CHAPTER ONE

NATIONAL ECONOMY DURING THE SEVENTH DEVELOPMENT PLAN
1. NATIONAL ECONOMY DURING THE SEVENTH DEVELOPMENT PLAN

1.1 INTRODUCTION

Under the Seventh Development Plan, the Kingdom of Saudi Arabia achieved good economic growth, as reflected in higher per capita income and greater employment opportunities, in addition to a larger volume of external trade and a higher trade surplus. Such progress resulted not only from increased private sector and government investment, but was also due to various institutional and regulatory measures taken by government to improve economic environment in general, and investment climate in particular. Remarkably, the Kingdom managed to make this progress despite unfavorable economic and political conditions globally and regionally.

Assessing development indicators during the Seventh Development Plan against the Plan's objectives provides clear evidence of continued economic and social progress. Indeed, the period witnessed accelerated economic progress, coupled with improvements in all other dimensions of development. The following analytical review will help determine the future direction of the economy and identify likely obstacles to further progress; thus facilitating formulation of appropriate policies and estimation of the effort required to achieve the objectives of the Eighth Development Plan.

The general objectives and strategic bases of the Seventh Development Plan gave priority to the following:

A. Human resources development and provision of job opportunities by providing education, training, and social and health services, with the aim of strengthening the capabilities and raise the productivity of the national workforce. In addition, the Plan emphasized development of knowledge and technical skills in order to enhance the ability of Saudi manpower to harness the benefits of rapid technological developments.

B. Implementation of the privatization policy in its various forms, to ensure wider participation of citizens in ownership of productive assets, encourage domestic investment by national and foreign capital, upgrade efficiency and enhance competitiveness of the national
economy, and increase job opportunities for the national workforce.

C. Raising productivity and organizational efficiency of government agencies and improving public services through development of administrative and financial regulations, and restructuring of government agencies.

D. Adjustment to global economic developments, through paying greater attention to the likely impact of such developments on socio-economic development in the Kingdom, as well as implementation of policies and measures designed to improve the national economic response, and flexibility of adjustment to these developments.

E. Consolidation of technological advancement in the Kingdom by building a national science and technology base capable of innovation and creativity, based on a strong foundation of partnership between the public and private sectors.

F. Boosting efficiency in order to ensure proper allocation and utilization of available resources.

The Seventh Development Plan achievements are reflected in the improved economic indicators of GDP, capital accumulation, foreign trade, balance of payments, human resources development, economic efficiency, private sector contribution, financial and monetary performance. In addition, there has been progress on the institutional and regulatory fronts, expansion of decentralization of administration, and adjustment to global developments.

1.2 ECONOMIC DEVELOPMENT INDICATORS

1.2.1 Growth Rates

Economic development during the Seventh Development Plan was marked by three distinctive features that reflect the objectives of the national economic strategy. First, output increased as a result of improved productivity and expansion of production capacities. Secondly, structure of the economy continued to change through increased diversification of economic activities and national income sources. Thirdly, higher private sector contribution to economic activity.

Data in Table 1.1 on macroeconomic and sectoral economic growth testify
to the good performance of the national economy. These trends can be summed up as follows:

- Gross Domestic Product grew in value from about SR 603.6 billion in 1999 to about SR 714.9 billion in 2004, with the real growth rate averaging 3.4% per annum during the period. This is slightly higher than the average annual growth rate of 3.16% targeted by the Plan, and much higher than the growth rate of 1.11% per annum achieved by the Sixth Plan. Significantly, there is considerable potential for increasing domestic product in both the public and the private sectors by means of improved productivity, through increased utilization of modern technologies, improved management and organization techniques, and more efficient use of resources.

- Despite the high growth rate of the oil sector during the period, the share of the non-oil sectors increased. Total value added of all economic sectors excluding that of crude oil rose in constant 1999 prices from about SR 433.2 billion in 1999 to about SR 525.3 billion in 2004. The share of non-oil sectors in the GDP went up from 71.7% in 1999 to 73.5% in 2004, with a real growth rate averaging about 3.9% per annum, as compared to the Plan’s target growth rate of 4.1%. The favorable performance of the non-oil sectors is attributable to the rapid growth of the non-governmental services sectors, which experienced a real annual growth rate averaging 4.6%. Significantly, these sectors have a high capacity for absorbing manpower and providing greater employment opportunities.

- During the Seventh Development Plan, the non-oil sectors achieved a real growth rate averaging 3.9%. However, the performance of the various non-oil sectors varied. For example, as a result of financial and management restructuring of the Transport and Communications sector, coupled with privatization and improved productivity, a high growth rate averaging 5.6% per annum was achieved, compared to the Plan’s target of 3.8%.

- The Community and Personal Services sector grew in real terms by an average annual rate of 5.0%, exceeding the Plan's target of 4.2%. Significantly, productivity improvements were achieved with substitution of non-Saudis by Saudi manpower, due to the higher skills and qualification levels and stronger career orientation of Saudi nationals.

Table 1.1
GDP by Activity
## Seventh Development Plan
### Constant 1999 Prices

<table>
<thead>
<tr>
<th>Activity</th>
<th>SR Million</th>
<th>Average annual growth rate (%)</th>
<th>Share in GDP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1999</td>
<td>2004</td>
<td>1999</td>
</tr>
<tr>
<td><strong>A. Non Oil Sectors</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Productive Sectors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1 Agriculture, Forestry and Fishing</td>
<td>34,443</td>
<td>38,005</td>
<td>2.0</td>
</tr>
<tr>
<td>1.2 Non-Oil Mining and Quarrying</td>
<td>2,464</td>
<td>2,723</td>
<td>2.0</td>
</tr>
<tr>
<td>1.3 Manufacturing Industries</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.3.1 Oil Refining</td>
<td>18,021</td>
<td>20,508</td>
<td>2.6</td>
</tr>
<tr>
<td>1.3.2 Petrochemicals</td>
<td>6,000</td>
<td>7,352</td>
<td>4.1</td>
</tr>
<tr>
<td>1.3.3 Other Manufacturing</td>
<td>38,779</td>
<td>51,616</td>
<td>5.9</td>
</tr>
<tr>
<td>1.3.4 Electricity, Gas and Water</td>
<td>8,174</td>
<td>11,085</td>
<td>6.3</td>
</tr>
<tr>
<td>1.3.5 Construction</td>
<td>39,437</td>
<td>46,961</td>
<td>3.6</td>
</tr>
<tr>
<td>2. Non-Governmental Services Sectors</td>
<td>169086</td>
<td>211,953</td>
<td>4.6</td>
</tr>
<tr>
<td>2.1 Trade, Restaurants and Hotels</td>
<td>45,992</td>
<td>57,299</td>
<td>4.5</td>
</tr>
<tr>
<td>2.2 Transport and Communications</td>
<td>27,893</td>
<td>36,674</td>
<td>5.6</td>
</tr>
<tr>
<td>2.3 Finance, Insurance Real Estate and Business Services</td>
<td>73,824</td>
<td>90,721</td>
<td>4.2</td>
</tr>
<tr>
<td>2.3.1 Real estate</td>
<td>42,221</td>
<td>48,822</td>
<td>2.9</td>
</tr>
<tr>
<td>2.3.2 Finance, insurance and business services</td>
<td>31,603</td>
<td>41,902</td>
<td>5.8</td>
</tr>
<tr>
<td>2.4 Community and Personal Services</td>
<td>21,377</td>
<td>27,256</td>
<td>5.0</td>
</tr>
<tr>
<td><strong>3. Government Services</strong></td>
<td>116,789</td>
<td>135,064</td>
<td>3.0</td>
</tr>
<tr>
<td><strong>B. Crude Oil and Natural Gas Sector</strong></td>
<td>173,102</td>
<td>196,696</td>
<td>2.6</td>
</tr>
<tr>
<td>- Other Items *</td>
<td>-2,706</td>
<td>-7,063</td>
<td>21.2</td>
</tr>
<tr>
<td>- Gross Domestic Product</td>
<td>603,589</td>
<td>714,900</td>
<td>3.4</td>
</tr>
</tbody>
</table>

* Import duties less imputed bank service charges.
** Figures rounded to one decimal.

Source: Ministry of Economy and Planning, economic models.

- The Electricity, Gas and Water sector posted a real annual growth
rate averaging 6.3% which exceeded the Plan’s target rate of 4.6%.

- The Other Manufacturing sector posted a real annual growth rate averaging 5.9%, which fell short of the Plan's target of 7.2%. Notably, the sector will continue to play a significant role in increasing production due to its linkages with other sectors, in addition to continuing to make a major contribution towards achieving the goals of the economic diversification strategy, through both increased production and increased exports.

- Value added in by Agriculture, Forestry and Fishing went up from about S.R. 34.4 billion in 1999 to about S.R. 38 billion in 2004. Although the sector grew at an annual growth rate of about 2%, its share in GDP declined during the period from 5.7% to 5.3%.

- Value added in the Construction sector increased during the period by an average annual real growth rate of 3.6%, compared to the Plan’s target of 6.17%.

- Value added in the crude Oil and Gas sector increased from SR 173.1 billion in 1999 to SR 196.7 billion in 2004, posting a real annual growth rate of 2.6%. The sector's value added in 2004 is likely to be considerably higher, compared to earlier estimates, due to global economic recovery, with the resulting increased demand for oil at higher prices. This will boost government revenues, strengthen the standing of the Kingdom regionally and internationally, and help maintain domestic economic stability.

- Private sector contribution to real GDP rose from SR 316.4 billion in 1999 to about SR 390.2 billion in 2004, with an average annual growth rate of 4.3%. The share of the sector in GDP thus increased from 52.4% to about 54.6%; a positive development that serves to strengthen the Kingdom's strategic economic prospects (see Figure 1.1).
1.2.2 Gross Fixed Capital Formation

Gross fixed investment grew over the period at an average annual rate of 4.4%, with total investment increasing, in 1999 constant prices, from SR 118.2 billion in 1999 to about SR 146.6 billion in 2004; i.e., from about 19.6% to about 20.5% of GDP. Distribution of investments during the period between the non-oil sectors and the oil sector was on the average 89.6% to 10.4% respectively.

Investment in the oil sector grew during the period at an average annual rate of 16.91%, which is higher than growth rate of the GDP of 3.4%. As a result, investment in this sector, as a share of GDP, increased from 1.1% in 1999 to 2.1% in 2004 (Figure 1.2) and as a share of the domestic product of the oil sector from 4% in 1999 to 7.7% in 2004.

The annual growth rate of investments in non-oil sectors averaged about 3.4% during the period, rising from SR 111.2 billion in 1999 to SR 131.5 billion in 2004. With the growth rate of 3.4% of these sectors being equal to that of the GDP, the share of non-oil investments in GDP remained at about 18.4% during the period. About 84% of the investments were made by the private sector, while the public sector's share accounted for 16%.

On average, private sector investment during the period grew at an annual rate of 2.3%, against an average annual growth rate of 10.3% for
government investment. As a share of GDP, private sector investment accounted for 15.4% in 2004 compared to about 16.3% in 1999. However, the share of government investment in GDP rose from 2.1% in 1999 to about 3.0% in 2004 (Figure 1.2).

**Figure 1.2**

Gross Fixed Capital Formation As a share of GDP
Seventh Development Plan

![Gross Fixed Capital Formation Graph](chart.png)

Nevertheless, investment indicators show that the actual growth rate of gross investment in general (4.4%) and private investment in particular (2.3%) fell short of the Plan’s target levels of 6.85% and 8.34% respectively, even though promotion of domestic and foreign investment had been a key theme of government economic policy. In fact, the government had taken several measures intended to create a climate conducive to the promotion and attraction of private investment, including offering incentives and streamlining investment procedures. Other measures addressed obstacles that could constrain private sector investment, such as the limited absorptive capacity of some industrial cities and zones, the need for more long-term finance, particularly for small and medium size enterprises, and the impediments to accessing international markets. Intensive efforts will continue to be made to address these challenges during the Eighth Development Plan.
1.2.3 Foreign Trade and the Balance of Payments

Foreign trade and the balance of payments trends were positive during the Seventh Development Plan period. The share of the total value of imports and exports of goods and services in GDP increased from 58.3% in 1999 to 69.4% in 2003 thereby an increased degree of openness and integration of the Saudi economy into the global economy.

There were favorable developments also in the structure of imports / exports. Growing at an average annual rate of 5.7%, compared to 5.3% for total exports, the share of non-oil exports increased from 11.4% of total exports in 1999 to 14.4% in 2003. In addition, the relative share of imports of consumer goods declined from about 47% in 1999 to about 43% in 2003, reflecting increased reliance on local products, which is indeed a clear indication of the improved competitiveness of domestic products in the face of stiff competition from foreign imports and the “dumping” practices resorted to by some exporters. Moreover, the share of Machinery, Equipment and Intermediate Inputs rose from about 53% in 1999 to about 57% in 2003; a positive development in the import structure that should translate into further development and productivity gains.

These favorable developments in both exports and imports led to a tangible improvement during the period in the balance of trade surplus, which increased at an annual rate of 30.18% and had an average annual value of SR 158.4 billion. This, in turn, contributed to an improved current account position which continued to post a surplus to the tune of SR 67 billion per annum on average, despite continued pressure resulting from the deficit that persisted throughout the duration of the Plan in the balance of (mainly private) Services and Remittances and the Kingdom's growing payments for international freight and insurance services.

1.2.4 Human Resources Development and Employment

Issuing from considering people to be the at one and the same time the means for development and the beneficiaries of development, the Seventh Development Plan placed development of human resources high in the order of priorities. Thus, 57.1% of total expenditure earmarked for development agencies was allocated to human resources development and the Plan envisaged employing all Saudi new entrants to the labor market during the period.
A key target of the Plan was to increase share of Saudi nationals in total manpower from about 44.2% to about 53.2%. However, this target could not be fully achieved. Over the period, the total workforce grew by about 1.05 million, from 7.23 to 8.28 million, while Saudi (nationals) manpower increased from 2.71 to 3.54 million (Table 1.2). In other words, 824,200 job opportunities were created for Saudi citizens during the period; a significant achievement that came close to the Plan target. It is worth mentioning, in addition, that the policy of Saudization of jobs and replacement of non-Saudis with Saudi manpower, where qualifications are equal, made major inroads in a number of important sectors. In the Crude Oil and Natural Gas sector, Saudi manpower accounted for about 82.2% of total workforce in 2003, while the share of Saudi manpower in the Government Services sector amounted to about 85.2% and in the non-government services sectors to about 44.2%. In the productive sectors, however, the share of Saudi manpower stands at the considerably lower level of 15.6%.

### Table 1.2

**Civilian Manpower**

**Seventh Development Plan**

<table>
<thead>
<tr>
<th>Sectors</th>
<th>1999 (000)</th>
<th>2004 (000)</th>
<th>Change (000)</th>
<th>Average annual growth rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Productive Sectors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Agriculture</td>
<td>567.1</td>
<td>596.7</td>
<td>29.6</td>
<td>1.02</td>
</tr>
<tr>
<td>- Manufacturing Industries</td>
<td>638.5</td>
<td>650.6</td>
<td>12.1</td>
<td>0.38</td>
</tr>
<tr>
<td>- Other Productive Sectors</td>
<td>1236.5</td>
<td>1680.3</td>
<td>443.8</td>
<td>6.3</td>
</tr>
<tr>
<td>2. Service Sectors</td>
<td>4704.4</td>
<td>5253.7</td>
<td>549.3</td>
<td>2.23</td>
</tr>
<tr>
<td>- Non-Government Services</td>
<td>3703.2</td>
<td>4148.3</td>
<td>445.1</td>
<td>2.29</td>
</tr>
<tr>
<td>- Government Services</td>
<td>1001.2</td>
<td>1105.4</td>
<td>104.2</td>
<td>1.99</td>
</tr>
<tr>
<td>Total Non-Oil Sectors</td>
<td>7146.5</td>
<td>8181.3</td>
<td>1034.8</td>
<td>2.74</td>
</tr>
<tr>
<td>3. Crude Oil and Gas</td>
<td>83.8</td>
<td>100.5</td>
<td>16.7</td>
<td>3.7</td>
</tr>
<tr>
<td>Total sectors (1+2+3)</td>
<td>7230.3</td>
<td>8281.8</td>
<td>1051.5</td>
<td>2.75</td>
</tr>
<tr>
<td>- Saudi manpower</td>
<td>2712.03</td>
<td>3536.3</td>
<td>824.27</td>
<td>5.45</td>
</tr>
<tr>
<td>As a share of total manpower (%)</td>
<td>37.51</td>
<td>42.7</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>- Non-Saudi manpower</td>
<td>4518.27</td>
<td>4745.5</td>
<td>227.23</td>
<td>0.99</td>
</tr>
<tr>
<td>As a share of total manpower (%)</td>
<td>62.49</td>
<td>57.3</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

*Source: Ministry of Economy and Planning.*

The share of non-Saudi civilian manpower fell from 62.5% to 57.3%, indicating modest success in reducing reliance on imported foreign labor.

At the sectoral level, the service sectors (non-governmental and governmental) accounted for about 52.2% of the overall increase in total
manpower, with an average annual increase of 2.23%. These sectors continue to employ the largest share of total manpower, to the tune of about 63.4% in 2004. Manpower increased in the productive sectors (other than Crude Oil and Natural Gas) from about 2.44 to 2.93 million, with an average annual growth rate of about 3.69%.

The unemployment rate was estimated in 2002 to be 9.7%, with unemployment among females being at 21.7%, compared to about 7.6% among males. Analysis of unemployment indicators shows that unemployment is relatively higher among youth and fresh graduates in the age group 15–24, and is considerably lower among people over 24 years old.

### 1.2.5 Public Finance

Government revenues fluctuated over the period, reflecting to a great extent volatility of oil revenues. However, their annual average during the period was 61.8% higher than the 1999 level; SR 238.6 billion compared to SR 147.5 billion in 1999. Over the period, government expenditure was more stable than revenues, but with an upward trend; reaching an average of SR 240.8 billion, which amounts to an increase of about 31% over the 1999 level of SR 183.8 billion.

The average annual growth rate of oil revenues was 17.5%. In contrast, non-oil revenues, while experiencing a rising trend, were more stable, with an average annual growth rate of about 3.3%, reflecting increased efficiency of the measures taken to achieve the Plan's objectives of diversification and structural development of government revenue sources. Taxation reform efforts, including improved efficiency of collection of direct and indirect taxes, along with rationalization of the price structure of government goods and services, would continue.

As can be seen from Table 1.3, total expenditure on the development sectors during the Seventh Development Plan period amounted to SR 485.3 billion; an increase of about 15.4% compared to the period of the Sixth Development Plan. Distribution of expenditure during the period of the Seventh Development Plan was in harmony with the Plan's key developmental objectives, with priority given to Human Resources development, which received 57.1% of overall expenditure allocations to development sectors. Similarly, Social and Health Services received about 19.1%; again in conformity with the Plan's objectives, which called for
accelerated provision of primary health care, including preventive and curative services, and improved access to health facilities. Economic Resources received about 11.2%, while Infrastructure Development received about 12.6%.

Generally, expenditure allocations among development sectors, by budget chapters, were in favor of operating expenditure, which averaged about 83.8%. Allocations for investment (Chapter IV) accounted for 16.2% of total development expenditure.

Table 1.3
Government Expenditure in the Sixth and Seventh Development Plans (By Development Sector)

<table>
<thead>
<tr>
<th>Development Sectors</th>
<th>6th Plan Budget Allocations</th>
<th>7th Plan Budget Allocations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SR Billion</td>
<td>%</td>
</tr>
<tr>
<td>Human Resources Development</td>
<td>216.6</td>
<td>51.5</td>
</tr>
<tr>
<td>Social and Health Development</td>
<td>87.5</td>
<td>20.8</td>
</tr>
<tr>
<td>Economic Resources Development</td>
<td>48.2</td>
<td>11.5</td>
</tr>
<tr>
<td>Infrastructure Development</td>
<td>68.1</td>
<td>16.2</td>
</tr>
<tr>
<td>Total</td>
<td>420.4</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Ministry of Economy and Planning.

It is worth recalling that the Seventh Development Plan underlined the importance of increasing investment rates, in order to achieve orderly and rapid economic growth that, in turn, makes it possible to sustain development achievements. The Plan also underscored the need for rationalizing non-investment-oriented government expenditure.

Table 1.4 compares financial requirements as per the Seventh Development Plan with budget allocations for the various development sectors. Strikingly, there is close conformity, not only with regard to total amounts earmarked (with budget allocations covering 99.4% of the financial requirements as per the Plan) but also with respect to the sectoral distribution of the amounts involved (Figure 1.3); a conformity that is attributable to three major reasons:
### Table 1.4
Financial Allocations
Seventh Development Plan

<table>
<thead>
<tr>
<th>Development Sector</th>
<th>Plan Estimates (SR Billion)</th>
<th>Budget Allocations (SR Billion)</th>
<th>Budget Allocations/Plan (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resources Development</td>
<td>276.9</td>
<td>276.9</td>
<td>100</td>
</tr>
<tr>
<td>Social and Health Services</td>
<td>95.8</td>
<td>92.6</td>
<td>96.7</td>
</tr>
<tr>
<td>Economic Resources</td>
<td>54.0*</td>
<td>54.4</td>
<td>100.7</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>61.5*</td>
<td>61.4</td>
<td>99.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>488.2</strong></td>
<td><strong>485.3</strong></td>
<td><strong>99.4</strong></td>
</tr>
</tbody>
</table>

* Figures have been adjusted to account for administrative restructuring of some government agencies.

*Source: Ministry of Economy and Planning*

### Figure 1.3
Financial Requirements vs. Budget Allocations
Seventh Development Plan

- Close coordination and full cooperation during Plan preparation and implementation among experts both at the Ministry of Finance and the Ministry of Economy and Planning.
- Efforts made by the Plan preparation teams, composed of personnel
from the Ministry of Economy and Planning and other government agencies, to establish accurate priorities and ensure that a balance is maintained between development needs and available financial resources.

- The more scientific approach adopted in preparing the Plan's estimates.

1.2.6 Financial Sector

Banking Services

During the period, performance of the financial services sector was positive. As can be seen from Table 1.5, performance of commercial banks continued to improve, through increased general activities and a stronger financial position, with total bank assets growing by 31.3%, customer deposits by 44.8%, and bank profits by 91.3%.

The banking sector achieved performance levels that conformed to international standards. The capital adequacy ratio of commercial banks (which is the ratio of the banks' capital to their total risk-weighted assets) was steady at an outstanding average of 21%; i.e., at a level that is two and a half times higher than the Basle Committee's requirement for prudent banking reserves at 8%. This testifies to the success of the monetary policy of the Seventh Development Plan, which calls for continued efforts to enhance the efficiency and supervision of the banking system, in order to ensure its soundness and maintain its resources. Over the Plan period, commercial banks achieved remarkable expansion in the operation and use of modern banking technology, including phone and internet-based banking services; thus becoming capable of serving the national economy, as well as their customers, through a package of modern high-tech banking services competitive with those offered in advanced countries.

Key indicators of the positive performance achieved during the period in bank credit include:

- Total bank credits grew at an average annual rate of 10.4% during the first four years of the Plan.

- A steady and tangible increase was achieved in the value of long-term bank loans during the first four years of the Plan, at an average annual growth rate of 29.6%. As a result, the share of long-term
credit in total loans doubled from 13.5% in 1999 to 25.6% in 2003.

Bank claims on the private sector, including loans, advances, bills discounted and investments in securities, grew during the first four years of the Plan at an average of 8.9% per annum (Table 1.5 and Figure 1.4).

Table 1.5
Bank Credit Classified by Maturity and Bank Claims on the Private Sector 1999--2003

<table>
<thead>
<tr>
<th>Years</th>
<th>Short-term</th>
<th>Medium-term</th>
<th>Long-term</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>116622</td>
<td>27281</td>
<td>22420</td>
<td>166323</td>
</tr>
<tr>
<td>2000</td>
<td>114858</td>
<td>32049</td>
<td>26626</td>
<td>173533</td>
</tr>
<tr>
<td>2001</td>
<td>113453</td>
<td>31951</td>
<td>42216</td>
<td>187650</td>
</tr>
<tr>
<td>2002</td>
<td>124578</td>
<td>31646</td>
<td>54433</td>
<td>210657</td>
</tr>
<tr>
<td>2003</td>
<td>146040</td>
<td>37758</td>
<td>63170</td>
<td>246967</td>
</tr>
</tbody>
</table>

Short-term: One year or less
Medium-term: 1–3 years
Long-term: Over 3 years.


Figure 1.4
Classification of Bank Credits
These indicators demonstrate that a good deal of progress was made in meeting the objectives of the monetary policies of the Seventh Plan with respect to removal of constraints impeding the flow of bank credit to the private sector, and development of the rules and regulations governing bank lending, while maintaining a safe and sound banking system. They, furthermore, testify to the tangible progress made towards developing new savings and investment channels to attract capital currently invested abroad. Total value of the assets of the mutual funds increased steadily during the first four years of the period. Of particular significance in this regard is the steady increase in the value of domestic assets of these funds, which grew by 133% during the period.

**Stock Market**

In view of the significant role it plays in financing economic development and implementing the privatization program, the stock market receives considerable government attention. It underwent an important organizational development with the enactment in 2003 of the Capital Market Law, which establishes its regulatory and institutional framework, restructures it in line with international best practice and enhances the efficiency of its operation and trading processes.

**Box 1.1:**

**Key features of the Capital Market Law of 2003:**

- Establishment of the Securities and Exchange Commission (SEC), which directly reports to the Prime Minister. SEC shall be a legal person having financial and administrative autonomy, and vested with the capacity necessary to discharge the responsibilities and functions set forth in the Law.
- Establishment of the Saudi Securities and Exchange Market, having the legal status of a joint-stock company for the trading of securities in the Kingdom.
- Establishment of the Securities Deposit Center, which will be the only entity in the Kingdom authorized to conduct operations related to deposit, transfer, settlement, clearing and registering of Saudi securities traded on the Exchange.
- Establishment of a Securities Disputes Settlement Committee and an Appeals Panel.
- Indictment of unsound practices based on fraud or insider trading, along with imposition of penalties on parties that practice, or assist in any, such violations.
Table 1.6
Saudi Stock Market Indicators

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Shares Traded (Million shares)</th>
<th>Value of Shares Traded (SR Billion)</th>
<th>Market Value of Shares Issued (SR Billion)</th>
<th>General Share Price Index (1985=1000)</th>
<th>Share Turnover Ratio* (%)</th>
<th>Market Depth Level ** (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>528</td>
<td>56.6</td>
<td>229.0</td>
<td>2028.5</td>
<td>24.7</td>
<td>36.7</td>
</tr>
<tr>
<td>2000</td>
<td>555</td>
<td>65.3</td>
<td>255.0</td>
<td>2258.3</td>
<td>25.6</td>
<td>36.1</td>
</tr>
<tr>
<td>2001</td>
<td>691</td>
<td>83.6</td>
<td>275.0</td>
<td>2430.1</td>
<td>30.4</td>
<td>40.1</td>
</tr>
<tr>
<td>2002</td>
<td>1736</td>
<td>133.8</td>
<td>280.7</td>
<td>2518.1</td>
<td>47.6</td>
<td>39.8</td>
</tr>
<tr>
<td>2003</td>
<td>5566</td>
<td>596.5</td>
<td>589.9</td>
<td>4437.6</td>
<td>101.1</td>
<td>73.4</td>
</tr>
</tbody>
</table>

* A market efficiency indicator that refers to the value of shares traded as a percentage of the total market value of shares issued.

** An indicator of the share market contribution to the funding of economic activity. It refers to the market value of shares issued as a percentage of GDP at current prices.


The Saudi stock market performed well during the first four years of the Seventh Plan, as can be seen from the indicators listed in Table 1.6. In 2003 it ranked first among the Arab stock markets listed in the Arab Monetary Fund (AMF) database, in terms of the value and number of traded shares, as well as in terms of the market value of shares issued. According to the AMF, the Saudi stock market value amounted to SR 589.9 billion (US$ 157.3 billion), compared to an average of about SR 120.8 billion (US$ 32.2 billion) for all the Arab countries listed in the database, and the market value of Saudi shares accounted for about 43.5% of the total market value of all Arab stock market shares.

Another indicator of Saudi stock market efficiency, compared to the other Arab stock markets listed in the AMF database, is the share turnover ratio, which in 2003 averaged 101.1% for the Saudi stock market, compared to an average of 32.1% for other Arab countries.

Furthermore, the Saudi stock market took a leading position among Arab stock markets listed in the AMF database in terms of the market depth indicator, which refers to the ratio of the market value of shares issued to the country's GDP. In 2003, this indicator reached about 73.4% for the Saudi stock market, compared to an average of 62.6% for Arab stock markets.
By many estimates, the Saudi stock market is well poised to becoming the largest and most active market in the Middle East, particularly in view of the forthcoming implementation of the Kingdom's privatization strategy, and completion of the market's infrastructure.

However, despite its good performance, the Saudi stock market needs further development of its institutional infrastructure and the instruments being traded, such as the need for financial intermediation firms specializing in primary and secondary markets activities, as well as investment banks. In addition, firms specialized in issuance, coverage, and underwriting of share issues, and market maker firms are still being formed. Moreover, the following are notable features of the investment instruments being traded:

- Trading is concentrated in ordinary shares, as the market lacks securities issued by private companies.
- The volume of shares issued is limited.
- Trading in issued shares is poor, since these are often held by individuals and agencies who, for various reasons, do not offer them for trading. Notable in this regard is that in 2004, the stake of the government in listed companies amounted to 44%, with a market value of SR 263 billion.

**Specialized Lending Institutions**

Specialized lending institutions (SLIs), which grant soft loans to citizens as well as public and private sector institutions, have since their establishment helped to accelerate development in industry, agriculture, housing, and services. They have also supported the private sector and boosted its contribution to the diversification of the economic base and to overall socio-economic development.

SLIs continued to play an important development role during the Seventh Plan period. Total loans provided to the private sector and public institutions amounted to about SR 28.15 billion in the period 2000–2003; an increase of 31.1% over the total loans amounting to SR 21.47 billion that were made by SLIs in the first four years of the Sixth Development Plan.
Domestic Liquidity

Money supply (M3) growth rates were relatively stable during the first two years of the Seventh Development Plan; 4.48% and 4.99% respectively. The third year of the plan, however, experienced a marked increase of 15.22%, which is attributable to two main reasons. First, credit facilities extended by commercial banks to private sector companies increased by 10%, compared to an increase of 8.6% in 2001 while loans to public sector institutions rose by 10.6%, compared to a decline of 13% in 2001. The second reason was the lack of stability in world financial markets, which prompted some Saudi citizens to repatriate part of their financial assets, with increasing preference for domestic investment. In the fourth year, 2003, M3 grew by about 8.19%. Taken together, these indicators show that local liquidity during the period grew at rates commensurate with the actual requirements of economic activity.

Price Stability

A salient feature of price developments during the Seventh Development Plan period was the continued decline of the consumer price index during the first four years, 2000–2003, by -2.25%, -0.56%, -0.23%, and -2.01% in each of these years respectively. As a result, the consumer price index dropped from 100 in 1999 to 95 in 2003. This trend was in harmony with the thirteenth strategic basis of the Seventh Development Plan, which calls for “continued adoption of policies aimed at keeping inflation at the lowest possible rate,” in order to maintain decent standards of living and enhance stability of purchasing power of money.

1.2.7 The Private Sector

The private sector assumed a pivotal role in boosting output, investment and employment; a role underscored by performance of the sector during the period of the Seventh Development Plan. Over the past five years, the government adopted several policies, decisions and measures aimed at strengthening the role of the private sector role in the economy. Key among these have been the policies and decisions related to privatization, support for SMEs, promotion of non-oil exports, improvement of the regulatory and investment environment, and encouragement of transfer of modern technologies and advanced technical know-how, along with improvement of the competitiveness of domestic products in local and
foreign markets. Together, these initiatives have resulted in improving private sector activity as measured by the sector's contribution to increased production during the period. Still, overall investment activity of the private sector remains below expectations.

While development of production and organization techniques, as well as increased use of modern technologies, have been key factors in increasing both productivity and output by private companies and establishments, attaining higher rates of economic growth requires continued expansion of production capacities. Expansion of private sector investments, therefore, continues to be of crucial importance for the development process, given that the Kingdom possesses good financial and physical infrastructures, as well as a large market and sound development institutions and management structures.
CHAPTER TWO

MAIN DIRECTIONS OF THE EIGHTH DEVELOPMENT PLAN
2. **MAIN DIRECTIONS OF THE EIGHTH DEVELOPMENT PLAN**

2.1 **INTRODUCTION**

The Eighth Plan marks a new phase in a development process that has spanned more than three decades. It is also the first landmark on a strategic course to be traversed by the national economy over the next twenty years in four consecutive five-year plans.

As such, the Plan constitutes a new methodological departure. In previous plans, long-term general objectives, which defined the strategic development goals, served as the starting point for setting priorities and determining foci for each plan. Moreover, the Eighth Development Plan defines more precise targets; quantitatively, wherever possible, and clearly spells out implementation schedules and ensuing responsibilities of implementation agencies, with the aim of effecting tighter coupling among issues, policies and objectives.

This chapter briefly highlights the main directions of the Eighth Development Plan, and the resulting challenges, as well as its objectives and strategic principles.

2.2 **FUTURE CHALLENGES**

Since the launch of the Kingdom's development process, fundamental structural changes undergone by the national economy have improved living standards and quality of life. As a link in the chain of long-term planning, the Eighth Development Plan endeavors to identify and address challenges and constraints, seeking to attain objectives of the Kingdom’s future vision: “a diversified and prosperous economy that ensures supply of rewarding job opportunities and economic welfare to all citizens, provides good quality education and healthcare to the population, and helps manpower acquire the necessary skills; while maintaining the Kingdom's Islamic values and cultural heritage.”

Thus, the Eighth Development Plan provides an overall framework for development up to 2009, addressing current *domestic* challenges, which include:
Continued population growth at relatively high rates, which increases demand for basic services in education, health, transportation, communications, municipalities, public utilities and housing.

Continuing to improve quality of life and standards of living throughout the country.

Increasing number of new entrants to the labor market searching for appropriate job opportunities, against relatively high unemployment (estimated to have been 7.0% in 2004), particularly among youth.

Overuse of critical economic resources; particularly water, where opportunities for developing surface and renewable ground water resources are limited and costs of water production (by desalination of seawater and treatment of waste water), are high.

Some economic sectors and activities are not keeping pace with rapid global technological developments, which jeopardizes their competitiveness, locally and internationally; particularly subsequent to the forthcoming Saudi membership of the WTO.

Intensified importance of accelerating the rate of provision of quality training to the national workforce to equip it with the knowledge and skills necessary to keep abreast of international scientific and technological developments; enabling it, thus, to contribute effectively to consolidating the competitiveness of the national economy.

Internationally, structural developments in the global economy pose difficult challenges that require intensive efforts on various fronts. The most important such challenges are:

- Continued globalization and integration of the world economy and the growing volume of trade among countries due to liberalization of the world trade system.
- Continued formation of international and regional economic blocks and free trade zones with consequent effects on the foreign trade activities of the Kingdom.
- Increased importance of science and technology as an essential, decisive tool for achieving economic benefits under mounting competition locally and internationally.
- Diminished importance of raw materials in constituting competitive advantage of products and enhanced importance of knowledge and technology.
• Instability of global financial markets, rates of foreign exchange, and raw material markets with the concomitant fluctuations in prices and revenues.
• Increased importance of trade in services internationally, with communications and information technology contributing to strong growth in across-borders services leading to emergence of a highly competitive global services market.
• Increased international competition for attracting capital and foreign investments.

The Eighth Development Plan takes into consideration national and regional policies and strategies, as well as relevant decisions and directions. (Box 2.1). It is expected to coincide with completion and approval of further national and sectoral strategies; including: the Long-Term Strategy for the National Economy until 2024, the National Strategy for Post-Secondary-School Education, the National Strategy for Promotion of Exports, the National Housing Strategy, and the National Strategy for Poverty Reduction.

**Box 2.1: National and Regional Strategies and Policies and Relevant Decisions and Directions**

- The Manpower Strategy; Council of Ministers Decision 108/2 of 10/2/1416 (1996)
- All decisions, Royal Decrees, instructions and minutes of meetings of pertinent committees; in particular, Royal Decree 14970 of 27/2/1424 (2003) regarding the inaugural address of the Custodian of the Two Holy Mosques marking the second year of the Third Session of the Shura Council, in which he instructed all government agencies to prepare an integrated program for reform; and Royal Decree 7/B/48468 of 12/10/1424 (2003), which approved the Strategy for Improving General Living Condition of All Citizens in all regions.
- Resolutions of the Shura Council on reporting and follow up of implementation of development plans.
- The Unified GCC Industrial Development Strategy, approved by the Sixth Session of the Supreme Council held in Muscat, Oman 19–22 Safar 1406 (1985), and the Draft General Framework of Saudi Industrial Strategy.
- The National Science and Technology Policy, approved by the Council of Ministers Decision 112 of 27/4/1423 (2002).
2.3 **GENERAL OBJECTIVES AND STRATEGIC BASES**

The Eighth Development Plan is based on an integrated set of general objectives and strategic bases approved by the Council of Ministers decision 175 of 27/6/1424 (2003).

**2.3.1 General Objectives**

- To safeguard Islamic teachings and values, enhance national unity, uphold security and social stability and deepen the Arab and Islamic identity of the Kingdom.
- To continue improving the services provided to Hajj and Umrah performers so as to facilitate performance of religious rites.
- To raise the standard of living, improve the quality of life and provide job opportunities to citizens, by accelerating the development process, increasing the rates of economic growth, and ensuring enhancement of the quantity and quality of education, health and social services.
- To develop human resources, upgrade their efficiency and increase the supply of manpower to meet the requirements of the national economy.
- To diversify the economic base with due emphasis on promising areas such as manufacturing industries, particularly industries that make intensive use of energy, and its derivatives, as well as mining, tourism and information technology industries.
- To improve productivity of the national economy, enhance its competitiveness and prepare it to adjust in a more flexible and efficient manner to economic changes and developments at the national, regional and international levels.
- To enhance private sector's participation in economic and social development.
- To achieve balanced throughout all regions of the Kingdom and reduce the development gap between them.
- To develop the science and technology system, pay attention to informatics, support and encourage scientific research and technology development, with a view to enhancing the efficiency of
the Saudi economy, and keeping abreast of the knowledge economy.

- To conserve and develop water resources and ensure their rational utilization.
- To protect the environment and develop suitable systems in the context of sustainable development.
- To continue to strengthen and promote the Kingdom's relations with Arab, Islamic and friendly countries.

### 2.3.2 Strategic Bases

- Increase the share of Saudi manpower in total employment in various sectors, pay attention to upgrading their efficiency and productivity through training and re-training, and continue to substitute Saudi manpower for non-Saudis.
- Place emphasis on the welfare of women, upgrade their capabilities and remove the constraints that impede their participation in development activities, in line with the Islamic values and teachings.
- Expand provision of health care and social welfare services to the entire population.
- Take care of the needy groups of citizens and pay attention to management and reduction of poverty by concentrating on the economic policies and programs that lead to higher economic growth, along with achieving balanced development of all regions in the Kingdom.
- Develop all relevant aspects of education and training systems. Upgrade their output in conformity with the changing needs of society, the labor market and the requirements of the development process. In addition, keep abreast of advances in knowledge and technology, and pay attention to the promotion and dissemination of culture.
- Improve the quality of public services and increase their supply in line with the growing needs of the population, along with improving performance of the responsible agencies.
- Enhance utilization of economic resources with due emphasis on rationalization and improving performance of the responsible agencies.
• Continue to provide infrastructural assets in line with growing demand, and improve their operation, with due emphasis on maintenance and replacement of depreciated assets.

• Continue efforts to maintain a climate conducive to enhancing private-sector participation in economic and social development, while intensifying government initiatives to encourage private domestic and foreign investments and bolster competitiveness of domestic products.

• Privatize additional public facilities, activities and services, while ensuring a rising share for citizens in asset ownership; all within a framework of competition and transparency.

• Develop tourism and improve associated services and facilities, while conserving the environment and national heritage.

• Adopt a population policy that takes into consideration quantitative and qualitative variables and geographical distribution and enhances correlation between population variables and the goals of sustainable development.

• Distribute resources and services among the regions of the Kingdom to ensure reduction of development disparities among them and enhance their comparative and competitive advantages.

• Create a strong foundation for national science and technology capable of innovating and inventing, expand ICT applications, and improve the databases in support of the national economy.

• Continue with administrative development and the creation of a regulatory environment conducive to economic development and efficiency.

• Adopt fiscal and monetary policies that contribute to accelerating economic growth, achieving higher employment, and enhancing economic stability.

• Reduce public debt to a reasonable level and develop appropriate mechanisms for achieving financial stability in the long run.

• Adopt integrated management of water resources and optimize their utilization, while emphasizing their rational usage and developing their sources and conservation techniques.

• Encourage participation of private institutions and individuals in
charitable and voluntary activities in social work, healthcare and education; improve such activities; and promote awareness of their importance.

- Sustain care for environmental protection, promote environmental regulations, protect and develop wildlife, and conserve natural resources and rationalize their utilization.
- Promote integration among the Gulf Cooperation Council (GCC) countries and strengthen relations with Arab, Islamic and friendly countries, as well as with international economic blocs.

2.4 GENERAL FRAMEWORK FOR THE EIGHTH DEVELOPMENT PLAN'S DIRECTIONS

In the following, the general framework of the Eighth Development Plan's directions is summarized.

2.4.1 Standard of Living and Quality of Life

The Eighth Development Plan assigns utmost priority to raising standards of living and improving quality of life. In so doing, the Plan reaffirms the principle of considering the Saudi citizen to be both the means and the ultimate end of the development process, as underscored by the third objective and fourth strategic basis of the Plan. Key challenges in this respect are reduction of unemployment and combating poverty; two of the major economic and social pillars of the Plan. It is worth noting, that the relatively high population growth rate of about 2.5% generates pressures on public services and utilities, thus calling for government and private initiatives to provide job opportunities, both through creation of new jobs and Saudization of existing ones.

Within the context of the government's quest to improve general living conditions of all citizens in all regions, as per Royal Decree 7/B/48468 of 12/10/1424 (2003), the Plan will endeavor to attract private domestic and foreign investments to the least developed regions, along the lines of the investment drive to be implemented in Jizan region and Tihama Plains, in an effort to energize economic activity in these regions and reduce emigration to urban areas.
In view of the significant impact of population pressure on living conditions and quality of life, the Ministry of Economy and Planning has initiated work on developing a population policy; to be based on the Strategic Long-Term Vision for the National Economy up to 2024, the General Framework of the GCC Population Strategy adopted by the GCC Supreme Council in its 19th session held in Abu Dhabi from 18–20/8/1419 (1999), and the UN Millennium Development Goals issued in 2000.

2.4.2 Poverty Reduction

A key objective of the Eighth Development Plan is to contain and eventually eradicate poverty, as explicitly stated in the fourth strategic basis of the Plan. Acting on Royal Decree Kh/41359 of 25/10/1423 (2002) to formulate a comprehensive national strategy to combat poverty, the Ministry of Economy and Planning, in cooperation with the task team entrusted with the national strategy to combat poverty, chaired by his Excellency the Minister of Social Affairs, is in the process of designing such a strategy, with due consideration of the conditions and resources of the Kingdom; drawing on the experience of other countries. The strategy involves building a database derived from the findings of various specialized surveys, in order to facilitate measuring poverty by various indicators. Studies will also be conducted to investigate reasons of poverty, in an effort to devise and implement appropriate programs and policies to combat it and reduce its negative impact on the socioeconomic structure.

The poverty strategy will focus on the following basic aspects:

- Through provision of jobs, credit, education, training and health services, afford the poor the opportunity to develop and enhance their material and human abilities, and improve their access to markets for selling their products.

- Eliminate obstacles before the poorest segments of society and enhance their financial and human capabilities, to enable them to contribute effectively to the community.

- Enhance social protection for the poor through reducing exposure to risks such as ill health, economic shocks due to market volatility, and natural disasters; and provide them with aid when they face such disasters and shocks, through expanding the scope of social security and providing financial and in-kind assistance.
One important step has been the establishment of the Poverty Alleviation Fund, with a substantial portion of its capital provided by the state, in addition to contributions by the private sector and individuals, to help the poor help themselves.

The strategy of the Fund has two major thrusts. The first is provision of job opportunities to those willing to work, and the second is to help establish productive families through extending soft loans to poor families to establish small enterprises that would provide secure regular incomes. Efforts of the Fund would complement assistance offered by the State through the social security system and assistance provided by the private sector through charitable organizations and other individual efforts.

2.4.3 Balanced Regional Development

The Eighth objective of the Plan is “to achieve balanced development throughout the regions and reduce development gaps among them”. The Plan emphasizes that achieving balanced regional development will not only require provision of infrastructure and key services, but will also call simultaneously for building a production base that relies primarily on input and development potential of the individual regions themselves, while at the same time drawing on a national strategy that seeks to reduce disparities among regions through encouraging private investment in the least developed ones.

The period of the Plan will witness expansion of the national energy grid (natural gas, oil, power) to provide fuel and feedstock to the new development poles. The railways network will also be expanded to link, over the medium term, the mining areas in the northern parts of the Kingdom with the Eastern region, through the Central region, in order to transport mining ore to processing and manufacturing centers. The railway network will also link the Central and Western regions. Work will also be initiated on developing the locations identified by the long-term strategy for tourism, which number over 10,000 natural, historical or cultural sites expected to become tourist attractions over the next two decades.

The Eighth Development Plan will particularly focus on urban and regional development, seeking to address the problems caused by rapid urban expansion and concentration in major cities, which could, over the long-term, lead to deterioration of the urban environment and increased
population migration from the least developed regions, with the considerable social and human costs involved. New economic development poles will be established in some regions, ensuring maximum benefit from possible development of logistical services and manufacturing industries catering for local and regional markets, as well as from developing tourist attractions.

Moreover, in pursuance of further administrative decentralization, delegation of administrative responsibilities to local administrations in regions will continue, with the aim of consolidating their participation in the development process. Introduction of elections of half the members of municipal councils is of particular significance in enhancing the role of local administrations further.

The plan places special emphasis on improving availability of detailed economic and social data and information on the regions, which is essential for preparing appropriate regional development strategies and plans.

During the Plan period, the regional development strategy will seek to achieve four key objectives, namely:

- Reduction of disparities in living conditions and economic activity levels among regions, within a framework of balanced regional development.
- Provision of infrastructure and public services to all regions, with due attention to small settlements.
- Establishment of new economic development poles away from major cities.
- Gradual transition to administrative decentralization, and strengthening of regional and local administration.

In order to reduce disparities in living conditions among regions, emphasis will be placed on Kingdom-wide policies, programs and projects that help in providing job opportunities to citizens throughout the regions. Attention will also be given to improving housing for low-income households, in addition to expansion of illiteracy eradication campaigns, particularly in regions with high illiteracy rates, in view of the significant role education plays in combating poverty.
2.4.4 Human Resources Development

Development of human resources, a most important goal of the Eighth Development Plan (according to its fourth general objective and fifth strategic pillar), has been a priority for the successive development plans, which sought to promote skills and develop capabilities through quantitative and qualitative expansion of education, training and vocational training. These plans have also focused on issues of labor-market efficiency and policies for improving the working environment in response to local and international developments.

In the current international setting, with mounting economic globalization and accelerated technological advances, enhancing the competitive advantage of the Kingdom requires, more than ever before, improvement of the quality of manpower and raising its productive efficiency and innovative capabilities. Only thus will advanced scientific and technological innovations be acquired and assimilated and the ability of the Saudi economy to integrate into the global economy enhanced. Furthermore, the capacity to acquire knowledge, produce it and employ it in the production of goods has become the critical factor in gauging the progress and prosperity of nations.

The Plan recognizes that development of human resources faces a number of obstacles and challenges that militate against increasing the rate of participation of national manpower in general and that of females in particular, in addition to macro and structural imbalances in the labor market manifested in dependence on foreign labor and unemployment among new Saudi graduates.

In order to attain human resources development, the Eighth Development Plan would seek to achieve the following:

- Developing the manpower skills base in such a manner as to ensure that new entrants to the labor market have the requisite specializations.
- Providing more employment opportunities to national manpower, particularly in the private sector, in order to meet the demand resulting from economic growth and Saudization.
- Restricting recruitment of foreign labor and rationalize its utilization
through linking recruitment to actual needs; enforce Saudization resolutions and set a ceiling on numbers of foreign workers and their dependents; and limit employment in certain professions and economic activities to national labor.

- Increasing participation in the labor force by providing additional job opportunities to national manpower and adopting appropriate policies designed to enhance participation of women in the economy.
- Encouraging high value added productive and service activities that utilize advanced technologies.

Given the increasing importance of the role played by the private sector in employment, it is essential to create effective mechanisms for coordination with this sector to make it a full partner in manpower planning, education, and design of labor policies, in order to ensure a closer match between supply of and demand for Saudi labor. Enhancing co-ordination with the private sector will also sharpen its response to policies of Saudization and reducing dependency on foreign labor.

2.4.5 **Diversification of the Economic Base**

Rapid growth would contribute to and strengthen the economic diversification process, which has made remarkable progress over the past decades, and continues to be a leading priority, in line with general objectives (Fifth, Sixth and Seventh) and strategic bases (Seventh through Eleventh) of the plan. Diversification is based on exploiting the comparative advantage enjoyed by the Kingdom, as well as on enhancing competitiveness of the national economy, which is free-market based and will become more open with accession to the World Trade Organization (WTO).

To meet the challenge of economic diversification, the Eighth Development Plan seeks to attain accelerated growth rates in sectors that posses the potential for contributing effectively to diversification; most important of which are:

- Industries that transform comparative advantages of the national economy to competitive advantages, such as petrochemicals and related downstream industries, oil refining and energy-intensive
• Investment-intensive industries, key among which are natural gas, mining and pharmaceutical industries; and the service sector, particularly tourism, transport and insurance.

• The capital-goods industry, such as mineral products, machinery, equipment and electrical appliances, which constitute the basis for sustainable growth and are promising areas for development of national technologies applicable to the manufacture of producer goods.

• Industries that could contribute effectively to moving towards a knowledge-based economy. These are technology-and-capital-intensive industries, capable of advancing several other industries, in addition to creating competitive advantages, which are increasingly more important than comparative advantages internationally. Most important among such industries are information technology (particularly software) and capital-goods industries.

• Small and medium size enterprises which play an important role in diversification of the economic base and provision of employment opportunities.

• Export-oriented manufacturing industries, particularly those that have achieved considerable success, such as foodstuffs, building materials and plastic products. Advancing these industries will be pursued as part of both a long-term strategy for promoting non-oil exports and medium-term export promotion programs.

• The tourism industry, which promises effective contribution to economic diversification, through increasing income sources, creating new job opportunities for the Saudi workforce, and improving the balance of services and remittances.

• The agriculture sector, with emphasis on promoting high value added crops that use advanced water rationalization technologies and optimum utilization of natural resources.

2.4.6 Economic Stability

The Plan endeavors to achieve economic stability through the following measures:
• Intensifying fiscal policies aimed at ensuring fiscal stability, and reducing the negative impact of sharp fluctuations in world oil markets on public expenditures and revenues.
• Intensifying monetary policies aimed at achieving monetary stability to maintain the purchasing power of the national currency.
• Maintaining administrative development designed to enhance efficiency of the government sector.

Economic stability is a prerequisite for creating an environment attractive to private investments (national and foreign) and is a fundamental precondition for achieving the economic and social objectives of the Plan. It is worth noting here that there is strong interdependence between the goals set by the Eighth Development Plan for the enhancement of economic stability, and those set for improving performance of financial services, particularly banking services, financial markets and insurance activities.

2.4.7 Domestic and Foreign Investment

Despite efforts by successive development plans, the Seventh Development Plan in particular, to create a favorable investment climate, current investment performance indicates the need for raising investment growth rates, to ensure growing capital accumulation that would effect a qualitative shift in the national economy, rendering it capable of creating further job opportunities to absorb available human capabilities and accelerate the pace of comprehensive economic development.

The Eighth Development Plan will continue efforts to meet several challenges that hamper or slow down development of the investment climate, and will endeavor to attain the following:

• Provide more investment opportunities in order to accelerate development, diversify the economic base, and attract national and foreign capital investment.
• Establish a transparent legislative and competitive environment; provide appropriate well-equipped industrial locations to receive new investments; and train a skilled national workforce capable of meeting the requirements of the labor market.
• Provide a fully integrated framework of investment incentives, along the lines adopted by many countries that succeeded in attracting foreign investment.

• Enhance the role played by the Saudi stock market as an effective instrument in the national economy that serves as a channel for mobilization of domestic savings, supports economic stability, helps raise productivity through financing investment opportunities, and contributes to accelerating the privatization process.

The Plan envisages creating a favorable investment climate by implementing a number of large strategic investment projects that would exert a “positive influence” on the investment opportunities in other targeted areas.

Such investment projects include ones that have already been approved, as well as others that are currently being studied. Some will be completed during the course of the Eighth Development Plan, while implementation of others may extend well beyond. The following is a list of the sectors in which such projects will be implemented:

• Gas
• Expand production capacity of Saudi ARAMCO
• Upgrade and expand refineries
• Petrochemicals
• Railways
• Mining
• High speed data transmission media
• Water, desalination of water, energy, expansion of the power grid and telecom networks
• Wastewater, potable water distribution and wastewater recycling

2.4.8 Institutional and Administrative Reform

Administrative and institutional reform is essential for enabling the national economy to meet challenges and seize opportunities. Key among essential reforms are removing investment constraints, enhancing the
system of incentives to private investment, developing regulations, and improving efficiency of government agencies and institutions. Such reforms would improve the global position of the Kingdom with respect to foreign investment flows and competitiveness.

The Eighth Development Plan will focus on key institutional development challenges. The first is to speed up privatization. While privatization has been a key element of the development strategy since the Fourth Plan, it is generally acknowledged that accelerated implementation remains a challenge. The second challenge is to quicken implementation of declared restructuring decisions, while the third is to address effectively effects of economic growth and globalization.

Noteworthy, however, is that there is still need for establishing new agencies in response to emerging organizational needs and requirements. For example, it is essential to establish, during the period of the Plan, an effective agency entrusted with developing small businesses, similar to the US Small Businesses Administration.

The Seventh Development Plan period witnessed the implementation of several significant institutional development measures. For example, measures taken to develop the investment climate included approval of the new Foreign Investment Act; creating the Saudi Arabian General Investment Authority (SAGIA), the Organization of Electricity Services Authority, the Communications and Information Technology Commission (CITC), and the Saudi Commission for Industrial Cities and Technological Zones; approval of several new industrial zones in various regions; issuance of licenses to international investment banks for operation in Saudi Arabia; and several other measures designed to develop the business environment and stimulate private investments.

The Eighth Development Plan will continue the process of reform and development through the following measures:

- Simplifying litigation and dispute settlement processes, through upgrading capabilities of the specialized courts, and ensuring speedy enforcement of rulings.
- Developing and updating competition, anti-trust and anti-dumping laws.
- Developing a modern bankruptcy law that encourages initiative,
stimulates venture capital and safeguards investor rights.

- Reducing instances of double taxation and concluding relevant agreements with more countries.
- Developing policies and programs for Saudization of manpower, including regulation of recruitment of manpower from abroad to ensure satisfaction of actual manpower needs, while taking into consideration availability of national manpower.
- Developing business and investment climate databases and information, and ensuring easy access to and wide-scale availability of such information.
- Automating investment and other business-related procedures, within the framework of e-Government services.
- Enforcing specifications and standards.
- Preparing a time schedule for implementing the privatization strategy.

### 2.4.9 Privatization

The tenth strategic basis of the Eighth Development Plan emphasizes privatization of more public activities, utilities and services. Moreover, the Kingdom's future vision of privatization envisages raising participation of the private sector in economic activities to raise the operational efficiency of the national economy, and create a competitive environment. In addition, there is, as noted by the sixth general objective of the Plan, a need for minimizing the role played by government in economic activities to limit fluctuations associated with increase/decline of government expenditure.

In the course of the Eighth Development Plan, the pace of privatization is expected to be accelerated. Regulatory bodies and commissions will be strengthened to ensure effectiveness and protect all pertinent interests. Furthermore, an important new phase will commence: where a practical implementation program for privatization will be developed to deal with the to-be-privatized institutions and utilities each according to its specific type of activity, the kind of privatization targeted, the constraints to be removed, and the extent of need for local or international consulting expertise.
2.4.10  Public Finance

The difficulties facing attainment of fiscal stability are largely due to sharp fluctuations of oil revenues, and the high ratio of recurrent expenditure, as compared to investment expenditure to GDP. This poses a challenge in relation to the goals of accelerating macroeconomic and sectoral growth, reducing budget deficit, and cutting down accumulated public debt; all set out in the 17th strategic basis of the Plan. Therefore, the Eighth Development Plan adopts the following directions:

- Balancing requirements of government agencies and regions for projects, programs and manpower in such a way as to ensure continued comprehensive development.
- Diversifying and developing revenue sources.

Of particular significance in this context is resolution 48/50 of 2/11/1423 (2003) of the Shura Council, which envisages the following directions:

- Linking budget programs and allocations to the objectives and priorities set out by the Development Plan.
- Developing a program for reducing public debt ratio to 60% of GDP.
- Taking measures to rationalize recurrent expenditure and increase investment-expenditure allocations.

2.4.11  Rationalization of Water Utilization

One of the most critical challenges to the Eighth Development Plan is the increasing demand for water, for agricultural, industrial, and household use, due to the relatively high population growth rate, which is disproportionate to available limited non-renewable ground water resources. Estimates indicate that non-renewable water stock declined by 60% over the 25 years from 1979–2004 due to increased consumption of water; mainly for agricultural and industrial purposes.

The most important water issues addressed by the Eighth Development Plan are: developing a water pricing policy based on economic criteria, mismatch between the water supply network and the wastewater network, coordination between construction of new facilities and maintenance of
existing ones, limited utilization of treated wastewater, procedures of water conservation, and monitoring of water utilization.

The development strategy of the water sector, as envisaged by the Plan, is based on the following primary objectives:

- Supplying potable water of high quality reliably to all, at the lowest possible cost, taking into consideration the purchasing power of low-income groups.
- Providing water for industrial and agricultural use, but within the limits of sustainability of water resources and the parameters of socioeconomic effectiveness.
- Conserving water resources and rationalizing water utilization.
- Attaining integrated management of water resources.

2.4.12 Technology and Informatics

The Plan devotes much attention to development of the science and technology system, promotion of informatics, encouragement of scientific research, and movement towards a knowledge economy, in recognition of their importance in achieving economic growth and enhancing industrial competitiveness, as set out in the 9th objective and the 5th and 14th strategic bases of the Plan. The Plan envisages adopting policies and institutional reforms intended to support science and technology research and development and improve administration of the science and technology system, in addition to enhancing collaboration between industries and universities and research institutions in technology development. Such efforts would improve technological capabilities in both the public and the private sectors.

Through implementation of the national policy on science and technology, the Kingdom looks forward to providing, in the long run, a considerable spur to scientific and technological advance to ensure sustainable, balanced and comprehensive development, which, it is hoped, will raise standards of living, improve quality of life, and ensure a better life for future generations. This policy espouses the following ten general objectives:

- Adoption of a comprehensive perspective for the national science and technology system to serve as a reference for its development,
coordination and integration, as well as for rationalizing its relations and links with various other sectors.

• Careful preparation and sustained quantitative and qualitative development of science and technology manpower.

• Fostering of scientific research and provision of the resources required for serving comprehensive national security and sustainable development.

• Development of national capabilities to enable embedding technology in production, particularly for high value added products.

• Continuous development and coordination of science and technology regulations to support the system, enhance interaction of its components, and improve its performance.

• Enhancement of scientific and technological cooperation with the outside world in line with international trends to serve the needs of scientific and technological advancement.

• Enhancement of science and technology support activities, such as data and information services, measurement services, patents and consultancy firms.

• Optimal use of information technologies to serve transformation to an information society and a knowledge economy.

• Use of science and technology in conservation of natural resources and protection and development of the environment.

• Fostering of awareness of importance of science and technology in achieving comprehensive national security and sustainable development.

The Plan envisages increased investment in scientific and technological education and development of technical and research manpower, with particular emphasis on redirecting scientific and technological education towards supporting the innovative capabilities of Saudi youth and producing capable cadres of scientists, researchers and educationalists who would play a major role in the development of local technologies.

Also envisaged are measures to amend science and technology strategies, in an effort to improve efficiency and effectiveness of research institutions and enhance their technology transfer role, in addition to increasing
collaboration between research-and-development institutions and industrial institutions. Moreover, funding of research and development will be increased to support local capabilities in appropriate basic technologies, such as advanced materials, biotechnology, electronics and information technology. In addition, support will be given to “centers of excellence” in universities and research centers, which will be encouraged to support innovative capabilities and ensure a better match between acquired skills and knowledge and demand. Furthermore, establishment of science parks in universities and research centers will be encouraged, as will be joint funding and joint research programs by industry and public sector institutions.

Thus, the science and technology strategy embedded in the Plan seeks to attain the following:

- Gradual systematic indigenization of advanced strategic technologies in the various economic and social sectors to enhance productivity and competitiveness.
- Enhancement of science and technology research capabilities through the development of existing research centers and establishment of new ones.
- Transfer of technology internally among the various elements of the science and technology system, as well as transfer of external technology through imports.
- Raising scientific and technological awareness within society, and improving creative potentials and human resources in science and technology.
- Establishment of technology parks and business incubators.
- Allocation of more funds to science, technology and innovations, and diversification of funding sources.
- Development of regulations and institutional structures governing performance of the science, technology and innovation system.

2.4.13 Economic, Social and Cultural Impact of Globalization

The first year of the Eighth Development Plan will likely see the Kingdom's accession to WTO. This event will accentuate the importance of effecting ways and means of dealing efficiently and flexibly with the
socioeconomic and cultural effects of globalization, which is a goal underscored by the 6th general objective of the Plan.

Most significant among the economic challenges resulting from “globalization” will be increased competition between domestic and foreign products, which could result in unfair practices. This calls for taking effective economic measures and policies to improve competitiveness of domestic products. Issues such as removal of customs barriers, liberalization of trade and opening up to the global economy may not pose major challenges. The real challenges, however, will be diversifying the economic base, improving productivity and quality, accomplishing technological development and turning comparative into competitive advantages; all of which require acceleration of macroeconomic and sectoral growth, development of an incentives system to attract private domestic and foreign investment, and strongly boosting development of non-oil exports.

The objective of the Eighth Development Plan is to minimize the adverse social and cultural effects of globalization, through the following measures:

- Expanding technical assistance to productive projects in research and technological development, through intensifying efforts made by the Industrial Development Fund, in these areas.
- Continuing to provide assistance to the private sector, through the Human Resources Development Fund, to implement Saudization programs.
- Reconsidering the social assistance system that helps improve living conditions of low-income and needy citizens, in light of the findings of current studies of poverty.
- Continuing to give priority to expenditure on human-resources development, with emphasis on development of education and training programs that meet demands of the labor market, as well as on reduction of unemployment among nationals.
- Maximizing benefits derived from positive aspects of cultural globalization to modernize and develop national culture, which calls for qualitative improvement of educational curricula at all levels, and adoption by all agencies concerned of a clear vision for dealing with cultural issues to ensure cultural development and modernization within the framework of Islamic and Arab culture.
2.4.14 Increasing Participation of Women and Enhancing the Role of the Family in Society

The Plan attaches a great deal of importance to enhancing participation of women, development of their capabilities, and elimination of obstacles to their participation in developmental activities; as set out in the 2nd strategic basis of the Plan. The set family and society objectives, which embrace energizing participation of women in economic activity, involve:

- Strengthening family ties, preserving the Arab and Islamic values of the family, taking care of all family members, and providing the appropriate conditions for developing their capabilities; all in accordance with Article 10 of the basic governance law.
- Providing reliable support to all citizens in cases of emergency, illness, disability and old age.
- Enhancing the social security system and encouraging institutions and individuals to undertake charitable activities.
- Empowering women in education, health and employment; increasing their participation in various fields, both within the family and at the workplace; and providing better opportunities to enable them to occupy decision-making positions.

2.5 IMPLEMENTATION OF DIRECTIONS

As pointed out earlier, a feature that distinguishes the Eighth Development Plan from its predecessors is concern for issues of implementation of envisaged policies, objectives, programs and projects. Thus, besides expanding the scope of the targets and objectives required for attaining its strategic goals, the Plan identifies implementation modes and the agencies responsible, as well as specifying how progress is to be measured; all of which make for better identification of responsibilities.

The Ministry of Economy and Planning will continue to develop implementation monitoring procedures and methods to ensure that agencies are committed to implementation of the policies designed to develop their activities and that targets are being achieved; thus effecting a qualitative advance in monitoring of implementation.
CHAPTER THREE

LONG-TERM STRATEGY FOR THE SAUDI ECONOMY
3. LONG-TERM STRATEGY FOR THE SAUDI ECONOMY

3.1 INTRODUCTION

A major landmark on the socioeconomic development path of the Kingdom, the Eighth Development Plan is the first five-year plan prepared in the context of a long-term development strategy with definite targets and objectives; a strategy designed to provide a framework for four successive five-year plans until 2024, aimed at achieving a comprehensive socioeconomic vision by the end of the period.

The methodology of the Eighth Development Plan is different from that of previous plans, (including the Seventh, which also included long-term strategic directions), for, in contrast, it is based on a clearly articulated vision, sets out specific policies and programs, and specifies long-term targets to ensure effective follow-up and implementation. Adoption of a Long-Term Strategy (LTS) has been prompted by domestic, regional, and international challenges that require speedy completion of sustainable development work and dealing with the emerging challenges of providing productive employment to Saudi national manpower and improving the quality of life. At the external level, integrating the national economy with the regional and international economy and efficiently managing the various effects of globalization are the most prominent challenges. Articulating a comprehensive national vision determining the objectives of long-term strategy is of considerable importance for providing all segments of society with a focus for efforts to meet challenges and achieve desired goals.

3.2 STRATEGIC ISSUES AND CHALLENGES

The Long-term Strategy (LTS) for the Saudi economy comes at a time when the Kingdom is confronting several challenges.

3.2.1 Raising Standard of Living and Improving Quality of Life

Over a relatively short period of development, the Kingdom increased its real income several fold. Per-capita GDP in fixed prices reached about SR
43.3 thousand in 2004, having achieved an average annual rate of 0.87% during the period 1971–2004, despite a high population growth rate of 3.9%. This growth in income has been accompanied by significant improvement of all indices of human-resources development, leading to the Kingdom being currently classified as belonging to the upper stratum of middle-income countries. However, rising to the level of advanced countries during the next two decades (2005–2024) requires at least doubling per capita income of Saudi citizens and enhancing other indices of human-resources development, under circumstances of relatively high, though diminishing, rates of population growth.

Results of the latest Population and Housing Census of 2004 show a noticeable decrease in population growth rate during the intervening period between the last two censuses (1992–2004). Taking account of these results in preparing LTS projections demonstrates that doubling per capita GDP is achievable within 20 years. An equally important objective, however, is tackling poverty and guaranteeing that all social groups share in the benefits of growth and improvement of the quality of life; which is a priority for the Eighth Development Plan.

### 3.2.2 Achieving Sustainable Development

In view of the complex socio-economic factors involved, achieving sustainable development is a multi-dimensional challenge, the most significant dimensions of which are:

#### A. Diversification of Economic Base

Diversification of the economic base has been a key objective of economic and social development ever since the development planning system was initiated some thirty years ago. The Kingdom realized importance of decreasing dependence on oil resources that are likely to be depleted in the long run and that are subject to the volatility of international energy markets. Development plans have, therefore, consistently focused on developing and enhancing the role of non-oil sectors in the national economy. As a result, contribution of non-oil sectors has grown in value at an average annual rate of 5.5%, with its share in GDP growing from 51% to 73.5% during the same period. This was reflected in the structure of commodity exports, with non-oil exports growing at an average annual rate of 24.8% against 10.8% for crude oil exports and contribution of non-oil
exports to total commodity exports reaching 11.8% by the end of the period.

Nevertheless, increasing production activities, high-value-added services and contribution to exports by the non-oil sector remains a key challenge to development. Strength and size of this sector and its ability to grow will in the long run determine progress and growth prospects of the national economy.

B. Role of Oil Revenues

Oil revenues played a vital role in economic development in the past decades. Expansion and diversification of the economic base notwithstanding, these revenues still represent the largest share of the State budget. Non-oil revenues could not cope with the expansion of the economic base, leading to increased dependence on oil revenues for general investment and operational expenditures of the State budget. However, revenue from oil resources, which are non-renewable by nature, should best be invested in renewable assets that would contribute to diversifying the economic base and achieving sustainable development. It is, therefore, essential for non-oil public revenues to be enhanced, so that oil revenues may be gradually transformed into productive assets and effective human capital.

C. Development and Productive Employment of Human Resources

Availability of qualified, highly efficient productive national manpower is a sine qua non for achieving sustainable development. Human-resources indicators of the Kingdom point to the remarkable progress achieved during the last two decades through expansion of education and training capacities in all regions. However, requirements of the development process exceeded supply of suitable national manpower in many areas; necessitating recruitment of foreign labor, which has, in turn, made Saudization of the workforce a continuing challenge.

Employment in the public sector is now approaching saturation amidst signs that growing incompatibility between outputs of the education and training system and requirements of development is leading to structural unemployment among Saudis. The various economic and social aspects of this mismatch should be addressed in the short, medium and long terms.
D. Sustainability of Natural Resources

The Kingdom has rich natural resources, such as water, forests, farmlands, and fishing resources along the Red Sea and the Arabian Gulf. However, given the large area of the Kingdom, the rapid growth of population and the requirements of economic and social development, these resources remain relatively limited.

Sustainability of water resources is a vital issue. The largest share of water used for agricultural, municipal and industrial purposes comes from non-renewable underground sources. Regardless of how large the volume of water remaining in these sources is, requirements of sustainable development call for full reliance on conventional and non-conventional renewable water sources, while maintaining a strategic stock of non-renewable water.

Conservation and prevention of further deterioration of agricultural land and desertification are key challenges to sustainable development, as are conservation and development of forests and conservation of a clean environment.

E. Balanced Regional Development

Due care has been exercised in providing infrastructure and public services to all regions, achieving very high coverage rates. There are, however, disparities in economic activity that have encouraged internal migration from rural to urban areas. The consequent immense increase in city populations and the huge geographic expansion of the cities has put their services and facilities under substantial pressure. Restoring regional balance is, therefore, one of the major challenges to sustainable development, calling for stimulation of economic activity in the least developed regions, with due consideration to their particular characteristics and comparative advantages.

3.2.3 Enhancement of Competitiveness

Integrating the national economy into the activities of economic globalization requires that its comparative advantages complement those of other states and blocs of the global economic system. Within a relatively short period, the Kingdom has succeeded in acquiring a distinguished economic status, based on economic advantage in energy and
petrochemicals and some other activities. However, this advantage rests upon abundance of both energy and financial resources. Acquisition of new sources of competitive advantage such as increasing and diversifying exports and, in view of accelerating globalization, to enhancing integration into the global economy, constitutes, therefore, one of the major development challenge. Rising to this challenge requires establishing a strong science and technology base, with all the requisite human, material and institutional elements, in addition to identifying the areas of advantage to concentrate on and a clear strategy and comprehensive plan to attain the set goals. Also essential is enhancing efficiency of utilization of available economic resources to raise productivity in support of the competitive advantage accruing from abundance of both energy and financial resources.

### 3.2.4 Regional and Arab Integration

The last few decades witnessed remarkable progress in economic cooperation, both in the Gulf and the wider Arab region, with the Kingdom playing a crucial role. In the coming stage, the Kingdom will have to continue watching international developments and trends closely, so as to adopt the best approach to creating constructive and effective interaction with all states of the world, within a framework of increasing integration at the Gulf, Arab and international levels.

### 3.3 Supporting Factors for Confronting Challenges and Achieving Strategic Goals

Dealing with the above-mentioned issues and challenges involved in achieving the long-term strategic goals and objectives requires availability of appropriate manpower and financial, organizational and technical capabilities. Moreover, executive agencies and other community institutions should be committed to the aims and objectives of the Long-Term Strategy. In this respect, the Kingdom starts from good initial conditions; namely, off a solid economic and social base, diversified and efficient human capacities, and rich natural resource endowments. The most important supporting factors for achieving the objectives of the Long-Term Strategy are:
A. Successful Development Experience

Despite recency of economic and social development, the Kingdom has made notable achievements, reflected in all sustainable development indicators. These achievements have been made possible by setting of correct economic growth priorities throughout the successive seven development plans. Each such plan was based on current conditions, while ensuring continuity of the development effort and concentrating on human development sectors, such as education, healthcare, and family care, and on the infrastructure, in order to transform available resources into effective productive capacities that contribute efficiently to realizing long-term strategic objectives.

B. Advanced Infrastructure and Services

All regions of the Kingdom are covered by advanced facilities for transportation, electricity, water, sanitation, and a distribution network for oil products, as well as by varied health, education, training and social services.

C. A Unique Experience in Promoting Comprehensive Development

The Kingdom built two industrial cities at Jubail and Yanbu in record time. The two cities, with their 218 establishments employing more than 85,000 workers, have attained a distinguished status in production of petrochemicals, both regionally and internationally, with the Kingdom currently meeting around 7.6% of world demand for petrochemicals.

D. An Active and Entrepreneurial Private Sector

The private sector enjoys a high degree of dynamism, contributing 54.6% of the GDP in 2004 with activities covering all available fields. Financial and administration capabilities of the sector have been enhanced, as it moved from high dependence on government contracts and public expenditure to self-propulsion, becoming a major partner in the development process. The private sector was quick to participate in the newly privatized projects and its role is expected to grow rapidly as privatization proceeds further.

E. Abundant Material Resources

The Kingdom has substantial resources that would allow it to meet the requirements of the development process and continue to invest in the national economy should an improved investment climate persist. Indeed,
the oil resources and huge reserves of the Kingdom are capable of meeting all foreseeable future needs of development. The Saudi economy also enjoys many other positive factors, bolstered by the recent measures aimed at improving the investment climate.

F. Institutional and Organizational Environment

Institutional and administrative reforms and developments undertaken during the Seventh Development Plan period have contributed to rationalizing the public administration and enhancing its capabilities, as well as to developing the regulatory environment for supporting economic restructuring and providing an attractive environment for business and investment. Many government procedures have been streamlined, and the process is expected to continue at a fast pace during the coming years, creating a solid base for the implementation of the Long-Term Strategy.

G. Geographical Characteristics

The Kingdom occupies a strategic position, with its sea ports linking the three continents of Asia, Africa and Europe. It thus has great potential in providing transit services by air, sea and land, as well as for re-export of goods and commodities; all of which increase available development options.

H. Demographic Characteristics

The relatively high population growth rate, coupled with the young-age structure of the Saudi population, has significant implications for development, creating challenges for education and training. However, if these challenges are confronted successfully, the demographic characteristics of the Kingdom should become a source of strength and positive advantage, contributing to the achievement of the goals and objectives of the strategy.

3.4 INITIAL PATHS OF THE LONG-TERM STRATEGY

The paths described below are based on the initial results of process of preparation of the Long-Term Strategy (LTS); their details, though not their general direction and broad outlines, will, therefore, be subject to modification. The LTS, which is expected to be issued during 2005, covers the period of 20 years from 2005 to 2024, integrating four successive five-year plans, from the Eighth Development Plan 2005–2009 to the Eleventh Development Plan 2020–2024.
3.4.1 Long-Term Population Forecasts

Population in the Kingdom (Saudi and non-Saudi) is forecast to grow at an average annual rate of 0.87% during the period of the strategy, to reach 29.86 million in 2024, of whom 4 million will be non-Saudi; see Table 3.1. These forecasts suggest a reduction in the growth rate of the Saudi population from an average annual rate of 2.4% during the Eighth Development Plan to an average annual rate of 2.1% during the Eleventh Development Plan period; leading to an average annual rate of 2.25% for the whole period of the strategy.

The population structure of Saudis is expected to change appreciably during the period, as the working age category of 15–64 years will grow by an average rate of about 2.8% during the term of the strategy. As a result, the net dependency rate of Saudis will decrease from about 4.7 persons in 2004 to about 2.2 persons in 2024.

As can be seen from Table 3.1, the growth rate in the age group 65 years and above will be the highest at 4.9% during the period of the strategy. The number of the people in this group will thus increase approximately three folds, resulting in more health and social-care expenditure for them.

| Table 3.1 | Population Growth Projections during the Long-term Strategy Period |
|-----------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Total population |                      | 22.67                | 24.39                | 26.52                | 28.26                | 29.86                | 0.87                |
| Saudis     |                      | 16.53                | 18.57                | 20.86                | 23.32                | 25.81                | 2.25                |
| Non-Saudis |                      | 6.14                 | 5.82*                | 5.66                 | 4.94                 | 4.05                 | -1.38               |
| Net dependency Rate of Saudis** | 4.67                | 3.91                 | 3.12                 | 2.60                 | 2.18                 | --                  |

* MEP estimates which take into consideration decrease in foreign-labor force due to Saudization.

** Net dependency rate = No. of Saudi population/ No. of Saudis employed.

Source: Central Department of Statistics and Ministry of Economy and Planning estimates
3.4.2 Vision of the Future of Saudi Economy

The Long-Term Strategy is inspired by a vision of the future, formulated through extensive studies and specialist workshops to represent the aspirations of both Saudi citizens and leadership, in a process that was set in motion by a Royal instruction to the Ministry of Economy and Planning (MEP). The studies, to which most of government agencies, private sector institutions, and national and international experts contributed, addressed all pertinent issues, and the process culminated with a symposium organized by MEP in 2002, in which several political, economic and academic prominent figures from within the Kingdom and abroad participated.

The vision of the future of the Saudi economy may be summarized as follows:

"By the will of Allah, by 2024, the Saudi economy will be a developed, thriving and prosperous economy based on sustainable foundations. It will extend rewarding work opportunities to all citizens, will have a high-quality education and training system, excellent health care for all, and will provide all the necessary services to ensure the welfare of all citizen, while safeguarding social and religious values and preserving the national heritage."

* GDP and Per Capita Income

The Long-Term Strategy aims at raising the national economy to the level of advanced economies. Hence, per capita income is expected to double at 1999 constant prices, from about SR 43,300 by the end of 2004 to SR 98,500 by the end of 2024 (Figure 3.1); i.e., at an annual growth rate of 4.2% during the period of the strategy (Table 3.2).

Given the expected population growth rate, the required average annual growth rate in GDP to achieve the target is 6.6% during the period of the strategy, rising from 4.6% during the first quarter of the strategy to 8.7% during the last quarter.
Figure 3.1
Growth of Per Capita Income at 1999 Constant Prices

Table 3.2
GDP and Per Capita Income 2004–2024 at 1999 Constant Prices*

<table>
<thead>
<tr>
<th>Years</th>
<th>GDP (SR billion)</th>
<th>Per capita income SR (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>714.9</td>
<td>43.25</td>
</tr>
<tr>
<td>2009</td>
<td>895.2</td>
<td>48.2</td>
</tr>
<tr>
<td>2014</td>
<td>1189.1</td>
<td>57.0</td>
</tr>
<tr>
<td>2019</td>
<td>1674.7</td>
<td>71.8</td>
</tr>
<tr>
<td>2024</td>
<td>2542.5</td>
<td>98.5</td>
</tr>
</tbody>
</table>

Average annual growth rate (%)

<table>
<thead>
<tr>
<th>Period</th>
<th>Average annual growth rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005–2009</td>
<td>4.6</td>
</tr>
<tr>
<td>2010–2014</td>
<td>5.8</td>
</tr>
<tr>
<td>2015–2019</td>
<td>7.1</td>
</tr>
<tr>
<td>2020–2024</td>
<td>8.7</td>
</tr>
<tr>
<td>2005–2024</td>
<td>6.6</td>
</tr>
</tbody>
</table>

* Objectives and forecasts will be reviewed and updated at the beginning of each development plan.

Source: Macroeconomic Projections, Ministry of Economy and Planning.

* GDP by Expenditure Items

Development and diversification of the economic base require enhancing public and private investments to make them the main source of economic growth throughout the period of the strategy. As indicated in Table 3.3, investment expenditure is expected to grow at an average annual rate of
9.3% during the period (at 1999 constant prices), compared with only 5.3% for consumption expenditure. The share of investment expenditure in GDP is expected thus to grow from 20.5% to 33.9%, while the share of consumption expenditure decreases from 69.6% to 55.1% (Figure 3.2).

It is worth noting that growth in investment expenditure will mostly come from private investments, which are expected to grow at an annual rate of 10.3% for the period of the strategy, compared to about 4.0% for public investment. Contribution of private investment to GDP will thus increase from 15.4% to 30.7% during the period, while that of public investment will decrease from 3% to 1.8%.

Table 3.3
GDP by Expenditure Items at 1999 Constant Prices*

<table>
<thead>
<tr>
<th>Items</th>
<th>SR Billion</th>
<th>Average annual growth rate (%)</th>
<th>2005–2024</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004</td>
<td>2009</td>
<td>2014</td>
</tr>
<tr>
<td>Consumption</td>
<td>497.39</td>
<td>585.78</td>
<td>734.53</td>
</tr>
<tr>
<td>• Public</td>
<td>200.04</td>
<td>231.9</td>
<td>281.06</td>
</tr>
<tr>
<td>• Private</td>
<td>297.35</td>
<td>353.88</td>
<td>453.47</td>
</tr>
<tr>
<td>Investment</td>
<td>146.61</td>
<td>243.93</td>
<td>332.76</td>
</tr>
<tr>
<td>• Public</td>
<td>21.18</td>
<td>24.77</td>
<td>30.51</td>
</tr>
<tr>
<td>• Private</td>
<td>110.27</td>
<td>181.24</td>
<td>283.54</td>
</tr>
<tr>
<td></td>
<td>Agriculture</td>
<td>3.82</td>
<td>7.06</td>
</tr>
<tr>
<td></td>
<td>Industry</td>
<td>56.42</td>
<td>90.96</td>
</tr>
<tr>
<td></td>
<td>Services</td>
<td>50.03</td>
<td>83.22</td>
</tr>
<tr>
<td></td>
<td>Oil Sector</td>
<td>15.16</td>
<td>37.92</td>
</tr>
<tr>
<td>Changes in stocks</td>
<td>18.69</td>
<td>22.72</td>
<td>23.88</td>
</tr>
<tr>
<td>Exports</td>
<td>252.34</td>
<td>293.02</td>
<td>415.91</td>
</tr>
<tr>
<td>• Oil &amp; Gas</td>
<td>181.04</td>
<td>192.67</td>
<td>229.99</td>
</tr>
<tr>
<td>• Others</td>
<td>52.22</td>
<td>73.48</td>
<td>148.37</td>
</tr>
<tr>
<td>• Services</td>
<td>19.09</td>
<td>26.77</td>
<td>37.55</td>
</tr>
<tr>
<td>Imports (–)</td>
<td>200.14</td>
<td>250.27</td>
<td>318.03</td>
</tr>
<tr>
<td>GDP</td>
<td>714.9</td>
<td>895.17</td>
<td>1189.05</td>
</tr>
</tbody>
</table>

* Approximate data.

Source: Macroeconomic Projections, Ministry of Economy and Planning
The envisaged investment flow during the period will contribute effectively to increasing total exports at an average annual growth rate of 6.0%, to represent about 31.6% of GDP by the end of 2024, compared to 35.3% at the end of 2004. This will allow an increase in imports to provide the tools and equipment needed for expanding the productive base.

Higher income levels will enhance demand for imported goods and services. Imports are thus expected to grow at an average annual rate of 5.2% to reach 21.6% of GDP by the end of the period, compared to 27.9% at the end of 2004, reflecting continued improvement of the balance of payments until the end of 2024.

Decrease in the share of both imports and exports in GDP in 2024, compared to 2004, is attributable to the expected growth in GDP during the strategy period at a rate higher than the rate of growth of both exports and imports.

Table 3.4 shows the expected impact of economic diversification on the structure of exports. These will shift considerably to "other exports", such as those of manufacturing industries, petrochemicals, oil refining, mining and other non-oil exports, whose share will increase from 20.7% at the end of 2004 to about 53.7% by the end of 2024.
Table 3.4
Exports Structure at Beginning and End of Strategy Period
at 1999 Constant Prices

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2024</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td>(SR Billion)</td>
<td></td>
</tr>
<tr>
<td>Oil and Gas Exports</td>
<td>181.04</td>
<td>71.7</td>
</tr>
<tr>
<td>Others Exports*</td>
<td>52.22</td>
<td>20.7</td>
</tr>
<tr>
<td>Services Exports</td>
<td>19.09</td>
<td>7.6</td>
</tr>
<tr>
<td>Total Exports</td>
<td>252.35</td>
<td>100</td>
</tr>
</tbody>
</table>

* Including, petrochemicals, oil refining, mining and other manufacturing industries and agriculture.

Source: Macroeconomic Projections, Ministry of Economy and Planning.

Share of oil and gas in total exports will decrease from 71.7% to 36.7% between 2004 and 2024, as "other exports" are expected to grow at an average annual rate of 11.1% during the period, compared to a growth rate of 2.5% for oil and gas, largely determined by global oil markets. Exports of services are expected to grow at an average annual rate of 7.3% during the period, with their share in exports increasing from 7.6% in 2004 to about 9.6% at the end of the period.

These trends will assist to a great extent in enhancing the role of non-oil revenues in financing the development process. The gap between imports and non-oil exports is expected to narrow from SR 128.8 billion at the end of 2004 to about SR 41.8 billion by the end of 2024.

Achieving the envisaged growth rates and structure of exports by 2024 reflects the challenges of development and promotion of the competitiveness of the national economy, at a time when its linkages with the international economic system are expected to increase.

* GDP By Sectoral Contributions

The sectoral distribution shown in Table 3.5 reflects the hoped for role of non-oil sectors in achieving diversification of the economic base and sustainable development. This is, however, contingent upon the quality of growth rather than its magnitude, i.e. on the structural development of the economy to enhance the role of non-oil productive and services sectors.
that possess competitive advantages. Thus, the strategy aims at developing the productive non-oil sectors at an average annual rate of 7.1% during the next two decades, with their share in GDP increasing from 24.9% in 2004 to 27.4 in 2024.

In harmony with the objectives of diversifying the economic base and utilizing the comparative advantages of the national economy, the industrial sector is expected to play a vital role, growing at an average annual rate of 7.8% during the period, with its share in GDP increasing from 19.6% to 24.9% between 2004 and 2024.

Table 3.5
Development of Real GDP at 1999 Constant Prices

<table>
<thead>
<tr>
<th>SR Billion</th>
<th>Average annual growth rate during the period * (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2004</strong></td>
<td><strong>2009</strong></td>
</tr>
<tr>
<td>Non-oil Productive Sectors</td>
<td>178.25</td>
</tr>
<tr>
<td>Agriculture and Forestry</td>
<td>38.01</td>
</tr>
<tr>
<td>Industry**</td>
<td>140.24</td>
</tr>
<tr>
<td>Services Sector***</td>
<td>195.91</td>
</tr>
<tr>
<td>Private Sector****</td>
<td>374.16</td>
</tr>
<tr>
<td>Public Sector</td>
<td>135.06</td>
</tr>
<tr>
<td>Oil Sector</td>
<td>196.7</td>
</tr>
<tr>
<td>Import duties</td>
<td>8.98</td>
</tr>
<tr>
<td>GDP</td>
<td>714.9</td>
</tr>
</tbody>
</table>

* Approximate ratio.
** Including petrochemicals, oil refining, and other industries, building and construction, electricity, and mining.
*** Including trade, transport, banking services, insurance, real estate and community services; excluding banking services charges.
**** Excluding banking services charges.


The services sector is expected to play a leading role in economic diversification during the period, taking advantage of the opportunities offered by advances in communications and information technology, as the innovative skills of the scientific cadres are upgraded and enhanced. In addition, the tourist sector is expected to improve and the favorable geographic position of the Kingdom utilized to provide services enhancing international trade and capital flows through international markets. The
LTS expects the services sector to achieve an average annual growth rate of 8.8%, with its share of GDP increasing gradually from 27.4% at the beginning of the period to about 41.9% by 2024.

The oil sector is expected to grow at an average annual rate of 4.3% during the period, while its share in GDP is expected to decrease from 27.5% to 17.9%. The non-oil sector will represent 82.1% of GDP by the end of the period, growing from about 72.5% at the beginning, as shown in Figure 3.3. This reflects the increasing role of the private sector in GDP, which will grow from 52.3% in 2004 to about 69.3% in 2024, at an average annual growth rate of 8.1%, compared with 4.1% for the public sector.

* **Savings and Investment Balance**

Investment required to implement the Long-Term Strategy is estimated at approximately SR 8321 billion at 1999 constant prices, from both public and private savings. With implementation of saving incentives during the period, as well as increasing public sector savings, it would be possible to finance the required investment. Table 3.6 envisages an increase in the ratio of saving to GDP at constant prices from 39.8% at the beginning of the period to about 45.6% by its end, compared to an increase of the total investment ratio from 20.5% to 33.9%. Thus, a surplus in the balance of saving and investment of 11.6% of GDP is expected to be realized in 2024, compared to a surplus of 19.3% in 2004 (Figure 3.4). These savings could be invested in expanding the absorptive capacity of the national economy and improving the investment environment.
Table 3.6
Ratios of Savings and Investment Balance to GDP at 1999 Constant Prices (%)

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2009</th>
<th>2014</th>
<th>2019</th>
<th>2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saving</td>
<td>39.83</td>
<td>40.82</td>
<td>33.29</td>
<td>39.22</td>
<td>45.58</td>
</tr>
<tr>
<td>– Private</td>
<td>26.14</td>
<td>33.3</td>
<td>28.08</td>
<td>32.33</td>
<td>37.15</td>
</tr>
<tr>
<td>– Public</td>
<td>13.69</td>
<td>7.52</td>
<td>5.21</td>
<td>6.89</td>
<td>8.43</td>
</tr>
<tr>
<td>Investment</td>
<td>20.51</td>
<td>27.25</td>
<td>27.99</td>
<td>28.39</td>
<td>33.95</td>
</tr>
<tr>
<td>Balance</td>
<td>19.32</td>
<td>13.57</td>
<td>5.30</td>
<td>10.83</td>
<td>11.63</td>
</tr>
</tbody>
</table>

*Source: Macroeconomic Projections, MOEP.*

Figure 3.4
Ratio of Investment and Savings to GDP at 1999 Constant Prices

* Manpower and Employment

The size of the labor force has been determined using the rate of national labor participation and the estimated size of the population of working age. Participation rate is expected to increase from 36.9% in 2004 to 56.3% in 2024. In line with the policy of reducing the size of foreign labor and reducing unemployment, it is expected that measures aimed at increasing the supply of national labor will continue. In view of the high rate of participation of males, compared to females, in the national labor force,
increasing total labor supply requires raising participation of women, by providing more job opportunities, from 10.3% to 30.0% during the period. This would make it possible to reduce the foreign labor force by an average annual rate of 2.0% during the period, as well as provide opportunities for Saudization and for gradual reduction of unemployment rates (Table 3.7).

Total manpower is expected to grow at an average annual rate of 2.8%, from 8.55 million workers in 2004 to about 15 million workers in 2024, with the national workforce increasing from 3.5 to 11.8 million workers, at an average annual rate of 6.2%, and the foreign workforce decreasing from about 4.7 to 3.2 million workers, at an average annual rate 2% (Table 3.7).

<table>
<thead>
<tr>
<th>Indicators</th>
<th>(000s)</th>
<th>Average Annual Growth Rate 2004–2024</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004</td>
<td>2009</td>
</tr>
<tr>
<td>Total manpower</td>
<td>8549.74</td>
<td>9360.21</td>
</tr>
<tr>
<td>Total Saudi manpower</td>
<td>3804.19</td>
<td>4885.96</td>
</tr>
<tr>
<td>Total employment</td>
<td>8281.84</td>
<td>9221.30</td>
</tr>
<tr>
<td>Foreign employment</td>
<td>4745.55</td>
<td>4474.25</td>
</tr>
<tr>
<td>National employment</td>
<td>3536.29</td>
<td>4747.05</td>
</tr>
<tr>
<td>Number of unemployed</td>
<td>267.90</td>
<td>138.91</td>
</tr>
<tr>
<td>Total participation rate of Saudi manpower (%)</td>
<td>36.9</td>
<td>39.2</td>
</tr>
<tr>
<td>Participation rate of Saudi male manpower (%)</td>
<td>63.8</td>
<td>64.5</td>
</tr>
<tr>
<td>Participation rate of Saudi female manpower (%)</td>
<td>10.27</td>
<td>14.16</td>
</tr>
<tr>
<td>Saudi unemployment rate (%)</td>
<td>7.04</td>
<td>2.84</td>
</tr>
<tr>
<td>Saudization rate (%) *</td>
<td>42.7</td>
<td>51.5</td>
</tr>
</tbody>
</table>

* Overall employment = Total manpower – Number of unemployed.

Source: CDS, Macroeconomic Projects, MEP

These estimates depend on an assumed increase of national workforce participation from about 36.9% to 56.3% during the period, consisting of an increase from around 63.8% to 80.0% for males and from 10.3% to 30% for females.
The labor force estimates are also based on the potential demand by various economic sectors, in accordance with achieving full employment by 2024, which would entail providing more job opportunities for the national workforce, especially in the services sector, whose estimated share of total manpower is expected to reach about 37.9% by the end of the period, and in industry which is expected to absorb 44.3% of total national manpower.

As regards distribution of national labor force by level of educational attainment, both the nature and scope of the envisaged economic development require high degrees of skill and specialization. Number of university graduates is thus expected to grow at an average annual rate of 8.2% during the period, with their share in total labor force increasing from 21.3% to 32.9%. Similarly, number of secondary-school graduates is expected to grow at an average annual rate of 8.4%, with their share in total labor force increasing from 27.5% to 44.0% (Table 3.8.) In contrast, number of intermediate-school graduates will decrease, while number of primary-school graduates and those without qualifications will increase slightly. However, shares of the last three groups in total labor force are expected to decrease, as economic activities require labor with higher skills and better qualifications (Figure 3.5).

### Table 3.8

**Saudi Workforce by Level of Education**

<table>
<thead>
<tr>
<th>Description</th>
<th>Saudi Workforces (000)</th>
<th>Average Annual Growth Rate 2004–2024</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004</td>
<td>2009</td>
</tr>
<tr>
<td>Total Saudi Manpower</td>
<td>3804.19</td>
<td>4885.96</td>
</tr>
<tr>
<td>– Without qualifications</td>
<td>551.61</td>
<td>547.23</td>
</tr>
<tr>
<td>– Primary education</td>
<td>696.17</td>
<td>684.03</td>
</tr>
<tr>
<td>– Intermediate education</td>
<td>699.97</td>
<td>1035.82</td>
</tr>
<tr>
<td>– Secondary education</td>
<td>1046.15</td>
<td>1114.00</td>
</tr>
<tr>
<td>– University education</td>
<td>810.29</td>
<td>1504.88</td>
</tr>
</tbody>
</table>

*Source: Macroeconomic Projections, MOEP.*
3.4.3 Towards Improving Quality of Life

The Long-Term Strategy addresses dimensions other than the economic, in the belief that human development encompasses social and cultural dimensions as well. Within such framework, a composite quality-of-life indicator has been devised to cover all relevant aspects, including human development indicators, the millennium development goals that cover among other things health, education, income distribution, and environment, and other indicators specific to the Kingdom. Thus, the composite indicator comprises 11 indicators that are themselves composite indicators, each composed of sub-indicators that number 40 in total. The composite indicators cover income and distribution, transport and communications, health, education, housing, environment, family life, public safety, and recreation and leisure. Values of these indicators and their expected development during the period of the strategy are being worked out.

3.4.4 Development of Scientific, Technological and Knowledge Capacities

Three major themes are currently being developed to address development
of the scientific and technological base, as well as human resources. The process involves identifying long-term and transitional objectives, as well as the required material, institutional and organizational inputs, and developing implementation policies, programs, and follow-up indicators.

3.5 **LONG-TERM STRATEGY AND THE EIGHTH DEVELOPMENT PLAN**

Since the Eighth Development Plan is the first stage of the Long-Term Strategy (LTS) for developing the Saudi economy, all policies, mechanisms, programs, and projects are consistent with that strategy. As more work on the LTS is being done, any mismatch will be addressed in the annual follow-up of the plan, as well as in the five-year review which will be conducted simultaneously with the preparation of future development plans. Review of the macro and sectoral growth rates will be conducted periodically to adjust the strategy, if necessary.
CHAPTER FOUR

THE NATIONAL ECONOMY UNDER THE EIGHTH DEVELOPMENT PLAN
4. THE NATIONAL ECONOMY UNDER THE EIGHTH DEVELOPMENT PLAN

4.1 Objectives and Policies of the Eighth Development Plan

Over the past three decades, the Kingdom has given increasing attention to implementation of a long-term economic development strategy founded on: acceleration of economic growth and balanced distribution of its fruits, development of human resources, and diversification of the economic base and the sources of national income to provide revenues besides those derived from crude oil exports; all with the aim of financing government spending (on operations and investment), providing public services, building infrastructure projects and financing the growing imports. This was accompanied by the increasing role of the private sector in the economy, which is reflected in its rising contribution to production, investment, employment and exports.

The growth targets of the Eighth Development Plan have been set as to reflect the goals of the Kingdom's long-term economic development strategy, which include: improvement of the standard of living, development of human resources, diversification of the economic base, and raising productivity of the economy.

The most important objectives and policies of the Plan are in summary:

a) Increasing economic growth rates.
b) Increasing employment growth rates.
c) Increasing contribution of the private sector to economic growth and national income.
d) Diversifying the economic base.
e) Improving the balance of payments.
f) Realizing a high degree of economic balance and price stability.
g) Realizing balanced development in all regions of the Kingdom.
4.2 MAJOR ECONOMIC AND SOCIAL OBJECTIVES

Together with enhancement of economic growth, employment, and exports and diversification of economic activities, the objectives of the Eighth Development Plan include caring for the poor social groups, provision of basic health and education services, and a balanced distribution of benefits of development among all regions of the Kingdom. In addition, recognizing regional and international economic developments, the Plan aims at strengthening economic integration among GCC states, along with enhancing Arab economic cooperation and accelerating the process of integration into the world economy.

Table 4.1 shows the main macroeconomic indicators and targets under the Eighth Development Plan compared with achievements of the Seventh Development Plan. The macro-economic projections were developed with due consideration to the internal and external variables that have direct or indirect impact on the goals of the Eighth Development Plan.

4.2.1 Increasing Economic Growth

In the coming five years (2005–2009), the Eighth Development Plan aims at increasing real GDP from about SR 714.9 billion in 2004 to around SR 895.2 billion in 2009, i.e., at an average annual growth rate of about 4.6% at 1999 constant prices, which will translate into an increase in per capita income at current prices from SR 43.25 thousand in 2004 to around SR 48.2 thousand in 2009. Such growth would be in line with the goal of improving the standard of living of the Saudi citizens.

The Plan also envisages that in 2009, the share of the non-oil sector in GDP would have increased to around 75.7%, compared with around 73.5% in 2004, at 1999 constant prices. These indicators reflect an expected positive development in performance of the national economy and a rise in per capita GDP when compared with the targets of the Seventh Development Plan and with what had actually been achieved in that time.

Estimation of the rate of economic growth was made in light of the long-term objectives the Saudi economy, and after taking into consideration the potential increases in investment by both the private and the public sectors, as well as the resulting increase in production capacities. The potential impact of governmental measures to support productivity improvement in all sectors was also taken into consideration.
### Table 4.1
**Macroeconomic Indicators of the Eighth Development Plan Compared with the Seventh Development Plan**

<table>
<thead>
<tr>
<th>Indicators</th>
<th>7th Development Plan (actual) 2000–2004</th>
<th>8th Development Plan (targeted) 2005–2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A) Growth rates: (annual average)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>* Real GDP (1)</td>
<td>3.44</td>
<td>4.7</td>
</tr>
<tr>
<td>– Oil sector (2)</td>
<td>2.09</td>
<td>4.73</td>
</tr>
<tr>
<td>– Non-oil sector</td>
<td>3.93</td>
<td>5.71</td>
</tr>
<tr>
<td>• Private sector</td>
<td>4.28</td>
<td>5.78</td>
</tr>
<tr>
<td>• Government sector</td>
<td>4.50</td>
<td>5.83</td>
</tr>
<tr>
<td>* Gross fixed capital formation</td>
<td>4.5</td>
<td>1.74</td>
</tr>
<tr>
<td>– Oil sector</td>
<td>12.72</td>
<td>1.74</td>
</tr>
<tr>
<td>– Non-oil private sector</td>
<td>4.32</td>
<td>1.50</td>
</tr>
<tr>
<td>– Government sector</td>
<td>1.13</td>
<td>3.18</td>
</tr>
<tr>
<td>* Goods and services exports</td>
<td>3.74</td>
<td>3.3</td>
</tr>
<tr>
<td>* Goods and services imports</td>
<td>7.34</td>
<td>4.07</td>
</tr>
<tr>
<td><strong>B) As Share of GDP at Current Prices (3)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>* Gross savings</td>
<td>39.8</td>
<td>40.8</td>
</tr>
<tr>
<td>* State budget balance</td>
<td>8.5</td>
<td>1.4</td>
</tr>
<tr>
<td>* Current account balance</td>
<td>21.8</td>
<td>18.4</td>
</tr>
<tr>
<td><strong>C) Unemployment and Inflation Rates</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>* Inflation rate (4)</td>
<td>- 0.70</td>
<td>0.7</td>
</tr>
<tr>
<td>* Unemployment rate (5)</td>
<td>7.04</td>
<td>7.43</td>
</tr>
<tr>
<td>– Males</td>
<td>6.13</td>
<td>4.37</td>
</tr>
<tr>
<td>– Females</td>
<td>18.8</td>
<td>4.30</td>
</tr>
</tbody>
</table>

Notes:

(1) At constant 1999 prices.
(2) Crude oil, natural gas and petroleum refining products.
(3) By the end of the Plan.
(4) Average annual growth of consumer prices.
(5) Exclusive to Saudi labor force, as a percentage of total by end of the Seventh and Eighth Plans.

*Source: Macroeconomic Projections, Ministry of Economy and Planning.*

In determining the rate of growth, the anticipated increase in production was closely associated with the objective of diversification of economic activities and national income sources. Thus, the sectors nominated for leading growth are those that would make the greatest contribution to diversification.

**Investments**

To achieve the objective of higher economic growth, the Plan endeavors to
increase government and private-sector investment, as well as encourage investment by foreign capital.

It is expected that the total value of investment (gross fixed capital formation) would grow from around SR 146.6 billion in 2004 to SR 243.9 billion in 2009 at constant 1999 prices, i.e., at an average annual growth rate of 10.7%. Such growth would raise the share of investment in GDP from 20.5% in 2004 to 27.3% in 2009. Since financing this increase requires mobilization of more national savings, the Plan aims to raise the ratio of savings to GDP from about 39.8% in 2004 to about 40.8% in 2009.

While government agencies would make the planned investments, attaining the projected private sector investments remains contingent upon that sector responding positively to the prevailing economic conditions. The Plan envisages that implementation of planned economic policies and streamlining of the administrative procedures related to investment would help motivate the private sector to make investments up to the targeted levels; especially that opportunities for productive investment are available in all economic sectors, such as the petrochemical industries, mining, petroleum refining, manufacturing industries, building materials production, water desalination and transmission, waste-water reclamation, and commercial activities. Moreover, determination by the State to accelerate implementation of the privatization policy and allowing direct private investment in natural gas exploration, prospection, production and marketing should improve investment levels over the period of the Plan.

**Private-Sector Investment**

One of the major objectives of the Eighth Development Plan is to increase the volume of private-sector investment. Private investment in fixed assets is envisaged to increase from around SR 110.3 billion in 2004 to about SR 181.2 billion in 2009, at constant 1999 prices; i.e., at an average annual growth rate of 10.4%. Private-sector contribution to total expected investment (gross fixed capital formation) is projected to reach about 74.3% in 2009 to constitute around 20.2% of GDP.

**Government Investment**

The government aims to implement a number of vital projects during the period of the Plan, in addition to meeting the replacement and maintenance requirements of existing projects, in an effort to diversify the economic base and enhance capacity in public health, education and social services. Government investment in fixed assets is expected to increase at an
average annual rate of 3.2%, with the value of government investment rising from around SR 21.2 billion in 2004 to about SR 24.8 billion in 2009, to amount then to about 10.2% of the total expected investments and about 2.8% of the value of GDP.

Investment (gross fixed capital formation) in the crude oil and natural gas sector is envisaged to be 15.5% of the total expected investment in 2009, i.e., 4.2% of the real GDP. Some investments in this sector would be allocated to maintaining production capacities and crude oil reserves, while others would be allocated to building pipelines, export facilities and treatment plants, in addition to enlarging the tanker fleet and the development of gas reserves, along with expansion of natural gas production and distribution capacities.

4.2.2 Increasing Employment Opportunities and Reducing Unemployment

With the projected economic growth rates, implementation of the policies designed to increase investment by the private sector and diversify its activities, implementation of educational and training policies aimed at improving skills as a basic factor of human development, and giving priority in employment to the national labor force, it is envisaged that 1.21 million new job opportunities would be created during the period of the Plan. Of these, it is projected that new Saudi entrants to the labor market would take 1.08 million, i.e., about 89.3% of the total, while the remaining jobs would absorb 48.2% of existing unemployment.

This would be a major achievement, as the rate of unemployment among Saudis would drop down from 7.04% in 2004 to 2.84% in 2009. The Plan aims at reducing the rate of unemployment among Saudi males from 5.63% to 2.42% of the total male labor force, and reducing unemployment among females from 15.86% to 4.35% of the total female labor force. It is expected that policies to encourage women to enter work would increase women employment and participation in economic activity. When this vital objective is attained, one of the major economic challenges involved in improving living standards would have been diminished considerably.

4.2.3 Providing Care for Poor and Needy Families

The Eighth Development Plan pays special attention to providing care to the poor and needy families. The fourth strategic pillar of the Plan stipulates: “Taking care for the needy groups of citizens and paying
attention to the management and reduction of poverty through concentrating on economic policies and programs that lead to increasing rates of economic growth and attaining balanced development of the regions of the Kingdom.”

As in other societies, addressing poverty and improving standards of living remains, in the first place, the responsibility of the government. Since radical solutions hinge on succeeding in creating a climate conducive to increasing production, investment and employment, the Plan aims at increasing health, educational and housing facilities and other services, particularly in the less developed regions of the Kingdom. In addition, the Plan lays emphasis on expanding and strengthening the social protection network, while encouraging private investment in the least developed regions through granting incentives, providing land for investors, and establishing industrial cities. Furthermore, achieving this objective is closely associated with providing training and improving the skills of needy social groups within the framework of the human-development programs and policies set out in the Plan.

4.2.4 Diversification of Economic Activities and Sources of National Income

To ensure accord between the objective of increasing the volume of production and the major long-term strategic objective of increasing diversification of economic activities and sources of national income, the Plan aims at increasing the contribution of non-oil sectors to GDP. The value added generated by these sectors is expected to increase from around SR 525.3 billion in 2004 to about SR 677.2 billion in 2009 at constant 1999 prices, which is equivalent to the contribution of these sectors to GDP increasing from 73.5% in 2004 to about 75.7% in 2009. Contribution of the private sector is estimated to rise from about SR 390.2 billion in 2004 to approximately SR 514.3 billion in 2009 at constant 1999 prices, which is equivalent to an average annual rate of increase of 5.7% over the period of the Plan. In contrast, contribution of the public sector to GDP is envisaged to increase from around SR 135.1 billion in 2004 to about SR 162.9 billion in 2009 at constant prices of 1999, i.e. at an average annual rate of 3.8%.

Value added by the crude oil and natural gas sector is projected to increase from approximately SR 196.7 billion in 2004 to around SR 225 billion in 2009 at constant 1999 prices. Thus, this vital sector would grow at an
average annual rate of 2.7% over the duration of the Plan.

Comparisons among economic indicators and the rates at which the various economic sectors contributed to the GDP over the past five years, the trend towards economic diversification and increased reliance on the activities of the private sector in all branches of the economy becomes evident, Table 4.2.

Table 4.2
GDP by Activity
Constant 1999 prices

<table>
<thead>
<tr>
<th>Category</th>
<th>Value SR Million</th>
<th>Average Annual Growth Rate (%)</th>
<th>% of GDP *</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Non-oil sectors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Non-oil sectors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1 Agriculture, Forests, Fishing</td>
<td>433,193 525,267 677,239</td>
<td>3.9 5.2</td>
<td>71.8 73.5 75.7</td>
</tr>
<tr>
<td>1.2 Non-oil Mining, Quarrying</td>
<td>147,318 178,250 234,214</td>
<td>3.9 5.6</td>
<td>24.4 24.9 26.2</td>
</tr>
<tr>
<td>1.3 Manufacturing Industries</td>
<td>34,443 38,005 44,399</td>
<td>2.0 3.2</td>
<td>5.7 5.3 5.0</td>
</tr>
<tr>
<td>1.3.1 Oil Refining</td>
<td>2,464 2,723 3,982</td>
<td>2.0 7.9</td>
<td>0.4 0.4 0.4</td>
</tr>
<tr>
<td>1.3.2 Petrochemicals</td>
<td>62,800 79,476 107,206</td>
<td>4.8 6.2</td>
<td>10.4 11.1 12.0</td>
</tr>
<tr>
<td>1.3.3 Other Manufacturing Industries</td>
<td>18,021 20,508 25,443</td>
<td>2.6 4.4</td>
<td>3.0 2.9 2.8</td>
</tr>
<tr>
<td>1.4 Electricity, Gas, Water Construction</td>
<td>6,000 7,352 10,446</td>
<td>4.1 7.3</td>
<td>1.0 1.0 1.2</td>
</tr>
<tr>
<td>2. Private-Services Sectors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1 Trade, Restaurants, Hotels</td>
<td>45,992 57,299 73,980</td>
<td>5.9 6.7</td>
<td>6.4 7.2 8.0</td>
</tr>
<tr>
<td>2.2 Transport, Communications</td>
<td>8,174 11,085 13,589</td>
<td>6.3 4.2</td>
<td>1.4 1.6 1.5</td>
</tr>
<tr>
<td>2.3 Financial and Insurance, Business, Real Estate Services</td>
<td>39,437 46,961 65,038</td>
<td>3.6 6.7</td>
<td>6.5 6.6 7.3</td>
</tr>
<tr>
<td>2.3.1 Real Estate</td>
<td>38,779 51,616 71,317</td>
<td>5.9 6.7</td>
<td>6.4 7.2 8.0</td>
</tr>
<tr>
<td>2.3.2 Financial, Insurance, and Business services</td>
<td>8,174 11,085 13,589</td>
<td>6.3 4.2</td>
<td>1.4 1.6 1.5</td>
</tr>
<tr>
<td>2.4 Community and Personal Services</td>
<td>62,800 79,476 107,206</td>
<td>4.8 6.2</td>
<td>10.4 11.1 12.0</td>
</tr>
<tr>
<td>2.5 Building and Construction</td>
<td>147,318 178,250 234,214</td>
<td>3.9 5.6</td>
<td>24.4 24.9 26.2</td>
</tr>
<tr>
<td>2.6 Government Services</td>
<td>34,443 38,005 44,399</td>
<td>2.0 3.2</td>
<td>5.7 5.3 5.0</td>
</tr>
<tr>
<td>B) Crude Oil, Natural Gas Sector</td>
<td>603,589 714,900 895,166</td>
<td>3.4 4.6</td>
<td>100.0 100.0 100.0</td>
</tr>
<tr>
<td>Other Items (1)</td>
<td>-2,706 -7,063 -7,122</td>
<td>21.2 0.2</td>
<td>-0.4 -1.0 -0.8</td>
</tr>
<tr>
<td>GDP</td>
<td>173,102 196,696 225,049</td>
<td>2.6 2.7</td>
<td>28.6 27.5 25.1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

(1) Import duties less bank service charges.
* Percentages given to the nearest decimal.

Source: Macroeconomic Projections, Ministry of Economy and Planning.
4.2.5 Expansion and Development of Public Services (Health, Education, Housing and the Environment)

Public health services underwent remarkable development in the past two decades, as reflected in a number of significant indicators such as the drop in mortality rate among children below five years of age, from 85 to 22 deaths per thousand births, and the drop in the infant mortality rate from 65 to 18 deaths per thousand births, and the increase of average life expectancy from 61 to 71.9 years.

Under the Eighth Development Plan, public health services are envisaged to continue improving. The number of hospitals would increase from 194 in 2003 to 248 in 2009. Correspondingly, the number of hospital beds would rise from 28,522 in 2003 to 34,722 in 2009 while the number of health emergency centers would increase from 206 in 2003 to 356 in 2009. The Plan also foresees a substantial improvement in maternal and child healthcare indicators, with an increase in the rate of immunization of children against major diseases and an improvement in communicable diseases combat indicators.

The Plan endeavors to improve general education in terms of volume and quality, as well as in relation to meeting labor market requirements and developing the creative capabilities of the students. The Plan also envisages increasing demand for general education, further progress in reducing illiteracy and a rise in the number of kindergarten pupils.

In social services, the Plan foresees continued care for the disabled, orphans, the elderly and the juveniles, in addition to providing social care services to local communities, with family care continuing to have special significance. Civil society would be encouraged to provide social care services, while the state retains responsibility for monitoring, supervision and support.

As for drinking water and wastewater, the Plan estimates that there would be need for around 738,000 household water connections and 23,000 kilometers of water networks, in addition to 1.98 million wastewater connections and 42,000 kilometers of wastewater networks.

The Plan estimates that in the five-year period, the Kingdom would need to build about one million housing units, and envisages a significant increase
in housing provision for needy families, as well as in private ownership of such housing.

Work to conserve wild and marine life would continue, along with efforts to preserve the environmental balance and bio-diversity and conserve natural resources. Air pollution would be reduced, disposal of household, medical and industrial wastes would be improved, and building wastewater networks and treatment plants would continue.

4.2.6 Emphasis on Regional Development

The Plan envisages improving the balance of socioeconomic and urban development among all regions of the Kingdom, along with improving distribution of benefits of development. This objective would be achieved through identifying the geographic regions that are in need of further development, selecting locations of government developmental projects to favor improving the balance of regional development, encouraging the private sector to establish economic projects in the regions, expanding municipal, rural and housing services, and promoting decentralization. It is worth noting that regional development complements the objective of fighting poverty and providing care to poor segments of society.

4.2.7 Increasing Productivity and Improving Competitiveness

It is necessary for the Kingdom to enhance its economic growth through investment in continued expansion of production capacities. It is equally important, however, to strive to increase productivity of all factors of production and achieve optimum utilization of domestic natural resources. Increasing productivity is more important at a time when national economies are being increasingly integrated into the global economy as a result of increased flow of goods, services, trade and capital across national boundaries.

The Plan recognizes the importance of benefiting from modern technology and advanced training for increasing productivity of the Saudi labor force (at all levels), and improving quality of Saudi manufactured products and increasing their competitiveness in domestic, regional and international markets. Rational utilization of resources and efficient production improve economic growth in general, and enhance private-sector capabilities in
particular. The Plan has, therefore, given priority to consolidating government efforts aimed at accelerating and promoting training and skills-building programs, improving administration and organization techniques, increasing utilization of information and communications technology in all sectors, encouraging research and development and innovation, and effectively helping private-sector establishments to develop their technological research and development capabilities through providing the necessary infrastructure and support facilities.

4.2.8 Export Promotion

Global economic and technological developments render increasing the economic efficiency production and investment at all levels is a vital necessity. Thus, improving the quality of goods and services produced by the Saudi private sector and public companies is essential for increasing exports and improving competitiveness in foreign markets. Moreover, increasing non-oil exports is necessary for diversifying the economic base.

The Plan foresees an increase in the value of total exports of crude oil from around SR 368.8 billion in 2004 to about SR 398.5 billion in 2009, i.e. at an annual growth rate of 1.56%. Expected total oil exports would at current prices constitute 34.9% of the value of the GDP in 2009, compared with 39.7% in 2004. In comparison, the value of non-oil exports of goods and services is expected to rise from approximately SR 102.18 billion in 2004 to about SR 153.8 billion in 2009, i.e., a total increase of 50.5%.

4.2.9 Balance of Payments

The Plan expects attaining a surplus in the balance of trade (Figure 4.1). In addition, it also envisages that the government would continue taking measures to improve the overall balance of payments position. This would encourage Saudi businessmen to bring back capital operating overseas to invest in the Kingdom, encourage flow of foreign investment into the country, and somewhat reduce financial transfers by expatriates through encouraging them to invest in domestic enterprises, as well as through speeding up of replacement of foreign labor by national manpower. The plan envisages that continuing government efforts to improve efficiency of shipping, transportation, insurance, and port services, as well as an increase in foreign currency revenues from tourism, would contribute to improving the balance of payments position.
4.2.10 Enhancing Integration with GCC States and the World Economy

Since the beginning of the 1990s, the world has undergone rapid radical economic, political and technological developments that have changed conditions of development in most countries, including Arab countries. Evidently, such developments may negatively impact economic efforts if they are not adapted to adequately.

These developments confirm importance of closer integration with other GCC states. The Plan envisages building on past GCC achievements, such as the uniform customs tariff regime, and completing the negotiations with the European Union (EU) to reach agreement on the free trade area between the two parties. The Plan also anticipates that efforts would continue to develop a common mechanism for coordinating policies and standards to attain monetary union in 2010.

At the global level, the forthcoming accession of the Kingdom to the World Trade Organization (WTO) will necessitate raising the economic efficiency of the private sector and require improving quality of goods and services to levels that would enable them to compete in domestic, regional and global markets.
4.3 ECONOMIC POLICIES

In a market economy, carefully articulated and implemented government policies are still necessary for guiding economic activity within the framework of the adopted development strategy, as well as for helping the economy deal with unexpected and adverse economic developments.

The Plan emphasizes the importance of integrating the functions of macroeconomic policy and the importance of structural economic reform in strengthening market mechanisms and encouraging the private sector to increase its contribution to economic growth and employment. It, furthermore, stresses importance of government investment in infrastructure projects to improve the economic climate in general and the investment climate in particular, in order to increase economic growth rates, create job opportunities, and improve standards of living. Moreover, the Plan envisages that government agencies and the private sector would pay greater attention to the details of economic policies and procedures, in an effort to improve the economic environment. Government agencies are also expected to continue building their administrative capacities in the service of economic activity.

4.3.1 Macroeconomic Policies

As in other countries, the economic function of the State covers regulating the general economic equilibrium through macroeconomic policies. The Plan underscores these policies and specifies their tasks and tools with sufficient clarity to ensure effectiveness.

The Plan adopts financial and monetary policies aimed at maintaining the average annual rate of price inflation within 0.6% during the coming five years. It is also expected that the foreign exchange rate of the Saudi Riyal would continue to be stable in support of economic stability.

Public Finance

The Plan anticipates further growth of public expenditure, but that it would be rationalized and restructured to meet efficiently and effectively requirements of economic and social development against the background of high population growth rates. Financing public expenditure would increasingly depend on real financing sources from oil and non-oil
revenues. While oil revenues would still be the largest source of budget financing, potential fluctuations in oil revenues, due to unforeseeable changes in the oil markets, call for financial policies and measures that would ride out such fluctuations without making urgent cuts in government expenditures and without borrowing from internal financial sources. The Plan, therefore, proposes that the following be considered:

- Establishing a government fund (financial stabilization mechanism) to ensure stability of the annual budget revenues despite fluctuations of oil prices in international markets. A share of the annual income of the treasury would be allocated to the Fund.
- Transferring a constant share of oil revenues for investment in the physical, social and environmental infrastructure and income-generating assets.
- Increasing the share of non-oil revenues in financing public expenditure.
- Limiting government consumption and increasing investment in public developmental projects.
- Restricting borrowing to finance government investments.
- Expediting implementation of the privatization policy in order to alleviate the financial burden on the State budget.

Public Debt

In view of anticipated increases in oil revenues, it is expected that annual budgets would have a surplus in the coming five years. Nonetheless, financial policy is faced with the task of reducing the level of public debt, which is still high compared to GDP. The plan envisages reducing public debt to acceptable levels through repayment, as well as through controlling annual budget expenditures, increasing government revenues, and implementing the mechanisms necessary for attaining financial stability in the long term.

Monetary Policy

Monetary policy plays an important role in managing domestic liquidity, keeping it at the levels required to run economic activity. The Saudi Arabian Monetary Agency (SAMA) seeks to maintain equilibrium between money supply and demand to prevent emergence of inflationary trends, and is expected to continue to do so.
As the Seventh Development Plan had done, the Eighth would ensure the continued success of monetary policy in ensuring stability of the foreign exchange rate of the Saudi Riyal.

**Investment Policy**

In light of the Kingdom’s economic and social development objectives there is increased need for investment in various economic activities. The Plan seeks to promote an appropriate investment climate for both the Saudi and the foreign private sectors, in addition to increasing government investment in vital development projects.

The Plan also envisages increasing the ratio of government investment expenditure to total public revenues, to ensure satisfying the increasing need for economic (physical), social, and environmental, to meet population growth, improve quality of public services, and motivate economic and investment activity.

**4.3.2 Structural Economic Developments**

For some years now, efforts have been made to study and implement a number of structural economic development measures, designed to improve effectiveness of market mechanisms and enhance the role played by the private sector in economic growth and employment. The Kingdom has successfully legislated for a high degree of freedom of economic action, by both the national and the foreign private sectors, in all areas of commerce, investment and production. Several modernization programs have been implemented; the most significant of which applied to the administrative system, the taxation system, the banking system, the stock market, and privatization. However, maximizing the benefits of these programs hinges on successful administrative implementation, as well as on easing administrative constraints and routine, in order to facilitate investment activity.

The Plan seeks to continue with implementation of the policies of structural economic development, taking into consideration the particular characteristics of the Saudi economy, as well as the objectives of the economic and social development strategy.
4.4 Sectoral Objectives and Policies

Economic growth involves continued expansion of production, investment, consumption, financing and commerce. Activities in the various productive sectors represent the supply side in the equation of macroeconomic equilibrium, while demand is represented by investment, consumption, and the net balance of foreign trade.

Targeting sectoral growth rates is necessarily based on developing a certain proportional share of the activities of various sectors, in such a manner as to achieve higher economic growth and larger employment, in addition to ensuring a high degree of stability and sustainability of development.

The development strategy of the Eighth Plan has taken these considerations into account when estimating the growth objectives of the various economic sectors and the required policies to achieve them. Thus, it is envisaged that under the Plan, non-oil sectors would grow at a real annual growth rate of 5.2% at constant 1999 prices, compared to the real annual growth rate of 3.9% attained under the Seventh Plan. Hence, the share of these sectors in GDP would increase from 73.5% in 2004 to around 75.7% in 2009. This expected positive development would
constitute a continuation of a trend, since that share was around 71.8% in 1999, as shown in Table (4.2).

4.4.1 Agriculture, Forests and Fishing

During the Eighth Development Plan's period, Agriculture, Forests and Fishing sector would have a real annual growth rate of 3.2% at constant 1999 prices. Nonetheless, its contribution to GDP is expected to decrease from 5.3% in 2004 to 5% in 2009.

Agriculture accounts for about 86.5% of the overall water consumption. The Plan foresees adoption of an integrated strategy for the administration, development and rationalization of water utilization in agriculture, based on adopting crop patterns that need lower water requirements; utilizing modern techniques, such as drip-feed irrigation and greenhouses; and development of new water resources. There would also be significant changes in government regulation and support policies related to pricing and subsidies, designed to improve productivity.

4.4.2 Mining and Quarrying

Contribution of the non-oil mining and quarrying sector to GDP is foreseen to remain the lowest in comparison with other sectors; estimated to be only 0.4% in 2004. This sector would, however, be the fastest growing of all economic sectors; expected to attain an average annual growth rate of 7.9% at constant 1999 prices.

The sector provides the building and construction industry with various materials, as well as providing metallic and mineral ores for manufacturing industries and export. The Saudi Mining Company (Maa’den) is currently planning to develop, in the northern region, one of the world’s largest phosphate reserves, in partnership with foreign investors. The company is also undertaking exploration for minerals such as gold, zinc, magnesite, bauxite and colane in several locations.

With the issuance of the new mining law, efforts to attract private domestic and foreign investors to exploit the abundant resources in this sector would be intensified.
4.4.3 Petroleum Refining

It is foreseen that the value added of oil refining would grow at a real average annual rate of 4.4% ; while its contribution to GDP would reach 2.8% in 2009, compared with 2.9% in 2004. The anticipated production increase is the result of planned investments to step up the capacities of existing refineries. Development of Riyadh refinery into an integrated complex for refinery products and petrochemicals is the major investment in this field. The Plan expects establishment of new refineries for export purposes, with the participation of the private sector.

4.4.4 Petrochemicals

The petrochemicals industry plays a significant role in attaining the objective of diversification of the economy and generating new sources of national income. Under the Plan, it is expected to achieve a substantial increase in value added, at a real average annual growth of about 7.3%. Consequently, its share of GDP would increase from 1% in 2004 to 1.2% in 2009.

Private investment in this sector is envisaged to lead to diversification of petrochemical products and production of more feedstock for plastic and other downstream industries. Work is currently underway on several major projects, with SABIC expanding its current operations and establishing new production facilities at Yanbu and Jubail. Moreover, several other companies are currently expanding their existing plants, in addition to building new ones.

4.4.5 Other Manufacturing Industries

Manufacturing industries (excluding oil refining and petrochemicals) have achieved substantial development. Over the coming five years, the value added by these industries would grow at a real average annual rate of about 6.7%, with their contribution to GDP thus rising from 7.2% in 2004 to around 8% in 2009. This foreseen growth reflects the huge potential of this sector, which should enable it to play a significant role in the diversification of economic activities, in providing employment opportunities, and in satisfying a share of domestic demand for imported products.
4.4.6 Electricity, Gas and Water

Demand for electricity and water is anticipated to increase due to population growth and current expansion of production capacities. This sector is expected to grow at a real average annual rate of 4.2%, with its contribution to GDP reaching around 1.5% in 2009.

Data from 2002 indicate that households consume 49.5% of total electricity production, followed by the industrial sector at 23.5%, the government sector at 11.2%, the commercial sector at 10.1%, the agricultural sector at 2%, and all other sectors at 3.7%.

The Ministry of Water and Electricity is currently developing a comprehensive National Water Plan. Investment opportunities are now open to the private sector in water transmission, construction of desalination plants, and reclamation and re-use of wastewater. There has been massive expansion in production of desalinated water, making the Kingdom the largest producer of desalinated water in the world. Currently, twenty-two electricity and water production projects are being assessed. Moreover, several water transmission networks would be completed and work is currently underway on a water transmission project (Riyadh–Sudair-Al Washam–Qassim) through pipelines. With these projects implemented, the total length of water pipelines would be over 4,000 kilometers. In addition, a number of projects for re-use of reclaimed wastewater would be implemented.

4.4.7 Building and Construction

Performance of the building and construction sector is strongly linked to the overall volume of expected investments. The value added of the sector is anticipated to increase at an average annual rate of 6.7%, with its share in GDP thus increasing from 6.6% in 2004 to around 7.3% in 2009.

This sector is important, for it is the primary base for investments in buildings, roads, water and wastewater networks, and other construction works. The plan envisages implementation of new housing models and new building techniques, as well as the emergence of competitive and specialized small and medium-size companies.
4.4.8  Trade, Restaurants and Hotels

The Plan foresees an increase of 5.2% in the value added of this sector in the coming five years, which would increase its contribution to GDP from 8% in 2004 to 8.3% in 2009. The activities of the sector would need to meet both population growth and the increase in consumer purchasing power. The tourism sector, particularly domestic tourism, has recently undergone noticeable growth and is likely to continue to grow. Moreover, tourist sites are being developed, which would serve to support this sector and enhance its growth.

Moreover, the Plan envisages that in addition to the increasing number of small and medium size enterprises, large high-capital commercial companies would be formed, enabling commerce to perform an increasingly important role in increasing production, enhancing productivity and providing job opportunities.

4.4.9  Transport and Communications

This sector is expected to undergo steady growth, with its value added rising at an average annual rate of 7.5%, thus increasing its share in GDP from 5.1% in 2004 to 5.9% in 2009. This expected development would satisfy the increasing needs for transportation and communications due to increasing economic activity and the rise of living standards. The Plan also envisages several new expansions and investments.

Work on a number of major roads would be completed, adding to the existing roads network of 49,500 kilometers. The railway network is also expected to undergo expansion through building a new railway to link the phosphate and bauxite mines in the Northern part of the Kingdom with Jubail port on the Gulf coast, in addition to building a railway linking Dammam with Jubail, and expansion of the existing East–West line between Riyadh and Dammam to reach Jeddah (the land bridge). A new line will also be built to link Mekkah with Medina through Jeddah. Both the (minerals line and land bridge) possess a huge potential for stimulating economic growth and providing new employment opportunities in sectors related to transport.

Given the extensive area of the Kingdom, air transport is of immense importance. Attempts are being made to increase competition in this sector
and studies are being conducted to privatize the Saudi Arabian Airlines Corporation (SAUDIA), which currently transports 50% of the passengers to and from the Kingdom. The project for developing King Abdul Aziz airport at Jeddah will also be implemented.

Current capacity of the Kingdom's sea ports is adequate for dealing with the volume of handled goods. However, Jeddah Islamic Port requires expansion. The Plan anticipates increased participation of the private sector in the management of ports and more streamlining of procedures, in order to bring Saudi ports up to the level of competitor regional ports.

Freedom of competition in the communications sector has been enhanced with partial liberalization of mobile-telephone services by the end of 2004, which will be followed by liberalization of fixed line telephone services in 2006. A communications and information technology organization has been established to regulate the sector. A license was granted to a second operator of mobile telephone services, and the Saudi Telecom Company has been partially privatized.

4.4.10 Real Estate

Real-estate activity is expected to increase at an average annual rate of 5.8%, which would increase its contribution to GDP from 6.8% in 2004 to 7.2% in 2009. This reflects the expected population growth and the increase in private investment in buildings and housing. Repatriation of private capital in recent years has had a positive impact on activity in the real-estate market.

4.4.11 Finance, Insurance and Business Services

This sector consists of private banking services (financial intermediation), insurance services, mortgages, and trade in stocks. The value added of these activities is expected to increase at an average annual rate of 6.1%, which would increase their contribution to GDP from 5.9% in 2004 to 6.3% in 2009.

To consolidate development of this sector, a new stock market regulation was issued in 2003, which is expected to lead to further growth of the market and entry of new financial companies into it. These developments would provide the private sector with new opportunities in capital
expenditure finance and lead to further diversification of the capital market. More companies and major business institutions are expected to become joint-stock companies, providing dealers with more options.

Regulation of the insurance sector to provide a regulatory framework for operating domestic and foreign insurance companies would also contribute to opening the sector to foreign investors. Current expectations indicate that there is a large unexploited potential in this sector.

4.4.12 Community and Personal Services

This sector includes public services related to public hygiene and sanitation; and entertainment, cultural and sports activities; in addition to healthcare, educational and social services provided by the private sector. The sector also includes household labor; and hence has a sizeable share of total labor employment.

It is expected that the value added of this sector would increase at an average annual rate of 3.5%. However, its contribution to GDP would drop slightly from about 3.8% in 2004 to about 3.6% in 2009.

4.4.13 Crude Oil and Natural Gas

The crude oil and natural gas sector has been performing a major strategic role in the economic and social development of the Kingdom. Exports are greatly and rapidly affected by volatility in global oil markets and unstable political conditions. Hence, projections of the Eighth Plan are based on cautious assumptions regarding development of global and domestic demand for crude oil and natural gas.

The plan projects a real annual growth rate of the sector of around 2.7% at constant 1999 prices. Nevertheless, contribution of the sector to GDP would drop from around 27.5% in 2004 to around 25.1% in 2009. This development has the advantage of increasing production on one hand, but gradually changing the role of the sector on the other.

An increase in the Kingdom's share of world oil production is expected in the short and medium terms. Most major oil exporting countries are producing at full capacity, which would allow the Kingdom to increase crude oil production in a stable manner, should its interests so dictate.
Recovery of the global economy, the increase in demand for oil, and the rise in its prices in the global market since 2003, are good reasons to expect an increase in oil revenues in the coming years, which would, in turn, increase the capacity to finance development projects and achieve financial surpluses in the trade balance. However, the potential renewed geo-political risks; imbalances in the major global economies, such as the massive current account deficit in the United States; the surpluses in the balance of trade of some emerging Asian economies; and the trend towards raising interest rates; all raise the possibility of a world economic slowdown leading to weakening world demand for oil.

Utilization of natural gas as a feedstock in industry is expected to rise, leading to an increase in its share in the domestic energy market. In addition to the gas separation plants built under the Seventh Development Plan, another large plant would be constructed under the Eighth Development Plan. Moreover, four large gas exploration projects will be implemented, with the participation of international oil companies, to increase natural gas production capacities. These massive investments are expected to lead to the production of natural gas growing at faster rates than crude oil production.

4.5 FINANCIAL REQUIREMENTS OF DEVELOPMENT SECTORS

Total funds required in the coming five years for financing development projects in the major sectors are estimated to be around SR 614.6 billion; i.e., 26.6% above the corresponding amount appropriated for the Seventh Development Plan (Table 4.3). Such a significant positive change underlines determination to achieve the objectives of the Eighth Plan and would make for major future economic progress (*)

(*) This reflects the desire of the leadership of the country to support the overall direction and objectives of the plan. To improve quality of life and raise living standards, SR 60 billion have been earmarked, from the state budgets of 2004 and 2005, to fund additional projects that include: water, wastewater and storm-water projects; expressways; roads within and outside cities and villages; establishing primary healthcare centers in all regions; construction of more schools for male and female students to cater to growing needs; and expansion of the absorptive capacity of technical and vocational education. In addition, the ceiling of social security payment per family has been raised from SR 16,200 to 28,000 per year and SR 10 billion have been earmarked for low-cost housing.
Table 4.3
Financial Requirements of Development Sectors
in the Eighth Development Plan

<table>
<thead>
<tr>
<th>Development Sector</th>
<th>SR Billion</th>
<th>Change (%)</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Budget Allocation (7th DP)</td>
<td>Planned (8th DP)</td>
<td>Budget Allocation (7th DP)</td>
</tr>
<tr>
<td>Human Resources Development</td>
<td>347.6</td>
<td>347.6</td>
<td>347.6</td>
</tr>
<tr>
<td>Social &amp; Health Development</td>
<td>112.6</td>
<td>112.6</td>
<td>112.6</td>
</tr>
<tr>
<td>Economic Resources Development</td>
<td>31.4</td>
<td>31.4</td>
<td>31.4</td>
</tr>
<tr>
<td>Transport &amp; Communications</td>
<td>39.7</td>
<td>39.7</td>
<td>39.7</td>
</tr>
<tr>
<td>Municipal &amp; Housing Services</td>
<td>32.0</td>
<td>32.0</td>
<td>32.0</td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>518.3</td>
<td>518.3</td>
<td>518.3</td>
</tr>
</tbody>
</table>

Source: Macroeconomic Projections, Ministry of Economy and Planning.

4.5.1 Government Financial Expenditures

(a) Development of Human Resources (Education, Science, Technology and Training)

In recognition of the importance of developing the capacities and skills of citizens and improving their ability to assume their responsibilities in society and economy, SR 347.6 billion have been allocated for expenditure on human resources development, which amounts to an increase of 25.5% above the actual allocation under the Seventh Development Plan. At around 56.6%, these funds have the largest share of total appropriations under the Eighth Plan.

Implementation of the envisaged programs and projects would raise manpower skills at all levels and in all fields of specialization, providing Saudi manpower with the means for participation in economic activity. In this context, it would be necessary to continue developing structures and outputs of educational institutions to match labor market needs.

(b) Development of Social and Health Services

Under the Eighth Plan, SR 116.5 billion would be spent on promoting health, social, cultural and informational services to meet increasing demand due to both population growth and improvement of living
standards. These funds amount to 19% of the total allotted for all development sectors and exceeds comparable expenditure under the Seventh Development Plan by 25.8%.

Development efforts in this sector have achieved evident success. For example, demographic indicators show a reduction in the fertility rate and a rise in life expectancy corresponding to trends in advanced countries, in addition to a reduction in the rate of infant mortality due to improved social conditions and health services. It is also expected that private-sector participation in meeting healthcare needs would increase.

(c) Economic Resources Development (Agriculture, Water, Electricity, Petroleum, Gas, Minerals, Industry, General Economic Services)

To continue efforts to develop these sectors, SR 71.0 billion would be allocated for expenditure on them under the Eighth Plan, which amounts to an increase of 30.5% above comparable expenditure under the Seventh. Accelerated privatization would provide many new options, while public-private partnerships would increase efficiency and improve performance of facilities targeted for privatization. In addition, privatization would create promising investment opportunities for national and international capital.

(d) Transport and Communications

The vast area of the Kingdom of Saudi Arabia necessitates providing land and air transport, railway lines, and fast communications to link citizens and facilitate economic activity throughout the country. SR 39.9 billion have been allocated for expenditure on developing these facilities under the Eighth Plan, which represents an increase of 27.1% over comparable expenditure under the Seventh.

These resources will be invested in maintaining and expanding existing infrastructure and providing efficient transport networks. Postal and communications services will also be improved in line with economic and technological developments.

Continuing with its recent policies, the Communications and Information Technology Commission (CITC) will continue to regulate liberalization of the communications market to introduce greater competition, in addition to supervising the communications systems.
(e) Development of Municipal and Housing Services

Development of municipal and housing services helps to address the problems arising from the disparities among the levels of development in various regions and contributes to alleviating poverty in the poorest. Hence, SR 39.6 billion have been allocated for expenditure on development of municipal and housing services in all parts of the Kingdom.

4.5.2 Government Financial Revenues

Under the Plan, it is anticipated that government financial revenues would amount to around SR 1,323.7 billion, with oil revenues about SR 978.1 billion. Expected government expenditure on development sectors is estimated at a total of SR 614.6 billion, of which SR 110 billion would be allocated for investment contributing expenditure and SR 504.6 billion for operational expenditure. Hence, budget surplus is expected to reach about SR 89.7 billion over the period of the Plan, which would contribute to reducing public debt, in addition to increasing investment in capital assets.

4.6 Resources and Utilizations

Theoretically, in a market economy characterized by free competition, the price mechanism guides direct economic decisions towards efficient mobilization and distribution of resources. In practice, however, since in most countries not all conditions for a free market exist, the state plays a crucial role in organizing the economy to ensure economic stability, expand production capacities and infrastructure, and stimulate economic activity. Hence, state intervention must be based upon thorough knowledge of how the national economy works, which, in turn, calls for analyzing the state of the economy and its major variables, and formulating effective economic policies capable of leading it to the set objectives.

Therefore, the Eighth Development Plan provides the statistical indicators necessary for macroeconomic analyses, as well as for helping comparison assessment and follow-up of economic development. This would also ensure the required consistency between available resources and various user in addition to explaining patterns of distribution of economic resources required for the targeted economic growth.
4.6.1 Available Resources

Gross Domestic Product (GDP)

The value of GDP (i.e., the aggregate values added generated by all economic sectors) is expected to rise from around SR 714.9 billion in 2004 to about SR 895.2 billion in 2009 at 1999 constant prices, which represents an average annual growth rate of 4.6%.

Imports

The value of imports of goods and services is anticipated to rise from about SR 200.1 billion in 2004 to around SR 250.3 billion in 2009 at constant 1999 prices, i.e., at an average annual rate of 4.6%. The ratio of the value of imports to GDP, which was 28% in 2004, is expected to remain the same in 2009.

4.6.2 Uses of Available Resources

Private Consumption

The value of private consumption is expected to increase from about SR 297.4 billion in 2004 to about SR 353.9 billion in 2009 at constant 1999 prices, i.e., at an average annual rate of 3.5%. Nonetheless, the contribution of private consumption to GDP will decrease from around 41.6% in 2004 to about 39.5% in 2009, signaling a trend in favor of investment and requirements of economic growth.

Government Consumption

Government consumption, mostly employee salaries and remuneration, is expected to increase from approximately SR 200 billion in 2004 to about SR 231.9 billion in 2009 at constant 1999 prices, i.e., at an average annual increase rate of 3.0%. However, the share of government consumption in GDP will fall from about 28% in 2004 to around 25.9% in 2009; again, signaling a trend in favor of investment and requirements of economic growth.
### Table 4.4
Expenditure on GDP
Constant 1999 prices

<table>
<thead>
<tr>
<th>Item</th>
<th>Value (SR Million)</th>
<th>Average Annual Growth Rate (%)</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(2004)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(2009)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Consumption</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private consumption</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government Consumption</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Gross Fixed Capital</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-oil private sector</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government sector</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil sector</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Change in Stock</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Balance of Trade</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goods &amp; services exports</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goods &amp; services imports</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Percentage approximated to the nearest decimal.

_Source: Macroeconomic Projections, Ministry of Economy and Planning._

### Figure 4.3
Development of Expenditure Items
Constant 1999 prices
Gross Fixed Capital Formation

The value of gross fixed capital formation is expected to grow from about SR 146.6 billion in 2004 to SR 243.9 billion in 2009 at constant prices of 1999, i.e., at an average annual rate of 10.7%. Thus, the contribution of gross fixed capital formation to GDP is expected to rise from about 20.5% in 2004 to about 27.3% in 2009. This anticipated development suits requirements of economic development.

Exports

The value of exports of goods and services is expected to increase from about SR 252.3 billion in 2004 to about SR 293 billion in 2009 at 1999 constant prices, i.e., at an average annual growth rate of 3%. However, their contribution to GDP will decrease from around 35.3% in 2004 to about 32.7% in 2009.
CHAPTER FIVE

INSTITUTIONAL AND ADMINISTRATIVE DEVELOPMENT
5. **INSTITUTIONAL AND ADMINISTRATIVE DEVELOPMENT**

5.1 **INTRODUCTION**

An efficient public administration is one of the important inputs of economic and social development and a pre-requisite for its sustainability.

The dynamic, ever changing requirements of development entail continuous institutional and administrative development. Hence, building effective responsive administrative and public institutions was the first step of modern economic and social development in the Kingdom and has been a major concern of successive development plans.

The process of institutional and administrative development gathered further momentum under the Seventh Development Plan, in response to the socioeconomic challenges posed by both internal developments and globalization. Under the Eighth, it would focus on enhancing the regulatory role of the State and providing institutional support to the private sector; in addition to continuing with administrative restructuring of government agencies and improving their efficiency, enhancing the socioeconomic effectiveness of current public and investment expenditure, and strengthening coordination among public administrative bodies.

This chapter addresses the most significant administrative and institutional developments under the Seventh Development Plan; reviews the major challenges to improving implementation, monitoring and evaluation of policies; and deals with the objectives, policies and implementation mechanisms under the Eighth Plan.

5.2 **CURRENT CONDITIONS**

5.2.1 **General Framework of Institutional and Administrative Development**

Under the Seventh Development Plan, institutional and administrative development achieved marked progress, with the full support of the country's leadership. In his speech on the occasion of the inauguration of
the third session of the Shura (Consultative) Council on 17/5/2003, the late Custodian of the Two Holy Mosques, King Fahd, emphasized importance of monitoring performance of government agencies, fighting administrative corruption and pressing ahead with implementation of administrative reforms, and stressed the crucial role of the Council in monitoring performance of government agencies and departments.

Earlier, Royal Decree 7/B/6629 of 31/8/1999 established a ministerial committee, chaired by H.R.H The Second Deputy Prime Minister and Minister of Defense and Aviation and Inspector General, entrusted with reviewing administrative structures of government agencies and institutions, improving performance of monitoring departments, reviewing the size of each government agency or administration in relation to its tasks, and promoting financial efficiency of government agencies and institutions (Box 5.1).

**Box 5.1: The Ministerial Committee for Administrative Organization**
The Ministerial Committee for Administrative Organization was formed by Royal Decree 7/B/6629 of 31/8/1999, under the chairmanship of HRH the Second Deputy Prime Minister and Minister of Defense and Aviation and Inspector General. A six-member Ministerial Sub-committee was then formed, under the chairmanship of H.E. the Minister of Civil Service, which carries out its tasks through a five-member Preparatory Committee headed by the Director General of the Institute of Public Administration.

Objectives of the Ministerial Committee include:
1. Developing and modernizing government apparatus.
2. Improving efficiency and effectiveness of government agencies.
3. Developing financial regulations and rationalizing cost of government work.
4. Developing personnel regulations and applying principles of meritocracy.
5. Privatizing government services that are open to privatization.
6. Administering some government activities on commercial basis.
7. Introducing computerized systems and administrative technologies intensively into government agencies.

These objectives would be achieved through investigating government bodies according to a comprehensive plan based on a detailed methodology for conducting field studies from a sectoral perspective by specialized teams.

Field studies have all been carried out. Some have been approved by the Council of Ministers, some have been submitted to the Ministerial Committee, and a few are still being considered by the Ministerial Sub-Committee and the Preparatory Committee.
The Ministerial Committee conducted comprehensive studies. The resulting recommendations submitted to the Custodian of the Two Holy Mosques have been approved.

### 5.2.2 Development of Economic Administration

The most important achievements under the Seventh Development Plan were:

- Establishment of the Supreme Economic Council which has been entrusted with, inter alia: formulating economic policies; coordinating work of government agencies related to the national economy; monitoring implementation of economic policies; studying development projects, monitoring reports, and financial policies; and other economic and financial tasks.
  - Restructuring the Supreme Petroleum Council and reviewing its tasks to include:
  - Determining and approving petroleum and gas policies and strategies.
  - Setting up the general policies of the Saudi Arabian Oil Company (Saudi ARAMCO).
  - Taking decisions on post-production investment.
  - Monitoring implementation of approved policies and strategies.

- Separation of water affairs from agriculture affairs and entrusting the former to the Ministry of Water and Electricity, subsequent to separation of electricity affairs from industry affairs and entrusting the latter to the Ministry of Commerce and Industry; all to promote efficiency of related sectoral policies.

- Separation of economic affairs from financial affairs and entrusting the former to the Ministry of Economy and Planning, in order to enhance management of both socioeconomic development and financial affairs.

- Creation of two separate ministries for labor affairs and social affairs, in recognition of the growing importance of both, and attaching the Manpower Council to the Ministry of labor.
5.2.3 DEVELOPMENT AND IMPROVEMENT OF PUBLIC SERVICES

In an effort to develop public services and improve their quality, encourage private domestic and foreign investments, and enhance competitiveness of national products, a number of regulatory and administrative arrangements were made under the Seventh Development Plan, the most important of which are:

- Creation of the Saudi General Investment Authority (SAGIA), tasked with encouraging domestic and foreign investment, streamlining and rationalizing investment procedures, and developing a competitive investment environment.
- Creation of the Supreme Commission for Tourism, tasked with developing tourism and to contributing to diversification of the economic base, through removing constraints on tourist activity, providing incentives to investors, and designing a media plan for encouraging and energizing tourism; all in collaboration with other competent agencies.
- Creation, as part of restructuring and privatizing the communications sector, of the Communications and Information Technology Authority, tasked with organizing the sector and introducing fair competition.
- Creation of the Electricity Services Regulating Authority, as part of current restructuring of the electricity sector, which is aimed at privatizing electricity facilities and introducing competition into power generation.
- Establishing the Capital Market Authority, tasked with organizing and developing financial markets.
- Creation of the Saudi Industrial Cities and Technology Zones Authority, tasked with implementing a strategy for developing industrial cities and to establishing rules and procedures for their establishment, development, maintenance and operation.
- Creation of the Food and Drugs Public Organization, tasked with reviewing and promoting food and drugs regulations, adopting policies and plans to ensure quality and safety of foodstuffs and drugs, developing monitoring mechanisms, and applying the national specifications and standards for production, distribution, importation and registration of drugs and medical equipment.
5.2.4 Development of Educational Administration

The following are some of the organizational steps taken within the framework of development of the education and training sector:

- Bringing all education services provided by military and security agencies or public bodies under the Ministry of Education.
- Bringing the Deputy Ministry of Girls Colleges and the Deputy Ministry of Male Teachers under the Ministry of Higher Education.
- Establishing the Supreme Education Council to replace the Higher Education Council.

5.2.5 Other Developmental Steps

As part of administrative development and restructuring, the Ministry of Housing and Public Works was abolished and its tasks transferred to the Ministry of Municipal and Rural Affairs and other relevant government agencies. The Supreme Council for Arts and Letters, the Supreme Council for Youth and Sports, and the Supreme Council for Information were also abolished.

Furthermore, radio and television stations were brought under a public authority having an autonomous board of directors; and the Saudi Press Agency, the Posts General Directorate, and the Presidency of Civil Aviation were also made into public organizations.

5.3 Issues and Challenges

Analysis has revealed that institutional and administrative development have focused on the structure of public administration; addressing reorganization of administrative and institutional bodies and review of their main tasks to eliminate duplication and overlap of powers, and administrative separation of incompatible activities to enhance socioeconomic efficiency; as in separation of water from agriculture and electricity from industry. Certain other organizational aspects were also dealt with; mostly in relation to improving the investment environment,
and organizing services, particularly those targeted for privatization or those that fall within the scope of public-private partnership.

These notable achievements notwithstanding, attainment of long-term goals and objectives requires proceeding with the comprehensive review of administrative regulations, mechanisms and procedures, with particular emphasis on customer relationships; in addition to addressing performance measurement, evaluation and monitoring.

Thus, the key institutional and administrative development issues and challenges that should be resolved during the period of the Eighth Development Plan may be identified as follows:

5.3.1  **Life Cycle Efficiency**

Economic efficiency of investment depends on the volume and distribution of financial resources over the various economic sectors, as well as on the efficiency of investment projects throughout their lifecycle. Procedures and mechanisms governing government projects, during the three major stages of pre-contract, implementation, and post-implementation trial operation, are in need of review, to raise economic efficiency. The following requirements should, therefore, be met to ensure lifecycle efficiency:

a) Ensuring that project feasibility studies are of high quality and address all relevant issues.

b) Adopting technical and financial pre-qualification of contractors in line with the nature and requirements of the project.

c) Ensuring the quality and clarity of project technical specifications and laying down the criteria and standards of performance expected of the project operation as a condition for final handover.

d) Monitoring implementation effectively to ensure timely correction of faults and errors.

e) Evaluating the implementation process upon project completion and documenting experiences for future reference.
5.3.2 Monitoring and Evaluation of Policies

Policy formulation involves conducting comprehensive analysis of both possible efficacy and socioeconomic feasibility. However, specifying measurable indicators for evaluating policies in operation is often overlooked. This is a serious omission; since no matter how carefully a policy is formulated, it is still possible for it to fail to attain its objectives. It is, therefore, advisable to evaluate policies periodically and modify them if they prove to be ineffective, which is possible only if objective performance measures are set down and used.

5.3.3 Rationalization of Government Procurement Procedures

The existing government procurement system allows each agency individually to purchase its needs, in coordination with the Ministry of Finance; a traditional practice which is still followed in many countries. However, communications and information technology has made possible more economically efficient procurement systems, through utilizing electronic procurement (e-procurements) systems, which have been adopted by governments and public and private institutions in advanced countries.

5.3.4 Implementation of Electronic Government (E-Government)

The e-government initiative has received substantial support and some government agencies are already implementing some aspects. However, progress is still slow and there is still need to further develop efficiency of the public sector, to enhance competitiveness of the national economy and facilitate transactions.

It is, therefore, important to accelerate the establishment for each government agency and public organization of an integrated website providing all the relevant regulations, procedures and rules. It is also essential to provide for online submission of all official transaction forms and online monitoring of transaction progress.
5.3.5 Internal and External Efficiency of Public Sector

Enhancing public sector performance is an enduring goal of institutional development. However, monitoring progress requires reference performance models and benchmarks. The most important common features in international experience are the following:

- Adopting for all intra-agency and inter-agency activities performance benchmarks that may be based on local agency experience or on similar experiences of other government or private agencies (domestic or international).
- Adopting for all activities performance measures to enable monitoring and evaluation.
- Establishing, within each agency, a unit tasked with developing of performance measurement, monitoring and evaluation procedures.
- Ensuring clarity of internal and external procedures, particularly those related to customers, and posting these conspicuously on the website of the agency concerned.
- Preventing external or internal interference in transaction processing.
- Establishing an administration or department for customer relationship management.
- Encouraging competition among similar agencies on the basis of well-defined benchmarks, along with provision of a system for rewarding outstanding performance.

It is necessary to benefit from international experience and to adopt an institutional and administrative development methodology based on standardized performance evaluation both at agency level and at the level of the public sector as a whole.

5.3.6 The Development Plan and the Role of the Public Sector

The outcome of shared efforts by the state and the various bodies and sectors of society, a five-year development plan is a comprehensive implementation program for a stage in the march of the Kingdom towards
realizing its national goals and strategic objectives. It is thus a multiparty “social contract” that determines the commitments of all state institutions to the national leadership and society.

Fulfillment of this multiparty social contract entails agreement by each party to implement, in its particular field of activity, the various policies, programs and projects set by the plan. These should then constitute binding agreements and performance contracts, on the basis of which the various agencies would evaluate their own performance against the objectives as set out in the plan. Moreover, the operational plan of each agency would be tantamount to an agreement that determines the obligations of its departments and sections towards realizing agency objectives, which, in turn, represent commitments of the agency to the state and society.

5.4 DEVELOPMENT STRATEGY

The strategy of institutional and administrative development under the Eighth Plan will be implemented through the following objectives, policies and targets:

5.4.1 Objectives

- Provide a high-efficiency institutional and administrative environment that supports the socioeconomic development and contributes to enhancing competitiveness of the national economy.
- Attain maximum socioeconomic efficacy and efficiency in management and utilization of public resources.
- Enhance the internal and external efficiency of the process of development planning.

5.4.2 Policies

Achievement of the above general objectives relies upon the following policies:

- Enhancing socioeconomic efficiency of government investment projects.
- Implementing e-Government and more efficient systems of service
delivery, including e-procurement.

• Developing internal and external efficiency of the public sector.

5.4.3 Targets

The following targets are expected to be achieved:

• Looking into adoption of pre-qualification of contractors and limiting such pre-qualification to classified and specialized categories.
• Looking into enforcement of mandatory classification of contractors.
• Constructing customer-oriented websites for all government agencies.
• Providing all regulations, procedures and transaction forms on the websites of all agencies.
• Providing by all agencies for online transaction processing and monitoring, wherever possible.
• Establishing performance development and evaluation units within government agencies and public institutions.
• Clarifying by all government agencies of the requirements of all transactions involving the public and the period needed to finalize each transaction.
• Establishing a customer relationship management administration or department in all government agencies that deal with citizens.
CHAPTER SIX

THE PRIVATE SECTOR
6. **THE PRIVATE SECTOR**

6.1 **INTRODUCTION**

Since an early stage, development plans provided the private sector with opportunities to undertake economic tasks in a wide range of activities; thus contributing effectively to its development, enhancing its role in the national economy, expanding its capabilities, and improving its economic efficiency (both in investment and production). As a result, it has become capable of mobilizing capital for financing projects, and using advanced management techniques and technologies in operations.

Through privatization of telecommunication, power generation, desalination and many other activities that offer promising investment opportunities, the government has created an appropriate investment climate, conducive to enhancing the economic and social development role of the private sector. Nonetheless, the private sector still faces challenges that should be addressed during the coming period; foremost among which are: continuing to improve its competitiveness to enable it to rise to the challenge of globalization; increasing its contribution to production, investment and provision of job opportunities for the growing number of Saudi entrants into the labor market; and increasing its investments in high-value-added projects and activities complementary to the fundamental national industries, particularly the highly competitive export-oriented.

This chapter describes the current conditions of the private sector, the key issues and challenges facing it and its expected role under the Eighth Development Plan, as well as the long-term future vision for that role. It also presents the targets, policies and implementation mechanisms adopted by the Plan in this context.

6.2 **CURRENT CONDITIONS**

6.2.1 **Main Indicators of the Sector**

Development of the private sector has been associated with the parallel development of the activities of its institutions, represented mainly by the Chambers of Commerce and Industry (20 chambers) and their affiliated companies and establishments, which number about 174,000. These
institutions are managed by the Saudi Council of Chambers of Commerce and Industry, under the supervision of the Ministry of Commerce and Industry. The chambers play a vital role in organizing the activities of the private sector and promoting the joint economic interests of its constituent institutions. The national committees, which work within these chambers, contribute to studying many important issues related to the private sector. They also study and analyze the regulations, decisions and measures issued by government agencies, to help implement them, or else propose amendments designed to protect the interests of the sector.

Moreover, the chambers seek to enhance the competitive capabilities of the private sector and develop employer-employee relationships, and endeavor to settle any dispute or conflict of interests among private sector firms. They also participate in the activities of GCC, Arab, Islamic and international counterpart institutions.

The wide range of private sector activities reflects development of the economic institutions, ability of the sector to increase its expected role in the national economy and in achieving objectives of the development strategy.

The private sector grew at a real average annual rate of 4.3% during the Seventh Development Plan period, 2000–2004. Its percentage share of GDP increased from 52.4% in 1999 to 54.6% in 2004, compared to the plan target of 55.4%. During the same period, private investment grew at an average annual rate of 2.3% compared to the plan target of 8.3% (Table 6.1). This gap between the actual and targeted rates is attributed to the recent conflicts and tensions in the region, which adversely affected the investment climate and led to a delay in the implementation of some of the major private investments foreseen by the Plan in such sectors as petrochemicals and mining.

With respect to the contribution of the private sector to the provision of new job opportunities, private sector employment increased from 6.15 million in 1999 to 7.10 million in 2004, i.e., at an average annual growth rate of 2.9%. The sector accounted for 88.5% of the total increase of employment in the national economy during that period, with its share of total employment increased from 85.0% to 85.4%. Regarding Saudization, the share of Saudi employment in the private sector increased from 29.6% in 1999 to 35.5% in 2004.
A prominent positive development that reflects improvement of private sector efficiency is its increasing internal financing and self-growth capabilities, represented in its degree of independence from the developments in the government sector and the oil sector, which are highly susceptible to sharp fluctuations in world oil markets, as shown in Figure 6.1 and Table 6.2.

### Table 6.1
**Major Indicators of the Private Sector's Role in the National Economy 1999 and 2004 Seventh Development Plan**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>1999</th>
<th>2004</th>
<th>Planned</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Value Added (SR billion) *</td>
<td>316.4</td>
<td>390.2</td>
<td>5.04</td>
<td>4.3</td>
</tr>
<tr>
<td>2. Contribution to GDP (%)</td>
<td>52.4</td>
<td>54.6</td>
<td>55.4</td>
<td>–</td>
</tr>
<tr>
<td>3. Total Private Investments (SR billion)*</td>
<td>98.3</td>
<td>110.3</td>
<td>8.34</td>
<td>2.3</td>
</tr>
<tr>
<td>4. Number of Companies</td>
<td>190,662</td>
<td>194,745</td>
<td>–</td>
<td>0.4</td>
</tr>
<tr>
<td>5. Number of Operating Factories</td>
<td>3,163</td>
<td>3,652</td>
<td>–</td>
<td>2.92</td>
</tr>
<tr>
<td>6. Private Sector Employment (000)</td>
<td>6,145</td>
<td>7,076</td>
<td>1.0</td>
<td>2.9</td>
</tr>
<tr>
<td>7. Saudi Employment (000)</td>
<td>1,819</td>
<td>2,512</td>
<td>5.8</td>
<td>6.7</td>
</tr>
<tr>
<td>8. Share of Private Sector Employment of Total Employment (%)</td>
<td>85.0</td>
<td>85.4</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>9. Share of Saudi Employment of Total Private Sector Employment (%)</td>
<td>29.6</td>
<td>35.5</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

* At constant prices of 1999.
*Source: Ministry of Economy and Planning.*
6.2.2 Investment and Business Environment

A number of initiatives, aimed at developing business environment and attracting investment, particularly direct foreign investment, were launched during the period of the Seventh Development Plan; the most noteworthy of which are the following:

1. The Saudi General Investment Authority (SAGIA) was established in 2000 to advance national and foreign investment. SAGIA was tasked
with issuing investment licenses, facilitating investment procedures via one-stop-shops (comprehensive service centers) in all major cities, proposing policies and measures for improvement of the investment climate, and promoting investment opportunities and providing pertinent information on them. SAGIA is committed to taking a decision regarding an investment application within a period of thirty days. Notably, between its establishment in 2000 and 2003, it granted about 2,000 licenses for investment projects, with a total value of about SR 48 billion.

2. The new Foreign Investment Law issued on 10/4/2000, which ensures equal treatment for national and foreign investors by allowing foreign companies to obtain full ownership of projects and pertinent assets, as well as by offering equal investment incentives, including soft loans provided by the Saudi Industrial Development Fund (SIDF). Moreover, foreign companies are allowed for tax purposes to carry over their losses for an unlimited number of years, and the tax was reduced to 20% of profits.

3. The Capital Market Law issued on 16/2/2003. The capital market plays a significant role in promoting economic growth by consolidating national savings, stimulating national investments and attracting foreign investments. Hence the Law aims at restructuring and regulating this market by developing its institutional structure and completing the related infrastructure, in line with international best practice, to assure transparency and safety of dealings. The most important developments introduced by are:

- Establishment of three new institutions, enjoying administrative and financial autonomy, to replace the interim measures that were adopted by the market: the Capital Market Authority, a supervisory and regulatory body; the Saudi Stock Exchange; and the Securities Depository Center, to act as a custodian of securities and related settlements.

- Separation of the supervisory and regulatory role from the executive role of the capital market. The former is played by the Capital Market Authority, while the latter is played by the Saudi Stock Exchange and the Securities Depository Center, under private sector management.

4. Establishment of the Human Resources Development Fund in 2000, with the aim of promoting the training of national manpower
to meet the needs of the labor market, and providing support to the private firms that employ and train Saudi manpower.

5. Launching by the Saudi Industrial Development Fund (SIDF), in collaboration with the commercial banks, of a program to support small and medium enterprises (SMEs). Under this program, the SIDF guarantees up to 75% of the loans provided by the commercial banks to SMEs. An amount of SR200 million was allotted for this purpose, as an initial step. Efforts to support SMEs also included increasing the capital of the Saudi Credit Bank (SCB) by SR 2 billion.

6.2.3 Privatization

The period of the Seventh Development Plan witnessed marked developments in privatization, foremost among which is identification of the activities to be privatized (Box 6.1). Moreover, several other important measures were taken in a number of sectors and activities, including the following:

<table>
<thead>
<tr>
<th>Box 6.1: Facilities and Activities Targeted for Privatization</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Council of Ministers’ Resolution 219 of 11.11.2002 listed the facilities and activities to be privatized:</td>
</tr>
<tr>
<td>Water and sewage; desalination; telecommunications; air transport and related services; railroads; roads (management, operation and maintenance of express roads which have alternatives; construction and operation of new express roads); airport services; postal services; grain silos and flour mills; seaport services; industrial cities services; government shares in the stock companies, such as the Saudi Electricity Company, the Saudi Basic Industries Corporation (SABIC), the banks, the Saudi Arabian Mining Company (MA’ADEN), and the Saudi Telecommunications Company (STC); the government share in domestic refineries and in the capital of the joint Arab and Islamic investment companies; government hotels; sports clubs; municipal services (construction and operation of slaughterhouses, public parks, public markets, transport and traffic services and collection of municipal revenues, cleaning and waste disposal services); education services (construction and maintenance of school buildings, printing of textbooks, school transport, and leasing and operation of school and university facilities); social services (management and operation of social-care services institutions, and services related to employment of Saudi nationals in the private sector); agricultural services (quarantine service, veterinary clinics, and laboratories); health services (construction and operation of health facilities and transportation of patients).</td>
</tr>
</tbody>
</table>
- **Telecommunications Sector**

The telecommunications sector was liberalized, with introducing greater competition and establishment of the Telecommunications and Information Technology Authority, entrusted with encouraging competition and market forces in the provision of telecommunications and information technology services, as well as licensing the private sector investments.

In addition, the Saudi Telecommunications Company was privatized in 2002, with offering 30% of its shares for public subscription, and a second operator was licensed in 2004 to provide mobile telephone services. Moreover, other companies obtained licenses to provide VSAT, data and internet services. A license will be offered to a second operator in 2006 to provide fixed-line telephone services (Chapter 22 on Telecommunications and Information Technology).

- **Electricity Sector**

The Electricity Regulatory Authority was established in 2001, and a law for regulating the electricity industry, including potential separation of generation, transmission and distribution activities and allowing competition in the industry, was drafted. In addition, electricity and water utilities in Jubail and Yanbu industrial cities were privatized. In 2004, ARAMCO concluded a contract with a private company for the construction and operation of four power generation plants. Further, the Saudi Electricity Company intends to offer a number of power generation and transmission projects for competition on BOT (Build–Operate–Transfer) basis.

- **Mining and Mineral Resources Sector**

The Saudi Arabian Mining Company (MA'ADEN) was established, as a step towards private-sector participation in the mining sector. Its Memorandum of Association specified that within five years from the date of establishment, it will be transformed into a joint-stock company. Privatization is expected to start during the first half of the Eighth Development Plan. Since its establishment, MA'ADEN has implemented an active exploration program that enabled it to obtain three concessions for mining precious metals in Mahd Al-Dahab, Amar and Hajar, in addition to a concession for mining magnesite (an industrial mineral) in Darghat. The New Mining Investment Law, issued by Royal Decree M/47 of
4/10/2004 provides incentives to encourage investment in the mineral resources sector by Saudi and foreign investors, including full exemption of mining equipment from import duties.

- **Seaports**

By the end of 2002, the government had concluded with the private sector 27 contracts for partnership in port-based and sea-borne services; some extending over periods of 40 years. These contracts, under which the private sector invested substantial amounts for the development of port facilities, provide for the private sector undertaking management, operation and maintenance, while the government retains ownership of assets.

- **Air Transport**

Council of Ministers Resolution 90 of 4/6/2004 approved competition in domestic air transport by national carriers.

- **Saudi Railways Organization**

Trains are currently operated by the Saudi Railways Organization, with the private sector undertaking maintenance and operation of loading and unloading equipment in Dammam and Riyadh ports, as per leasing contracts, under which the government retains ownership of assets.

- **Postal Services**

In Resolution 78 of 10/6/2002, the Council of Ministers approved restructuring the General Directorate of Posts, transforming it into the Saudi Posts Organization, a public organization to be run by a Board of Directors from both the public and the private sector. The government has adopted a strategy of encouraging private sector participation and competition in postal services.

- **Health Services**

Some public hospitals are currently operated by private companies under operation and management contracts. Moreover, in Resolution 76 of 3/6/2002, the Council of Ministers approved the healthcare system, which allows privatization of public hospitals.
- **Insurance Sector**

In an important step towards regulation, privatization and liberalization of the insurance market, the government issued in 2003 the Insurance Companies Regulatory Law. A year later, the Council of Ministers resolved to offer the government share (50%) in the state-owned National Cooperative Insurance Company for public subscription.

### 6.3 Structural Features of the Private Sector

A key feature of the private sector is the high number of small and medium enterprises (SMEs). In 2004, 93% of almost 693,000 licensed firms were SMEs. Wholesale and retail trade firms accounted for 48%, followed by agricultural and fishing firms (14%), manufacturing industries (13%), hotels and restaurants (9%) and other firms (16%), as shown in Table 6.3.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number</th>
<th>Share of Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesale and Retail Trade</td>
<td>330,638</td>
<td>48</td>
</tr>
<tr>
<td>Agriculture and Fishing</td>
<td>95,593</td>
<td>14</td>
</tr>
<tr>
<td>Manufacturing Industries</td>
<td>88,066</td>
<td>13</td>
</tr>
<tr>
<td>Hotels and Restaurants</td>
<td>64,245</td>
<td>9</td>
</tr>
<tr>
<td>Others</td>
<td>114,284</td>
<td>16</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>692,826</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Central Department of Statistics, Establishments Survey 2004.*

The real estate sector accounted for 28.5% of the total private investments in 2003; followed by the industry sector, excluding oil refining and petrochemicals, at 6.6%, trade at 5%, financial services at 4.2%, agriculture at 3.5% and community services at 2.1%, as shown in Table 6.4. The low share of industrial investments represents a key challenge for the long-term development strategy. Hence, the Eighth Development Plan will give priority to encouraging investment in the productive sectors, particularly industry.
Table 6.4
Distribution of Private Investment in 2003 by Activity

<table>
<thead>
<tr>
<th>Type of Activity</th>
<th>Investment (SR billion) (2003)</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Estate</td>
<td>30.0</td>
<td>28.5</td>
</tr>
<tr>
<td>Industry (excluding Oil Refining and Petrochemicals)</td>
<td>7.0</td>
<td>6.6</td>
</tr>
<tr>
<td>Trade</td>
<td>5.3</td>
<td>5.0</td>
</tr>
<tr>
<td>Financial Services</td>
<td>4.4</td>
<td>4.2</td>
</tr>
<tr>
<td>Agriculture</td>
<td>3.7</td>
<td>3.5</td>
</tr>
<tr>
<td>Social Services</td>
<td>2.2</td>
<td>2.1</td>
</tr>
</tbody>
</table>

Source: Ministry of Economy and Planning.

The private sector includes a significant number of large Saudi-owned companies, having good capabilities and diversified activities; some of which have succeeded in extending their operations into regional and international markets. Indeed, activities of Saudi companies in the international arena are characterized by considerable diversity. Some have steel plants in Egypt, Jordan, India and Vietnam. Others have cable production factories in Bahrain and Turkey; yet others operate in power generation and oil and gas exploration in Pakistan, Yemen, Bangladesh and Madagascar. Furthermore, Saudi investments are widely spread in Arab countries, Europe and USA in agriculture, real estate and hotel services. Notably, most large Saudi companies are family-owned and do not have any public shareholdings. Of the largest hundred in terms of revenues, these comprise 45%. To encourage development and long-term sustainability, the government encourages transformation of such companies into joint-stock companies, in addition to promoting improvement of their managerial and technical capabilities to enable them to face competition and play a more dynamic role in the national economy.

6.4 ISSUES AND CHALLENGES

Notwithstanding the rules and regulations issued by the government under the Seventh Development Plan to support efforts by the private sector, increase its contribution to diversification of the economic base, and enhance its future role in economic development, there are issues and challenges that need to be addressed under the Eighth Development Plan.
6.4.1 Investment Environment

The Kingdom enjoys many investment advantages, including stability of the economic climate, stability of the exchange rate of the Saudi Riyal, and bilateral and multilateral trade agreements; in addition to a wide natural resources base of oil, gas, industrial minerals and precious metals. Nevertheless, there has been over the past two decades a shortfall in foreign investment, compared to the comparative advantages enjoyed by the Kingdom.

Statistics reveal a low ratio of capital investments to GDP, which averaged 15.2% under the Seventh Development Plan (Table 6.5), which compares unfavorably with a number of developing countries in which the ratio stands at about 27%.

The Kingdom should be able to utilize its strategic location and unique economic position in the region much more effectively to attract more foreign and national investment. To this end, the government has adopted a set of measures, including the new Foreign Investment Law, and establishment of the Saudi Arabian General Investment Authority (SAGIA) and the Supreme Tourism Commission. Despite incessant efforts to improve the investment climate, the findings of a survey carried out by SAGIA in 2002 indicate that there are still a number of investment constraints that fall into six major categories: (i) legislative environment constraints; (ii) competitive environment constraints; (iii) business startup constraints; (iv) operational constraints; (v) financial services constraints and (vi) constraints related to incentives. Mounting attention is being paid by the government to addressing these constraints.

<table>
<thead>
<tr>
<th>Year</th>
<th>Private Investment (SR. Billion)</th>
<th>GDP (SR. Billion)</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>94.9</td>
<td>633.0</td>
<td>15.0</td>
</tr>
<tr>
<td>2001</td>
<td>95.6</td>
<td>636.4</td>
<td>15.0</td>
</tr>
<tr>
<td>2002</td>
<td>98.4</td>
<td>637.2</td>
<td>15.4</td>
</tr>
<tr>
<td>2003</td>
<td>105.3</td>
<td>683.0</td>
<td>15.4</td>
</tr>
<tr>
<td>2004</td>
<td>110.3</td>
<td>714.9</td>
<td>15.4</td>
</tr>
</tbody>
</table>

Source: Ministry of Economy and Planning.
6.4.2 Investment Incentives System

Since the first five-year development plan in 1970, investment incentives provided by the government have represented an effective means of investment promotion. During the early stages of development, these incentives were comprehensive, in view of the need then to accelerate development of industrial activities and services. However, the system of incentives has evolved in response to developmental challenges and priorities and will continue to do so. Indeed, strategic objectives of the Eighth Development Plan, such as improving competitiveness of the national economy, enhancing growth of activities that contribute directly to economic diversification, and developing of the knowledge economy, call for a selective system designed to stimulate investments in the relevant specific spheres, with incentives being provided to activities and services that contribute to improvement of Total Factor Productivity (TFP), such as those that support technology transfer and indigenization, R & D activities, high value added industries, and high-tech exports, while taking into consideration the obligations resulting from the Kingdom's accession to the WTO.

6.4.3 Labor Market and Saudization

Policies and strategies for employment of national manpower have been receiving growing attention from all agencies involved in economic and social development. Appropriate solutions to remove the constraints that impede employment of Saudi nationals by the private sector in the short, medium and long terms need to be developed, within an integrated substitution strategy. Even though the private sector has provided about 693,000 jobs for Saudi citizens under the Seventh Development Plan, compared to about 291,000 jobs under the Sixth Development Plan, the share of Saudis in total private sector employment is still below the desired level, amounting to only 35.5% in 2004 (Table 6.6).

Findings of field surveys indicate that unemployment in the Saudi economy is “structural”, in that it is the result of a fundamental mismatch between demand for and supply of national manpower, in terms of both quality and quantity. In other words, unemployment is not merely a consequence of a lack of vacant jobs due to a downturn in the economy. Rather, the supply-demand mismatch in the labor market and lack of attractiveness of work in the private sector are due partly to the relatively low wages and more importantly to a “skills imbalance”. Many Saudis
looking for jobs do not have the skills sought by the private sector. Hence, it is important to take necessary actions to achieve the required match, through an integrated strategy based on a long-term future vision of Saudization.

Table 6.6

<table>
<thead>
<tr>
<th>Year</th>
<th>Private Sector Employment</th>
<th>Share of Saudis (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Saudis</td>
<td>Non-Saudis</td>
</tr>
<tr>
<td>2000</td>
<td>1912</td>
<td>4134</td>
</tr>
<tr>
<td>2001</td>
<td>2043</td>
<td>4411</td>
</tr>
<tr>
<td>2002</td>
<td>2102</td>
<td>4446</td>
</tr>
<tr>
<td>2003</td>
<td>2214</td>
<td>4803</td>
</tr>
<tr>
<td>2004</td>
<td>2012</td>
<td>4474</td>
</tr>
</tbody>
</table>

Source: Ministry of Economy and Planning.

6.4.4 Constraints on Development of SME Sector

Experience of many developing and advanced countries clearly demonstrates that SMEs can be a major force for economic development. Saudi development plans, particularly the Seventh, paid special attention to the SME sector, which, under the right conditions, can achieve a number of strategic objectives, including attracting foreign investments, promoting nonoil exports, and contributing effectively to a more balanced distribution of development activities over the various regions. However, enabling SMEs to achieve such goals requires addressing constraints on their activities.

Based on a survey of SMEs in Riyadh, Jeddah and Dammam, the findings of which were presented at the Business Forum at the Riyadh Chamber of Commerce and Industry in October 2003, the most important constraints are:

- Time consuming procedures and delays, in addition to difficulty of obtaining funds from finance institutions.
- Technical and administrative constraints, such as lack of skilled labor and competent management, low-quality operations and failure to keep up with modern work techniques.

Figure 6.2 shows the relative significance of each set of constraints, based on the findings of the above-mentioned survey.
6.4.5   Reinvigoration of Stock Market

The Capital Market law issued by the Council of Ministers on 16/6/2003 is a major step towards restructuring the stock market, to enable it to operate along modern, developed lines; create effective instruments for investment of savings; and promote transparency, equity and protection for dealers. The Saudi Stock Market is the most active and the largest in the Gulf region in terms of market capitalization, which reached about SR 891 billion in the third quarter of 2004 (Table 6.7). Nonetheless, comparative studies indicate that it could be yet more developed and more active. However, this will depend, to a great extent, on the effectiveness of the rules to be set by the Capital Market Authority to regulate transactions and conditions for listing of companies, as well as removal of the constraints on the stock market development. The following are some of the mechanisms that may contribute to the creation of an appropriate investment climate, which would, in turn, facilitate development of the stock market:

1. Forceful enforcement of the Capital Market Law in relation to restructuring and regulating investment in securities, and providing more transparency and financial disclosure by share issuers to ensure safety of dealings in traded securities.

2. Invigoration of the primary shares market, for existence of an active primary market is a precondition for an active stock market, since
listing of new shares enhances the scope and the activities of the market. The Saudi primary stock market is weak; only 13 companies were added to the companies listed on the market over the last decade, contributing to an increase of market capitalization by only 3%. Rectifying this requires:

a) Accelerated implementation of the privatization program.

b) Encouraging transformation of family-owned companies into joint-stock companies listed on the stock market.

3. Establishing investment banks that would undertake setting up and managing investment funds and portfolios, and offering investment trust services; including provision of advice to investors, marketing of securities and underwriting public subscriptions.

4. Allowing foreigners to invest in shares of companies listed on the Saudi Stock Market, which would contribute to channeling the savings of expatriates towards productive activities in the domestic economy.

5. Evaluating the influence of financing investment in securities by the banks. Bank finance of private sector investments in securities increased in 2004 by 49% over 2003. This may be one of the reasons of the sharp rise of the general stock price index during that year (Table 6.7 and Figure 6.3).

Table 6.7
Seventh Development Plan

<table>
<thead>
<tr>
<th>Year</th>
<th>Market Size (Market Value of Shares) (SR Billion)</th>
<th>Finance by Banks of Private Investment in Securities (SR Billion)</th>
<th>General Stock Prices Index (1985=1000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>255</td>
<td>11.1</td>
<td>2,258.3</td>
</tr>
<tr>
<td>2001</td>
<td>275</td>
<td>10.2</td>
<td>2,430.1</td>
</tr>
<tr>
<td>2002</td>
<td>281</td>
<td>7.1</td>
<td>2,518.1</td>
</tr>
<tr>
<td>2003</td>
<td>590</td>
<td>7.3</td>
<td>4,437.6</td>
</tr>
<tr>
<td>2004</td>
<td>1149</td>
<td>10.9</td>
<td>8,206.2</td>
</tr>
</tbody>
</table>

*Source: SAMA; Data for 2004, up to third quarter only.*
6.4.6 Implications of Accession to WTO

After many rounds of successful negotiations with a large number of member countries, the Kingdom is expected to join the WTO in the near future. This will have a number of important and positive implications, foremost among which is encouraging private sector investors to establish export-oriented industries; thereby enhancing competitiveness of national products in both local and global markets. It will also enable the Kingdom to make use of the trade laws and rules in protecting its foreign-trade sector against unfair practices; such as dumping, imposing arbitrary duties, and commercial counterfeiting. The Kingdom will also be rid of the unilateral measures and differential trade policies practiced by some countries, since its exports will no longer be subject to dumping or counter tariffs, unless they fall within the provisions of WTO legislation. Similarly, the Kingdom will have, under WTO laws, the right to resort to various measures to protect its trade interests. Petrochemical exports will be the major beneficiary, due to reduction of custom duties in WTO member countries, as well as removal of constraints on access to their markets.

However, accession has also adverse effects, including increasing foreign competition in domestic markets, particularly in the early years, in, for example, banking services, telecommunications and consulting services, as well as merchandise. A work plan designed to minimize adverse and
maximize positive effects is, therefore, needed. Such a plan would comprise policies for: increasing productivity of the economy, through improving labor productivity and upgrading training; increasing access of Saudi exports to foreign markets and enhancing the Saudi Exports Credit Guarantee Program; and focusing on the highly competitive national industries, such as petrochemicals, the energy-intensive industries, such as aluminum, glass, ceramics, iron, and capital-intensive and high tech industries that maximize value added. Use should also be made of WTO laws that grant concessions and exceptions to economic blocks, which entails accelerating the establishment of the Common Gulf Market and entering into new regional and international economic blocs.

6.4.7 Privatization Implementation Program

Privatization is one of the most important strategic measures for transforming the Saudi economy and increasing private sector participation in economic development. The Supreme Economic Council has announced the privatization strategy and identified the public facilities to be privatized. Hence, the next important step would be preparation of an implementation program comprising:

a) Preparation of a regulatory framework, including development of pricing controls, particularly with respect to privatization of infrastructural facilities.

b) Gradual implementation, which may entail restructuring some government organizations and transforming them into state-owned public companies, as the first step towards full privatization, and operating them in the interim on a commercial basis.

c) Valuing the assets of the facilities to be privatized using appropriate techniques, in order to ascertain total facility value, which can then be used to guide privatization.

d) Transparency in privatization decision making and implementation of measures.

e) Making use of expert advisors in preparing detailed studies and managing the privatization implementation program.

The implementation program would also require preparation of a specific time schedule for accelerating privatization of the various economic sectors.
6.4.8 Development of Non-oil Merchandise Exports

The low share of non-oil exports in total exports, which amounted to only 12% in 2004 (Table 6.8) has led the government to adopt a set of measures designed to promote such exports, including encouragement of national industries by exempting their products from export duties and their inputs from customs, and adopting a uniform tariff among the GCC countries as from the beginning of 2003; in addition to concluding a number of bilateral regional and international agreements aimed at improving access by Saudi exports.

Table 6.8
Constant 1999 Prices

<table>
<thead>
<tr>
<th>Year</th>
<th>Non-oil Exports (SR, billion)</th>
<th>Share in Total Exports (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>23.7</td>
<td>10.6</td>
</tr>
<tr>
<td>2001</td>
<td>25.5</td>
<td>12.0</td>
</tr>
<tr>
<td>2002</td>
<td>26.2</td>
<td>12.4</td>
</tr>
<tr>
<td>2003</td>
<td>28.8</td>
<td>11.8</td>
</tr>
<tr>
<td>2004</td>
<td>29.9</td>
<td>11.8</td>
</tr>
</tbody>
</table>

Source: Ministry of Economy and Planning.

These significant initiatives notwithstanding, accelerating development of Saudi exports still requires providing further incentives to exporters, without violating the commitments resulting from accession to the WTO, including:

1) Increasing technical assistance to help exporters reduce average costs of production, and improve quality of exports and enhance their competitiveness.

2) Intensifying efforts to accelerate export procedures and provide information on overseas importers of Saudi products.

3) Expanding and activating the Saudi Non-oil Exports Credit Program adopted by the Saudi Fund for Development to protect the Saudi exporters from default risks.

4) Studying the possibility of transforming the Saudi Exports Development Center into a public organization, with the aim of promoting and diversifying Saudi exports base by addressing the
issues facing exporters and developing an appropriate strategy for export promotion.

The Kingdom's accession to the WTO, the GCC Customs Union, establishment of the Great Arab Free Trade Area, and bilateral agreements are all expected to open new markets for Saudi non-oil exports. To benefit from all these developments, the Plan calls for:

a) Developing appropriate mechanisms to help exporters access foreign markets and enhance their competitiveness.

b) Attracting and encouraging foreign direct investments to make use of the comparative advantages of the Kingdom in energy and industrial minerals, and encourage the establishment of joint ventures to enable domestic producers to acquire new expertise and advanced technology.

6.4.9 Mobilizing Resources of Commercial Banks

Distribution of bank credit to the private sector indicates that the commercial banks concentrate almost exclusively on financing relatively high-profit, low-risk activities, such as trade and real estate, which receive more than 60% of the total credit granted to the private sector. In contrast, productive activities, such as industry, electricity and water, mining and minerals, and agriculture and fishing, received less than 17% of the total (Table 6.9).

Current and envisaged future developments, including ambitious plans for expansion of industry and economic development, privatization, and establishment of the capital market and development of money market instruments, require of the banking and financial sector playing the crucial developmental role expected of modern commercial banks and other financial institutions.

<table>
<thead>
<tr>
<th>Activity</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Productive Activities</td>
<td>16.5</td>
<td>16.5</td>
<td>14.5</td>
<td>14.3</td>
</tr>
<tr>
<td>Trade, real estate and related services</td>
<td>62.9</td>
<td>64.6</td>
<td>63.7</td>
<td>64.6</td>
</tr>
</tbody>
</table>

6.5 FUTURE VISION

Creating an environment conducive to private sector activity and encouraging the private sector to invest and to play a leading role in economic development are among the principal strategies of the Eighth Development Plan. Given the challenges already outlined, supporting private sector development requires creating an appropriate investment climate, enhancing support of the commercial banks to its development activities, development of the capital market, invigorating the privatization program, and providing SMEs with more opportunities to enable them to contribute to the development of the economy. Hence, the Plan emphasizes the following.

6.5.1 Development of Financial Services

The financial services sector should play a crucial role in enabling the private sector to contribute effectively to economic diversification. Many indicators point to the possibility of expanding financial services, as the regulatory and operational environment improves and the Saudi capital market develops. However, to meet expectations, there is a need for developing new mechanisms and techniques for management of financial risks, as well as for encouraging commercial banks to finance high-risk industrial production. Furthermore, development of insurance and reinsurance activities would enhance the growing role of the private sector.

6.5.2 Development of SMEs

Removal of the administrative, legal and technical constraints on SMEs requires of the Human Resources Development Fund to continue providing technical support and training for professional manpower to meet the labor requirements of SMEs. It will also require enhancing the role of the main committees and the specialized centers established by the Saudi Council of Chambers of Commerce and Industry to support the SMEs, improving the mechanisms by which the Saudi Industrial Development Fund (SIDF) sponsors SMEs, and consolidating the role played by Saudi commercial banks in providing loans to such enterprises.

Moreover, SMEs are expected to face further challenges as a result of the Kingdom’s accession to the WTO. Overcoming such challenges may
require creation of a specialized agency dedicated to supporting the development of SMEs, protecting them against any adverse developments, and providing an appropriate business environment for integrating the activities of the SMEs with those of large enterprises.

6.5.3 Promotion of Partnership between the Public and Private Sectors

The strategy for promoting partnership between the public and private sectors focuses on invigorating privatization policies and strategies and developing the necessary regulatory and monitoring framework. Maximizing the role of the private sector in the economy requires accelerating the implementation of the privatization program in both the production and the services sectors, as well as increasing membership of businessmen and private-sector representatives in government committees, councils and organizations, to enable them to discuss relevant economic and institutional issues.

6.5.4 Private-Sector Institutions

Importance of the Saudi Chambers of Commerce and Industry and their Council stems from their intimate collaboration and interaction with the business sector in the quest for developing various private economic activities, and building a strong private sector, with institutions equipped for growth and development that constitute the basis of a diversified and sustainable productive sector capable of competing in internal and external markets and playing a positive role in the national economy.

The Chambers and their Council are expected to play a role consistent with the increasing responsibility of the private sector in the economy. However, this entails consolidating their links with their members, which may, in turn, call for amending their regulations and bylaws.

6.5.5 Enhancing Role of Private Sector in GCC Countries

GCC countries have recently undertaken important steps towards economic integration, including unifying tariff rates as from 2003, establishing a common market by 2007, agreeing to fix parities among their currencies
and achieve monetary union and a common currency by 2010, and allowing national banks to establish branches in other GCC countries. These steps will enhance the role of the private sector in all economic and social activities and provide an investment climate conducive to establishment of joint ventures.

Further consolidation of the role of the private sector requires the following measures:

- Directing Gulf-region investments to the GCC countries, particularly in industry, housing and tourism.
- Invigorating capital markets in the Gulf countries and achieving equal treatment for all GCC citizens with respect to ownership and trading of shares.
- Implementing the Council's decisions regarding opening Gulf-region labor markets to manpower from all member countries.
- Expanding channels of consultation with the private sector in economic decision making in the Gulf region.
- Enhancing participation of private sector representatives in joint Gulf institutions.
- Establishing a Gulf-region industrial database.
- Updating investment laws and regulations to make the investment environment in GCC countries more attractive.

6.6 DEVELOPMENT STRATEGY

The Eighth Development Plan aims to support efforts of the private sector, enhance its contribution to diversification of the economic base, and expand its role in productive activities, through development of an institutional and organizational framework embodying the following objectives and policies.

6.6.1 Objectives

The objectives comprise the following:

- Improving the investment environment.
• Enhancing the role of the private sector in economic and social development.
• Accelerating Saudization of jobs in the private sector.
• Expanding channels of consultation between the private and public sectors with respect to private sector related matters.
• Increasing investment and business opportunities available for women.

6.6.2 Policies

Achievement of the private sector development objective is contingent upon the following policies:
• Removing any conflict between prevailing laws, regulations and decisions and the investment law.
• Developing the mechanisms and measures for enforcement of judicial rulings on settlement of trade disputes.
• Ensuring consultations with the private sector in studying the draft regulations and publishing relevant data about the projects approved in the budget.
• Enhancing the role of the labor market in Saudization.
• Increasing private sector representation in the Boards of Directors of publicly owned organizations.
• Establishing specialized courts for settlement of trade disputes.
• Developing a comprehensive database for investment affairs.
• Studying demands of the economy for various types of professions and specializations, in light of actual supply in the domestic market and expected numbers of Saudi entrants.
• Finalizing the regulatory and supervisory framework for the privatization strategy.

6.6.3 Targets

The private sector is expected to achieve the following targets during the Eighth Development Plan period:
• Increasing the real GDP of the private sector, at constant 1999 prices, from SR 390.2 billion in 2004 to SR 514.3 billion in 2009, i.e., at an average annual growth rate of 5.7%.
• Increasing contribution of the private sector to GDP from 54.6% in 2004 to 57.5% in 2009.
• Ensuring the growth of private consumption at an average annual rate of 3.5%.
• Increasing private investment expenditure at an average annual rate of 10.4%.
• Increasing petrochemical exports at an average annual rate of 6.5% and achieving an average annual growth rate of 7.3% in the petrochemical sector.
• Achieving an average annual growth rate of 6.7% in the manufacturing sector.
• Achieving an average annual growth rate of 5.2% in the trade sector.
• Achieving an annual growth rate of 6.1% in the financial sector.
• Increasing total private-sector employment at an average annual growth rate of 2.2%.
• Increasing Saudi employment in the private sector at an average annual growth rate of 7.2%.
CHAPTER SEVEN

INVESTMENT
7. INVESTMENT

7.1 INTRODUCTION

Investment is the key driver of economic growth. First, it is a basic part of total demand, since it directly contributes to stimulation of domestic production. Secondly, it plays a significant role in accumulation of the productive assets necessary for maintaining and developing the production capacity of the economy and enhancing its competitiveness.

Successive development plans have emphasized enhancement of investment and development of fixed capital, in the context of efforts aimed at attaining the strategic objectives of development, including diversification of the economic base and promotion of sustainable development. Substantial achievements have been; notable among which is the pivotal role in economic activity played by the non-oil sector, which under the Seventh Development Plan accounted for about 89.6% of total investment, including investment by the private sector, which stood at about 75.6% of total investment. As a result, the non-oil sector has become the major pillar of the national economy.

Notwithstanding these major achievements, there are several challenges that require continued emphasis on improving capital investment, both quantitatively and qualitatively; challenges that include increasing economic growth rates to their potential level, improving competitiveness of the national economy and converting revenues of non-renewable resources (principally oil) into renewable and sustainable assets.

This chapter reviews the current conditions relating to investment in the national economy, highlighting its structure and main features; sheds light on development of capital accumulation; and reviews the major issues and challenges facing investment activity. Furthermore, the chapter deals with the investment goals of the Eighth Development Plan, as well as the most significant investment projects in the various economic sectors.

7.2 CURRENT CONDITIONS

7.2.1 Development of Capital Stock

Figure 7.1 shows development of capital stock in the three main
investment sectors: private, oil and government, according to estimates made by the Ministry of Economy and Planning. These figures show that tangible and rapid growth of the capital stock was achieved under the Second and Third Development Plans, at an average annual rate of 17.2%, and 10.2% respectively. Government capital stock contributed significantly to the achievement of the substantial growth recorded over this period. However, accumulation of government capital stock started to slowdown at the beginning of the Fourth Development Plan, due to the sharp decline in oil revenues as a result of developments in the international oil market; at a time when demand for operational (recurrent) items in the State budget was increasing rapidly, due to both development of public administration and increased demand for operation and maintenance items resulting from accumulation of public assets. Thus, government capital stock experienced negligible growth during that period, while no major investments were needed in the oil sector, given its surplus production capacity.

Figure 7.1: Total Capital Stock
1969--2004
Constant 1999 Prices

In contrast, the private sector has attained healthy investment rates since the Fourth Development Plan as a result of utilizing its accumulated financial resources; increased availability of investment opportunities; and the policies of the development plans aimed at enhancing its role in the
national economy. Thus, private-sector capital stock went up from SR 561 billion by the end of the Third Development Plan to about SR 1,246 billion by the end of the Seventh Development Plan.

The growing role of the private sector in fixed capital formation is a positive phenomenon that is expected to continue in the future, particularly given government policies promoting an investment environment that encourages and supports private sector efforts.

During the Seventh Development Plan period, total capital stock increased by SR 261 billion, at an average annual rate of 2.6% to reach about SR 2172 billion in 2004.

7.2.2 Investment

Under the Seventh Development Plan, the volume of investment reached about SR 667.1 billion, which constituted 99.3% of the target investment, and an increase of 27% over the level achieved under the Sixth Plan.

Investment by the non-oil sector stood at about SR 598.1 billion, increasing substantially from SR 481.5 billion under the Sixth Development Plan, but was below the Seventh Development Plan target of SR 638.3 billion. Investments in the oil sector increased substantially, mainly due to development and diversification of natural gas sources, while the share of the non-oil sector in total investment declined from 91.7% in the Sixth Development Plan to 89.6% in the Seventh Plan, as against the target of 95%. On the other hand, the share of the oil sector increased from 8.3% to 10.4% respectively for both periods.

Under the Seventh Development Plan, investment in the non-oil private sector experienced positive developments (Table 7.1), reaching about SR 504.5 billion, compared to about SR 404.6 billion in the Sixth, which raised its share in total investment to at about 75.6%. This growth is attributable to the remarkable investment by the non-oil productive sectors under the Seventh Development Plan, which amounted to about SR 277.1 billion; an increase of 27.3% over what was achieved under the Sixth Plan. These achievements are attributable to the substantial growth of investment in the Electricity, Water, Refining and Petrochemical sectors, while the Other Manufacturing Industries Sector could not attain its investment targets.
Table 7.1
Investments under the Seventh Development Plan, Compared with the Sixth (SR Billion)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value</td>
<td>Percentage Distribution</td>
</tr>
<tr>
<td>A. Non-oil sectors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Goods Producing Sectors:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1 Agriculture, Forestry and Fisheries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.2 Non-oil mining and quarrying</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.3 Manufacturing Industries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.3.1 Oil refining</td>
<td>$8.7$</td>
<td></td>
</tr>
<tr>
<td>1.3.2 Petrochemicals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.3.3 Other Manufacturing Industries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.4 Electricity, Gas and Water</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.5 Construction</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Services Sectors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1 Trade, Restaurants and Hotels,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.2 Transport and Communication</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.3 Finance, Insurance, Real Estate and Business Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.3.1 Real Estate Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.3.2 Finance, Insurance and Business Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.4 Community and Personal Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Private Non-oil Sector</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Government Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B. Crude oil and Natural Gas</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
<th>Percentage Distribution</th>
<th>Value</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$481.4$</td>
<td></td>
<td>$458.1$</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
<th>Percentage Distribution</th>
<th>Value</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>$227.4$</td>
<td></td>
<td>$227.4$</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
<th>Percentage Distribution</th>
<th>Value</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>$423.3$</td>
<td></td>
<td>$421.4$</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
<th>Percentage Distribution</th>
<th>Value</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>$441.8$</td>
<td></td>
<td>$441.8$</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
<th>Percentage Distribution</th>
<th>Value</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>$461.7$</td>
<td></td>
<td>$461.7$</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
<th>Percentage Distribution</th>
<th>Value</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>$481.4$</td>
<td></td>
<td>$481.4$</td>
<td></td>
</tr>
</tbody>
</table>

143
Investment in the private services sectors amounted to SR 227.4 billion under the Seventh Development Plan, compared to about SR 187 billion under the Sixth; an increase of 21.6%. The real-estate sector and the finance and insurance sector maintained their share in total investment.

Government investment could not reach the targeted level under the Seventh Plan, due to the continuous need to maintain operational expenditures. Under the Seventh Plan, government investment stood at SR 93.6 billion, compared to about SR 76.8 billion under the Sixth Plan. However, the share of government investment in total investment did not experience a substantial change. Enhancing government investment represents a major challenge for the Eighth Development Plan.

Failure of the Other Manufacturing Industries sector to achieve its investment objectives, despite its pivotal importance for economic diversification goal and economic competitiveness, is another developmental challenge. However, the measures taken and incentives offered, under the Seventh Development Plan, to enhance domestic and foreign investment in the industrial sector may require time for their results to come to fruition.

Machinery, equipment and transport equipment enjoyed the highest share of total investment under the Seventh Development Plan, accounting for about 54.2%, followed by non-residential buildings at 24.4%, while the share of residential buildings amounted to 21.4% (Table 7.2).

**Table 7.2**

<table>
<thead>
<tr>
<th>Investment by Category of Capital Goods</th>
<th>Seventh Development Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Constant 1999 Prices</td>
</tr>
<tr>
<td>Category</td>
<td>Value (SR billion)</td>
</tr>
<tr>
<td>Residential Buildings</td>
<td>142.66</td>
</tr>
<tr>
<td>Non-residential Buildings</td>
<td>162.74</td>
</tr>
<tr>
<td>Machinery and Transport Equipment</td>
<td>361.70</td>
</tr>
<tr>
<td>Source: Ministry of Economy and Planning.</td>
<td></td>
</tr>
</tbody>
</table>

The share of fixed investment in GDP increased from 19.6% in 1999 to 20.5% in 2004 (Table 7.3). This level is still below that required to attain the planned future structural shifts in the national economy.
Table 7.3
Share of Investment in GDP*
Seventh Development Plan

<table>
<thead>
<tr>
<th>Category</th>
<th>1999</th>
<th>2004</th>
<th>Increase (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total fixed investment</td>
<td>19.6</td>
<td>20.5</td>
<td>0.9</td>
</tr>
<tr>
<td>Private Investment</td>
<td>16.3</td>
<td>15.4</td>
<td>(0.9)</td>
</tr>
<tr>
<td>Government Investment</td>
<td>2.1</td>
<td>3.0</td>
<td>0.9</td>
</tr>
<tr>
<td>Oil Investment</td>
<td>1.2</td>
<td>2.1</td>
<td>0.9</td>
</tr>
</tbody>
</table>

* Rounded to one decimal point.

Source: Ministry of Economy and Planning

7.2.3 Savings

Government and private national savings experienced a positive development under the Seventh Development Plan. As a result of improved government revenues and the growing savings awareness on the part of citizens, total savings increased from SR 129.2 billion in 1999 to about SR 369.6 billion in 2004; i.e., at an average annual growth rate of 23.4% over the period (Table 7.4).

Table 7.4
Savings and Investment
Seventh Development Plan
(At Current Prices)

<table>
<thead>
<tr>
<th>Category</th>
<th>Value (S.R Billion)</th>
<th>Average Annual Growth Rate under the Seventh Development Plan (%)</th>
<th>Total Amount under the Seventh Development Plan (SR Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Savings</td>
<td>129.2 369.6</td>
<td>23.4</td>
<td>1201.5</td>
</tr>
<tr>
<td>2. Investment</td>
<td>118.2 151.3</td>
<td>5.1</td>
<td>670.1</td>
</tr>
<tr>
<td>Balance (1 minus 2)</td>
<td>11.0 218.3</td>
<td>81.7</td>
<td>531.4</td>
</tr>
</tbody>
</table>

Percentage of GDP:
1. Savings 21.4 39.8 – –
2. Investment 19.58 16.3 – –
Balance (1 minus 2) 1.82 23.5 – –

Source: Ministry of Economy and Planning
The ratio of savings to GDP stood at about 39.8% in 2004, compared to about 21.4% in 1999. Thus, the balance of savings/investment to GDP achieved a substantial surplus of about 23.5% by the end of the period. In view of the increased availability of financial resources ready for investment, the challenge lies in providing opportunities that will stimulate investment, in order to utilize savings efficiently and productively in the development of the national economy.

7.3 **ISSUES AND CHALLENGES**

Notwithstanding considerable effort exerted under the successive development plans to increase the investment rate, several challenges must be addressed under the Eighth Development Plan to further enhance investment prospects in both the public and the private sectors. Foremost among these challenges are the following.

7.3.1 **Government Capital Stock**

The rapid growth of government capital stock during the first three development plans has led to a rapid increase in replacement requirements. Since the end of the Fifth Development Plan and the beginning of the Sixth (1995–1999), government investment has not been able to keep up with the high capital (assets) depreciation rates (Figure 7.2). These developments have had differing effects on the efficiency of government services. Those services with surplus capacity, such as the transport sector, could satisfy the growing demand resulting from population and economic growth; but pressure mounted on those services that could not keep pace with growth in demand, such as education services and certain municipal services.

Undoubtedly, the more recent attention given to recurrent expenditure for maintenance and operation has contributed to maintaining the capital assets and upgrading their operational efficiency, and hence alleviating potential pressure on some government services. Furthermore, privatization and growing public-private partnerships have eased budgetary burdens and liberated resources to be directed towards investment. However, there will be areas that require urgent government initiatives for investment with a view to providing adequate conditions for private sector participation. These include physical infrastructure for the geographical growth poles and industrial zones. Moreover, requirements of improving urban and rural environment, as well as development of the
education system and promotion of the knowledge economy, will remain a source of demand for government investment. Thus, under the Eighth Plan priority will be given to enhancing government investment expenditure, through increasing budget revenues, rationalizing operational expenditures and raising the efficiency of government expenditures.

Figure 7.2
Constant 1999 Prices

7.3.2 Investment and Sustainable Development

Maintaining standards of living and improving them in the future requires use of oil revenues to finance development of human capital and increase productive assets. In this respect, the development strategy for development is based on the following principles:

- Ensuring complementarity of government and private investments.
- Increasing non-oil government revenues to a level that allows for financing a significant part of operational expenditures and government services without resort to oil revenues.
- Reducing operational (recurrent) expenditures through privatization and expansion of public-private partnerships.
- Increasing government savings and investment, along with adoption of a public investment plan that is not influenced by fluctuations in oil revenues (Chapter 4).
7.3.3 Private National Savings

Success of the investment policy is contingent upon having an efficacious savings policy. As private national savings are not confined to private domestic savings, but also include private savings abroad, the savings policy is based on the following:

- Encouragement and mobilization of domestic savings by providing diversified and profitable investment instruments in an advanced and highly efficient financial market.
- Attraction of national savings invested abroad, as well as foreign direct investments, to the domestic market, through expansion of investment opportunities in the national economy, on-going improvement of the investment climate, development of the business environment, and provision of investment incentives that serve the priorities and strategic objectives of the development plan.
- Expansion of investment opportunities in the national economy available to expatriates.

7.4 Development Strategy

7.4.1 Objectives

- Increasing the rate of domestic private and government savings.
- Increasing government net fixed capital formation.
- Repatriation of Saudi capital invested abroad.
- Encouraging foreign direct investment.

7.4.2 Targeted Investment

As shown in Table 7.5, the main features of the expected investment and its sectoral distribution during the Eighth Development Plan are:

- Total expected investment is estimated at SR 1044.8 billion, exceeding the actual investment under the Seventh Development Plan of SR 667.1 billion by 56.6%.
- Total investment is distributed as follows: SR 920.3 billion for the non-oil sectors and SR 124.5 billion for oil sectors (crude oil and natural gas); i.e., 88.1% and 11.9% of total investment respectively.
Expected investment in the non-oil sectors amounts to SR 438.7 billion in the productive sectors, SR 365.2 billion in the services sector, and SR 116.4 billion in the government services sector; i.e., 42.0%, 35.0% and 11.1% of total investment respectively. A substantial increase is noted in the value of expected investments of the goods producing sectors, compared to the level achieved under the Seventh Development Plan.

Table 7.5
Structure of Planned Investment
Seventh and Eighth Development Plans
Constant 1999 Prices

<table>
<thead>
<tr>
<th>Category</th>
<th>7th DP</th>
<th>Planned in 8th DP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual Value (SR Billion)</td>
<td>% of Total</td>
</tr>
<tr>
<td><strong>A. Non-oil sectors</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>1. Goods Producing Sectors:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1 Agriculture, Forestry and Fisheries</td>
<td>18.8</td>
<td>2.8</td>
</tr>
<tr>
<td>1.2 Non-oil Mining and Quarrying</td>
<td>1.4</td>
<td>0.2</td>
</tr>
<tr>
<td>1.3 Manufacturing Industries</td>
<td>94.0</td>
<td>14.1</td>
</tr>
<tr>
<td>1.3.1 Oil Refining</td>
<td>8.9</td>
<td>1.3</td>
</tr>
<tr>
<td>1.3.2 Petrochemicals</td>
<td>52.0</td>
<td>7.8</td>
</tr>
<tr>
<td>1.3.3 Other Manufacturing Industries</td>
<td>33.1</td>
<td>5.0</td>
</tr>
<tr>
<td>1.4 Electricity, Gas and Water</td>
<td>154.4</td>
<td>23.1</td>
</tr>
<tr>
<td>1.5 Construction</td>
<td>8.5</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>2. Services Sectors</strong></td>
<td><strong>227.4</strong></td>
<td><strong>34.1</strong></td>
</tr>
<tr>
<td>2.1 Trade, Restaurants and Hotels</td>
<td>25.6</td>
<td>3.8</td>
</tr>
<tr>
<td>2.2 Transport and Communication</td>
<td>24.7</td>
<td>3.7</td>
</tr>
<tr>
<td>2.3 Finance, Insurance, Real-Estate and Business Services</td>
<td>166.7</td>
<td>25.0</td>
</tr>
<tr>
<td>2.3.1 Real-Estate Services</td>
<td>145.7</td>
<td>21.8</td>
</tr>
<tr>
<td>2.3.2 Finance, Insurance and Business Services</td>
<td>21.0</td>
<td>3.1</td>
</tr>
<tr>
<td>2.4 Community and Personal Services</td>
<td>10.4</td>
<td>1.6</td>
</tr>
<tr>
<td><strong>Total Non-oil Sector</strong></td>
<td><strong>504.5</strong></td>
<td><strong>75.6</strong></td>
</tr>
<tr>
<td><strong>3. Government Services</strong></td>
<td><strong>93.6</strong></td>
<td><strong>14.0</strong></td>
</tr>
<tr>
<td><strong>B. Crude oil and Natural Gas</strong></td>
<td><strong>69.0</strong></td>
<td><strong>10.4</strong></td>
</tr>
<tr>
<td><strong>Total Investment</strong></td>
<td><strong>667.1</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

* Rounded to one decimal point.

Source: Ministry of Economy and Planning.
The structure of investment by major sector (productive, services and government) is shown graphically in Figure 7.3.

**Figure 7.3**

*Structure of Investment (*)
Eighth Development Plan*

![Pie chart showing structure of investment](chart.png)

* Rounded to one decimal point.

Source: Ministry of Economy and Planning.

- With respect to Goods Producing Sectors the expected investments, in billions of Saudi Riyals, are distributed over the sub sectors as follows: Electricity, Gas and Water (207.8), Manufacturing (178.7), Agriculture, Forests and Fishery (32.5), Construction (16.4) and Non-oil Mining and Quarrying (3.5). It is clear that the expected investments in the Manufacturing Sector will almost double compared to actual investments during the Seventh Development Plan (SR 94 billion). This is attributed mainly to multiplicity of the expected investments in the petrochemical industry (SR 101.5 billion) and other manufacturing (SR 65.0 billion).

- Regarding Services Sectors, the Finance, Insurance, Real-Estate and Business Services sectors are expected to enjoy investments with a value of SR (262.6) billion. Most of such investment, will be in the
field of Real Estate Services (SR 227.3 billion), followed by Transport and Communications Services (SR 45.3 billion), Trade, Restaurants and Hotels Services (SR 35.7 billion) and Community and Personal Services sector (SR 21.5 billion).

- Total Expected investments are distributed according to main categories of capital goods, as follows: Construction of residential buildings (SR 182.6 billion), construction of other buildings (SR 260.0 billion), machinery, equipment and transport equipment (SR 60.2 billion) with shares of 17.5%, 24.9% and 57.6 respectively.

### 7.4.3 STRATEGIC PROJECTS UNDER THE EIGHTH DEVELOPMENT PLAN

Table 7.6 shows a number of strategic programs and projects expected to be implemented under the Eighth Development Plan by both public and private sectors. These programs and projects constitute the key areas of investment activities under the Plan.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Size/Outputs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Gas Projects</td>
<td>- Agreements have been concluded for four major projects for exploration and production of natural gas with the participation of international firms. (See Oil and Gas Chapter) - Exploration area is about 330,700 km².</td>
</tr>
<tr>
<td>2. Expansion of Saudi ARAMCO's production capacity</td>
<td>- Expansion of crude oil production capacity. - Addition of 1.5 million barrels/day to the production capacity.</td>
</tr>
<tr>
<td>3. Expansion and development of refining capacity</td>
<td>- Expansion of refining capacity with a foreign partner. - Renovation of Rabeigh refinery with a foreign partner - Increase refining capacity by 30% during period of the plan. - Development of the refinery to become an integrated complex for refining and petrochemicals.</td>
</tr>
<tr>
<td>4. Petrochemical projects</td>
<td>- Increased availability of natural gas will lead to new opportunities for the growth of petrochemical industries. This has resulted in the announcement of a - Establishment of a new complex in Yanbu for production of: - 1.3 million tons of ethylene. - 800 million tons of</td>
</tr>
<tr>
<td>Activity</td>
<td>Size/Outputs</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>--------------------------------------------------</td>
</tr>
</tbody>
</table>
| considerable number of new investment projects to be undertaken by SABIC, as well as private domestic and international companies. (See Industry Chapter). | polyethylene.  
- 700 million tons of ethylene glycol.  
- Establishment of a new ethylene glycol plant at Jubail, by SABIC, with a production capacity of 625 thousand tons/year.  
- Establishment of a Butene-1 plant with a production capacity of 130 thousand tons/year in Jubail, by PETROCHEMIA, a subsidiary of SABIC.  
- The International Methanol Company will establish a 970,000 tons/year methanol plant in Jubail.  
- The National Petrochemical Industrialization Company will establish a plant for production of 5000,000 tons of acetic acid, 275,000 tons of vinyl and 1.8 million tons of methanol.  
- Saudi Chevron Philips plans to establish a new plant in Jubail for production of ethyl benzene and styrene with a capacity of 730,000 tons/year. |

5. **Railway Projects**
- Work is underway to finalize an integrated plan for expansion of the railway network with the participation of the private sector.  
- Construction of a 1,683 km railway line to connect phosphate and bauxite mines in the Northern Part of the Kingdom with Jubail Industrial City.  
- Construction of a 946 km rail road linking Jeddah with Dammam, and passing through Riyadh.  
- Connection of Mecca with Medina via Jeddah along with a link to Yanbu city.  
- Connection of Dammam with Jubail industrial city (115 km)

6. **Mining Projects**
- Work, with the involvement of foreign investors, is expected to commence on implementation of major phosphate and bauxite projects that are linked with the railway projects. (See Mining Chapter).  
- Establishment of an integrated phosphate fertilizer project with a capacity of 2.9 million tons/year, including four sulfuric acid plants, three phosphoric acid plants and three DAP plants.  
- Completion of the bauxite project, which includes development of Al-
<table>
<thead>
<tr>
<th>Activity</th>
<th>Size/Outputs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zubairah Bauxite mine with a production capacity of 3.3 million tons/year, establishment of an ammonium refinery with a capacity of 1.4 million tons/year and an ammonia melting furnace at Ras Zour north of Jubail city.</td>
<td></td>
</tr>
</tbody>
</table>

7. **Communication and information technology.**  
(See the Communication and Information Technology chapter)  
- More mobile and fixed telephone services will be provided so that the number of customers will reach about 13 million for mobile telephones and about 7 million for fixed telephones by the end of the plan.

8. **Electricity Generation and Water Desalination.**  
- The Water and Electricity Company has been established to promote establishment of several independent water desalination and power generation projects. Several power generation and transmission projects will be launched on (BOT) and (BOO) basis. *  
- Establishment of power generation plants which will contribute about 10,996 MW, in addition to 1330 MW expected to be provided by desalination plants.  
- Establishment of power transmission lines to provide electricity to 1126 villages and hamlets and to add about 1163,2 thousand customers.

9. **Water and wastewater projects.**  
- Expansion of water distribution and wastewater networks and increasing wastewater treatment plants.  
- Expansion of water distribution network to increase coverage rate to 80%.  
- Expansion of wastewater networks to increase coverage rate to 50%.  
- Increasing rate of wastewater treatment to about 40% of wastewater volume.  
- Increasing desalination capacity from 1070 million cubic meters per year to 1650 million cubic meters per year.

* BOT = Build, Operate Transfer.  
BOO = Build, Operate, Own.
CHAPTER EIGHT

MANPOWER AND EMPLOYMENT
8. MANPOWER AND EMPLOYMENT

8.1 INTRODUCTION

Manpower development is a cornerstone of comprehensive and sustainable development, for it plays a pivotal role in upgrading skills, mobilizing capacities and developing scientific, occupational and technical abilities.

Economic globalization and rapid technological change necessitate improving manpower quality, enhancing its productivity, and developing its ability to partake in modern technological innovation. Manpower development has indeed become the primary means for assimilating technologies and scientific inventions and enhancing the ability of the country to integrate into the world economy. Moreover, the ability to acquire and use knowledge in the production of commodities has become a key measure of the progress and prosperity of nations.

Human development, including manpower, continues, therefore, to be the top priority of the successive development plans, which have focused on continuous improvement of manpower competencies, through qualitative and quantitative expansion of education, training and vocational training. They have also focused on resolving issues of efficiency of the labor market and improvement of the labor market environment, in light of the competitive challenges facing the country.

The Eighth Development Plan reinforces these efforts in the context of the requirements of a knowledge-based economy, more integrated with the global economic system, and in which the private sector plays a vital role in supporting national manpower development strategies.

This Chapter addresses the current conditions of manpower development and employment, and reviews the major developments that took place under the Seventh Development Plan. It further examines the key indicators of the labor market, as well as the major issues and challenges that should be tackled, and sets out the objectives, policies and implementation mechanisms adopted by the Eighth Development Plan.

8.2 CURRENT CONDITIONS

8.2.1 Total Manpower

Statistics of the Seventh Development Plan point to an increase in total manpower from 7.23 million in 1999 to about 8.27 million in 2003, i.e., an
annual growth rate of 3.4%. This resulted in 1.04 million new job opportunities during the period, 56.4% of which filled by national manpower.

In 2003, the national manpower stood at 3.30 million workers, with women representing 12.2%, while expatriate workers numbered 4.97 million. Although the rate of increase in national manpower of 5.1% during the first four years of the Seventh Development Plan exceeded the target of 4.7%, the number of expatriate workers also increased during the same period by 457,000 workers; i.e., at an annual rate of 2.4%, when the Plan aimed at achieving a reduction.

Table 8.1 and Figure 8.1 show that in terms of level of education, 29.2% of workers do not have educational qualifications (illiterate or can only read and write). The majority of these workers are found among the expatriate workforce, where their ratio was 41.9%, whereas the percentage of national workers who are without educational qualifications does not exceed 15.4%. On the other hand, 21.3% of the total national manpower are university graduates or postgraduates, whereas the percentage of holders of similar degrees among expatriate workers is only 14.3.

Table 8.1
Proportional Distribution of Total Labor by Level of Education, Nationality and Gender (2002)

<table>
<thead>
<tr>
<th>Level of Education</th>
<th>Saudi Male</th>
<th>Saudi Female</th>
<th>Saudi Total</th>
<th>Non-Saudi Male</th>
<th>Non-Saudi Female</th>
<th>Total Male</th>
<th>Total Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illiterate</td>
<td>9.8</td>
<td>4.9</td>
<td>9.2</td>
<td>12.5</td>
<td>11.7</td>
<td>6.0</td>
<td>11.0</td>
<td></td>
</tr>
<tr>
<td>Able to Read &amp; Write</td>
<td>7.0</td>
<td>0.8</td>
<td>6.2</td>
<td>29.4</td>
<td>16.7</td>
<td>28.4</td>
<td>18.2</td>
<td></td>
</tr>
<tr>
<td>Hold No Qualifications</td>
<td>16.8</td>
<td>5.7</td>
<td>15.4</td>
<td>41.9</td>
<td>28.4</td>
<td>34.4</td>
<td>29.2</td>
<td></td>
</tr>
<tr>
<td>Elementary School</td>
<td>20.5</td>
<td>1.5</td>
<td>18.1</td>
<td>12.2</td>
<td>16.5</td>
<td>5.3</td>
<td>15.0</td>
<td></td>
</tr>
<tr>
<td>Intermediate School</td>
<td>20.8</td>
<td>2.0</td>
<td>18.4</td>
<td>14.7</td>
<td>17.9</td>
<td>7.6</td>
<td>16.5</td>
<td></td>
</tr>
<tr>
<td>Primary Phase</td>
<td>41.3</td>
<td>3.5</td>
<td>36.5</td>
<td>26.9</td>
<td>34.4</td>
<td>12.9</td>
<td>31.5</td>
<td></td>
</tr>
<tr>
<td>Secondary Phase</td>
<td>19.4</td>
<td>16.2</td>
<td>19.0</td>
<td>12.3</td>
<td>16.1</td>
<td>11.8</td>
<td>15.6</td>
<td></td>
</tr>
<tr>
<td>Intermediate College Diploma</td>
<td>5.4</td>
<td>23.3</td>
<td>7.7</td>
<td>4.5</td>
<td>5.1</td>
<td>12.3</td>
<td>6.0</td>
<td></td>
</tr>
<tr>
<td>Bachelor Degree</td>
<td>15.1</td>
<td>49.3</td>
<td>19.5</td>
<td>12.5</td>
<td>14.1</td>
<td>26.8</td>
<td>15.9</td>
<td></td>
</tr>
<tr>
<td>Higher Diploma / Master</td>
<td>1.2</td>
<td>0.9</td>
<td>1.2</td>
<td>1.3</td>
<td>1.2</td>
<td>1.1</td>
<td>1.2</td>
<td></td>
</tr>
<tr>
<td>Ph.D.</td>
<td>0.6</td>
<td>1.0</td>
<td>0.7</td>
<td>0.5</td>
<td>0.6</td>
<td>0.7</td>
<td>0.6</td>
<td></td>
</tr>
<tr>
<td>Tertiary Phase</td>
<td>16.9</td>
<td>51.3</td>
<td>21.3</td>
<td>14.3</td>
<td>16.0</td>
<td>28.6</td>
<td>17.7</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Total Labor Size (000)</td>
<td>2671.0</td>
<td>437.1</td>
<td>3108.1</td>
<td>5136.6</td>
<td>7250.6</td>
<td>994.1</td>
<td>8244.7</td>
<td></td>
</tr>
</tbody>
</table>

Totals are rounded up to one decimal place.

Source: Proportional Distribution, Manpower Bulletin 2002 – CDS.
8.2.2 The Labor Market

The most significant features of the labor market in 2003 are as follows:

- The occupational structure of labor by nationality (Saudi / Non-Saudi) shows that a high percentage of Saudi workers work in service 32.6% and scientific and technical jobs 25.9%. Expatriate workers are concentrated in the production and transportation equipment 39% and 28.4% work in service jobs. There is a significant deficit of Saudi workers in the category of production jobs, which largely depends on skilled and semi-skilled workers, with 4,400 expatriate workers to each 1,000 Saudi workers. This poses a real challenge in terms of requirements of training of Saudi workforce.

- The structural composition of labor by economic and institutional sector indicates that the services and productive sections of the private sector employ 96.5% of total expatriate labor and about 70% of total Saudi labor. About 56.2% of Saudi labor in the private-sector work in the service sector, particularly in personal and community services 41.2 %, which is characterized by low technology and low value added. In comparison, expatriate workers
in the private sector are homogeneously distributed among goods producing and service sectors.

- The rate of female participation is estimated at only 10.25%, compared to 63.64% for men. The limited economic activity of women is largely due to work opportunities available to them being limited.

- There is large dependency on expatriate labor, particularly in the private sector. At the aggregate economic level, the ratio of expatriate labor to Saudi labor is 1.5 to 1, while the ratio in the private sector is 2 to 1.

- Official statistics recorded in Manpower Bulletins indicate that the unemployment rate stood at 9.7% of the total national manpower in 2002. A detailed analysis by age category shows that the rate of unemployment is higher than the national average among those who are less than 24 years of age.

### 8.2.3 Employment in the Public Sector

At the end of 2003, total employment in the public sector in graded, professional and employee positions (exclusive of other employment categories, such as ordinary workers and direct recruits) reached 747,000 employees, of whom 677,500 were Saudis (90.7% of the total). Saudi women occupied 225,000 positions, which represent 89% of total female employment and 30.1% of total Saudi labor in the public sector. In the first four years of the Seventh Development Plan, the number of Saudi employees increased by 14.5% over the 1999 level, with an average annual growth rate of about 3.4%. During the same period, expatriate labor dropped at an average annual rate of 4.3%. This is clear evidence of a change in the structure of labor in the public sector in favor of national workers.

Table 8.2 shows public sector employees by nationality and job category in 2003. It indicates that the majority of Saudi and non-Saudi workers in the public sector are employed in education and health, with 52% of total public sector employees employed in the former and 10.8% in the latter.
Table 8.2
Public Sector Employees by Nationality and Jobs (2003)

<table>
<thead>
<tr>
<th>Jobs</th>
<th>Saudi</th>
<th>Non-Saudi</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Jobs (Grades)</td>
<td>173.7</td>
<td>7.1</td>
<td>180.8</td>
</tr>
<tr>
<td>Education Sector</td>
<td>373.1</td>
<td>15.1</td>
<td>388.2</td>
</tr>
<tr>
<td>Health Sector</td>
<td>38.5</td>
<td>41.8</td>
<td>80.3</td>
</tr>
<tr>
<td>Teaching Staff, Lecturers and Assistant Teachers</td>
<td>12.7</td>
<td>4.9</td>
<td>17.6</td>
</tr>
<tr>
<td>Judges</td>
<td>1.0</td>
<td>–</td>
<td>1.0</td>
</tr>
<tr>
<td>Members of Saudi Commission for Investigation &amp; Prosecution</td>
<td>1.2</td>
<td>–</td>
<td>1.2</td>
</tr>
<tr>
<td>Other Employees</td>
<td>77.3</td>
<td>0.5</td>
<td>77.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>677.5</strong></td>
<td><strong>69.4</strong></td>
<td><strong>746.9</strong></td>
</tr>
</tbody>
</table>


Data on employment of nationals in the public sector show that 15,520 citizens were hired in 2003, including 2,588 women (16.7%). Holders of bachelor degrees constituted 75.1% of these new entrants, and 19.1% of them were females. These data also show that education was the largest employer, accounting for 68% of the total, with women occupying 16.8%.

8.2.4 Employment in the Private Sector

Labor statistics on the private sector indicate a continued increase in employment of Saudi nationals during the first four years of the Seventh Development Plan. This was also accompanied by an increase of expatriate workers through the first three years. However, from 2003 the flow of expatriate workers decreased, in accordance with the government Saudization strategy. With respect to the distribution of labor across various sectors (Table 8.3), the goods producing sectors employ 55.5% of total workers in the private sector. The construction and building sector alone employs 36.7% of the total; about 28.7% of total Saudi workers and about 37.4% of total expatriate workers. The services sector employs 42.8% of the total, and the wholesale and retail trade 26.4%. Table 8.3 shows the relative share of Saudis and Non-Saudis in each category in 2003. The large share of non-Saudis in the construction and wholesale/retail trade sectors is worth noting.

Statistics on Saudi employment in the private sector indicate that the vast majority of job applicants who registered at labor offices have been placed
in jobs. In 2002, 97.3% and in 2003, 94.5% of applicants were nominated for vacancies in the private sector. This is clear evidence of the intensive efforts made by labor offices to assist Saudis to join the private sector. The majority of applicants are holders of high school certificates; 46.0% in 2002 and 41.2% in 2003. The percentage of those registered as illiterate dropped to as low as 1.7% of total registered job seekers in 2003 and they constituted 1.6% of those nominated for jobs in the same year. The corresponding percentages for those who can read and write (but are without qualifications) are 2.8% and 3.8% respectively. These data indicate that Saudi nationals are tending to obtaining qualifications before entering the labor market.

Table 8.3

<table>
<thead>
<tr>
<th>Activity Code</th>
<th>Economic Activity</th>
<th>Saudi</th>
<th>Non-Saudi</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Agriculture, Forestry, Terrestrial Hunting &amp; Fisheries</td>
<td>1.91</td>
<td>8.15</td>
<td>7.69</td>
</tr>
<tr>
<td>2.</td>
<td>Mining, Oil, Gas and Quarries</td>
<td>0.88</td>
<td>0.37</td>
<td>0.41</td>
</tr>
<tr>
<td>3.</td>
<td>Manufacturing</td>
<td>10.72</td>
<td>10.38</td>
<td>10.41</td>
</tr>
<tr>
<td>4.</td>
<td>Electricity, Gas and Water</td>
<td>0.53</td>
<td>0.25</td>
<td>0.27</td>
</tr>
<tr>
<td>5.</td>
<td>Construction and Building</td>
<td>28.73</td>
<td>37.38</td>
<td>36.74</td>
</tr>
<tr>
<td></td>
<td>Total Productive Sectors</td>
<td>42.77</td>
<td>56.53</td>
<td>55.52</td>
</tr>
<tr>
<td>7.</td>
<td>Transportation, Storage and Communications</td>
<td>2.96</td>
<td>2.08</td>
<td>2.14</td>
</tr>
<tr>
<td>8.</td>
<td>Finance, Insurance, Real Estate and Business Services</td>
<td>5.87</td>
<td>1.36</td>
<td>1.69</td>
</tr>
<tr>
<td></td>
<td>Total Services Sectors</td>
<td>55.36</td>
<td>41.79</td>
<td>42.78</td>
</tr>
<tr>
<td>10.</td>
<td>Other Activities</td>
<td>1.87</td>
<td>1.68</td>
<td>1.70</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td></td>
<td>Total Labor in the Private Sector (000)</td>
<td>2388.9</td>
<td>4816.5</td>
<td>7205.4</td>
</tr>
</tbody>
</table>

Source: Proportional Distribution – Database of the Ministry of Labor.

8.3 MANPOWER AND EMPLOYMENT ISSUES

A major challenge is to increase participation of Saudi manpower in economic activity. Other key challenges are elimination of macro and structural imbalances in the labor market, improving employment opportunities for Saudi nationals, and addressing unemployment among new graduates, in addition to development of labor market services.
8.3.1 Participation of Saudi Manpower in Economic Activity

The rate of participation in the labor force is an important measure in studying the factors that determine current and future manpower supply, as well as in defining employment policies and estimating training needs.

Although male participation has almost reached international levels, the low level of female participation makes the overall participation rate low by international standards. Participation by females with secondary-level education is very low (10.5%), but the rate increases dramatically for those with post secondary schooling (to 71%). However, demand for post-secondary school female graduates is beginning to decline, which requires re-qualifying them to suit the new types of jobs expected to be available to women in future.

8.3.2 Macro and Structural Imbalances in the Labor Market

Macro and structural imbalances between supply and demand in the labor market pose challenges that require more immediate answers, as well as long-term remedies. The most significant imbalances are:

- Increased dependency of the national economy on expatriate labor, due to the failure of national manpower to meet increased demand for labor. It is estimated that in 2003, there were about 1.5 expatriate workers to every national worker. This gap emerged as early as the Fourth Development Plan and is now one of the most critical issues to be addressed by the Eighth Development Plan.

- Structural and occupational imbalances in the labor market reflected in the mismatch between outputs of the education and training system and labor market needs. In addition, the types of vacant jobs available and terms of employment fall short of expectations of job seekers.

It is the objective of the Eighth Development Plan to remedy these imbalances through better control over the quantity and quality of expatriate labor, as well as over the supply and demand sides of the labor market. This would contribute to reducing unemployment ratios, given that a large percentage of unemployment is structural in nature.
8.3.3 Saudization of Employment

Strongly focused on reducing dependency on expatriate workers and providing practical means for implementing Saudization, the Fourth Development Plan was a turning point in manpower planning. However, Saudization continues to face challenges, and this is now one of the most important issues of manpower and employment planning. In addition to the abovementioned structural and occupational imbalances, the most important challenges include:

- Continued importation of expatriate labor, particularly unskilled and low-paid workers, occasionally in excess of actual need; resulting in an increase of marginal workers in the private sector.
- Ensuring strict compliance with the decisions and circulars regarding Saudization and enhancing the relevant implementation mechanisms.
- Enhancing the role of the Human Resources Development Fund in providing efficient support to Saudization programs, through direct employment or training that ends with actual employment.
- Setting up an appropriate organizational and administrative environment that encourages job seekers to join the private sector, particularly small and medium size enterprises.
- Provide more information on vacant positions to Saudi job seekers and on characteristics of job seekers to employers.

The Eighth Development Plan seeks to intensify efforts to enhance Saudization, through a package of policies and mechanisms aimed at increasing employment opportunities of Saudi labor in the private sector. Further, the Plan stresses the need to increase the effectiveness of the agencies entrusted with providing Saudi labor with the necessary skills and strengthening their technical and occupational capabilities to meet the requirements of the labor market.

8.3.4 Partnership with Private Sector

There are several mechanisms for coordination between the private and public sectors. However, in view of the mounting role of the private sector in economic activities, there is a need for strengthening these mechanisms and involving the private sector more closely in manpower planning,
education, labor market policies and training of the Saudi workforce. The next phase would focus on reducing the excessive reliance of the private sector on expatriate labor through Saudization.

8.3.5 Disparities in Employment Benefits

Some segments of the national workforce continue to prefer public-sector employment, due to the perception that the public sector provides better benefits, including wages, allowances, job security and training. However, public-sector employment has now reached a saturation point. The focus in the next phase should therefore be on improving the organizational and administrative environment of private-sector establishments, particularly Small and Medium Enterprises (SMEs), in order to make them more attractive to Saudi job seekers.

8.3.6 Employability of National Workforce

Some categories of the national workforce face intense competition from expatriate workers in qualifications, experience and wages, which limits employment opportunities available to the national workforce.

The next phase thus requires encouraging private sector initiatives for training-leading-to-employment of Saudis, as well as ensuring that educational and training programs meet the needs of the labor market.

8.4 Objectives of Manpower Development

The manpower development objectives of the Eighth Development Plan are:

- Achieving optimum utilization of national manpower and encouraging Saudi nationals to undertake productive work in all economic sectors.
- Ensuring that educational and training programs of Saudis meet labor market needs.
- Providing more employment opportunities to Saudi nationals in the private sector to meet demand resulting from natural growth, as well as replace existing expatriate workers.
- Rationalizing recruitment of expatriate workers to limit it to actual
needs, enforcing Saudization regulations and restricting employment in certain job categories to Saudi nationals.

- Providing more employment opportunities to Saudis; in particular women, and adopting appropriate policies to enhance women’s participation in the labor market in positions that best suit their skills and do not contradict Sharia.

- Reducing Saudis unemployment rates.

- Encouraging investment in productive and service activities that use high technology and have high value added.

8.5 Policies and Implementation Mechanisms

The Eighth Development Plan adopts a package of policies designed to ensure increased participation of Saudi manpower in economic activity, improve employability, and address qualitative and quantitative imbalances in the labor market; in addition to developing labor market services, and the agencies entrusted with manpower and employment planning and monitoring implementation. These policies and mechanisms include the following:

8.5.1 Policies for Improving Workforce Skills

1. Ensure that manpower training policies are focused on the skills mostly sought after by the private sector. This will be achieved through the following implementation mechanisms:

   - Ensuring closer coordination and integration between the private sector and the agencies responsible for national manpower policies.
   - Encouraging and expanding training-leading-to-employment initiatives by the private sector, and utilizing its training capacities in the formation of the technical and professional workforce.
   - Intensifying the efforts being made to improve productivity of the national workforce and to expand training programs aimed at enabling Saudi nationals to take advantage of employment opportunities available through growth or substitution of
expatriate workers.
- Continuing to modernize educational curricula and develop them to meet labor market needs, and expand participation of relevant sectors and agencies.
- Enhancing media initiatives aimed at improving work behavior and ethics, as well as increasing employment of Saudi nationals in the private sector.

2. Continue to improve and develop education and training systems, making them cost effective, through the following implementation mechanisms:

- Introduce indicators for performance measurement of public sector service institutions, and develop and monitor performance by means of such indicators and information systems.
- Allocate more funds to the training budgets of government institutions to satisfy the need for specialized training.
- Expand scholarship programs to send more suitably qualified students to study abroad so as to build a Saudi cadres with the requisite skills and qualifications in areas of priority.
- Establish in-Kingdom specialized training centers, within the framework of bilateral agreements with industrialized countries, and enroll more Saudi trainees in advanced specialized training courses abroad.

8.5.2 Employment Policies

Employment policies are designed to improve employment opportunities available to Saudi nationals, particularly in the private sector and reach full employment. The implementation mechanisms of these policies and guidance include the following:

- Continue to strengthen the agencies responsible for training and employment of the national workforce and enhance their human and technological potentials; e.g., the General Organization for Technical Education and Vocational Training (GOTEVT), Labor offices of the Ministry of Labor, the National Organization for Cooperative Training organized by the GOTEVT, and the Human Resources Development Fund.
- Link expatriate labor recruitment policy with Saudization to ensure
that recruitment of expatriate labor is restricted to job categories where supply of national workforce is insufficient.

- Continue to conduct field studies on unemployment phenomenon as per international standards, in order to identify causes, types and impact.
- Review and update the list of jobs that are exclusively reserved for Saudi nationals.
- Review the present working conditions of private SMEs that employ the majority of expatriate labor and make them more attractive to Saudi nationals.
- Study wage levels and adopt appropriate wage policies to ensure balancing employment of Saudis with private sector need for growth and profitability.
- Identify and expand the capacities of major sectors with potential employment opportunities for Saudis, e.g., construction, tourism and services.
- Encourage Saudi citizens to establish SMEs, by providing support and incentives, simplify company formation procedures, and using technological incubators.
- Continue coordination between the parties concerned to minimize disparities in employment benefits between the public sector and the private sector, and ensure consistency between military and civil service retirement plans and Social Security benefits.

8.5.3 Expanded Women Participation Policies

Council of Ministers Resolution 120 of 31/5/2004 approved a set of regulations and procedures aimed at offering more employment opportunities to Saudi women. Chapter 17 of this plan document, entitled “Women and Development”, includes a set of policies and mechanisms designed to increase women participation in the labor market, through employment or investment opportunities.

8.5.4 Policies of Labor Market Services Development

1. Support institutions directly involved in planning and implementation of manpower and employment programs, through the following implementation mechanisms:
- Build capacities of the labor offices to enable them to pursue Saudization.
- Intensify coordination among agencies dealing with manpower and employment.
- Enhance the efforts made to improve work environment in the private sector to make that sector more attractive to Saudis.
- Expedite arbitration processes for resolving labor disputes and consider setting a timeframe for issuing settlement decisions.
- Ensure closer coordination between the Ministry of Labor and the private sector in matters pertaining to labor market regulation.

2. Develop an effective, comprehensive, up-to-date and accessible labor market information system, through the following implementation mechanisms:
   - Improving labor market indicators and issuing them regularly.
   - The Ministry of Labor completing a detailed labor market database that includes data on current and prospective jobs of all categories, benefiting from information on labor market structure and conditions made available by the Population and Housing Census, and make the data widely available.

8.6 LABOR MARKET KEY INDICATORS

8.6.1 National and Total Manpower Indicators

The Eighth Development Plan envisages increasing the annual growth of Saudi workforce to 5.13% per annum, in order to raise total participation of Saudi nationals in the workforce from 36.9% in 2004 to about 39.2% in 2009. Thus, the national workforce, estimated to number at the beginning of the Plan 3.80 million citizens, of whom 14% are women, would increase by the end the Plan to 4.89 million citizens, 18.2% of whom women. The plan will therefore focus on increasing participation of women in the Saudi workforce from 10.3% at the beginning of the plan to about 14.2% by the end of the plan, which would increase participation of women in economic activities and reduce the gender gap in the national workforce.

The Plan expects total manpower to increase from 8.28 million at the
beginning of the Plan in 2004 to 9.22 million workers by the end of the Plan in 2009, with national manpower participation increasing from 42.7% to 51.5% of all workers (Table 8.4).

<table>
<thead>
<tr>
<th>Description</th>
<th>2004</th>
<th>2009</th>
<th>Change During Eighth Development Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saudi National Workforce (Total (000))</td>
<td>3804.2</td>
<td>4886.0</td>
<td>1.081.8</td>
</tr>
<tr>
<td>Participation Rate (%)</td>
<td>37.88</td>
<td>39.16</td>
<td>1.28</td>
</tr>
<tr>
<td>Saudi Employment (Total (000))</td>
<td>3032.3</td>
<td>4497.1</td>
<td>1.450.8</td>
</tr>
<tr>
<td>Saudi Unemployment Rates (%)</td>
<td>7.9</td>
<td>2.8</td>
<td>(4.1)</td>
</tr>
<tr>
<td>Non-Saudi Labor (000)</td>
<td>4745.5</td>
<td>4444.2</td>
<td>(771.3)</td>
</tr>
<tr>
<td>Total Labor (000)</td>
<td>8281.8</td>
<td>9221.3</td>
<td>939.5</td>
</tr>
<tr>
<td>Saudi percentage of Total Labor Force %</td>
<td>42.7</td>
<td>51.5</td>
<td>8.8</td>
</tr>
</tbody>
</table>

Source: Central Department of Statistics, Ministry of Economy & Planning.

8.6.2 Employment and Unemployment

The Eighth Development Plan forecasts that the number of employed Saudi national workers would jump from 3.54 million at the beginning of the Plan, with women representing 12.2%, to 4.75 million workers at the end of the Plan, with women representing 17.9%. This implies that 1.21 million additional jobs would be made available to the national workforce, 33.2% of which would be filled by women.
Unemployment among nationals stood at 9.6% in 2003, but dropped to 7.04% in 2004, as a result of intensive effort made to employ nationals by the end of the Seventh Development Plan. The Eighth Plan envisages providing employment to 129,000 job seekers, which would absorb 48.2% of those searching for jobs at the beginning of the Plan. The overall objective of the Plan is to reduce unemployment among nationals to 2.8% by the end of the Plan in 2009. Thus, by 2009, only 138,900 would remain unemployed; 99,700 of whom male (Figure 8.2).

![Figure 8.2](image)

**Figure 8.2**
Unemployment by Gender
Eighth Development Plan

<table>
<thead>
<tr>
<th>Year</th>
<th>Males</th>
<th>Females</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>183.6</td>
<td>84.3</td>
</tr>
<tr>
<td>2009</td>
<td>99.7</td>
<td>39.2</td>
</tr>
</tbody>
</table>

### 8.6.3 Educational Composition of New Entrants to the Labor Market

The most important educational features of the new Saudi entrants to the labor market during the course of the Eighth Development Plan are as follows (Figure 8.3):

- New entrants to the labor market from the educational and training system are estimated at 952,100 graduates, 36.6% of them are females. This represents 88% of all new entrants, whose number is estimated at 1.08 million.
- Population statistics indicate that the rate of growth of the 15–24 years age group is greater than that of the below-15 age group, which will increase demand for secondary and post-secondary
education at a rate higher than for pre-secondary education.

- The Eighth Development Plan envisages increasing participation of post-secondary female graduates from 82.8% to 88.8%. It also envisages enhancing employment opportunities for women without educational qualifications.

- Graduates of tertiary education (male and female) who hold bachelor and postgraduates degrees are estimated at 31.9% of all new entrants to the labor market under the Eighth Plan, which indicates a relative increase in the rate of participation of the 25–54 age group.

- Post-secondary school female graduates represent 76% of the all new female entrants to the labor market during the course of the Eighth Development Plan, in comparison with a ratio of 22% for males, which clearly indicates that the increase in participation of post-secondary graduates in the workforce is mainly due to increasing participation by post-secondary female graduates.

Figure 8.3
New Entrants to the Labor Market by Level of Education
Eighth Development Plan

8.7 LABOR NEEDS AND SAUDIZATION

The key sources of demand for Saudi labor:

- Demand for labor by various economic activities.

- Need to reduce dependency on expatriate workers and replace them with Saudi nationals.
The Eighth Development Plan envisages providing Saudi nationals with 939,500 new jobs, in addition to 271,300 made available through substitution of expatriate workers. However, attaining Saudization requires strict enforcement of applicable resolutions and policies, the most important of which are:

- Council of Ministers Resolution 50 of 26/9/1994, which required private sector institutions that employ more than 20 workers to achieve an annual growth rate of Saudi employees of not less than 5% of total employees, and specified the occupations reserved for Saudis; and Royal Decree 2.T.B/58847 of 17 January 2004, which approved the mechanisms for enforcing this Resolution.

- Council of Manpower Resolution 1/M48/1423 of 2/2/2003 which stipulates that by the end of 2013, expatriate labor and their families shall not exceed 20% of the total Saudi population, and that a balance among nationalities be achieved such that any expatriate nationality shall not exceed 10% of total expatriate residents.

- Decisions that reserve some activities, jobs and occupations for Saudis.

- Decisions and circulars on Saudization of some trading activities.

The Eighth Development Plan aims at cutting expatriate manpower by some 5.7%, at an annual reduction rate of 1.2%. Thus expatriate manpower would decrease from about 4.75 million to about 4.47 million, which would result in increasing the ratio of nationals to total manpower from 42.7% in 2004 to about 51.5% in 2009 (Table 8.4).

8.7.1 Demand by Economic Sectors

Achieving the projected economic growth under the Plan requires increasing total labor from 8.28 million in 2004 to 9.22 million in 2009, at an average annual growth rate of 2.17%, with workers distributed among sectors (economic activities) as shown in Table 8.5.
The most important features of sectoral changes of labor are as follows:

- Labor employed by the private sector would grow at an annual rate of 2.2%, and will, therefore, increase from 7.08 million to 7.87 million.

- The relative contribution of government services to employment would increase from 13.3% to 13.4%.

- Employment in the productive sectors would grow at an average annual rate of 2.1%. The highest rates of employment growth would be achieved in the Other Manufacturing Industries sector (3.9% per annum), Petrochemical industries (2.8%) and Construction and Building (2.3%), while the rate of employment in the Electricity, Water and Gas sector would decrease by about 0.2%.
• The highest rates of employment growth among the service sectors would be achieved by the Trade, Hotels and Restaurants sector and the Transportation, Storage and Communications sector, at 4.5% and 3.0% respectively.

8.7.2 Demand by Key Occupational Category

The most important features of the growth of labor by key occupation category under the Eighth Development Plan are (Table 8.6):

• Relative contribution of technical and scientific jobs would increase from 18.6% to 20.7%, while proportion of employees in services would drop from 30.4% to 27.9%. These changes are consistent with the objective of restructuring Saudi manpower to increase its employment in productive sectors.

• Number of production workers would increase by 298,500, at an average annual rate of 2.7%, in line with the objective of supporting the productive sectors, particularly Manufacturing, and Construction and Building.

• Clerical jobs would grow at a rate of 3.1%, with numbers of managers and administrators growing at 2.8%, which would contribute to employment of nationals and substitution of expatriates in these job categories.

Table 8.6
Occupational Structure of Total Labor Force
Eighth Development Plan

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number (000)</td>
<td>percent</td>
<td>Number (000)</td>
</tr>
<tr>
<td>Scientific &amp; Technical Positions</td>
<td>164,6</td>
<td>18,6</td>
<td>190,8</td>
</tr>
<tr>
<td>Managers &amp; Administrators</td>
<td>777,7</td>
<td>33,3</td>
<td>993,0</td>
</tr>
<tr>
<td>Clerical Jobs</td>
<td>347,3</td>
<td>8,5</td>
<td>321,3</td>
</tr>
<tr>
<td>Sales Jobs</td>
<td>420,3</td>
<td>9,5</td>
<td>383,9</td>
</tr>
<tr>
<td>Services Workers</td>
<td>511,7</td>
<td>13,8</td>
<td>502,7</td>
</tr>
<tr>
<td>Agriculture Workers</td>
<td>379,9</td>
<td>5,3</td>
<td>471,3</td>
</tr>
<tr>
<td>Production Workers, etc</td>
<td>107,2</td>
<td>1,1</td>
<td>137,6</td>
</tr>
<tr>
<td><strong>Total Occupations</strong></td>
<td>8281,8</td>
<td>1100.6</td>
<td>9331,3</td>
</tr>
</tbody>
</table>

Source: Ministry of Economy and Planning.
8.8 EMPLOYMENT DISTRIBUTION

The Eighth Development Plan envisages providing new employment to 1.21 million Saudi nationals, both new entrants to the labor market and unemployed. The most significant features of the expected distribution of this growth by main economic and institutional sectors are (Table 8.7):

Table 8.7
Saudi Total Employment Growth by Economic Sector
Eighth Development Plan

<table>
<thead>
<tr>
<th>Economic Sector</th>
<th>Substitution Jobs (000)</th>
<th>Growth Jobs (000)</th>
<th>Total Employment (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Sector</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Productive Sectors</td>
<td>431.1</td>
<td>335.0</td>
<td>766.1</td>
</tr>
<tr>
<td>Service Sectors</td>
<td>333.0</td>
<td>437.3</td>
<td>770.3</td>
</tr>
<tr>
<td>Total</td>
<td>764.1</td>
<td>772.3</td>
<td>1536.4</td>
</tr>
<tr>
<td>Government Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>17.3</td>
<td>121.8</td>
<td>139.1</td>
</tr>
<tr>
<td>Nonoil Sector</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>477.4</td>
<td>473.7</td>
<td>951.1</td>
</tr>
<tr>
<td>Oil &amp; Gas Sector</td>
<td>1.5</td>
<td>12.8</td>
<td>14.3</td>
</tr>
<tr>
<td>Total</td>
<td>481.3</td>
<td>486.5</td>
<td>965.8</td>
</tr>
</tbody>
</table>

Source: Ministry of Economy and Planning.

- The productive sectors would increase Saudi employment by 365,100 jobs; 30.2% new jobs and 40,100, i.e. 12.3% resulting from substituting expatriate workers. The higher number of new jobs would result from productive sectors needing more labor to achieve the targeted economic growth.

- The service sectors are expected to account for some 56.2% of all new Saudi employment (both substitution and new jobs). This is attributed mainly to the fast growing demand for labor in transportation and communications, wholesale and retail trade, hotels and restaurants, and real-estate services related to tourism.

- New employment in the private sector as a result of substitution of expatriate workers is expected to be 253,100, which would increase the share of Saudi labor in employment in the private sector from approximately 36.1% in 2004 to 45.8% in 2009.

- Government services would employ 147,800 new Saudi workers, i.e., only 12.2% of total additional employment. This is consistent with
government-sector employment reaching saturation, so that new jobs result only from natural expansion, mainly in health and education, and limited substitution of expatriates, which would create some 16,300 jobs only during the term of the Plan.

- Overall, substitution of 271,300 expatriate workers with Saudi workers is expected, which represents 22.4% of all new jobs created.

Table 8.8 shows the expected occupational distribution of Saudi entrants to the labor market (1.2 million). The most important feature are:

Table 8.8
Occupational Balance of Saudi total Employment growth
Eighth Development Plan

<table>
<thead>
<tr>
<th>Key Occupational Category</th>
<th>Entrants to Labor Market (000)</th>
<th>Substitution Jobs (000)</th>
<th>Growth Jobs (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scientific and Technical Occupations</td>
<td>512.4</td>
<td>78.0</td>
<td>368.4</td>
</tr>
<tr>
<td>Managers and Administrators</td>
<td>46.9</td>
<td>7.7</td>
<td>40.7</td>
</tr>
<tr>
<td>Clerical Jobs</td>
<td>140.2</td>
<td>32.4</td>
<td>118.8</td>
</tr>
<tr>
<td>Sales workers</td>
<td>71.5</td>
<td>33.1</td>
<td>38.4</td>
</tr>
<tr>
<td>Services Workers</td>
<td>171.3</td>
<td>116.0</td>
<td>55.1</td>
</tr>
<tr>
<td>Agriculture Workers</td>
<td>40.2</td>
<td>24.1</td>
<td>16.1</td>
</tr>
<tr>
<td>Production Workers, etc.</td>
<td>319.0</td>
<td>70.0</td>
<td>249.0</td>
</tr>
<tr>
<td>Total Occupations</td>
<td>1211.8</td>
<td>771.3</td>
<td>439.5</td>
</tr>
</tbody>
</table>

Note: Differences between Tables 8.7 and 8.8 are due to differences between “Economic Sectors” and “Occupational Categories”.

Source: Ministry of Economy and Planning.

- The increase in the numbers of Saudi workers in the various occupational categories depends on rates of substitution of expatriate workers and numbers of new openings resulting from economic growth. In the services sector, the substitution proportion is very high; while in the scientific and technical occupations category, the proportion of growth jobs is highest.
• Despite the increasing relative importance of category of production workers, which will provide 319,000 new jobs, the substitution rate in this category is very low; amounting to a mere 7.6% of all substitution. This indicates that training of the national workforce to acquire the necessary skills required for substitution is still inadequate.

• The scientific and technical occupations category would provide a total of 416,400 new Saudi jobs, i.e 34.4% of jobs opportunities reflecting a larger post-secondary education output expected, particularly of females.