCC countries shows many similarities, the opportunities to develop new complementarities are clearly evident. Furthermore, the Kingdom's geographical, ethnic/cultural and religious connections logically extend its economic influence from the GCC to other Arab countries, to the Islamic nations and to the Third World at large.

At the same time, there are numerous and promising links to be established with the industrial world for cooperation in new ventures and for the transfer of technology.

### **3.2.3 NEW RESPONSIBILITIES AND DIFFICULTIES**

These new opportunities will demand the willingness to take on new responsibilities. This applies in the first place to the Saudi private sector which, in the recent past, has already made some of the necessary adjustments and accumulated substantial economic and financial advantages in the process. These adjustments have changed the functions of traditional merchants into those of contractors and, in quite a number of cases, manufacturers as well. In the Fourth Plan this trend will have to become much stronger still. Growing involvement in technically more complex manufacturing will

also mean moving over from standard and more familiar products to those applying new technologies, from supplying safe outlets to seeking new ones.

The pressures on the private sector will increase in line with the new opportunities. The route for invested capital bringing returns will be longer, requiring new patterns of organization and new structures for management and control. The private sector's own future is linked to its ability to recognize these challenges and respond to them positively.

### **3.3 DEVELOPMENT AND TECHNOLOGY**

Under the conditions prevailing in the Kingdom, the critical elements for success are production skills and the underlying technologies. Insofar as new technologies from abroad are concerned, their availability would normally form part of joint-venture arrangements. Another traditionally serious limiting factor is the relationship between market potential, scale of operations and the costs of marketing. Here, too, advances in technology are likely to offer new support. Not only are manufacturing operations becoming more computer-controlled, but also individual machines are designed to be more versatile and to serve as programmed multi-purpose tools.

Their performance in medium-sized units might well compete on most criteria with the output quality of larger establishments. With such machines the problems of scale, output range and quality control could lose many of their inhibiting features. It is true that these trends are just beginning to surface, while the conventional contents of technology transfer usually relate to outgoing products and methods. In order to grasp these new opportunities there must be strong incentives to promote joint ventures capable of offering continuity in technological cooperation and product development.

### **3.4 ROLE OF GOVERNMENT IN THE FOURTH PLAN**

The manifold tasks of transition in the years of the Fourth Plan make it the role of the Government to help the economy, in all possible ways, along the path of structural change. Without such constant and concentrated support the Fourth Plan targets may not materialize to the desired extent. To ensure their realization, the Plan's objectives will be translated into specific tasks and policies and their implementation will be kept under close review.

### **3.5 DIVERSIFICATION OF THE ECONOMIC STRUCTURE**

#### **3.5.1 DIVERSIFICATION IN PRACTICE**

Diversification has always been defined as the longer-term strategic objective for the economy. After 15 years of planned development, diversification is no longer a remote goal. Its

ultimate objective of reducing dependence on oil translates into the present task of creating a new structural basis for stable future growth. In considering the practical steps involved, the least realistic interpretation of diversification is the complete replacement of crude oil. The coincidence of new geological findings with particularly favorable world market conditions might well create opportunities to replace oil partially by other minerals of exportable quality. Nevertheless, it would be misleading to expect that the multiple advantages which crude oil secures for the Kingdom can, in the foreseeable future, be substituted by another hitherto untapped natural resource. The Kingdom's development strategy has, therefore, taken the realistic course. Instead of turning from crude oil, the objectives have been to maximize the advantages of being the most efficient (in cost terms) and the most reliable (in terms of quantities of hydrocarbon reserves) among the leading oil producers in the world.

Saudi Arabia has 25 percent of the world's proven oil reserves and vast quantities of associated and non-associated gas. With more than 80 percent of the cost of petrochemicals comprised of fuel and feedstock, these resources make Saudi Arabia a natural location for the production of petrochemicals. The combination of abundant resources and low costs secures a long-run comparative advantage over every competitor.

Accordingly, the Kingdom has:

- installed capacity to collect and process the associated gas for use as fuel and feedstock;
- established a refinery industry (in part to replace imported products and pre-empt future imports);
- laid the foundations of a petrochemical industry with worldwide ramifications for the balance of future supply of petrochemical materials;
- created the material conditions for 'downstream' petrochemicals being produced by the Saudi private sector.

These arrangements have firmly established the Kingdom as a processor/producer of derivative materials and products within and from the oil sector.

### **3.5.2 THE LIMITS TO HYDROCARBON DIVERSIFICATION**

While the move into petrochemicals points to a broadly-spread utilization of the hydrocarbon raw material base, it was never intended to be a complete substitute for oil as a foreign exchange earner. Even though the demand for petrochemicals is bound to increase, the Kingdom's share will only represent a fraction of total world supply.

### **3.5.3 DIVERSIFICATION AND THE NON-HYDROCARBON SECTOR**

With the dimensions of non-hydrocarbon diversification remaining considerable, the immediate policy objective is the identification of, and support for, the sectors contributing to diver-

sification. As a first approximation, every activity that generates foreign exchange revenue or leads to import savings is a contributor. The scope of such activities will include the three main producing sectors (agriculture, petrochemicals, other manufacturing industry) as well as the financial and other business services. Because of its potential ability to be both a saver and producer of foreign exchange, manufacturing must take the central place in the economy's diversification in the Fourth Plan period and beyond.

