

CHAPTER 1

PLANNING AND DEVELOPMENT IN SAUDI ARABIA

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The process of government-induced development in Saudi Arabia began over 40 years ago when the first small oil revenues provided the means for the government to improve economic and social conditions in the Kingdom. Since 1390, the Kingdom has adopted a system of comprehensive planning for economic and social development, based on Islamic values and principles, to guide development in a coordinated and balanced direction. These Islamic values have contributed greatly to social, economic and institutional changes and have been reflected in the government's preference for a free market economy, thus according to the private sector full opportunities to participate in the development process. At the same time, government initiatives have been used to influence economic activity when necessary, in order to protect the interest of the individual.

Development activities accelerated significantly during the First and Second Development Plan periods, when the first large increase in world oil prices generated substantial government revenues. The further expansion of the Kingdom's oil income during the Third Plan created opportunities for a rapid growth in government expenditure, which fostered very high rates of investment in infrastructure and rapid economic growth. Throughout these years, the steady and systematic progress in long term economic diversification into manufacturing, agriculture, and financial services, in education and manpower development, and in the expansion of health and social services, continued at a fast pace.

During the past two decades, economic and social development has proceeded at a rate unmatched almost anywhere in the world. The economy has grown to be ranked among the 20 largest economies in the world, while the Kingdom accounts for only 0.2 percent of the world's population. A modern economic infrastructure has been established and the economy is steadily diversifying away from dependence on oil exports. Major improvements have been made in the provision of public services, particularly in health, education, and social services. At the same time, the institutional structures of both government and the private sector have successfully evolved as the economic and social needs of the Kingdom have become more complex and sophisticated. As a result, the country has been transformed within twenty years, but throughout the development process, firm adherence to Islamic values and cultural traditions has been a constant guiding principle, so that a high degree of social and cultural stability has been maintained.

This combination of high economic growth and social welfare in national development has been achieved through planning. The special characteristic of Saudi Arabian planning is that it integrates the development actions of the government with the dynamism of the private sector, in a free market economy, under the ultimate authority of Islamic values. Saudi

planning has always been practical, as each plan, in the series of five year plans which commenced in 1390, has been designed in accordance with the respective capabilities of the government and of the private sector, and the evolving maturity of the economy. Furthermore, each plan has identified the medium term strategy to achieve the long term goals of national development, and has allocated the various tasks of implementing the strategy to the government or to the private sector, as appropriate.

Although the stagnancy in the world oil market during the 1403-1406 period caused a decline in oil revenues, which adversely affected development progress and resulted in the postponement of some development programs, the government has taken sound measures to restructure the Kingdom's economic base, thus enabling the economy to sustain its long term momentum.

1.1 PRINCIPAL DIRECTIONS OF THE DEVELOPMENT PROCESS

The long term strategic goals of the Kingdom's development have been formulated since the First Development Plan to provide a foundation for future development efforts and for the achievement of national objectives. Over the past two decades, these strategic goals have been reemphasized or modified, but their basic thrust has remained and will continue to guide the development process as it enters a new phase in the Fifth Plan and in subsequent plans.

Two basic principles guiding national development, and providing an essential continuity and stability to the individual plans, have been the sustained preservation of religious values and the provision of national security. Beyond these fundamental principles, several other broad goals have guided the first four plans, and will continue to provide the framework for future plans:

- **Diversifying the Economy and Reducing Dependence on Oil**

While oil revenues have provided Saudi Arabia with the financial base to achieve rapid economic and social progress, they have also exposed the Kingdom to the highly volatile conditions of world oil markets. The need to establish other strong economic sectors and income sources to meet the needs of a rapidly growing population, has been recognized throughout the development plans.

- **Raising Living Standards and Improving the Quality of Life**

A continuing goal has been to distribute the benefits of the Kingdom's increasing wealth throughout the population and to provide opportunities for all members of Saudi society to participate in the development process, while preventing the adverse side-effects of rapid development.

- **Maintaining Economic and Social Stability**

Rapid economic development and modernization have led to social and economic

instability in many countries, particularly when the benefits of development have been unevenly distributed and traditional values have been abandoned. Cognizant of this, the development plans have all emphasized fidelity to Islamic values, the spread of public services and employment opportunities throughout the Kingdom.

- **Regional Development**

Balanced and integrated regional development has been a goal of all five year plans, to be achieved through regional planning that is based on a fair distribution of government services, proper utilization of natural resources, the full utilization of each region's potential and discouragement of migration to cities, unless such migration enhances the development process.

- **Strengthening the Role of the Private Sector in the Economy**

Private enterprise has traditionally been the focus of economic activity in the Kingdom. Of necessity, in the early development plans the government played the leading role in stimulating economic development, particularly through major infrastructure projects. However, engaging the private sector in the development process has been a consistent objective. With the end of the infrastructure stage of development approaching and the growing need to accelerate the diversification of the economy, the fostering of a vibrant private sector has taken on even greater urgency. Therefore, strengthening the private sector was emphasized in the Fourth Plan and is a major thrust of the Fifth Plan also.

- **Broadening the Linkages Between the Kingdom and other Nations**

In recognition of its expanding role in the world politically, economically, socially and in religion, an important goal is to broaden and deepen the Kingdom's relationships with international organizations and other countries, especially the Gulf Cooperation Council (GCC).

- **Developing and Completing the Physical Infrastructure**

With great foresight, oil revenues in the first three plans were invested primarily in establishing the physical and social infrastructure systems essential to a stable, productive and just society. The majority of this infrastructure has now been completed and provides an outstanding base for future economic and social development. The emphasis is now changing to the maintenance of existing facilities, thereby ensuring their long term value to the Kingdom.

- **Developing Human Resources**

The wealth of the Kingdom ultimately resides in the productive skills of its labor force. Accordingly, the development plans have placed great importance on human resource development, through advances in primary, secondary, and higher

education, as well as vocational and technical education and training. The result has been a great increase in the productive employment of Saudi citizens and a steady upgrading of the skill levels and occupational achievements of the Saudi labor force.

Within the broad context of these long term goals that have guided the development process, each plan has had its own particular focus, reflecting both the stage of development and the resources available to the government.

The financial scale of the **First Plan** was modest by subsequent standards. However, it established for the first time a comprehensive planning framework for the systematic construction of a modern infrastructure, the improvement of government services, and the development of human resources, thereby laying the foundations for achieving the long term strategic goals.

The sharp increase in government revenues in the latter part of the First Plan years permitted a much more ambitious **Second Plan**. Expenditures on infrastructure increased dramatically in response to available resources and in recognition of the need to rapidly overcome barriers to economic growth. The government provided the majority of capital investment in the economy, while private sector activity was concentrated mainly in the construction and trade sectors. The establishment of the Ministry of Industry and Electricity, the Royal Commission for Jubail and Yanbu, and the creation of SABIC (Saudi Arabian Basic Industries Corporation) are three examples of effective institutional development initiated during the Second Plan to guide and assist industrial development and to achieve the long term goal of economic diversification.

A major objective of the **Third Plan** was to accelerate the construction of physical infrastructure and to lay the foundations for a more diversified economy. Large scale public sector investments were initiated in capital intensive industries linked to the Kingdom's petroleum resources. In the private sector, manufacturing industries became more prominent, and agriculture emerged as a high growth sector in response to government incentives and funding. The strong pace of economic progress during the Second and Third Plan years was associated with a sharp increase in foreign workers, which highlighted the importance of developing Saudi human resources and of gradually reducing the reliance on expatriate labor.

At the time of the **Fourth Plan's** preparation, the majority of the Kingdom's infrastructure was being completed. The Fourth Plan, therefore, reinforced the diversification theme of the Third Plan, with even greater emphasis on restructuring the economy and with the private sector playing a leading role. Correspondingly, the policy and institutional aspects of development were given more prominence for achieving the plan's objectives. Those sectors which had been primarily dependent on government spending, such as construction, transportation, and communications, were expected to expand more slowly, or even decline. At the same time,

the producing sectors, particularly manufacturing and agriculture, were encouraged to grow more rapidly. Government expenditures, in turn, were focused on health, education, training, and other social services essential to social and human resource development, which became a major feature of the Fourth Plan.

1.2 ACHIEVEMENTS OF THE FIRST FOUR DEVELOPMENT PLANS

By any standard, the achievements of the past two decades of planned development are impressive. Great progress has been made in each major area of development.

- **Diversifying the Economy and Reducing Dependence on Oil**

As the world's largest oil exporter and third largest oil producer, oil revenues continue to be a major force in the economy. Nevertheless, the relative role of oil exports has declined substantially during the past 20 years.

- The value added by the oil sector as a share of GDP has fallen from 58 percent in 1390 to just 21 percent in 1409.
- Oil revenues have declined as a share of total government revenues, from 85 percent in the first three plans to 64 percent in the Fourth Plan.
- Non-oil GDP has increased fivefold since 1390, while total GDP has increased fourfold. Non-oil GDP today is larger than total GDP in 1390.
- Saudi Arabia has diversified its exports and become one of the world's largest exporters of petrochemicals, with a value of over SR 10 billion in 1408, when it accounted for 11 percent of total exports.
- Other industrial exports have grown more than sixfold since 1405, and agricultural exports have become an increasingly important component of the Kingdom's trade.

- **Raising Living Standards and Improving the Quality of Life**

Through steady economic progress, a standard of living has been achieved in the Kingdom that is in most ways comparable to those prevailing in the developed countries.

- During the past 20 years national income has increased more than fourfold in real terms, reaching a value of SR 280 billion in 1409. Although this growth rate has been rapid over the period as a whole, there have been some substantial fluctuations due to changes in the world oil market.

- Personal consumption -- perhaps the best measure of living standards -- has increased at an average annual rate of 9.4 percent in volume terms.
 - Infant mortality has dropped from 148 per 1000 live births in 1390 to about 43 currently.
 - Daily caloric intake per capita has increased from 2000 in 1390 to over 3000 in 1409.
 - The number of physicians in the Kingdom has grown from 1200 in 1390 to more than 20,000 in 1409, while the number of hospital beds has increased from 11,000 to over 38,000.
- **Maintaining Economic and Social Stability**

Inevitably, the economy has been affected by the large fluctuations in the world oil market during the past two decades. However, prudent planning and economic management have reduced the economy's sensitivity to external conditions.

 - Government expenditures were raised more slowly than revenues when oil income increased, while expenditure levels were reduced more gradually when revenues declined during the downturn in the world oil market. During this period of volatility, the government's foreign reserves were used to reduce the sensitivity of the government budget, and thus the economy, to fluctuations in external conditions.
 - Personal incomes have been maintained at relatively high levels through the expansion in private sector activity and high government expenditure -- which have jointly kept up full employment -- and through private investment income from both external and internal sources.
 - Adherence to the Islamic Sharia is the unalterable foundation of the Kingdom that has allowed rapid economic change to occur with comparatively little social strain. The commitment to distribute the benefits of economic and social development throughout the Kingdom has likewise contributed to continuing social stability.
- **Strengthening the Role of the Private Sector**

In response to the government's planning initiatives and its firm commitment to private enterprise, the private sector has steadily expanded its role in the economy.

 - The private sector, which has benefited from periods of rapid economic growth, has also demonstrated impressive resilience during times of overall economic stagnancy and has continued to expand and diversify throughout the past two decades.

- The real output of the private sector has grown fivefold in volume terms during the past 20 years.
- Private investment has increased sevenfold in real terms.
- Employment in the private sector has increased by 3.9 million.
- The number of registered corporations has risen from less than 1000 in 1390 to over 7000 in 1409.

- **Developing Physical Infrastructure**

The ambitious and persistent effort to create the physical foundations for a modern economy has resulted in the establishment of high quality transportation, communications, and utilities systems. Although further extensions of this infrastructure network are necessary in some rural and remote areas, and also in certain high technology sectors such as telecommunications, the accomplishments to date stand as a major tribute to the process of planned development.

- During the past two decades the paved road network expanded from about 8000 kilometers in length to more than 32,000 kilometers.
- Eighteen new airports, including the two international airports at Jeddah and Riyadh, have been built to accommodate the growing numbers of air passengers entering and leaving the Kingdom, which rose from 1.6 million in 1390 to over 24 million in 1409.
- The number of working telephone lines rose from 29,000 twenty years ago to 1,500,000 at present.
- Installed electricity generating capacity increased from 418 megawatts in 1390 to 14,570 megawatts in 1409.
- Ports have been modernized and more than 163 new berths have been added.
- Desalination plants increased their water output from less than 20,000 cubic meters per day in 1390 to almost 1,500,000 cubic meters per day in 1409.

- **Developing Human Resources**

Achievements in developing human resources have paralleled those in physical infrastructure. The intellectual and productive capabilities of the population have been advanced by the firm commitment to education in all development plans.

- Over the past 20 years, school enrollments increased by 192 percent at the elementary level, 375 percent at the intermediate level, and 712 percent at the secondary level, while vocational training has increased by 1575 percent.
- Female enrollment at the elementary level has approached parity with that of males, and is rapidly increasing at the other levels also.
- The total pupil and student population increased from around 600,000 in 1390 to 2,500,000 in 1409.
- Seven universities and eleven girls colleges have been established, with a current enrollment of more than 120,000 students. The annual number of university graduates has grown from 1,100 in 1390 to 13,000 in 1409.

1.3 THE CHANGING FOCUS OF DEVELOPMENT PLANNING

Planning has played an essential role in guiding the economic and social development of the Kingdom during the past two decades, and is even more important in the Fifth Plan and beyond as conditions and needs become more complex and Saudi Arabia moves into a new phase of development. Planning has four key functions: **first**, to provide a long term conceptual vision to guide development; **second**, to provide the organizational framework for coordinated development efforts by the private sector and the government, which involves both policy guidelines for the private sector, and the creation, when necessary, of government-owned enterprises or joint ventures between the government and the private sector; **third**, to allocate public expenditures to achieve structural change as well as provide government services; and **fourth**, to strengthen the existing management and direction of the economy. Planning in Saudi Arabia therefore, represents a special combination of long term indicative guidance, policy directions and instruments, and the allocation of government expenditures, all of which lead to structural changes in the economy and more effective control over the development process.

The Five Year Plan documents reflect the long term vision and provide the conceptual framework for restructuring the Kingdom's productive resources, expanding its industrial sector, and introducing modern technologies throughout the economy. The preparation of a plan requires the specification of objectives for each dimension of development -- economic, social, and institutional -- and designing the most effective measures to achieve them. The effectiveness of each plan's contribution to development depends partly on the consistency of its multiple objectives, partly on the priorities set for each successive plan period, and partly on the practical design and implementation of its policies and programs. In addition, each development plan involves not only the preparation of the five year plan document for all civilian sectors of the economy, operational plans for government agencies and Emirate plans, but also the continual process of follow-up, evaluation, and revision of the plan in the light of emerging

circumstances. These other dimensions of the planning process are a less visible but vital contribution to the management of national development.

The broad thrust of the plans throughout this period has been similar with respect to the weight and interaction of the economic, social, and institutional dimensions of development. Nevertheless, each plan established its own particular priorities among its targets, and identified key elements or variables which were expected to play a leading role in stimulating development in the desired directions.

The Five Year Plans have aimed to achieve balanced economic, social and regional development. Over the years, the planning emphasis has shifted in response to policy and budget considerations. During parts of the Second, Third and Fourth Plans, an increase in oil revenues made it possible to increase expenditures for infrastructure, as well as for other projects and programs. The rising levels of government expenditure and an expanding private sector generated economic growth, which provided the material conditions for advances in the socio-cultural and non-civilian spheres as well. Institution building occurred, enabling new functions to develop according to the disciplines of Islamic society and the priorities of the Kingdom. During these years the objectives of planning could be largely gained through government-controlled variables, especially development spending.

The future pattern of growth, however, cannot be effectively managed mainly by the size and distribution of government expenditures. The decline in oil revenues in the Fourth Plan period not only slowed down economic growth, but also led to a decline in government expenditure, thereby reducing demand for goods and services more quickly than anticipated. The private sector, which in the earlier years of development was oriented largely toward meeting demand stimulated by a rapidly expanding public sector, has accordingly shifted its focus to a more independent course and activities that are less dependent on government expenditure. As a result, it is the extent and direction of private sector investment activity that will increasingly influence the future shape of the economy. The Fifth Plan, therefore, reinforces and extends the basic objectives of earlier plans, but places even higher priority on the role of the private sector and on the policy and institutional innovations essential to economic diversification.

The successful mobilization of the private sector's financial assets into domestic investment and the achievement of a wider range of private sector activity, also call for shifts in the institutional relations between the government and the private sector. In response to these new circumstances, the emphasis of the planning system itself is moving away from quantifiable targets for public spending and on particular initiatives by government agencies, to more qualitative elements involving, in particular, a series of coordinated policy measures in support of the private sector. The greater significance of policies and incentives appropriate to a more developed free market economy was recognized in the Fourth Plan and has been extended even further in the Fifth Plan.

Although the primacy of the economic dimension will remain, the tasks of planning will focus increasingly on new initiatives for longer term development, thus giving the Fifth Plan its own special profile. Therefore, the Fifth Plan is likely to have greater strategic similarity and closer conceptual links to future plans than to past plans, which belonged to a different phase of Saudi development.

1.4 THE STRATEGIC DIRECTIONS OF FUTURE DEVELOPMENT

The main strategy of the Fifth and future plans will be on measures to accelerate the process of economic diversification to achieve a more developed economy. While oil will be a vital part of the Saudi economy for a long time, the goal is to use petroleum as a resource for diversified industrial growth, rather than as a single export commodity. The rapid growth of the Saudi population also necessitates the establishment of a diversified economy capable of sustaining a high standard of living for a population which will more than double in twenty years from now.

A necessary condition for achieving a fully developed economy is a much broader private sector participation in the economy. The private sector has already begun to pursue a wide range of business opportunities unrelated to the level of government expenditures. This process will accelerate as private sector management, production and marketing capabilities strengthen and the competitive environment improves. The government will induce the private sector to play an increasing role in some areas where the government has thus far taken the lead, such as utilities, transportation, and some government services. Crucial institutional support for private sector-led growth and diversification will be provided by the government, through rapid development of the Kingdom's banking and finance sector and financial markets, as well as a widening range of business services.

A modern physical infrastructure has been the prerequisite for initiating the industrialization process. Similarly, the development of a capability to successfully absorb and efficiently utilize available technologies, and to become innovators of technologies unique to the Saudi environment, is a necessary condition for the next stage of development. The developments over the last two decades have firmly established the Kingdom as a successful user of state-of-the-art technologies. For the next stage of development, capabilities must now be developed that will enable the continual updating of the technology base and its effective use, by creating an environment in which men and machines interact efficiently. The methods and institutions necessary for developing this capability are significantly more complex than those needed for developing the physical infrastructure. The Fifth Plan includes a series of policies and new initiatives which will be built upon in subsequent plans.

Another condition for attaining full development is the broadening and deepening of the Saudi labor force's capabilities. Human resource development efforts will accelerate through

a continuing focus on education and training at all levels of the workforce. Particular emphasis will be placed on improving professional, technical, and managerial skills, to ensure that Saudis can successfully replace non-Saudis in these positions. Greater efforts will also be made to improve the education and training of workers in the full range of skilled occupations that are an integral part of a more sophisticated and diversified developing economy.

Finally, the Kingdom must broaden its linkages with the world economy beyond its participation in the international oil market, especially with the GCC, Arab and Islamic countries. Broader trading relations and greater foreign investment in the economy provide channels for the transfer of technology, information on products and markets, and business management techniques. This process of greater integration with the partner states of the GCC has been stimulated by the progressive implementation of the Unified Economic Agreement since 1403, as the GCC steadily moves towards a full common market. Closer integration with the world economy is already under way, through the rapid growth in non-oil exports, the establishment of joint venture investments by foreign companies in petrochemicals and other sectors, and technology transfer through the Offset programs. This process will accelerate in the Fifth and subsequent plans.

