

CHAPTER NINE

**POPULATION AND
STANDARD OF LIVING**

9. POPULATION AND STANDARD OF LIVING

9.1 INTRODUCTION

This chapter addresses population and demographic characteristics, with a view to providing an objective framework and a reference point for the policies and programs of the Eighth Development Plan, since these characteristics provide the key data and inputs required for estimating various infrastructure and services needs and developing economic and social policies consistent with these needs in terms of location and timing.

The chapter also discusses living standards in general and poverty in particular, dwelling on what resources the Plan will mobilize to deal with poverty and address its causes, within the framework of a comprehensive poverty reduction strategy that is under preparation by the government. The chapter also reviews the population policy in the context of the proposed comprehensive development strategy.

9.2 CURRENT CONDITIONS

9.2.1 Structure of Population

Statistics derived from the Population and Housing Censuses, demographic surveys and population projections, point to a considerable rise in population size over the past three decades. According to the 1974 census, the population was estimated at some 7 million, of whom 6.2 million were Saudi citizens, i.e., 89% of total population. In the second census conducted in 1992, the population was found to have increased to 16.9 million; 12.3 million citizens and 4.6 million expatriates (72.6% and 27.4% respectively of total population). The considerable rise in population over such a short span of time is attributed to two major factors; namely, the high rate of natural growth of the Saudi population, estimated at about 3.8% per year for that period, and the influx of a large number of foreign workers, who were recruited to meet the needs of economic and social development.

Over the 1992–2004 period, the natural growth rate of the Saudi population has remained high at 2.5% annually. Preliminary results of the

2004 Population and Housing Census indicate that the population stood at some 22.6 million in 2004; 16.5 million citizens and 6.1 million non-citizens, i.e., 73% and 27% of total population respectively.

9.2.2 Population Characteristics

Preliminary results of the 2004 Population and Housing Census indicate that the sex ratio among the Saudi population is 101 males per 100 females, and that the annual average growth rate during the preceding twelve-year period is 2.5%.

The high growth rate among Saudis is primarily due to the high total fertility rate (TFR) of women of child-bearing age (15–49 years), which averages about 4.8 live births per woman. The TFR continues to be high despite the increase in the singulate mean age at marriage (SMAM) from about 21 years in 1988 to about 24.9 years in 2000. The main reason for this high TFR is the high tempo of child-bearing, measured by the length of the interval between two consecutive births, which, estimated at about 28 months, is short compared to other Arab countries. This, in turn, is attributable to the short duration of breast feeding, a natural method of spacing births, in addition to low use of artificial devices. Studies conducted in many countries confirm that longer spacing of births leads to lower fertility rates, as well as to improved health for mothers and children.

9.2.3 Implications of the Demographic Characteristics of the Saudi Population

The age structure of the Saudi population in 2004 indicates strong dynamics, with significant economic and social and demographic implications. Key among these are:

- Table 9.1 and Figure 9.1 show that younger age groups dominate the population, with the below-15-years age group constituting 40.4% of total population. The median age is estimated at 17.3 years, which means that about one half of the population is at or below 17.3 years of age.
- The high age-dependency ratio (the ratio of the number of those below 15 and above 64 years of age over the number in the 15–64 years age group), which is estimated at 79%, translates into higher

consumption and, consequently, lower savings, with a negative impact on economic growth, as well as leading to higher demands on health, education and other services needed by the growing number of children.

It should be noted, however, that the age-dependency ratio is not equal to the economic dependency ratio, since not all people of working age are necessarily part of the workforce, as in the case of students and non-working women, which means that the economic dependency ratio is usually higher than the age-dependency ratio.

Table 9.1
Total Population by Age, Sex and Nationality
2004 Estimates

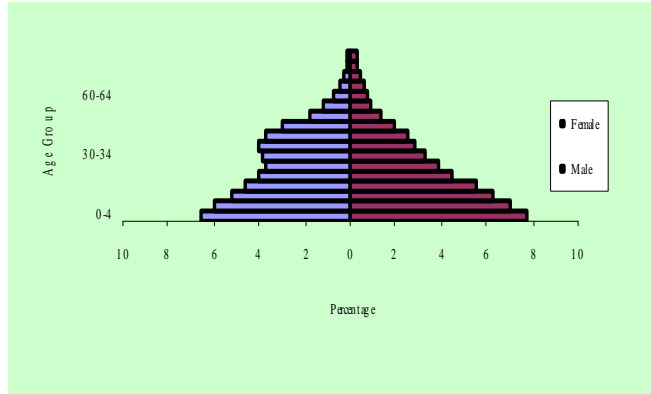
Age Group	Saudi (%) *			Non-Saudi (%) *			Total		
	Male	Female	Both Sexes	Male	Female	Both Sexes	Male	Female	Both Sexes
0-4	14.1	13.0	13.8	0.1	10.6	7.9	11.1	12.9	11.9
5-9	13.8	13.3	13.6	0.3	10.9	7.1	10.9	12.9	11.8
10-14	13.3	12.7	13.0	0.3	10.9	7.0	10.0	12.4	11.4
15-19	12.0	11.7	11.7	0.6	10.8	7.3	9.8	11.6	10.6
20-24	10.2	10.2	10.2	0.8	8.2	7.6	8.7	9.8	9.2
25-29	7.6	8.0	8.0	7.3	7.7	7.4	7.0	8.3	7.9
30-34	0.9	6.6	7.2	11.1	8.6	10.3	7.7	7.9	7.3
35-39	0.0	0.2	0.1	14.2	8.8	13.1	8.2	0.9	7.1
40-44	4.1	4.3	4.2	13.7	8.1	11.9	7.4	0.0	7.3
45-49	3.7	3.8	3.7	11.6	7.2	10.2	7.4	4.4	0.0
50-54	2.7	2.8	2.8	7.2	4.3	7.3	4.3	3.1	3.8
55-59	2.0	2.2	2.1	3.7	1.0	3.0	2.6	2.1	2.4
60-64	1.0	1.8	1.6	2.0	0.8	1.6	1.7	1.6	1.6
65-69	1.2	1.3	1.2	1.1	0.6	0.9	1.1	1.2	1.2
70-74	1.1	0.8	1.0	0.0	0.4	0.0	0.9	0.7	0.8
75-79	0.8	0.7	0.7	0.3	0.3	0.3	0.6	0.6	0.6
80+	0.9	0.6	0.7	0.2	0.3	0.2	0.6	0.6	0.6
Total	100	100	100	100	100	100	100	100	100

* Figures show the percentage ratio of population in each age group over the total population in each category.

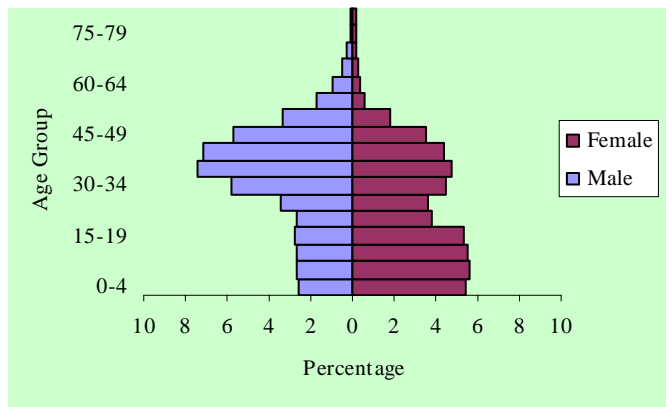
Source: Central Department of Statistics.

Figure 9.1
Population Pyramid of Saudis and Expatriates
2004 Estimates

Saudis



Expatriates



Total Population



The average size of the Saudi household is 6 to 7 persons. Large household size leads to an increased burden of meeting the food, health, education and entertainment needs of the members of the household. In fact, inability to meet the basic needs of children has a tremendous effect, particularly among poor families making them perpetual in the poverty for long periods.

- The Saudi population age structure points to a high rate of new entrants to the labor market over the next two decades; currently estimated at 3% annually. This creates an opportunity by increasing supply of national manpower, but also poses the challenge of providing the young with high-quality education and training, as well as rewarding job opportunities.
- The high fertility rate creates a momentum which poses the demographic challenge of continued high population growth because of the large young generation reaching reproductive age during the coming years of births.

9.2.4 Characteristics of Expatriate Population

Table 9.1 and Figure 9.1 show that the proportion of expatriates in the below-15-years age group is only 21% of total expatriate population, the median age is 34.1 years, and the age-dependency ratio is 30%.

The sex ratio, at 228 males per 100 females, is high. This is due to the fact that most expatriates are males who came for work and most of them are either single or are married but unaccompanied by their families.

The age and sex structure of expatriates has a noticeable impact on total population age and sex structure, as shown in Figure 9.1, since they constitute about 27.1% of total population. As a result, the sex ratio of total population stands at 124 males per 100 females, the below-15-years age group accounts for about 35% of the total population, and the age-dependency ratio is about 62%.

9.2.5 Geographic Distribution of Population

The majority of the population is concentrated in 3 administrative regions; namely, Riyadh, Makkah and the Eastern Region, accounting together for 64.5% of total population in 2004 (Table 9.2).

The population growth rate in each region is influenced by the rate of natural increase of population, coupled with net immigration of citizens and expatriates. Table 9.3 shows population size, average annual growth rate and share of expatriates in population of each region during the periods 1974–1992 and 1993–2004. Data on geographic distribution of population show that:

Table 9.2
Distribution of Population by Administrative Region

Region	1974–1992			1993–2004		
	Population (Million)	Annual Growth Rate (%)	Share of Expatriates (%)	Population (Million)	Annual Growth Rate (%)	Share of Expatriates (%)
Riyadh	18.9	6.3	18.9	22.6	2.6	24.1
Makkah	26.1	6.9	26.1	26.4	2.6	20.7
Al Madinahh	7.7	6.4	7.7	6.4	2.7	7.7
Qassim	4.7	4.4	4.7	4.4	2.0	4.0
Eastern Region	11.4	6.9	11.4	15.2	2.8	14.8
Assir	10.1	7.9	10.1	7.9	2.4	7.4
Tabuk	2.9	2.9	2.9	2.9	3.1	3.1
Hail	3.9	2.4	3.9	2.4	2.3	2.3
Northern Borders	1.9	1.3	1.9	1.3	1.2	1.2
Jizan	6.0	5.1	6.0	5.1	0.2	0.2
Najran	2.2	1.8	2.2	1.8	1.8	1.8
Baha	2.8	2.0	2.8	2.0	1.7	1.7
Al-Jouf	1.4	1.6	1.4	1.6	1.6	1.6
Total	100	100	100	100	100	100

Source: Central Department of Statistics.

- The number of regions with a population of over one million has increased from 2 (Makkah and Riyadh) in 1974 to 5 in 1992, with the addition of Al Madinahh, the Eastern region, and Assir, and to 7 in 2004, with the addition of Qassim and Jizan.
- As shown in Table 9.3, all regions experienced a high population growth rate during 1974–1992, particularly the Eastern region (6.9 %), and the Riyadh region (6.3 %).

During 1992–2004, the population growth rate declined noticeably in all regions, compared with the average growth rate during 1974–1993. This decline was significant particularly in the Eastern Region,

Makkah, Baha and Jouf. The table also shows that during 1993–2004, Riyadh and Tabuk experienced the highest population growth rate (3% each) while Baha and the Northern Borders experienced the lowest (1.1% and 1.7%, respectively).

- The influx of expatriates has influenced population growth rates of regions at varying levels. Expatriates account for some one-third of the population of Riyadh, more than one-third of Makkah, about one-fourth of the Eastern region and Al Madinah and about one-fifth of Qassim. On the other hand, the share of expatriates in the overall population has dropped slightly during the period 1992–2004 in seven regions (Riyadh, Eastern Region, Tabuk, Hail, Northern Borders, Najran and Jouf), but increased in all others.

Table 9.3
Population Distribution by Administrative Region

Region	Total Population			Average Annual Growth Rate (%)		Share of Expatriates in Total Population (%)	
	1974	1992	2004	1974–1992	1992–2004	1992	2004
Riyadh	1,272,270	3,834,987	0,400,373	7.3	3.0	31.8	31.7
Makkah	1,704,108	4,477,770	0,797,971	0.3	2.2	37.8	38.1
Al Madinah	019,294	1,084,947	1,012,076	4.2	2.8	22.8	24.3
Qassim	317,740	700,979	1,017,707	4.9	2.7	18.7	19.7
Eastern Region	779,748	2,070,820	3,370,107	7.9	2.2	27.2	23.9
Assir	781,371	1,340,178	1,788,387	3.8	1.9	14.2	10.0
Tabuk	193,763	487,134	791,017	0.2	3.0	17.3	14.0
Hail	209,929	411,284	027,033	0.7	2.1	10.8	14.3
Northern Borders	128,740	229,070	279,287	3.3	1.7	22.0	14.3
Jizan	403,107	870,971	1,187,139	4.3	2.7	10.2	17.2
Najran	147,970	300,994	419,407	4.0	2.8	20.1	17.9
Baha	180,900	332,107	377,739	3.3	1.1	12.7	13.1
Jouf	97,898	278,228	371,777	0.8	2.0	17.7	14.8

Source: Central Department of Statistics.

9.3 FUTURE VISION

9.3.1 Population Policies

Population policy comprises measures and programs aimed at achieving specific demographic objectives in the context of overall development objectives. Population policy aims at influencing factors such as size of population, population growth rate, and population age and geographical distribution and balancing these factors with the resources available to society, as well as through improving health and education. Due to the significance of the influence of the demographic conditions on the process of sustainable economic and social development, the Ministry of Economy and Planning embarked upon formulating a population policy based on the long-term strategic vision for the Saudi economy 2005–2024 and on the general framework of the population strategy of the GCC countries.

The population policy of the Kingdom focuses on the following themes:

1. *Population Dynamics*

This theme covers the main demographic issues related to population size, growth rates, age and sex structure and geographical distribution; and birth and mortality rates among various population segments, along with studying the influence of social, economic and behavioral factors on population demand.

2. *Health Services and Health Conditions*

This theme covers monitoring the development of healthcare infrastructure, incidence rates of infections and chronic diseases among various population segments, and the health conditions of children, mothers and the elderly, as well as rates of the various types of disability.

3. *Education and Future Challenges*

Improvement in educational standards is a cornerstone of human development, and one of the most effective means for alleviating poverty and reducing mortality and fertility rates. This theme addresses the substantial expansion in education services in the previous decades and the resulting increase in enrollment rates at all educational levels, as well as the decline of illiteracy. However,

notwithstanding the substantial achievements in education and training, the growing number of school-age children, which is linked with the steady growth of population, calls for providing large educational resources, to stave off a possible decline in enrollment rates and achieve full enrollment of school-age children.

4. *Labor and Employment Opportunities*

This theme analyzes the present condition of the labor market, reasons for the relatively poor participation of Saudi citizens in the labor market, and discusses means and arrangements necessary to ensure absorption of the growing number of Saudi youth entering the labor market during the coming years.

5. *Opportunities for Women in Education and Work*

This theme monitors developments in the education of women over the past decades, and the required job and training opportunities for women to enable them to contribute more effectively to economic and social development.

6. *Environmental Considerations*

This theme addresses the influence of population changes on environmental conditions in the country, due to population growth and urban expansion. The challenges include: increased household liquid and solid waste; environmental pollution; industrial and municipal wastewater disposal; and increased demand for water for domestic, municipal, industrial, and agriculture use. The theme also deals with conservation of non-renewable ground water resources to prevent depletion, as well as protection of the vegetation cover in rural and urban areas.

7. *Population Database*

This theme emphasizes the importance of availability of a reliable, up-to-date database on population characteristics consistent with databases adopted internationally. It also stresses the significance of continuous training of the staff of statistical agencies, and conducting population research to define priorities and monitor and evaluate population and social programs.

The objectives of the population policy are in line with the Millennium Development Goals adopted by the UN in 2000, which include eradication of poverty; universal access to primary education; gender equality in education; reduction of maternal mortality and under-five mortality rates; control of HIV-AIDS, malaria and other infectious diseases; and conservation of the environment.

Undoubtedly, addressing population issues will help consolidate the major economic and social development achievements of the Kingdom to attain sustainable development and raise the standard of living in all regions of the country.

9.3.2 Standard of Living

Standard of living can be measured by per capita income, and by access of the population to basic services (education and health). Thus, the standard of living in the Kingdom has been estimated through the following indicators:

- Per capita income.
- Life expectancy at birth.
- Enrollment rate in primary education.
- Percentage of population with access to safe water supply.

Statistical data for 2004 show that the per capita income stands at SR 56,100 (US \$ = SR 3.75 at current prices), which is six times the average per capita income in the Middle East and North Africa, and about three times the per capita income of upper-middle income countries.

The decline in prevalence of infectious diseases and epidemics and decline of mortality rates, particularly the infant mortality rate, have resulted in an increase of life expectancy at birth from 53 years during the 1970s to about 71.9 years in 2003. The life expectancy in the Kingdom is now almost equal to that of upper-middle income countries and exceeds that of the Middle Eastern and Northern African countries (69 years) by about 3 years.

Available data shows also that 95% of the population of the Kingdom has access to safe water, which exceeds the rates prevailing in the Middle East

and North Africa countries (88%) and in upper-middle income countries (90%).

All these indicators show that the standard of living of the population of the Kingdom is high, in comparison with the Middle East and Northern Africa countries and with upper-middle income countries. Nevertheless, growing disparity in economic growth and availability of job opportunities among the various regions have led to unevenness of living standards and to immigration to the more prosperous regions. Likewise, while the overall rates of illiteracy (among the 10-years old and above) have declined considerably, the illiteracy rate varies considerably from region to region.

Greater attention should, therefore, be paid to adoption of policies, programs and projects covering all regions aimed at improving job opportunities and raising incomes and living standards. Emphasis should also be placed on improving housing standards of poor households, along with expansion of illiteracy eradication campaigns.

9.3.3 The National Strategy for Addressing Poverty

Poverty alleviation is a pivotal goal of development. The definition of poverty has been expanded to include material deprivation (measured by level of income or consumption), low educational attainment, poor health conditions, and exposure to risks. Data on these dimensions can be collected through surveys, as well as through qualitative methods for creating risk exposure indicators.

Royal Decree 41395 of 29/12/2002 ordered the preparation of a comprehensive national strategy for poverty alleviation. In compliance, the Ministry of Economy and Planning, in collaboration with the National Poverty Alleviation Strategy taskforce, is developing this strategy within a scientific framework that takes the specific conditions and capabilities of the Kingdom into consideration, while benefiting from the experience of other countries. Using specialized surveys, the strategy aims at establishing a database of various poverty measures and identifying the social groups and geographical areas where poverty is concentrated. The causes of poverty are also being examined with a view to implementing the programs and policies necessary for alleviating poverty and reducing adverse effects on economic and social development. The poverty measures used include: extreme poverty, absolute poverty, relative

poverty, poverty ratio, poverty gap, and poverty severity.

The poverty alleviation strategy focuses on the following main aspects:

1. Providing the poor with opportunities for creating and consolidating their material and human assets, through provision of jobs, credit, education and training opportunities, health services, and improving their access to markets to enable them to market their products.
2. Enhancing the ability of the poor to participate effectively in economic activities.
3. Improving the standard of living of the poor through reducing their exposure to risks such as health problems, economic shocks related to market fluctuations and natural disasters, as well as assisting them to overcome such disasters and shocks.

The strategy encompasses proposed policies for addressing poverty along the following five themes:

First: Macroeconomic policies, which include policies for speeding up economic growth and distributing its benefits in a balanced manner among various regions and social strata.

Second: Economic empowerment of the poor, which includes policies for providing poor individuals and families with production means of needed for increasing their income and upgrading the production capacities of productive families and SMEs, in addition to policies aimed at improving employment opportunities and wages.

Third: Public services policies, which include policies for improving health, education and municipal services for the poor.

Fourth: Social safety net policies, which include policies for enhancing the social security system, increasing the contribution of Zakat to poverty alleviation, and consolidating the role played by charitable associations and voluntary organizations in addressing poverty.

Fifth: Households properties policies, which include policies and programs for addressing housing problems and providing adequate housing for the needy at lower costs on easy terms.

Among the steps taken to address poverty is the establishment of the Charitable Fund for Humanitarian Services. The government contributes part of the Fund's capital, with the rest provided by the private sector and individuals. The Fund aims at helping the poor help themselves. The strategy of the Fund is based on:

- Improving the labor market opportunity of the poor by providing guidance through a database about available jobs at various community institutions and the private sector.
- Help establishing productive families through provision of soft loans for establishing small-size enterprises commensurate with the resources of poor families to help them secure more stable incomes.

These efforts are complemented by other material assistance provided by the government, including social security, by charitable associations, and by social care institutions.

9.4 DEVELOPMENT STRATEGY

The development strategy aims at raising the living standard of the population through achieving the following:

9.4.1 Objectives

The main objectives of Eighth Development Plan in relation to raising the standard of living of the population are:

- Increasing per capita income.
- Alleviating poverty.
- Providing education to all.
- Providing potable water to all.
- Providing telephony and Internet services to all.
- Reducing internal migration.
- Achieving a population growth rate commensurate with the efforts to raising the standard of living.
- Reducing the mortality rate of children under five years of age.
- Reducing the maternal mortality ratio.

- Improving health and education of the youth.
- Improving the quality of life of the elderly.

9.4.2 Policies

Achieving the objective of raising the living standard of the general population depends on the following policies:

- Ensuring continuous growth of per capita income.
- Enforcing mandatory primary education.
- Expanding the provision of telephony and Internet services at affordable costs in all regions.
- Sustaining the provision of health and educational services and job opportunities in a way that encourages people to stay in their areas of origin.
- Expanding the vaccination of children against infectious and common diseases.
- Persisting in improving the quality of medical care services provided to pregnant women and child delivery services, along with encouraging mothers to attend post-natal healthcare services.
- Expanding media campaigns aimed at spreading awareness among the youth of the dangers of harmful habits.
- Encouraging non-governmental organizations and the private sector to participate in establishing projects and programs for the healthcare and social care of the elderly.
- Encouraging the elderly to use their experience and abilities in social and voluntary work.

9.4.3 Targets

The Eighth Development Plan aims at achieving the following targets:

- Attaining an average annual growth rate of per capita income of 2.2%.
- Eradicating extreme poverty.
- Reducing the number of the extremely poor by 18%.

- Increasing the proportion of pregnant women receiving pre-natal healthcare to 98%.
- Increasing the proportion of deliveries attended by trained health professionals to 97%.
- Increasing the enrollment rate in primary schools to 100%.
- Attaining 100% access to potable water services.
- Attaining 97% coverage of telephone services.

CHAPTER TEN

REGIONAL DEVELOPMENT

10. REGIONAL DEVELOPMENT

10.1 INTRODUCTION

The economic conditions and prospects of the various regions are substantially affected by a number of major factors, including geographic location, climate, natural and human resources, infrastructural facilities, and material and intellectual wealth. To leverage these factors, a comprehensive planning approach was adopted, aiming at achieving more balanced growth across the various regions within available resources. Examples of this approach in action are enhancement of the capacities of the holy sites, establishment of the industrial cities of Jubail and Yanbu, and creation of development centers in various regions. Moreover, efforts to attain balanced growth across the regions needed a supporting organizational and administrative base, which was provided by, inter alia, the creation of provincial councils, approval of the National Spatial Strategy, and identification of development centers.

However, notwithstanding the efforts made to rise to the challenge of balanced development across the regions, through providing basic economic and social development requirements, such as basic infrastructure and vital services, in all regions, considerable regional disparities persist; a matter that constitutes a challenge for the Eighth Development Plan to deal with.

This chapter reviews the current status of regional development by highlighting some demographic, social and economic indicators, and deals with the main challenges involved. It also reviews the regional development strategy, as well as the objectives and policies adopted by the Eighth Development Plan.

10.2 CURRENT CONDITIONS

10.2.1 Population Distribution

Favorable economic opportunities and living conditions are important factors that substantially affect long-term population trends of the country as a whole, as well as of the individual regions. Three regions; namely, Riyadh, Makkah and the Eastern region, have witnessed high population growth over the successive development plans mainly due to internal

migration. Together, these regions comprised 64.5%, or almost two thirds, of the total population in 2004 (Table 10.1).

Table 10.1
Population Distribution by Administrative Region

Region	1992		2004	
	Number	(%)	Number	(%)
Riyadh	٣,٨٣٤,٩٨٦	٢٢.٦	٥,٤٥٥,٣٦٣	٢٤.١
Makkah	٤,٤٦٧,٦٧٠	٢٦.٤	٥,٧٩٧,٩٧١	٢٥.٦
Al Madinah	١,٠٨٤,٩٤٧	٦.٤	١,٥١٢,٠٧٦	٦.٧
Qassim	٧٥٠,٩٧٩	٤.٤	١,٠١٦,٧٥٦	٤.٥
Eastern Region	٢,٥٧٥,٨٢٠	١٥.٢	٣,٣٦٠,١٥٧	١٤.٨
Assir	١,٣٤٠,١٦٨	٧.٩	١,٦٨٨,٣٦٨	٧.٤
Tabuk	٤٨٦,١٣٤	٢.٩	٦٩١,٥١٧	٣.١
Hail	٤١١,٢٨٤	٢.٤	٥٢٧,٠٣٣	٢.٣
Northern Borders	٢٢٩,٠٦٠	١.٣	٢٧٩,٢٨٦	١.٢
Jizan	٨٦٥,٩٦١	٥.١	١,١٨٦,١٣٩	٥.٢
Najran	٣٠٠,٩٩٤	١.٨	٤١٩,٤٥٧	١.٨
Baha	٣٣٢,١٥٧	٢.٠	٣٧٧,٧٣٩	١.٧
Jouf	٢٦٨,٢٢٨	١.٦	٣٦١,٦٧٦	١.٦
Kingdom	١٦,٩٤٨,٣٨٨	١٠٠	٢٢,٦٧٣,٥٣٨	١٠٠

Source: Central Department of Statistics.

Regional population growth trends reveal the existence of economic and social disparities. While regions like Riyadh, Al Madinah, Qassim, Tabuk, Jizan, Najran and Jouf had population increases considerably above the overall annual average of 2.5% over the period 1992–2004, population growth rates in the regions of Makkah, the Eastern region, Assir, Hail, Northern Border and Baha were below the overall average. This is attributable to the size and direction of internal migration among the individual regions.

Internal migration was not restricted to migration between regions but also included migration from rural areas to urban areas within individual regions, leading to the concentration of population in the major cities. In 2004, the ratio of the population of the two biggest cities of a region to its total population was almost 82% for Riyadh region, 85% for the Northern Border, 82% for Al Madinah, 78% for Tabuk and 73% for Makkah. However, in other regions, urban concentration of population was lower. The share of the two biggest cities in the total population amounted to 41%

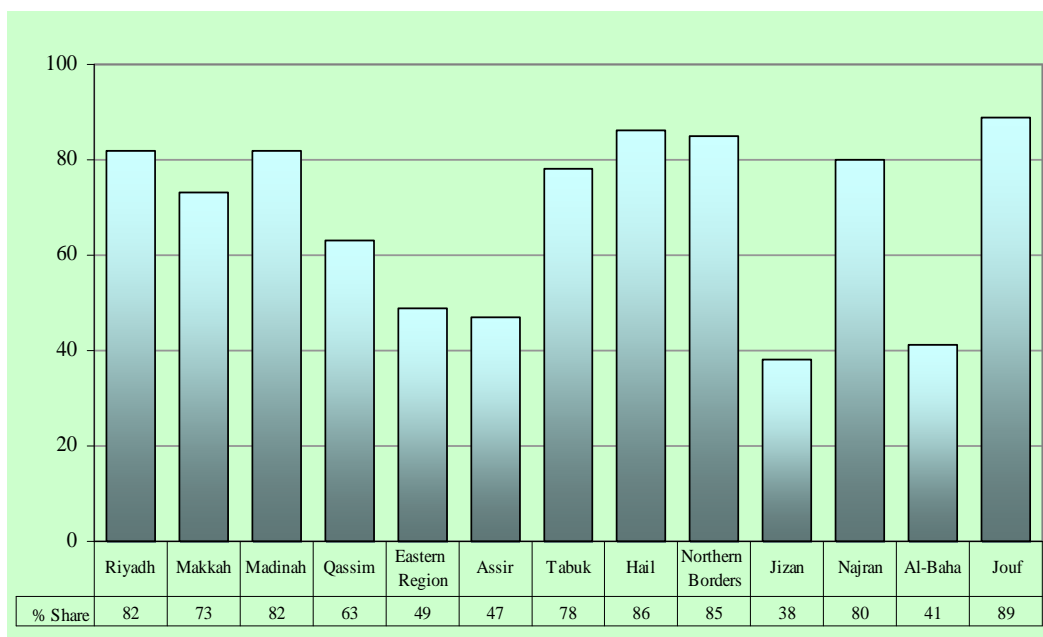
in Baha region, 47% in Assir and 38% in Jizan, (Table 10.2 and Figure 10.1). While the phenomenon of rural-urban migration is complex and is determined by many factors, evidence suggests that availability of agricultural resources constituted a major factor affecting the relative stability of the rural population in these regions.

Table 10.2
Population Concentration in the Two Largest
Cities of Each Administrative Region (2004)

Region	Principal Cities of the Region (Share of Regional Total)				Ratio of population of the two cities to total population of region (%)
	Largest		Second Largest		
	Name	(%)	Name	(%)	
Riyadh	Riyadh	٧٦	Kharj	٦	٨٢
Makkah	Makkah	23	Jeddah	50	٧٣
Al Madinah	Al Madinah	٦٥	Yanbu	١٧	٨٢
Qassim	Buraidah	٤٩	Unaizah	١٤	٦٣
Eastern Region	Dammam	٢٢	Ahssa	٢٧	٤٩
Assir	Abha	٢١	Khamis Mushait	٢٦	٤٧
Tabuk	Tabuk	٧٠	Umluj	٨	٧٨
Hail	Hail	٦٨	Gazalah	١٨	٨٦
Northern Borders	Arar	٥٩	Rafha	٢٦	٨٥
Jizan	Jizan	٢١	Sabia	١٧	٣٨
Najran	Najran	٦٣	Sharorah	١٧	٨٠
Baha	Baha	٢٥	Baljarshi	١٦	٤١
Jouf	Sakakah	٥٤	Qurayat	٣٥	٨٩
Kingdom		٤٤		٢٥	٦٩

Source: Central Department of Statistics.

Figure 10.1
Ratio of Population in the Two Largest Cities in
Each Administrative Region to its Total Population (2004)



10.2.2 Distribution of Economic Activity

The geographical distribution of economic activity is in line with population distribution, being highly concentrated in the Riyadh, Makkah and Eastern regions. Thus, in 2003, of the total number of operating business firms (570,000) 30% were located in the Riyadh region, 28% in the Makkah region and 16% in the Eastern region; a total of 74%. The distribution by type of activity was as follows:

A. *Industry*

The regional distribution of industrial activities is highly uneven. For instance, the average number of industrial jobs per 10,000 people ranges from 237 in the Riyadh region to only 7 in the Northern Border region. This unevenness is mainly attributable to the unbalanced distribution of the productive sectors and hence employment opportunities. The Eighth Development Plan will, therefore, adopt policies to encourage investment in the productive and service sectors in the least developed regions.

B. *Agriculture*

The actual cultivated area amounts to about 1.2 million hectares, or only 0.6% of the total area of the country. This is due to several factors, foremost among which are the limited availability of cultivable land and irrigation water.

The ratio of cultivated area to total area is above the national average in the regions of Jizan, Qassim, Jouf, Hail and Riyadh, but below it in the Makkah, Al Madinah, Najran and Eastern regions.

The Riyadh, Hail, Qassim and Eastern regions provide together about 87% of the total production of wheat, 67% of barley, 72% of vegetables, 65% of fodder, 52% of fruits and 62% of dates. Production in the Assir region is concentrated on fruits and dates, with 9.4% and 10.3% respectively of total national production, while the Jizan region specializes in producing fodder, with 7.7% of total national production. The region of Tabuk produces mainly barley, fodder and fruits, with shares of 19.5%, 10.7% and 10.1%, respectively, of total national production.

The geographical distribution of animal production is quite similar to that of crop production. The Riyadh region accounts for about 75% of total production of milk, while Qassim and Makkah regions account for 40% and 24% respectively of total poultry production. However, the animal stock of sheep, goats and camels is distributed more evenly over the various regions.

C. *Services*

The two holy cities of Makkah and Al Madinah are historic centers of services for the Hajj and Umrah. In the course of the development process, existing services centers grew bigger and new ones emerged. All enjoy unique advanced facilities such as hotels, conference and exhibition centers, and industrial cities, such as Riyadh as a government services center and the cities along the western and eastern coasts where large financial, professional, industrial and trade institutions abound. Tourism is becoming more important for the services sector; particularly recreational tourism, which is concentrated in the coastal cities of the Red Sea and the Arabian Gulf, as well as the mountainous summer resorts, such as Taif, Assir and Baha, which have started to attract increasing numbers of GCC citizens.

10.3 ISSUES AND CHALLENGES

10.3.1 Development of Regional Production Base

Achieving balanced development across all regions requires not only the providing physical infrastructure and basic services, but also

synchronously creating a production base primarily based on the development potentialities of each region and implementing a national strategy that encourages and directs investments and activities to the regions.

Under the Eighth Development Plan, several developments will contribute directly or indirectly to increasing participation of the least developed regions in economic activity. The most noteworthy of these developments include:

- Studying the feasibility of establishing a free zone and an integrated development corridor in Jizan to make use of its strategic location near the Horn of Africa and Yemen, and another such zone in Tabuk, on the northwestern coast, to utilize its regional and international strategic location.
- Expanding the national energy network (oil, natural gas and electricity) to provide fuel and feedstock to the new development corridors.
- Expanding the railway network to link, in the medium term, the mining sites in the Northern part of the country with the Eastern Region via the central part, thus facilitating transportation of extracted raw materials to processing centers and linking the Central region with the Western.
- Initiating development of the tourist sites identified in the long-term tourism strategy, which marked more than 10,000 natural, historical and cultural sites expected to be utilized for tourism over the next two decades.

10.3.2 Completion of Infrastructure

Achieving balanced regional development is a major objective and a basic strategic principle of economic and social development. Hence, the government has been keen to provide infrastructure and public services in all regions. As a result, disparities among regions are limited to a small number of services. Arguably, some of the gaps cannot be fully bridged due to factors relating to the development potential and specificities of individual regions. Nevertheless, provision of adequate infrastructure and basic services in the less developed regions would raise their standard of living and enhance their rates of growth and general development, and should, therefore, be the main thrust of the regional development policy.

10.3.3 Administrative Decentralization

The outstanding economic and social development achieved has been accompanied by similar developments in the administrative and institutional capacities at both local and central levels. This has contributed to overcoming many obstacles to administrative decentralization, which aims at improving administrative efficiency and enhancing opportunities for promoting development at the regional and local levels. Under the provincial system adopted in 1991, a provincial council for each region undertakes identifying economic, social and services needs of the region; defining priority projects and programs and pursuing their approval and implementation; and supervising public services and monitoring their efficiency.

In this context, Council of Ministers resolution 224 of 13/10/2003, which provides for the election of half of the members of Municipal Councils, is a large step forward towards enhancing the role of local authorities and achieving more administrative decentralization.

Under the Eighth Development Plan, the process of devolution of responsibilities to local levels would proceed apace, in line with the goal of consolidating participation of the regions in the development process through optimal utilization of their natural, economic and human resources.

10.3.4 Regional Data and Information Base

Detailed data and information on the economic and social conditions in all regions are of vital importance in formulating appropriate regional development plans and strategies. Hence, under the Eighth Development Plan, a comprehensive regional database will be established.

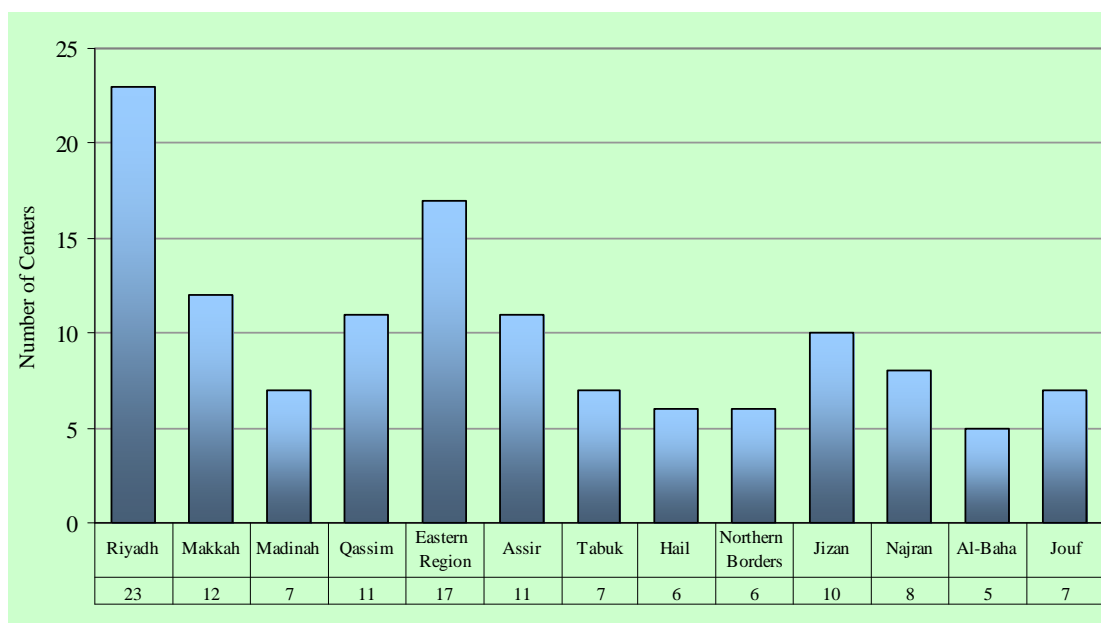
10.4 FUTURE VISION

The future vision of regional development is part of the long-term future vision of the Saudi economy up to 2024. It is based on the development corridors identified in the National Spatial Strategy issued by Council of Ministers Resolution 127 of 28/8/2000. Each corridor comprises

population centers of various sizes, concentrated along the main intercity transport network. The Strategy identified 130 development centers in the 13 administrative regions (Figure 10.2), taking into consideration geographic location, national security considerations, future development potentials, and economic and environmental aspects, as well as the relative population density.

The future vision of regional development envisages developing small and medium-size towns to become development centers capable of accelerating the process of development, reducing the disparities in the level of development, and limiting internal migration to relieve pressure on the major cities.

Figure 10.2
Distribution of Development Centers by Administrative Region



The strategy envisages reducing regional disparities through a long-term process implemented in stages under the five-year development plans, with development efforts concentrated on a selected number of centers during each plan. The development centers selected so far are predominantly in the three main regions of Riyadh, Makkah and Eastern, which are inhabited by about 64% of the total population.

The main dimensions of the long-term future vision for developing the regions are:

- Enhancing the developmental role of the provincial councils through gradual adoption of decentralization. This does not mean canceling the role of the central ministries and government agencies, which will continue to undertake supervision and coordination at the national level, in light of the available resources. The future vision also calls for establishing databases at the level of regions to support the provincial councils.
- As per Royal Decree 7/B/48468 of 6/12/2003, improving the living conditions of citizens in all regions with respect to housing, health, education, infrastructure such as electricity and water, transport, agriculture, telecommunication, within the framework of the poverty

alleviation strategy and the unemployment reduction strategy.

- Achieving economic, social and environmental sustainable development, which requires intensive efforts throughout the future five-year development plans in various domains, including encouraging the private sector to invest in the least developed regions, transforming the comparative advantages of each region into competitive advantages, and strengthening environmental protection policies and measures.
- Measuring regional disparities in activities and services, if any, through the Regional Development Indicators, to help the provincial councils and other agencies concerned in selecting the best available alternatives to reduce disparities and direct investments towards the least developed regions.

10.5 DEVELOPMENT STRATEGY

The regional development strategy aims at achieving balanced growth across all regions and reducing development disparities among them.

10.5.1 Objectives

The main objectives for regional development during the Eighth Development Plan include:

- Reducing disparities in living conditions and economic activities among the various regions through a balanced sustainable development process.
- Providing economic and social infrastructure and public services in all regions at an appropriate level of efficiency and effectiveness, with particular attention to small settlements.
- Moving gradually towards administrative decentralization and consolidating management at the regional and local levels.

10.5.2 Policies

Achieving the main objectives of regional development under the Eighth Development Plan will depend on implementation of the following policies:

- Diversifying the economies of the regions to enhance complementarities.
- Identifying the resources available in each region and ensuring their optimal utilization.
- Encouraging the private sector to invest in the productive sectors in the least developed regions.
- Developing municipal and other public services in accordance with the hierarchical structure of the development centers specified in the National Spatial Strategy.
- Ensuring congruence between the share of a region in public services with its share in the total population of the country.
- Upgrading the technical and administrative capabilities of the local authorities and increasing their contribution to the development process.

10.5.3 Targets

The Eighth Development Plan envisages the following:

- Establishing a comprehensive reliable database at the regional level.
- Developing specific criteria for optimal distribution of services in all regions.
- Preparing specialized training programs for local authorities, in collaboration with the educational agencies.
- Identifying the capabilities of each region to define the most promising investment opportunities.

CHAPTER ELEVEN

BUILDING AND CONSTRUCTION

11. BUILDING AND CONSTRUCTION

11.1 INTRODUCTION

The construction sector consists of a series of activities related to various types of buildings and engineering structures, as well as related maintenance. Being closely related to other economic sectors, this sector is regarded as an important and reliable indicator of the direction and health of the national economy.

This chapter reviews performance of the construction sector and highlights the major developments in it over the past years. It also examines the key issues and challenges the sector faces, and presents the main features of the future vision for the sector, in addition to the policies and targets envisaged for it under the Eighth Development Plan.

11.2 CURRENT CONDITIONS

11.2.1 Developments

The construction sector achieved substantial development under the Seventh Development Plan, reflected in the increase of its value added from SR 39.44 billion in 1999 to about SR 46.96 billion in 2004, by an average annual rate of 3.6%, compared to 2.16% under the Sixth Plan. The volume of investments made in the sector under the Seventh Plan amounted to SR 8.53 billion.

11.2.2 Companies and Establishments in the Construction Sector

In 2002, there were some 139,000 contractors registered in the Kingdom, compared to around 113,000 in 1997. Out of these, some 51,000, or 36.7%, were registered in the Riyadh region. However, only about 20,632 contractors were members of the Saudi Chamber of Commerce and Industry, with only 3,690 contractors, or 2.6% of the total, classified in the various areas of activity (Table 11.1). Most of the classified contractors are concentrated in the Riyadh, Eastern and Makkah regions, constituting 54%, 15% and 14.7% of the total, respectively.

Table 11.1
Distribution of Classified Contractors
by Administrative Region (2002)

Region	Grade (1)	Grade (2)	Grade (3)	Grade (4)	Grade (5)	Total
Riyadh	97	124	188	241	1301	2001
Makkah	34	49	06	77	326	042
Madinah	2	4	11	14	63	94
Qassim	3	2	13	17	124	109
Eastern Region	22	48	77	80	321	003
Assir	2	0	11	10	84	117
Tabuk	0	0	2	1	18	21
Hail	0	2	0	7	62	71
Northern Borders	0	1	1	3	16	21
Jizan	0	0	3	2	22	27
Najran	0	1	2	4	37	44
Baha	0	0	0	4	17	21
Jouf	0	0	2	2	10	19
Total	160	236	366	472	2,456	3,690

Source: MOMRA, Deputy Ministry of Contractors Classification

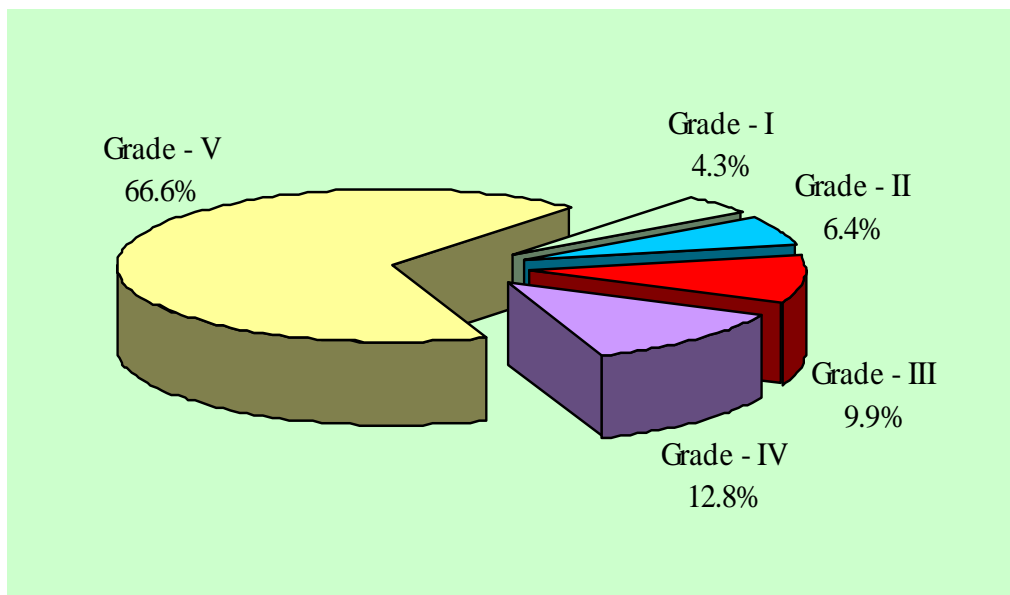
The standards of performance among contractors in the Kingdom vary considerably. There is only a limited number of general contracting companies that meet international standards, in terms of capability and competence, and qualify to cooperate with large international companies in the execution of large-scale projects.

Performance of classified contractors improved noticeably in recent years, thanks both to the higher standards required and to increasing competition. However, increasing competition among non-classified contractors in the small-to-medium-size construction sector has come at the expense of quality of construction. Nevertheless, contracting companies have attained a high degree of knowledge and skills, with foreign knowhow and skills being needed only in certain cases to support some special engineering structures and highly sophisticated works.

The major constraint on small and medium contracting companies, not only in Saudi Arabia but also in most countries, is the limited financial

liquidity. In contrast to the large and some medium companies, small companies normally lack the necessary financial resources, credit facilities and other financing instruments to improve their capabilities. This normally leads to a shortage of necessary machinery and equipment, forcing such companies to increasingly rely on manpower, which results in lower quality, inadequate performance and lower productivity.

Figure 11.1
Percentage Distribution of Contractors
by Category of Classification (2002)



11.2.3 Building Materials

Most available modern and traditional building materials are locally produced, but some are imported. In addition, a broad range of mineral deposits, raw materials, and non-metallic minerals used in the production of modern building materials are also available from within the Kingdom, and there is a growing number of companies that produce and provide basic building materials.

The local building materials industry has successfully diversified its products, increased its production and improved the quality of produced materials. Cement, building blocks, iron, steel, tiles and glass are among the main materials produced by local enterprises. Furthermore, locally produced building materials occupy a favorable competitive position,

compared to imports. Consequently, imports of building materials, including iron ore and other solid raw materials, dropped from 26% to 21.1% of total imports via sea ports.

The number of factories involved in the production of building materials reached about 585 in 2004. However, there was a decreasing trend in the average size of these establishments. Consequently, most lack economies of scale. Further, the local demand for specialized building materials is relatively small and does not create sufficient economies of scale. Therefore, in order to operate on an economically viable scale, the industry should become more export-oriented, which requires enhancing support for it.

11.2.4 Manpower

Compared to about 1.1 million in 1999, manpower employed in the construction sector reached in 2004 about 1.6 million, which amounts to 19.1% of the total labor force in the Kingdom and 22.4% of the total number of employment in the private sector. Notwithstanding the large employment opportunities provided by this sector, most jobs are still occupied by non-Saudis, with the share of Saudi manpower standing at only 2.3% in 2004. The small magnitude of this share is attributable to several factors, including intensive reliance on unskilled and semi-skilled workers, and the lower level of wages. Moreover, the small size of companies operating in this activity and their inadequate resources make them unattractive for skilled national labor.

11.3 ISSUES AND CHALLENGES

The Eighth Development Plan addresses the following main issues and challenges facing the construction sector:

11.3.1 Performance of Small and Medium-Size Contractors

Notwithstanding the tangible advance in the performance of classified small and medium-size contracting companies, performance of similar non-classified companies needs upgrading still. Shortage of qualified trained staff, under-mechanization, and under capitalization are leading to unsatisfactory results.

Addressing this situation requires adopting restrictive licensing criteria; effectively developing and enforcing the regulatory framework; improving managerial and technical qualifications of staff; promoting contractor specialization; developing mechanization, through encouraging establishment of cooperative arrangements to provide machinery on a rental basis; and enhancing institutional support for the sector, through developing an integrated database and providing advisory services.

11.3.2 Financial Structure of Small and Medium-Size Companies

The inadequate financial structure of many small and medium-size contracting companies is one of the most significant factors that affect their efficiency and quality of work. Indeed, their performance is directly linked to availability of the necessary financial resources. Commercial banks are reluctant to provide such companies with finance due to the higher risks involved. It is, therefore, necessary to develop the financial structure of these companies; introduce specific criteria for assessing their financial efficiency; and adopt mandatory licensing for all contractors, on the basis of specific qualification conditions and objective performance criteria. It is also imperative to offer guarantees to encourage the banks to provide credit facilities at an acceptable risk level, encourage cooperation among companies through subcontracting, and adopt and enforce adequate regulations for subcontracting.

11.4 FUTURE VISION

Activity in the construction sector is closely linked to economic activity in general and availability of credit-finance in particular. Hence, its future looks promising especially with continuous economic diversification process. Moreover, the sector is likely to be one of the main beneficiaries of the current privatization policy and direct foreign investment.

The Eighth Plan aims at strengthening and advancing the sector to enable it to contribute efficiently to economic development and provide gainful jobs to Saudi citizens. The Plan also delineates the main features of the future vision for the sector, which are:

- An advanced regulatory framework that would enhance quality of performance and ensure that work is undertaken by companies licensed on the basis of specific quality criteria.

- A number of large-scale construction companies that are active not only in the local market, but also in the region and internationally, and can support the national economy.
- An adequate number of specialized construction companies that possess higher standards of professional competency.
- A higher share of Saudi manpower in all occupations and specializations in the sector.
- Contractor associations in the various areas of contracting activity, which would provide required services and help in regulating activities and developing competence.
- Completion of the necessary legislation, such as the Saudi Building Code and subsidiary regulations, and provision of adequate training programs.
- Development of the engineering sector, including engineering education, professional formation programs and job certification.

11.5 DEVELOPMENT STRATEGY

11.5.1 Objectives

The main objectives for the construction sector under the Eighth Development Plan include:

- Improving performance of contractors, particularly small and medium-size ones.
- Developing the regulatory framework for contracting.
- Developing a set of services to support operating companies.
- Developing Saudi manpower and increasing rates of its participation.

11.5.2 Policies

Achieving the main objectives is contingent upon the following policies:

- Developing performance of small and medium-size contractor companies.
- Improving and expanding the legal framework, with the aim of

- enhancing performance standards steadily.
- Increasing participation of qualified local contractors.
 - Improving access to finance by qualified small and medium-size contracting companies.
 - Continuing to improve control over construction activities and enforcing pertinent regulations.
 - Raising rates of participation of Saudi manpower in the activities of the sector.
 - Intensifying training of Saudis to provide them with the necessary qualifications for all types of work in the sector.

11.5.3 Targets

The targets of the construction sector in the Eighth Development Plan are:

- Achieving growth at an annual rate of 6.7%.
- Completing the Saudi Building Code and commencing its application.
- Establishing a construction industry database.
- Compiling a contractors' manual covering all existing rules, regulations, specifications and guidelines.
- Enforcing environmental and safety criteria in construction activities.
- Adopting a professional licensing system for workers in the sector.
- Increasing employment of Saudis.

CHAPTER TWELVE

**ENVIRONMENT AND
SUSTAINABLE DEVELOPMENT**

12. ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

12.1 INTRODUCTION

The environment has over the years received considerable attention, as evidenced by enactment of environmental laws and regulations; issuance of climatic research and reports; and carrying out meteorological, environmental and air pollution measurements. In addition, Saudi Arabia has joined several international environmental protection conventions.

By their very nature, environmental issues are handled by a number of development bodies and public and private sector agencies. The Presidency of Meteorology and Environment (PME) has the prime responsibility for environmental protection at the national level, and, along with other competent agencies, is jointly responsible for implementing and monitoring environmental programs and activities.

The National Commission for Wildlife Conservation and Development (NCWCD) is responsible for the preservation of both terrestrial and marine wildlife, along with maintenance of ecological balance, and bio-diversity; in addition to conservation of environmental and natural resources.

The Ministry of Agriculture is responsible for maintaining pasture, forestry, animal resources and fisheries; in addition to establishing national parks. Other executive agencies assume significant environmental conservation roles in their efforts to ensure sustainability of natural resources. Thus, the Ministry of Water and Electricity is responsible for managing water resources, sanitation systems and electric power; the Ministry of Petroleum and Mineral Resources assumes responsibility for the mineral and oil industries; the Ministry of Municipal and Rural Affairs provides environmental health services, and is responsible for waste management, cleaning of cities and landscaping; the Ministry of Health is responsible for management of medical waste; the Ministry of Interior is in charge of regular inspection vehicles to limit air pollution due to vehicle exhaust fumes); the Ministry of Culture and Information is responsible for environmental awareness campaigns; and the Saudi Arabian Standards Organization is responsible for setting the standards and specifications for environmental protection and pollution control.

In addition, agencies and organizations such as the Royal Commission for Jubail and Yanbu, the King Abdulaziz City for Science and Technology, Saudi Aramco, and SABIC play a role in environmental protection.

This chapter addresses the current conditions of the environment in the country and reviews the key environmental issues and challenges. It then focuses on the objectives, policies and targets of environmental operations under the Eighth Development Plan.

12.2 CURRENT CONDITIONS

12.2.1 Developments

Under the period of the Seventh Development Plan, the legal and regulatory framework of the environment sector underwent significant developments, including: enactment of the General Regulations of Environment by the Royal Decree M34 of 15/10/2001 and the executive bylaws by Council of Ministers Resolution 1/4/5/924 of 29/9/2003, which made MEPA, in coordination with appropriate agencies, responsible for enforcement of environmental regulations; and Council of Ministers Resolution 78 of 5/12/1994 approving the Environmental Agenda for the 21st Century, issued by the Earth Summit of 1992, which offers an environmental development plan and a roadmap for achieving sustainable development.

During the same period, Saudi Arabia joined several international environment conventions, including the UN Framework Convention on Climate Change (UNFCCC) and the attached Kyoto Protocol, which was approved by Royal Decree M57 of 1/1/2005; the UN Bio-Diversity Convention; and the UN Desertification Control Agreement.

In addition, MEPA, in close coordination with the appropriate agencies, monitored implementation of the environment conventions that fall under its area of responsibility, including the Basel Convention on the Control of Transboundary Movement of Hazardous Waste, the Vienna Ozone Layer Protection Convention, and the Montreal Protocol on substances that deplete the ozone layer.

Moreover, drafts of several national environment strategies and related regulations have been prepared, including the National Strategy for Health and Environment, the National Environmental Strategy, the National

Strategy and Action Program for Desertification Control, the National Strategy for Biodiversity, the National Forestry Strategy, and the National Plan for Management of Coastal Regions.

In water conservation and rationalization of consumption, wastewater treatment and reuse regulations have been issued, and the Ministry of Water and Electricity is currently updating the water resources studies, as part of formulating the National Water Plan.

12.2.2 Meteorology and Environmental Measures

Since the Third Development Plan, MEPA was tasked with establishing an integrated network of climate monitoring and environment measurement stations covering the entire country. A separate administration, the National Meteorology and Environment Center, was established within MEPA to assume responsibility for preparing research studies, analyses and climatic and environmental reports at the national level, for use in navigation, transportation and environmental health. A Scientific Information and Document Center has also been established to provide relevant climatic information efficiently. By the end of the Seventh Development Plan, there were 39 synoptic weather stations for the analysis and prediction of basic climatic elements, such as solar radiation, temperature, air pressure, moisture, and wind direction and speed. Additionally, there were 8 stratospheric radar stations dedicated that measure air pressure, temperature, and moisture up to a height of 15 km. Many other types of radar systems are available to MEPA to monitor the movements, changes and characteristics of clouds, in addition to stations that receive meteorological satellite pictures, and 9 environmental monitoring stations that measure air pollution (Figure 12.1).

In collecting environmental data, MEPA maintains close coordination with relevant agencies, particularly those that have independent environmental stations, such as the Royal Commission for Jubail and Yanbu, Saudi Aramco, and King Abdulaziz City of Science and Technology. In addition, there is similar coordination with other agencies concerned with meteorology, such as the Ministry of Agriculture and the Ministry of Water and Electricity.

12.2.3 Wildlife Conservation and Development

Under the Seventh Development Plan, there were several organization and implementation achievements.

Organizationally, the National Commission for Wildlife Conservation and Development (NCWCD) prepared the national strategy for conservation of the major flora and fauna. In addition, many regulations were issued, including on trading in endangered wildlife species and associated products, which was enacted by Royal Decree M/91 of 8/6/2000; and the executive bylaw on wildlife protected zones, which was approved by NCWCD resolution 118/16 of 25/6/2000.

In implementation, the boundaries of Harat Alhurra (Jouf) and Khinfa (Tabuk) Protected Zones were demarcated. These are the largest such zones in the country, with an area that constitutes 40% of the total area of protected zones. In addition, a new protected zone was declared at Shada Al'ala Mountain at Al-Baha region, which brought the total number of protected natural zones to 16, covering 83,700 km², i.e., 4.2% of the entire Saudi Arabian territory (Figure 12.2 and Table 12.1).

Moreover, 1500 birds were marked at Mahazat Al-Said Protected Zone in the Makkah region and at Taif Research Center, while 883 birds are being monitored at Taif and Hair in the Riyadh region. Maps of endangered plants were prepared and a specialized Juniper Research Center was established in Abha. 10,000 mangrove trees were grown, and fences and buildings were constructed in Bani Malik in Jizan for the protection of the Labak trees, which play an important role in balancing the environment. Maps of the natural distribution of herbivorous and carnivorous wild mammals and some types of birds were made. Wildlife restoration centers were established, such as the one for bustards and ostriches at the Saja and Umm Al-Ramth protected zone in the Makkah region, and the six gazelle enclosures at the Qassim Research Center.

**Figure 12.1: Locations of Surface Meteorological Stations
(2004)**

MAP

Figure 12.2: Locations of Protected and Non-Hunting Zones

MAP

Table 12.1
Wildlife Protected Zones

No.	Name	Administrative District	Area (km ²)	Year Established
1	Harat ALHURRA	Jouf	13775	1987
2	Al-Khanfa	Tabouk	20450	1987
3	Tubaig	Tabouk	12200	1989
4	Al-Woaul	Riyadh	2369	1988
5	Mahazat Al-Said	Makkah	2190	1988
6	Um AlGamari Islands	Makkah	1.5	1988
7	Farasan	Jizan	696	1989
8	Raida	Assir	9	1989
9	Erouq Bani ma-arid	Riyadh	11980	1992
10	Magamea Al-Hadab	Riyadh	3400	1992
11	Nufud Al-Ariq	Al Madinah	1767	1996
12	Taisiya (Aja mountain)	Hail	2080	1998
13	Al-Gandaliya	Northern Borders	1160	1998
14	Saja – Umm Al-Ramth	Makkah	7190	1998
15	Jubail	Eastern Region	2000	1998
16	Shada Al'ala mountain	Baha	65	2001

Source: National Commission for Wildlife Conservation and Development.

12.2.4 Pollution Levels & Environmental Health

Air Pollutants

Table 12.2 illustrates concentrations of air pollutants during the period 1998–2003 at seven environment surveillance stations. The data reveals the following:

- The annual average of carbon monoxide pollution dropped by about 1 part per million (PPM) at all monitoring stations in 2003, compared to 1997. Thus, international standards of environment protection were not violated in 2003.
- The major cities (Makkah, Riyadh, Dammam and Jeddah) experienced the highest levels of nitrogen monoxide and dioxide pollution, with concentrations ranging in 2003 between 0.029 and 0.036 PPM, which are close to the approved international standard of 0.035 PPM. This is attributable to the heavy transportation traffic in these cities, in addition to industrial activities. Other Saudi cities are below the acceptable international limit.
- Pollution from sulfur dioxide emissions is below the acceptable international limits of 0.007 PPM in most Saudi Arabian cities and regions. The exception is Riyadh at 0.011 PPM and Jeddah at 0.08–0.021 PPM. This is attributable to the high sulfur content in

petroleum products, including fuel for vehicles and boiler fuel, and requires reduction of sulfur content in these products.

- Ozone gas levels vary from one city to another. The lowest reading was recorded in Jeddah (0.016 PPM) and the highest in the Sawdah site of Aseer and the East Coast cities (0.024–0.036 PPM). However, these levels are lower than in most industrial countries, where concentration is close to 1PPM. Variations are attributable to gases emitted by industrial compounds, the direction of winds, and other atmospheric factors.
- Concentration of suspended particles increased steadily in the major cities and the various regions (excluding Sawdah) to a level exceeding the standard concentration of 80 microgram/m³. This is primarily attributable to the sand storms, but also to a rise in other sources of pollution, such as transportation and industrial manufacturing, particularly cement and similar industries.

Table 12.2
Concentrations of Air Pollutants
in Selected Meteorological Stations
1997–2003

Name of Station	Year of Testing	Carbon Monoxide PPM	Nitrogen Oxides PPM	Sulfur Dioxide PPM	Ozone PPM	Suspended Particles Microgram/M ³
Riyadh	1997	0.75	0.026	0.012	0.026	85
	2003	0.64	0.035	0.011	0.032	157
Makkah	1997	1.10	0.030	0.004	0.027	80
	2003	0.72	0.036	0.007	0.026	142
Jeddah	1997	0.62	0.028	0.08	0.018	100
	2003	0.51	0.029	0.021	0.016	129
Dammam	1997	0.60	0.030	0.006	0.025	95
	2003	0.49	0.033	0.007	0.024	121
Al-Sawdah	1997	0.21	0.004	0.002	0.045	70
	2003	0.19	0.009	0.005	0.036	75
Al-Hafouf	1997	0.26	0.018	0.005	0.030	60
	2003	0.45	0.014	0.006	0.035	151
Yanbu	1997	0.38	0.017	0.005	0.028	105
	2003	0.23	0.017	0.007	0.027	108

Source: Meteorology and Environmental Protection Administration (MEPA).

Solid and Liquid Waste Management

a) Household Waste

The average volume of household waste in Saudi Arabia is estimated at 1.2 kg per individual per day. However, this average jumps to 1.5 kg in Riyadh

and 2.0 kg in Makkah, during the Hajj and Umrah seasons. As a result of population growth and improvement in the quality of life, the amount of household waste has grown steadily, reaching 10.4 million tons in 2004 (Table 12.3). In view of the importance of proper and safe disposal of waste and the benefits of recycling, measures have been taken to utilize household wastes for the production of organic fertilizers and recycling of mineral, plastic and paper wastes from households. Three (processing/recycling) factories with a combined capacity of 65 tons of fertilizers were established and eight additional factories were licensed. The production capacity of these new factories is expected to reach 400,000 tons by the end of the Eighth Development Plan. In addition, there are existing factories which re-manufacture metal, paper and plastic materials, and there are plans to produce recycled paper at an annual capacity of 100,000 tons per annum.

b) Medical Wastes

Hospitals, medical clinics, primary healthcare centers, medical tools and appliances manufacturers and dealers are the primary producers of medical waste. The volume of medical waste is estimated to have increased dramatically during the past ten years; from 25,500 tons in 1999 to 30,100 tons in 2004. The most advanced techniques are used to dispose of the majority of medical wastes. However, as an additional precaution, an integrated and secure program of medical waste disposal should be put in place. This would start with the safe and secure storage of medical waste in the medical facilities, then transportation to approved processing centers, and finally safe treatment. It is worth noting that radioactive medical waste is being disposed of safely under the direct supervision of the Ministry of Health.

Table 12.3
Volume of Household, Medical and Industrial Waste
1999 and 2004

Description	1999	2004(*)
Solid Household Waste (million ton)	8.5	10.4
Hazardous Medical Waste (000 ton)	25.5	30.1
Industrial Waste (million ton)	2.1	2.7

(*) Estimates.

Source: *Reports of the Metrology and Environmental Protection Administration, and the Ministry of Health (General Directorate for Health and Environment).*

c) Industrial Waste

The volume of industrial waste was estimated at 2.7 million tons in 2004, as compared to 2.1 million tons in 1999. At present, some industrial waste is partially utilized by the paper and metal recycling industry. However, due to certain factors, including the high costs of collection and sorting, which does not need take place at source, the capacity of the recycling industry is below the amount of industrial wastes generated.

Sewerage and Sewage Treatment Stations

Coverage of the household sewerage facilities rose from 26% in 1999 to 30% in 2003, while sewage treatment stations increased from 26 to 37, with a total capacity of 1.5 million m³ / day, which is equivalent only 22% of the total household, commercial and industrial wastewater. It is worth noting that rates of sewage treatment have reached 100% at the industrial cities of Jubail and Yanbu.

Achieving complete coverage by sanitation networks and enhancing the capacity of sewage treatment stations would reduce environment pressures on the coastal regions and valleys. Therefore, priority would be given to development of sewage networks, raising their coverage and treatment capacity, and increasing re-use of treated wastewater.

12.2.5 Budget Allocation

The actual financial allocations for the development programs in the environment sector (MEPA & NCWCD) under the Seventh Development Plan totaled SR 1175.1 million, which is equivalent to 91% of the planned allocations.

12.3 KEY ISSUES

Despite encouraging achievements in environmental affairs, wildlife conservation and development, there are some issues and challenges that must be addressed under the Eighth Development Plan; the most important of which are outlined below.

12.3.1 Conservation of Natural Resources

Depletion of groundwater resources, soil stress and deterioration, and

random livestock grazing are among the most challenging sustainable development issues. The national water balance indicates a large water deficit that is being compensated for by drawing from the strategic resources of non-renewable groundwater, which is rapidly depleting this valuable resource. Moreover, water aquifers are vulnerable to pollution by seepage of industrial pollutants and liquid waste from landfills. In addition, intensive farming of soil exhausting crops in the severe climatic conditions of the country has resulted in rapid soil deterioration in some areas. Hence, laws and regulations for rational use of agricultural land, to preserve soil and ensure sustainability of the water resources, must be established and enforced. Furthermore, practical methods for increasing fresh water resources, such as cloud seeding to stimulate rainfall in the neediest regions, are also required.

12.3.2 Sewage Treatment

Raw untreated sewage is a primary source of pollution, particularly of groundwater, soils and coasts. Addressing this issue requires achieving full coverage by sewage networks, treating sewage and recycling treated water. Priority should, therefore, be given to extending sewage networks; providing adequate treatment capacity; conserving natural resources, particularly water; reusing treated water for agriculture; and afforesting urban centers (See Chapter 23 on Water and Chapter 26 on Agriculture).

12.3.3 Clean Fuels and Control of Emissions

Achieving acceptable concentration levels of pollutant that result from fuel combustion by various sectors, e.g., transportation, power generation, desalination of seawater and industrial factories, requires control of pollutant concentrations at source, i.e., during refining, as well as controlling emissions by adopting the highest quality standards and periodical inspection of motor vehicles. It is, thus, essential to reduce levels of sulfur and lead in diesel and gasoline and other oil products consumed locally, and supply and encourage use of public transport, particularly within cities.

12.3.4 Coastal Environment

Disposal of treated and raw sewage into the sea, pollution caused by oil tanker and ship waste, urban and industrial development, and severe over

utilization of coastal areas, have all had a devastating impact on the coastal environment. Coastal cities have suffered, and growth of mangrove forests, which are important for marine life, such as invertebrates, sea plants, crustaceans, and fish, in addition to migrating birds, slowed down. Indeed, some coastal regions are no longer fit for fishing, swimming or recreation.

To remedy this situation, sewage must be properly treated and recycled for agricultural and forestation, discharges from oil tankers and ships in regional or international waters must be controlled, and coasts must be protected. It is also necessary to provide marine and atmospheric metrological information on coasts and regional waters, as well as an early warning system of extreme climatic conditions to help mitigate negative effects on environment.

12.4 FUTURE VISION

The National Environment Strategy proposes an integrated environmental management system aimed at maximizing exploitation of available resources, while taking into account principles of sustainable development. The following are the key features:

- Ensure that all economic and social activities are consistent with the requirements of conservation and sustainability of natural resources and to observe optimum use of non-renewable resources, in the best interests of present and future generations.
- Use only renewable water resources for all economic and social activities, while rationalizing usage and observing conservation.
- Intensify desertification control efforts; develop agriculture that suits arid areas; and develop renewable, economically feasible water resources for agriculture and forestation.
- Enact laws and regulations that punish and penalize environment polluters, including measures to protect facilities, roads, and public parks, from waste pollution.
- Use the most modern techniques and equipment for control and reduction of air-polluting gas emissions by industry, transport and power plants, and ensure that power plants are equipped for safe disposal of greenhouse and other polluting gases, in collaboration with advanced countries.
- Sort waste at source to facilitate the recycling process.

- Collect and treat sewage, and use treated water in agriculture and industry, as appropriate.

12.5 DEVELOPMENT STRATEGY

For the environment, the objective of the development strategy is to achieve sustainable development, while reducing the negative effects on natural resources, the quality of life and public health, and protecting the environment from harmful activities and practices.

12.5.1 Objectives

- Protect and safeguard the environment against pollution.
- Improve the quality of life and public health.
- Achieve sustainable development by balancing human activities with the need for protecting and sustain the natural resources base and conserving non-renewable natural resources, as well as by searching for additional and alternative resources.
- Protect and develop wildlife to ensure sustainability.

12.5.2 Policies

- Enhance efficiency of the mechanisms necessary for protecting the environment and natural resources.
- Review and update environmental standards.
- Enhance the databases on the weather and climate and the environment.
- Enhance the role of the private sector in the protection of the environment, natural resources and wildlife conservation, and encourage especially adoption of green technologies and environmentally friendly processes in industry.
- Develop the institutional capacities of the environmental agencies.
- Introduce environmental awareness into school curricula and in the media.

12.5.3 Targets

- Condition licensing factories and other facilities on providing an adequate environmental impact assessment.
- Form scientific committees to update air, soil, groundwater, surface water and coastal water pollution standards.
- Intensify environmental awareness programs.
- Encourage formation of environmental protection societies in all regions.
- Strengthen inspection and environmental assessment of existing industrial establishments and ensure compliance of new industries with environmental protection requirements.
- Extend the meteorological monitoring network to cover the entire country.
- Review and modify school curricula to cover environmental awareness, starting from primary schools.
- Coordinate with the Ministry of Information the preparation of shows, programs and TV serials with an environmental awareness content and provision of coverage of regional and international environment news and issues.

12.6 FINANCIAL REQUIREMENTS

The financial requirements of the environment sector (MEPA & NCWCD) under the Eighth Development Plan are estimated at SR 1440 million. These allocations would be used to finance: projects and programs for conservation of available natural resources, expansion of environmental infrastructure, conservation and development of wildlife to ensure sustainability, and promotion of environmental awareness by both individuals and institutions. They will also be used to fund cooperation at regional and international levels and with regional and international organizations and agencies, in order to enhance the capacity of the environment sector for strengthening environmental protection and developing regulations within the framework of sustainable development, maintaining ecological balance and biodiversity, and conserving natural resources.

CHAPTER THIRTEEN

TOURISM

13. TOURISM

13.1 INTRODUCTION

The Kingdom of Saudi Arabia is endowed with rich and deep-rooted Arabic cultural traditions and ancient Islamic religious sites of worship and pilgrimage. It also has a considerable number of enchanting coastal, mountainous and desert locations that are prized by visitors. The existing infrastructure covering all regions of the Kingdom is well-developed and is complemented by an integrated transport network that connects all cities and regions of the country and also connects the country with the world outside. The economic importance of tourism is evidenced by its contribution to the GDP and the job opportunities it generates.

This chapter reviews the current conditions of tourist activity, including infrastructure and institutional and organizational development. It also reviews the key issues and challenges facing the development of various forms of tourism, the role of the private sector in tourist development, and future expectations for the sector. In addition, it highlights the major objectives, policies and targets of the Eighth Development Plan.

13.2 CURRENT CONDITIONS

13.2.1 Tourism Institutions and Organizational Development

As part of the increasing attention given to tourism, the Supreme Commission for Tourism was established by Council of Ministers Resolution 9 of 17/4/2000. Subsequently, Council of Ministers Resolution 2A of 30/4/2003 put the antiquities and museums sector under the Commission, in a move that aims at consolidating the preservation and development of antiquities, and enhancing the interest of citizens and foreign visitors in antiquities and museums.

This section reviews the development of the tourism sector and points out the most significant achievements made since the Supreme Commission for Tourism was established.

13.2.2 Significant Developments

Under the Seventh Development Plan, significant progress was made in creating an environment conducive to the development of tourism. The following are the major developments involved:

- Completion of the first stage of the National Tourism Development Project, with the preparation of a general strategy for the development of the tourism industry over twenty years, which was then approved by the Council of Ministers on 16/3/2004.
- Completion of the second stage of the National Tourism Development Project, which was aimed at setting up an action framework to implement the general strategy for the development of the tourism industry, with making a five-year plan for the period 2003–2007, in the form of an integrated program of implementation.
- Commencement of the preparation of detailed twenty-year strategies and plans for the development of tourism in all regions of the Kingdom, along with five-year implementation plans.
- Establishment of partnerships between the Supreme Commission for Tourism and various government agencies, with the signing until July 2004 of 10 memoranda of understanding with Regional Governorates and 12 with Ministries and government agencies involved in tourism development.
- Holding specialized symposia and programs to train officials responsible for tourism in both the public and private sectors, under the designation “Preparation of Partners in Development of Tourism in Regions of the Kingdom.”
- Establishment and operation of the Tourist Information Center in 2002 and launching of its internet web-site. The center will serve as the basic reference point for providing tourist information in the Kingdom. In addition, the Electronic Tourist Geographic Information System (GIS) was established to help in identifying the basic factors and priorities related to the development of tourism in the various regions of the Kingdom. The number of natural, environmental, cultural, and heritage tourist attractions covered by the System now exceed 12,000, distributed over the 13 regions of the Kingdom.
- Establishment of appropriate and attractive markets (sites) for

environmental and cultural tourism, as well as tourist activities linked with shopping, sports and medical treatment, in addition to organizing the "First Annual Forum for Tourism" and a "National Travel Market", in Jeddah in 2003.

- Establishment by the Commission in 2000 of a specialized program on cultural tourism, with the aim of interacting actively with the national cultural heritage to achieve sustainable tourism.
- Completion of the "Antiquities and Museums Sector Development Strategy" and preparation of the initial draft of the "Antiquities and Museums Regulation", which builds on the Antiquities Regulation issued under Royal Decree M/26 of 3/8/1972.
- Starting in 2004 preparations for the "National Project for the Development of Traditional Crafts and Industries", which constitute an important asset of the tourist industry, with the aim of preserving and developing traditional crafts and maximizing their economic return.

13.2.3 Demand for Tourism Services

Surveys show that in 2002 domestic tourist trips numbered 44.55 million, of which 47% were for recreation, 34% for visits to friends and relatives, and 19% for other purposes. Jeddah had the greater share of these trips which totaled 10.6 million trips, followed by Riyadh with 7 million trips. Land trips constituted 86% of the total, while air trips represented 14% (Table 13.1). Private accommodation was the major form of accommodation during domestic tourist trips (39 %) followed by rented apartments (34 %) and hotels (23 %). Total expenditure on these trips amounted to 50.7 billion Riyals of which 33% was spent on shopping, 20% on food stuffs, 18% on accommodation and 29% on other purposes.

Visitors, excluding Hajj and Umrah performers, numbered 3.2 million in 2002. These visitors came for business, or recreation, or for visiting relatives and friends, or for medical treatment. Middle Eastern countries are the main source of tourism to the Kingdom, followed by South Asian countries.

Table 13.1
Distribution of Domestic Tourist Trips by Purpose
(2002)

Tourist Purposes	Number of visitors ('000)	(%)
Holidays and recreation	21,063	47
Visits to friends and relatives	14,932	34
Business	3,614	8
Medical treatment	774	2
Other purposes	4,167	9
Total	44,550	100

Source: Supreme Commission for Tourism.

On the other hand, tourist trips abroad during 2002 numbered 7.9 million; of which the greater share (70%) was for recreation and holidaying, followed by visits to friends and relatives (16%); business (7%) and other purposes (7%). With 6 million trips, Middle Eastern countries were the major destinations. Of these trips, 1.9 million were to GCC countries, 1.7 million to Egypt and 1.4 million to Syria. In contrast to domestic trips, 54% of foreign trips were by air. Total expenditure on foreign tourism is estimated at about SR 27.6 billion.

13.2.4 Tourist Resources and Facilities

Under the Seventh Development Plan, more than 12,000 natural, historical and cultural sites were identified, registered and electronically documented. These sites were also appraised for potential touristic value and current condition. 40 tourism development areas were thus identified in the various regions. Of these, 8 already exist, while 15 are considered promising and 15 are new. All are amenable to development into well designed tourist destinations in the future. In the 40 identified tourist areas, 903 sites were approved as sites having potential for tourism and appropriate mechanisms have been set up to protect and preserve them (Figure 13.1).

The major cities have 69 museums, of which 27 are registered under the Ministry of Culture and Information. In addition, there are several permanent culture and arts exhibitions that constitute part of the integrated tourist system. Also, there are 16 protected zones distributed throughout the Kingdom.

**Figure 13.1: Tourism Development Regions
MAP**

In 2002, hotels of all grades totaled 796, with more than 81,000 rooms. In terms of number of rooms, luxury hotels constitute 6% of the total number, while first, second and third class hotels constitute 18%, 43% and 33% of the total, respectively. Although these hotels are distributed throughout the country, the Makkah region is first in terms of number of hotels and hotel rooms, followed by the Madinah region. In addition to hotels, there are 1,493 compounds of furnished apartments, containing 33,000 housing units, distributed over the various regions, but a large share of these compounds is concentrated in the Makkah, Riyadh, Madinah and Eastern regions, as shown in Table 13.2.

Table 13.2
Hotels and Residential Compounds
(2003)

Region	Hotels		Residential Compounds	
	Number of Hotels	Number of Rooms	Number of Apartments compounds	Number of Housing Units
Riyadh	73	7,261	223	4,353
Makkah	469	53,902	604	12,577
Madinah	56	9,662	221	7,976
Qassim	10	560	62	1,022
Eastern Region	71	5,067	188	3,939
Assir	35	1,764	123	1,790
Tabuk	24	898	6	184
Hail	3	170	32	375
Northern Borders	20	559	–	–
Jizan	10	472	–	–
Najran	12	420	29	371
Baha	6	265	–	–
Jouf	7	197	5	61
Total	796	81,197	1,493	32,648

Source: Ministry of Commerce and Industry.

As regards transport, the Kingdom's regions and major cities are connected by a sophisticated and modern network of highways, and a railway connects Riyadh with Dammam. In addition, there are 26 international, regional and

domestic airports. The national air carrier, SAUDIA, provides air services within the domestic market. In 2003, it carried a total of 9 million passengers domestically. SAUDIA also participates with 44 foreign airlines in connecting the Kingdom with various countries of the world. In 2003, passengers traveling from the Kingdom numbered 31.85 million. Some 1,100 travel and tours agents operate in the Kingdom.

13.2.5 Heritage and Cultural Sites

The Kingdom possesses a large number of archeological sites belonging to various historical eras. The major cities also have a number of museums and permanent cultural and arts exhibitions that constitute a significant part of the tourism system.

In 2000, the Supreme Commission for Tourism initiated a program dedicated to culture and heritage tourism, in order to use the assets represented by archeological, historical and cultural sites, as well as traditional crafts, industries and folklore, in the development of tourism. This program has contributed substantially to many achievements related to architectural heritage, antiquities, historical sites, and traditional crafts and industries. Furthermore, the Commission adopted, in collaboration with the Ministry of Municipal and Rural Affairs, an initiative to improve the condition of historical cities that contain elements of distinguished traditional architectural heritage.

The National Heritage and Folk Culture Festival organized annually by the National Guard in Al Janadiriya is an important cultural event that also indicates the significant attention being given to genuine Arabic culture, traditions and values. The activities of the festival include symposia, lectures, exhibitions and poetry sessions, and men of letters and intellectuals, well known at the domestic, regional and international levels, participate in these activities.

13.2.6 Targeted Tourism Markets

The general strategy for the development of tourism targets domestic tourism, in addition to developing activities appropriate for certain segments of foreign tourists, in line with the Kingdom's social and cultural heritage. Thus, the strategy envisages establishing tourist sites and events for environmental and cultural tourism, and activities associated with shopping,

sports and medical treatment, education and business.

In line with this strategic approach, the Commission, in association with the Council of Saudi Chambers of Commerce and Industry, organizes the annual forum for tourism and its side event the national travel market. The forum discusses the issues pertaining to the development of domestic tourism, and the travel market offers providers of tourist services and tourist travel operators the opportunity to present their products and services.

13.2.7 Recreational Tourism

Recreational tourism is considered the core of domestic tourism. The various regions of the Kingdom possess many tourist attractions. Coastal areas, especially in the Makkah and the Eastern regions, have undergone remarkable development of tourist facilities and have become a favored destination for domestic tourists. Taif, Assir and Baha are also major summer resorts for many Saudis and GCC citizens interested in environmental tourism. Jizan in the South West and Tabuk in the North have a substantial tourist potential, and are expected to be developed in the coming years.

13.2.8 Budget Allocation

The total allocations for the development of the tourism sector (the Supreme Commission for Tourism) were SR 416 million under the Seventh Development Plan, of which 97% were spent during the Plan period.

13.3 ROLE OF THE PRIVATE SECTOR

The private sector is playing the principal role in developing tourism, through direct investment in tourist projects; development of tourism sub-sectors; implementation of the development and marketing policies of the tourist industry; and training national manpower to assure quality of tourist services.

On the other hand, the Supreme Commission for Tourism and other competent government agencies play an important role in regulating, stimulating and guidance in order to provide a general climate conducive to investment in tourism, as well as to development and quality assurance of tourist products.

Enhancing the role of the private sector in the development of tourism requires creating an appropriate investment climate, by streamlining regulations, providing information, and adopting a fair pricing policy that ensures good returns, reduces risks and generally enhances the economic feasibility of tourist projects.

The coming period requires that the private sector develop new tourist products that employ Saudi labor, mainly, and calls for reviewing distribution of investments in a manner that would contribute to the development of the various regions by fully exploiting their tourist potential. In particular, the Eighth Development Plan envisages that the private sector would:

- Increase its investments in:
 - Hotels of various grades, particularly in tourist sites.
 - Furnished apartments in tourist areas.
 - Rest facilities on major highways.
 - Quality medical facilities to attract more medical tourism.
- Invest in:
 - Recreational facilities.
 - Appropriate facilities for coastal and seashore recreational tourism, such as boating, diving and water sports.
- Build tourist resorts and complexes.
- Promote crafts that have brisk markets in tourist areas.

13.4 ISSUES AND CHALLENGES

Notwithstanding the remarkable strides made by tourism, a number of issues and challenges need to be dealt with to promote the sector further; foremost among which are the following.

13.4.1 Improving Services

Tourism is a global activity, marked by intense competition. Environmental, archeological, cultural and recreational assets are essential, but may fail to attract tourists if they are not supported by administrative and technical

services on par with the prevailing standards in competing tourist countries; regionally and globally. Thus, increasing the competitiveness of the sector in the next stage calls for assessing tourist centers and facilities against regional and global standards to identify the actions required.

13.4.2 Employing National Labor

The tourist industry currently faces shortages of qualified national manpower, with Saudi citizens employed in tourism constituting around 10–15% of the total labor force engaged in this sector.

The Supreme Commission for Tourism has adopted a national plan for the development of tourist human resources, which calls for implementation of a number of programs, in coordination with the Ministry of Labor, the Human Resources Development Fund and the General Organization for Technical Education and Vocational Training. These programs seek, inter alia, to promote awareness and encourage Saudis to take up jobs in tourism, Saudize tourist jobs, improve the work environment in the tourist industry, implement an accreditation system for national tourism based on specification of required job skills, and increase the number of tourism education and training institutes. The Eighth Development Plan aims at expanding tourism training programs in order to cultivate the various relevant skills.

13.4.3 Marketing and Promotion

Attracting citizens to domestic tourism is contingent upon increasing their awareness of the relative advantages of local tourist products over comparable products in neighboring markets; a process that requires carefully crafted marketing.

The Eighth Development Plan aims at implementing a comprehensive integrated strategy for promoting tourist products, with a view to developing the domestic tourism market, and providing attractive competitive national tourist products and services, along with innovating plans for marketing these products. Moreover, the Plan will conduct a study of ways to ease and streamline tourism visa procedures. Implementation of this strategy is expected to make the Kingdom an attractive tourist destination.

13.4.4 Seasonality

Seasonality of demand is a major challenge, for it leads to low occupancy levels, which in their turn lead to higher costs and prices and lower rates of revenues and profits. For this reason, seasonality, which is aggravated by the nature and timing of holidays, reduces investment potential, slows down growth of the tourism sector, and causes a shortage of attractive tourist products at reasonable prices. Hence, it is necessary under the Eighth Development Plan to study this issue and develop appropriate solutions.

13.4.5 Information

Developing the tourism sector, enhancing its competitiveness, and integrating it into the system of global tourism require an integrated tourist information database to provide the necessary information from the time a tourist starts planning a trip, until leaving the country. Such a database would contain basic information on the Kingdom and its society, tourist maps, information on tourist sites and on accommodation facilities, and advice on means of transport and schedules.

Hence, the next stage requires developing this database, together with a tourist guide that provides tourists with information and data about tourism in the Kingdom in general.

13.4.6 Development of Traditional Crafts and Industries

In addition to providing job opportunities especially in rural areas, traditional crafts and industries are inputs to tourism. The Eighth Development Plan aims at supporting and developing activities related to traditional crafts and industries. Moreover, the possibility of organizing these activities at the national and local levels through establishing cooperatives for training, production and marketing is being explored, along with ways of extending soft finance to craftsmen.

In addition, a national plan for the revival of traditional crafts and industries, linked to development of tourism, needs to be devised in the coming period.

13.5 FUTURE VISION

The National Tourism Plan rests on the principles and objectives adopted by

the Kingdom with regard to developing tourism, including adopting a scientific planning approach that ensures congruence with the national development plans. Thus, tourism will be developed on the basis of sustainability; socioeconomic, cultural and environmental feasibility; respect for Islamic values; and traditional hospitality.

The number of tourist trips both from inside and outside the Kingdom is expected to increase from 65.1 million in 2002 to 83.0 million in 2009 and will further rise to 141.1 million in 2020; with domestic tourist trips numbering 128 million and foreign tourist trips reaching 13.1 million, mostly from GCC states and other Arab countries.

Gross tourism expenditure is anticipated to grow from 63.5 billion Riyals in 2002 to 101.3 billion Riyals in 2020. In order to accommodate this expected growth, it is necessary to build additional hotels, tourist complexes, and furnished apartments through private sector investments.

In terms of spatial distribution, about 40 sites suitable for tourist development have been identified in the various regions of the Kingdom. Development of these sites is expected to motivate development of tourist activities in general and individual enterprises in particular. Tourism plans for all regions of the Kingdom are under preparation with the aim of consolidating the strategic framework of the National Tourism Plan at the level of regions, including provinces and centers.

As for the domestic tourism market, and its expected growth, the proposed strategy gives priority to developing this market in conformity with cultural heritage of the Kingdom, along with development and promotion of environmental tourism, physical feature-based tourism and cultural tourism.

13.6 DEVELOPMENT STRATEGY

13.6.1 Objectives

- Development of national tourism and increasing its contribution to GDP, to diversification of the economic base, and to creation of job opportunities for citizens.
- Enhancement of the role of the private sector in utilizing investment opportunities in tourism in various regions of the Kingdom.
- Exploration, development and preservation of the antiquities and

cultural heritage of the Kingdom and increasing awareness of the value of popular heritage.

- Development of traditional crafts and industries.
- Development of high quality tourist facilities.
- Familiarization of the domestic and international community with the Kingdom's civilization and its Arabic-Islamic heritage.

13.6.2 Policies

- Planning and development of tourism infrastructure.
- Development and promotion of the tourism database.
- Development of traditional crafts and industries.
- Quality control of tourism services.
- Development of national labor in the field of tourism.
- Encouragement of private sector investment in tourist projects.
- Development of archeological sites and museums.
- Revival and preservation of Arabic architectural heritage.

13.6.3 Targets

- Completion of the institutional structure of the tourism sector in regions and localities.
- Setting up tourism strategies and development plans in the regions.
- Finalizing identification of sites of tourism development.
- Approving the organization of the Supreme Commission for Tourism and Antiquities.
- Establishing the electronic tourism "market".
- Updating classification of hotels and accommodation facilities for tourism.
- Setting up standards of building of tourist accommodation facilities in rural areas.
- Preparing the Saudization programs of tourism jobs.
- Introduction of "tourism culture" in the educational process.

- Implementing comprehensive tourism awareness campaigns.
- Establishing tourism services centers.
- Development of tourism investment regulations.
- Development of the electronic geographic (tourism) information system (GIS).
- Establishing an integrated tourism portal of the Kingdom on the internet.
- Establishing a database of tourist accommodation facilities and resources.
- Preparing and implementing the archeological sites and museums development strategy.
- Finalizing the national project for the development of traditional crafts and industries.
- Formulating and implementing standards for the renovation of historical heritage buildings.

13.7 FINANCIAL REQUIREMENTS

The financial requirements for the tourism sector (Supreme Commission for Tourism) under the Eighth Development Plan amount to 882 million Riyals. The allocation will finance the operational expenses of the Commission, planning and development of national tourism, promoting tourism awareness and marketing, provision of tourism studies and information, and development of the facilities and equipment of the Commission.

CHAPTER FOURTEEN

TRADE

14. TRADE

14.1 FOREIGN TRADE

14.1.1 INTRODUCTION

The size and structure of foreign trade are indicators of the level of economic development and competitiveness of an economy. They also give an indication of the degree of openness to the world and integration into the economic globalization thrust. Individual trade components also reflect the extent of integration and diversity of the domestic economic base.

From the outset of its development process, the Kingdom has adopted the principle of free economy and openness to the world. Such openness was enhanced by the progress of economic and social development, which had diversification of the economic base as its most important aim. In this context, the Kingdom achieved noticeable improvement in exports, in terms of diversification and competitiveness, benefiting from the comparative advantage it has in commodities produced by energy-intensive industries, such as petrochemicals, basic minerals and their products, as well as other commodities. Thus, the economic openness indicator (represented by the ratio of the gross value of exports and imports to GDP) fluctuated less in the past two decades than in previous years, as a result of the growth of non-oil exports on one hand, and the stable growth of imports on the other.

This chapter describes the current state of foreign trade, and reviews the key issues and constraints. It then focuses on the future vision, objectives, and policies of the trade sector under the Eighth Development Plan.

14.1.2 CURRENT CONDITIONS

14.1.2.1 Current Account of Balance of Payments

The current account experienced a significant surplus during the initial four years of the Seventh Development Plan, rising from SR1.5 billion in 1999 to SR44.5 billion in 2002 and then doubled to SR105.1 billion in 2003 (Table 14.1.1). This favorable development in the current account balance is attributable to a number of factors, the most significant of which are:

Table 14.1.1
Development of Key Balance of Trade and
Balance of Payment Items
Seventh Development Plan *

SR Billion			
Key Balance of Payment Items	1999	2003	Average Annual Growth (%)
1. Balance of Trade (FOB)	93.3	221.7	24.2
2. Total Exports**	189.6	348.7	16.4
a. Oil Exports	167.8	307.6	16.4
b. non-oil Exports	21.8	41.1	17.2
3. Imports	96.3	127.0	7.2
4. Services & Transfers Balance	-91.7	-116.6	6.2
a. Receivables:	42.4	33.5	-5.7
Investments Returns	21.8	11.2	-15.2
Ships Fuel	0.5	0.9	15.8
Other returns	20.1	21.4	1.6
b. Payables:	-134.1	-150.1	2.9
Freight & Insurance	8.7	11.4	7.0
Oil Sector	10.8	16.0	10.3
Private Sector Services	26.7	18.3	-9.0
Other Government Services	35.6	48.8	8.2
Private Transfers	52.3	55.4	1.5
5. Current Account Balance	1.5	105.1	189.3

* Values in current prices.

** Does not include ships fuel item.

Source: *Central Department of Statistics, Exports and Imports Statistics, 1423/24 (2003) and Saudi Arabian Monetary Agency (SAMA).*

- An annual average growth rate in the balance of trade (surplus) of 24.2% during this period, resulting from the growth of oil and non-oil exports at an annual rate of 16.4%, while imports grew by 7.2%. The growth in oil exports was a result of increased world demand for oil, which was accompanied by a rise in oil prices, accentuated by factors beyond the normal supply and demand relationships, including regional security, environmental concerns and oil market speculation. The growth of non-oil exports was improved by competitiveness of Saudi products and increased global demand for petrochemicals and other commodities and materials produced in Saudi Arabia.

- The deficit in the balance of services and transfers decreased from SR132.2 billion in 2000 to SR116.6 billion in 2003. This development was a result of the relative stability in collections during the period; following the noticeable decline experienced in the first year of the Seventh Development Plan, due to the decline in external investment revenues, as a result of several factors, the most significant of which was the drop in global interest rates. Meanwhile, other revenues from various external services experienced positive growth during the period. On the other hand, services payments decreased from SR163.4 billion in the first year of the Plan to SR150.1 billion in its fourth year. This decrease resulted from the decline of payments for private sector services and the stability of government services payments and private transfers. Shipping and insurance services payments increased in parallel with growth of imports, and so did oil and gas sector payments due to expansion in investment activities in this sector, particularly in natural gas production.

14.1.2.2 Imports and Exports

As a result of increases in the volume of both oil and non-oil exports on the one hand and the course taken by imports on the other, there was a noticeable, albeit fluctuating, growth in the ratio of total exports to imports, which jumped from 196.9% in 1999 to 274.6% in 2003 (Table 14.1.2). This is primarily due to the large fluctuations in the value of oil exports. On the other hand, the ratio of non-oil exports to total imports also grew during the period from 22.6% to 32.4%. It is worth noting that this ratio too is subject to the indirect influence of the oil sector on the value of imports, which in turn contributes to reducing the index below the level it may have reached.

Table 14.1.2
Exports to Imports Ratio

Description	1999	2000	2001	2002	2003
Ratio of total Exports to Imports (%)	196.9	278.9	236.9	243.9	274.6
Ratio of non-oil Exports to total Imports (%)	22.6	23.8	28.6	29.2	32.4

Source: Ratios calculated from Central Department of Statistics data.

14.1.2.3 Growth of Commodity Exports

Oil exports accounted for 88.2% of total commodity exports in 2003, which is almost the same percentage as was in 1999. Thus, the relative contributions of the two basic categories of exports, i.e., oil and non-oil, did not change tangibly. However, the proportional contributions of the components of oil exports, namely, crude oil and refined products, changed during the period, with the contribution of crude oil increasing from 81% in 1999 to 85.9% in 2003 as indicated in Table 14.1.3.

Table 14.1.3
Commodity Exports
Current Prices

Items	Value (SR Billion)					Proportional Share (%)		Average Annual Growth Rate (%)
	1999	2000	2001	2002	2003	1999	2003	
a. Oil Exports *	<u>168.3</u>	<u>265.7</u>	<u>224.2</u>	<u>239.3</u>	<u>308.5</u>	<u>88.5</u>	<u>88.2</u>	<u>16.4</u>
Crude Oil	136.3	232.2	190.6	206.5	264.9	81.0	85.9	18.1
Refined Products	32.0	33.5	33.6	32.8	43.6	19.0	14.1	8.0
b. Non-oil Exports	<u>21.8</u>	<u>24.8</u>	<u>30.7</u>	<u>32.4</u>	<u>41.1</u>	<u>11.5</u>	<u>11.8</u>	<u>17.2</u>
Petrochemicals	9.2	12.1	13.5	13.7	16.2	42.2	39.4	15.2
Building Materials	2.8	2.7	2.8	3.5	4.4	12.8	10.7	12.0
Agricultural, Animal and Food Products	1.8	1.7	1.5	1.8	3.0	8.3	7.3	13.6
Other Commodities**	8.0	8.3	12.9	13.4	17.5	36.7	42.6	21.6
c. Total Commodity Exports	<u>190.1</u>	<u>290.5</u>	<u>254.9</u>	<u>271.7</u>	<u>349.6</u>	<u>100</u>	<u>100</u>	<u>16.4</u>

* Inclusive of Ships Fuel.

** Inclusive of Re-exports.

Source: Central Department of Statistics.

The structure of non-oil exports changed noticeably during the period. Between 1999 and 2003, the share of petrochemicals fell from 42.2% to 39.4%, the share of building materials from 12.8% to 10.7%, and the share of agricultural, animal and food products from 8.3% to 7.3%. In contrast, there was a remarkable improvement in the share of other commodities, which include a number of manufactured and basic commodities where Saudi Arabia enjoys a competitive advantage (plastic products, rubber, tools, electric appliances, leather products, etc), and this category includes re-exports.

14.1.2.4 Geographical Distribution of Commodity Exports

Table 14.1.4 shows the growth of exports by country group and region between 1999 and 2003.

Table 14.1.4
Geographical Distribution of Commodity Exports
Current Prices

Region/Country	Value (SR Million)		Proportional Share (%) *		(%) Average Annual Growth Rate
	1999	2003	1999	2003	
1. GCC Countries	13,310	23,309	7.0	6.7	15.2
2. Other Arab Countries	5,425	14,783	2.9	4.2	28.7
3. Muslim Countries (Non-Arab)	9,697	18,267	5.1	5.2	17.2
4. Asian Countries (Non-Muslim, Non-Arab)	81,118	156,347	42.7	44.7	17.8
5. African Countries (Non-Muslim, Non-Arab)	5,391	9,701	2.8	2.8	15.8
6. Australia	1,937	1,644	1.0	0.48	-4.0
7. North America	38,468	67,666	20.2	19.3	15.2
8. South America	2,802	5,170	1.5	1.5	16.5
9. Western Europe	31,789	52,619	16.72	15.1	13.5
10. Eastern Europe	33	29	0.02	0.01	-3.2
11. Other Countries	114	33	0.06	0.01	-26.1
Total World	190,084	349,568	100.0	100.0	16.5

* Percentages are rounded to nearest decimal.

Source: Central Department of Statistics.

In Table 14.1.4 the following interesting features can be observed:

- Asian countries (non-Arab, non-Muslim) continue to be the dominant export destination, with their share rising from 42.7% to 44.7% during the period. Exports to this region and other geographically distant regions are composed mainly of petroleum and petrochemical products.
- Despite a slight drop from 20.2% to 19.3%, North America remained in second position during the period.
- Western Europe came third, but its share dropped from 16.7% to 15.1%.
- GCC countries came fourth, with their share dropping from 7.0% to 6.7%, followed by non-Arab Muslim countries which increased their share slightly from 5.1% to 5.2%, followed by the group of Arab countries which increased their share from 2.9% to 4.2%.

It is worth noting that despite the decline in the relative share of the GCC group of countries, the Arab countries group and the non-Arab Muslim countries group due to the dominance of oil exports to other regions, exports to these groups consist mostly of non-oil products, particularly petrochemicals, which reflects the growing competitive advantage of the

Saudi economy. As geographic proximity is a factor of competitiveness, due to the effect of transportation costs on export prices of non-oil products, competitive advantage considerations require that the Kingdom intensify its trade exchanges with neighboring countries.

Examination of the destinations of crude and refined oil exports shows that the percentage of crude oil exported to Asian countries and the Far East grew from 44.2% in 1999 to 48.3% in 2003, while the percentage of refined products decreased from 71.9% to 67.2% (Table 14.1.5). The share of crude oil exports to North America decreased from 25.6% to 25.1%, while the percentage of refined products increased from 2.2% to 2.6%. The share of crude oil exports to Western Europe decreased from 21.8% to 18.3%, while the percentage of refined oil products increased from 4.9% to 7.2%. The structural change in the destinations of oil exports is primarily due to the sound economic growth achieved by Asian and Far East countries, particularly the People's Republic of China and India.

Table 14.1.5
Geographical Distribution of Oil Exports *

Region	Million Barrels		Share (%)		Average Annual Growth Rate (%)
	1999	2003	1999	2003	
a. Crude Oil:					
North America	534.20	596.92	25.6	25.1	2.8
South American	26.95	23.84	1.3	1.0	-3.0
Western Europe	454.33	434.86	21.8	18.3	-1.1
Middle East	68.97	72.69	3.3	3.0	1.3
Africa	73.66	96.34	3.5	4.0	6.9
Asia & Far East	921.77	1,149.87	44.2	48.3	5.7
Australia	7.8	6.33	0.3	0.3	-5.1
Subtotal	2,087.68	2,380.85	100.0	100.0	3.3
b. Refined Products:					
North America	10.43	10.61	2.2	2.6	0.6
South American	16.44	11.43	3.5	2.8	-8.7
Western Europe	22.83	29.76	4.9	7.2	6.9
Middle East	33.75	45.93	7.2	11.1	8.0
Africa	33.20	34.25	7.1	8.3	0.8
Asia & Far East	335.66	276.82	71.9	67.2	-4.7
Australia	14.77	3.14	3.2	0.8	-32.1
Subtotal	467.08	411.94	100.0	100.0	-3.1
Total Crude Oil & Refined Products	2,554.76	2,792.79	100.0	100.0	2.3

* Includes natural gas liquids.

Source: Ministry of Petroleum and Mineral Resources.

14.1.2.5 Growth of Imports

In 2003, the value of imports reached SR138.4 billion, compared with SR105.0 billion in 1999, (Table 14.1.6); a growth at an average rate of 7.2% per annum. This expansion was spurred by the growth of the Saudi economy under the Seventh Development Plan, which averaged 3.4% per annum.

Machinery, equipment and appliances came first, with a share of 21.8% in 2003 and an annual growth rate of 4.7% during the 2000–2003 period. Transportation equipment came next, with a share of 21.2% and an average annual growth rate of 17.8%; followed by food stuff, with a share of 16.2% and an average annual growth rate of 5.5%. Petrochemical and mineral products were fourth, with a share of 13.7% and an average annual growth rate of 7.5% (Table 14.1.6).

Table 14.1.6
Imports by Major Category
Current Prices (CIF) *

Category	Value (SR 000,000)		Share (%)		Average Annual Growth Rate (%)
	1999	2003	1999	2003	
Machinery and Equipment	25,187	30,210	24.0	21.8	4.7
Foodstuffs	18,107	22,461	17.3	16.2	5.5
Chemical & Mineral Products	14,221	19,005	13.6	13.7	7.5
Textiles and Clothes	6,494	7,513	6.2	5.4	3.7
Plain Metals & Derivatives	8,808	12,533	8.4	9.1	9.2
Transportation Equipment	15,201	29,299	14.5	21.2	17.8
Leather, Wood and Jewelry	6,372	2,834	6.0	2.1	-18.3
Other Commodities	10,590	14,580	10.0	10.5	8.3
Total Imports	104,980	138,435	100.0	100.0	7.2

* Numbers are rounded to nearest decimal.

Source: Central Department of Statistics.

The substantial relative weight of machinery and transportation equipment reflects the need for advanced means of production and transportation and high technology products to achieve economic development. This also determine the distribution of imports in terms of kind and source, with advanced industrial countries occupying top positions (Table 14.1.7). Western Europe came first, with a share of 35% in 2003, although this share declined from 37.1% in 1999, and Germany, Britain and Italy were at the forefront of this group of exporting countries to the Kingdom.

Table 14.1.7
Imports by Source
Current Prices (CIF)

Region/Country	Value (SR Million)		Share (%)		Average Annual Growth Rate (%)
	1999	2003	1999	2003	
1. GCC Countries	4,082	6,051	3,9	4,4	10.4
2. Other Arab Countries	4,186	4,783	4,0	3,5	3.4
3. Muslim Countries (Non-Arab)	4,634	6,502	4,4	4,7	8.8
4. Asian Countries (Non-Muslim, Non-Arab)	23,277	35,981	22,2	26,0	11.5
5. African Countries (Non-Muslim, Non-Arab)	1,739	896	1,7	0,6	-15.3
6. Australia	2,564	4,298	2,4	3,1	13.8
7. North America	21,203	22,167	20,2	16,0	1.1
8. South America	2,876	4,082	2,7	2,9	9.1
9. Western Europe	38,943	48,517	37,1	35,0	5.6
10. Eastern Europe	1,293	3,207	1,2	2,3	25.5
11. Other Countries	183	1,951	0,2	1,4	80.7
World	104,980	138,435	100,0	100,0	7.2

Source: Central Department of Statistics.

Asian countries (non-Arab and non-Muslim) were second, having raised their share of total imports from 22.2% to 26.0%, with Japan, Mainland China and South Korea taking the lead.

North America retained its third place, although its share declined from 20.2% to 16.0%. In this group, the United State of America is ahead of Canada with a big margin. The group of non-Arab Muslim countries,

headed by Turkey, came fourth with a share of 4.7%. Following this group came the GCC group with a share of 4.4%, headed by the United Arab Emirates; followed by the other Arab group with 3.5%, headed by Syria; Australia with 3.1%; and South America with 2.9%, headed by Brazil and Argentina. It is worth noting the rapid growth in imports from Eastern Europe which grew at an average annual rate of 25.5% to rise from 1.2% to 2.3%; a development that came as a result of the greater involvement of this group in the global economy.

14.1.2.6 Competitive Advantage of Saudi Economy

There are 64 Standard International Trade Classification (SITC) categories of products where Saudi exports exceeded SR100 million in 2003 (Box 14.1.1), which underlines the increasing competitive capacity of the Saudi economy and its improving position in world trade.

Table 14.1.8 shows that Saudi non-oil exports to GCC and other Arab countries are more diversified compared to exports to other regions, while exports to non-Arab Muslim countries and to non-Arab non-Muslim Asian countries are concentrated in a limited number of products.

Diversification of non-oil exports is of crucial importance in indicating the overall competitive capacity of the Saudi Economy. Analysis of trade destination indicates that there are 9 commodity groups for which non-Muslim non-Arab Asian countries are the receiving markets, including refined petroleum products, petrochemicals, leather, and flat iron rolls. In contrast, there is a group of 29 products that are mainly received by GCC markets, including foodstuffs and other consumer products; such as soap, cosmetics, building materials, furniture, plastic products, and mineral and electric appliances. For many of these products, neighboring Arab countries are the next large destination.

Comparison of non-oil exports to imports by product group indicates that in most cases the same products within a specific group are exported and imported. This is normal, in view of experience of advanced industrialized countries, which confirms that trade between countries in mostly trade were within the same product group.

Box 14.1.1: Non-oil Exports By Commodity Group, 2003

Value: SR Million

Code	Commodity Description	Value	Code	Commodity Description	Value
334	Refined Oil Products	27,230.35	664	Glass	287.92
512	Phenols & Derivatives	5,082.53	553	Perfumes, Toiletries and Cosmetics	282.14
571	Polymers of Ethylene in Primary Forms	4,691.78	782	Trucks & Special Purpose Vehicles	277.33
511	Hydrocarbons & Derivatives	3,980.30	572	Polymers of Styrene in Primary Forms	271.24
344	Petroleum Gases & Other Gaseous Hydrocarbons	3,866.41	048	Preparations of Cereals or Flour or Starch	244.82
516	Other Organic Chemicals	2,841.08	573	Polymers of Vinyl Chloride	240.98
562	Fertilizers (not included in Item 272)	1,656.56	784	Vehicle Spare Parts & Accessories	225.52
642	Paper & Board Shapes & Articles Thereof	1,049.97	111	Non-Alcoholic Beverages	213.06
335	Residual Petroleum Products	935.25	811	Prefabricated Buildings	201.66
971	Gold (Non-Monetary)	817.78	693	Wire Products & Fencing Grilles	195.44
022	Milk and Cream	763.01	513	Carboxylic Acids & Derivatives	170.11
676	Iron & Steel Bar & Sections	692.13	012	Other Edible Meat & Offal	168.53
533	Pigments, Paints, Varnishes & Related Materials	619.58	054	Vegetables; Fresh, Frozen & Dried	165.77
741	Heating, Air Conditioning and Related Spare parts	563.24	611	Leather	165.72
554	Soap, Cleansing & Polishing Preparations	541.70	641	Paper and Paper Boards	163.38
575	Basic Plastic Material	528.10	269	Clothing & other Textile Articles	160.47
661	Lime, Cement & Ready Mixed Building Material	520.73	723	Civil Engineering & Contractors Plant & Equipment.	160.05
692	Metal Containers for Storages or Transport	496.67	057	Fruits and Nuts (not Including Oil Nuts); Fresh or Dried.	155.97
773	Equipment for Distributing Electricity	495.73	024	Cheeses & Curds	150.5
893	Plastic Material	495.49	056	Fruits, Roots, Tubers; Prepared & Preserved.	148.76
522	Inorganic Chemical Elements, Oxides, Halogen Salts	490.78	574	Polyacetals, Polycarbonates, in Primary Forms.	148.69
673	Flat-Rolled Iron, Non-Alloy Steel Products, Not Coated	473.85	674	Flat-Rolled or Non-Alloyed Steel, Coated.	143.92
781	Passenger Vehicles, Not for Public Transport	472.46	523	Metallic Salts & Peroxy Salts, Of Inorganic Acids	143.33
691	Structures & Parts of Iron, Steel or Aluminum	458.72	682	Copper	137.07
659	Floor Coverings, etc.	454.66	581	Tubes, Pipes & Hoses of Plastics	135.96
897	Jewelry of Precious or Semi-Precious Material	454.16	821	Furniture & Parts thereof, Beddings	130.26
059	Fruit & Vegetable Juices	445.93	288	Non-Ferrous Base Metal Waste & Scarp	120.96
679	Iron & Steel Tubes & Pipes and their Fittings	445.93	786	Trailers & other Non-Motorized Vehicles	117.24
582	Plates, Sheets, Films, Foil & Strips of Plastic	444.86	542	Medicaments (including Veterinary Medicaments)	115.08
343	Natural Gas; Liquefied & Non-Liquefied	365.10	421	Vegetable Fats & Oils	114.46
684	Aluminum	327.89	598	Miscellaneous Chemical Products	110.96
699	Basic Mineral Industries	316.40			

Source: Central Department of Statistics.

Table 14.1.8
Coefficient of Concentration of
Non-oil Saudi Exports by Region

Gulf Cooperation Council	. . ٦١
Other Arab Countries	. . ٦٥
Non-Arab Muslim Countries	. . ٨٦
Non-Arab Non-Muslim Asian Countries	. . ٩٤
Non-Arab Non-Muslim African Countries	. . ٩٢
North America	. . ٩٢
Western Europe	. . ٨٣
Other Countries of the World	. . ٩١
Total	. . ٧٤

* The coefficient of concentration of exports reflects the extent of diversification of exports to a specific region. Its value ranges from zero to one (0–1). The lower the value, the greater is the diversification.

Source: Ministry of Economy and Planning Estimates.

Table 14.1.9 gives the import/export ratios by product categories. These are all greater than one. However, a ratio that is just a little over one indicates a potential opportunity for promoting exports and/or for imports substitution. Such a ratio also indicates that Saudi producers are able to export and compete. Moreover, where there are imported products, there are opportunities for substitution.

In summary, there are two sources of Saudi competitive advantage. The first is the comparative advantage enjoyed by availability of the natural resources of the Kingdom in world markets; especially in oil, petrochemical products and energy-intensive manufactured products. The second source is the competitive advantage achieved at the regional level, in relation to GCC countries and neighboring Muslim and Arab countries, in a wide range of manufactured products in which transportation costs are a large element of total cost.

Table 14.1.9
Import/Export Ratio for Selected Product Categories
(2003)

Code	Products Category	Imports /Exports Ratio
012	Other edible meat and offal; fresh, refrigerated & frozen	13.06
022	Milk and cream, dairy products other than butter and cheese	2.02
024	Cheese and curd	6.17
048	Grains and flour preparations or vegetable or fruit starches	2.70
054	Vegetables; fresh, refrigerated, frozen & preserved	3.72
056	Fruits and roots; prepared & preserved	3.29
057	Vegetables and nuts (oil nuts); fresh & dried	8.29
098	Edible products and preparations	11.14
241	Vegetable oil & fat (light); raw, refined & distilled	3.10
013	Carboxylic acids and derivatives and the relevant hydride and bromide acids and their halogenated and carbonated derivatives or nitro compounds	1.60
023	Metallic salts and peroxy salts of Inorganic Acids	3.43
053	Perfumers, cosmetics & toilet preparations (other than soap)	0.66
074	Polyacetals, and others, such as polyether, Epoxide resins in primary forms, polycarbonates, alkyl resins and polyallyl esters (organic salts) and other polyesters in primary forms	1.03
070	Plastic products in primary forms	1.12
081	Tubes, pipes and hoses, plastic accessories	1.14
082	Plates, sheets, film, foil and strip of plastic	2.01
098	Miscellaneous chemical products	11.16
641	Paper and paper board	11.32
661	Lime, cement and fabricated construction materials (other than glass and clay)	1.18
673	Flat-rolled iron, non-alloy steel products, not coated or painted	2.07
674	Flat-rolled iron, non-alloy steel, coated or painted	2.77
676	Iron and steel bars, rods and sections	2.20
679	Iron and steel tubes and pipes and their fittings	4.20
682	Copper	8.89
684	Aluminum	4.82
699	Manufactures of base metals	3.27
723	Civil engineering and contractors plant & equipment	10.02
741	Heating and cooling equipment and parts thereof	4.22
784	Parts and accessories for motor vehicles Nos. 722, 781, 782, 783	17.43
786	Trailers, other non-motorized vehicles, containers of special designs	1.98
821	Furniture and parts thereof; beddings	10.16
893	Plastic materials	1.43
971	Gold, non-monetary (other than raw gold & gold concentrates)	1.46

Source: The rates are based on actual exports and imports statistics for 2003; issued by Central Department of Statistics.

14.1.3 ISSUES AND CHALLENGES

Notwithstanding the remarkable progress made in international trade, with Saudi exports achieving greater diversification, some issues need to be addressed still, in order to achieve further progress. The most important of these issues are reviewed below.

14.1.3.1 Comparative Advantage of Energy-Intensive Manufactured Products

The internationally competitive position enjoyed by the Kingdom rests upon the abundance of natural resources, such as oil, as well as on petrochemical products, of which the Kingdom is a leading exporter, and products of energy-intensive industries. However, competition from countries that have similar natural resource endowments, within and outside the region, calls for promoting these industries, through subjecting domestic producers to standard performance evaluation; and creating a healthy competitive environment that motivates them to increase productivity, raise quality and reduce costs. In addition, endeavors need to be made to reduce direct and indirect protectionist barriers in foreign markets, which may be helped by accession to the World Trade Organization.

On the other hand, like the petrochemical industry, other energy-intensive industries must be developed to become links in the world value chain of some of heavy industries.

14.1.3.2 Regional Trade

Analysis of foreign trade shows that the Kingdom has a regional competitive advantage in many products and commodities. However, a key challenge is to move from these initial successes towards increasing export volumes and diversity, particularly that achieving export success at the regional level, may, at this stage of development, be the initial step towards succeeding in international markets.

While geographic location is a key determinant of regional trade, particularly for goods where transport costs constitute a major cost

element, prevailing economic conditions in neighboring countries do have an important impact. In addition, poor infrastructure, particularly cross-border facilities and means of transport, as well as complicated administrative and customs procedures, are a major constraint on growth of regional trade.

Undoubtedly, further integration among the GCC countries, and development of joint Arab action, will in the coming years contribute significantly to enhancing Saudi export performance. However, basic infrastructure in some neighboring countries remains an obstacle. Thus, to open markets further in both directions, the Kingdom should consider joint action to improve transportation facilities in neighboring countries and rationalize cross-border procedures.

14.1.3.3 Export-Oriented Industrial Zones

In many developing countries, development of special industrial zones, business incubators, technology parks and special export-oriented zones has become a basic objective of economic planning. The Kingdom was one of the first countries to establish integrated industrial complexes, such as in Jubail and Yanbu. Still, expansion of industrial zones specialized in specific technology and sectoral skills remains a worthy promising goal.

Export-oriented zones, particularly ones that are dependent on direct foreign investment, are a most important means for stimulating growth of international exports. By the end of 1999, 850 such zones were operating around the world, and by the end of 2001, their number in South Eastern Asian (ASIAN) countries reached 130. Therefore, the Kingdom should consider establishing such zones, taking into account closeness to neighboring markets, availability of infrastructure, and proximity to universities, R&D centers, industrial zones and technology parks.

14.1.3.4 Institutional Structure of Export Development

Export development requires a highly efficient institutional structure, with a clear delineation of the tasks and functions of the various agencies.

A plan for developing Saudi exports would first define the relative roles of the government and the Council of Saudi Trade and Industrial Chamber (CSTIC), by specifying both government initiatives and the objectives to

be achieved by the private sector; and, secondly, enhance cooperation between the (CSTIC) and exporters in order to achieve exports targets. In addition, establishing an independent authority for export development ought to be considered (Box 14.1.2).

Box 14.1.2: Functions of the Proposed Export Development Authority

- Devising regulations and bylaws relating to development of non-oil exports, and reviewing them as required.
- Formulating strategies and policies pertaining to development and growth of non-oil exports, and reviewing them in light of developments.
- Proposing implementation plans for export development and growth.
- Conducting research and studies on potential export opportunities.
- Conducting research and studies on targeted foreign markets, and promoting national products.
- Supporting exporters in obtaining export credits and finance from domestic and international financial institutions.
- Providing support to national SMEs and assisting them in accessing international markets.
- Providing support and technical services to exporters.
- Organizing export conferences, forums, and exhibitions abroad.
- Working with relevant international, regional and government agencies.
- Attracting qualified and specialized Saudi personnel in the field of development of exports.
- Supporting private sector training programs related development of exports.
- Encouraging simplification of procedures and administrative rules to stimulate national exports and increase their competitiveness, in cooperation and coordination with relevant agencies.
- Developing awareness on the role of e-commerce in export development and related services.
- Studying obstacles to exports and finding appropriate solutions.

14.1.3.5 Balance of Services and Transfers

The deficit in the balance of services and transfers, which is currently covered by the trade account surplus, where oil exports play a major role, constitutes a key challenge to the policies aimed at improving the balance of payment and attaining sustainable development. This deficit is caused by several factors, including low foreign investment returns, and continuing increases in insurance and shipping costs, costs of public and private-sector services, and transfers, by mainly expatriate labor.

The Eighth Development Plan adopts a number of policies to improve the services balance, including:

- Promoting private, indigenous and foreign, investment in transportation and shipping.
- Developing insurance and other financial services.
- Developing and promoting internal tourism.
- Indigenizing consultancy and engineering services in energy (oil, gas and electricity), water desalination and other sectors.
- Providing a suitable environment for increasing local consumption and investment expenditure of expatriate labor.

14.1.4 FUTURE VISION

By virtue of volume, components and national value added, foreign trade is a microcosm of the national economy, with all its major characteristics and constituents. Hence, the future vision for foreign trade corresponds, to a large extent, to the future vision for the Saudi economy as a whole. It is thus possible to identify the following envisaged major characteristics of foreign trade in the future:

- Achieving an improved balance in the non-oil current account, so that non-oil exports cover all non-oil imports.
- Endeavoring to increase exports of refined oil products and enhance their value added, for them to become an important constituent of all oil exports.
- Exploiting the competitive advantage in energy-intensive manufactured products, petrochemical products, and refined oil products to increase their share in exports and enhance their integration into the value chain of international heavy industry.
- Reducing the concentration coefficient of Saudi exports in global markets, through increasing diversification of exports that have a natural or acquired competitive advantage.
- Raising the level of Gulf and Arab economic integration.
- Developing economic relations with international economic groups in Asia, Europe, South and North America, and Africa.

- Reducing the deficit of the services and transfers balance, through indigenization of many technical and technological services and increasing the returns of transportation, insurance, shipping, and tourist services and attracting investments by expatriate labor.

14.1.5 DEVELOPMENT STRATEGY

The development strategy of the foreign trade sector will be implemented through the following objectives and policies.

14.1.5.1 Objectives

The main objectives for the foreign trade sector under the Eighth Plan are as follows:

- Improving balance of payments and enhancing foreign reserves.
- Achieving balance in the non-oil current account in the long run.
- Achieving the integration of Saudi industry into the international industrial system.
- Diversifying the geographic distribution of Saudi foreign trade and improving inter-trade with Gulf, Arab and Muslim countries.

14.1.5.2 Policies

Achieving the key objectives for the foreign trade sector under the Eighth Plan relies upon the following policies and procedures:

- Promoting competitiveness of Saudi exports and penetrating more international markets.
- Enhancing the technical, administrative and marketing consultancy services provided by Saudi Industrial Development Fund (SIDF).
- Conducting periodical standard evaluations of Saudi exports to assure quality standards.
- Establishing permanent exhibitions of Saudi exports in the main international markets.
- Creating a database of export opportunities in international markets.
- Granting incentives to export-oriented investments.
- Establishing industrial zones for export and re-export.

- Enhancing the role of the Saudi Exports Program of the Saudi Industrial Development Fund (SIDF)*.
- Combating dumping to ensure fair competition.
- Providing the necessary technical support to raise the efficiency and quality of domestic goods and services that compete with imports.
- Promoting investments in the services sectors (transport, shipping, insurance and tourism).

14.1.5.3 Targets

The specific targets for foreign trade under the Eighth Development Plan are:

- Increasing services and commodities exports at an average annual growth rate of 3.2%.
- Increasing non-oil exports at an average annual growth rate of about 8.5%.
- Decreasing the average annual growth rate of imports of goods and services to 6.6%.
- Achieving a surplus in the trade balance of about 23.5% of GDP.

14.2 DOMESTIC TRADE

14.2.1 INTRODUCTION

Domestic trade plays a vital role in the economy of the Kingdom, for it has a large share of private-sector businesses and provides a large number of jobs opportunities.

Over the past three decades, domestic trade has experienced remarkable growth that matches the growth and diversification of the national economy; an achievement that was made possible by the free-market approach adopted by the Kingdom and its unique geographical location, as well as by the wealth of commercial expertise of Saudi businessmen.

* An additional amount of SR15 billion from the surplus of state budgets of 2004 and 2005 has been earmarked to increase funding for the Saudi Exports Promotion Program.

This chapter reviews the current conditions and achievements of domestic trade under the Seventh Development Plan, as well as the basic issues and challenges that must be addressed under the Eighth Development Plan and the strategic dimensions of the domestic trade.

14.2.2 CURRENT CONDITIONS

Domestic trade plays an essential role in providing goods and services, including capital goods needed by development projects and programs and consumer goods to meet the increasing domestic demand due to population growth and rising income levels.

14.2.2.1 Indicators of Domestic Trade Development

Table 14.2.1 shows that during the Seventh Development Plan, registered commercial companies increased by about 2.1%, individually-owned registered companies by about 37.7%, registered commercial agencies by about 14.0%, registered trademarks by about 45.6%, licensed professional services offices by about 46.2%, hotels and rest houses by about 138.1%, general services offices by about 43.1%, and gold shops and workshops by about 19.5%, while certificates of origin issued for domestic products went up by about 124.4%.

Table 14.2.1
Some Indicators of Domestic Trade Development
under the Seventh Development Plan

Indicator	1999	2004	Growth (%)
Registered companies	190,762	194,740	2.1
Individually-owned registered companies	438,133	603,408	37.7
– Commercial agencies	7,981	9,006	14.0
– Trademarks	00,002	73,023	45.6
– Professional services offices	3,884	5,679	46.2
– Hotels and rest houses	420	1,012	138.1
– General services offices	21,000	30,078	43.1
– Gold shops and workshops	0,120	7,126	19.0
– Certificates of origin for domestic products	421,926	947,783	124.4

Source: Ministry of Commerce and Industry.

Table 14.2.2 shows the distribution of existing commercial registrations by economic sector under the Seventh Development Plan. The wholesale and retail trade sector, the construction and building sector, and the transport, storage and cold stores sector constitute the majority of existing commercial registration. The share of these sectors increased from 90.9% in 1999 to 97.1% in 2004, while the total number of registers increased by 26.7%, from 463,164 to 586,846. The construction sector (contractors) grew by 62.3 %, followed by the transport, storage and cold store sector (47.5 %), and the wholesale and retail trade sector (23.4 %).

Table 14.2.2
Existing Registered Commercial Companies
by Economic Sector
Seventh Development Plan

Sector	1999		2004		change (%)
	No.	(%)	No.	(%)	
Wholesale and retail trade	278,927	60.2	344,308	58.7	23.4
Building and construction (contracts)	108,603	23.5	176,220	30.0	62.3
Transportation, storage and cold stores	33,414	7.2	49,287	8.4	47.5
Other sectors	42,220	9.1	17,027	2.9	-59.6
Total	463,164	100	586,846	100	26.7

Source: Ministry of Commerce and Industry.

Over the first four years of the Seventh Development Plan, total domestic trade grew at an average annual rate of 4.5%, exceeding the growth rates of GDP (3.44%) and the non-oil domestic product (3.93%). The value added of domestic trade increased from about SR46 billion, or 7.6% of GDP in 1999 to about SR57 billion, or 8% of GDP in 2004. Investment in this sector increased under the Seventh Plan to around SR96 billion, i.e., 3.8% of total investments.

14.2.2.2 Growth of Companies

In the context of continued economic development, steady increase in population, and the strong correlation between the number of trade enterprises and population size, company registrations experienced several

developments. The number of existing companies rose from 9,387, with a capital of SR162.7 billion, in 1999 to 12,416, with a capital of SR183.8 billion, in 2003. 85.2% of these companies had Saudi capital, 12.5% mixed capital, 1.2% Gulf capital, and 1.1% foreign capital.

Table 14.2.3 shows the distribution of these companies by type and total invested capital.

Table 14.2.3
Existing Companies by Type

Type of company	1999		2003	
	No.	Capital (SR Billion)	No.	Capital (SR Billion)
Limited partnership company	949	3.14	1,068	3.38
Shareholding partnership company	2	*	3	*
Joint-venture company	2,295	3.46	2,681	3.62
Limited liability company	6,029	80.18	8,537	90.73
Joint-stock company	112	75.95	127	86.12
Total	9,387	162.73	12,416	183.85

* Less than one million.

Source: Ministry of Commerce and Industry.

14.2.2.3 Standards and Specifications

During the Seventh Development Plan, 655 Saudi standards were approved, raising the total number of approved standards to 2,287. In addition, 84 standards were modified and updated, raising the total number of modified and updated standards to 248. Moreover, 6,225 industrial licenses were investigated to confirm that there are approved standards for their products, raising the total number of investigated licenses to 18,623 by the end of the Seventh Development Plan.

Furthermore, the Saudi Arabian Standards Organization (SASO) is expected to finalize the Saudi building code during the first three years of the Eighth Development Plan, which will have a positive effect on building and construction standards and specifications.

During the Seventh Development Plan, export certificates were issued to 1,416 products, bringing the total to 3,228. In addition, 58 enterprises obtained the right to use quality mark, bringing the total to 175 by the end

of the Seventh Plan.

As part of its efforts to provide services, SASO delivered about 2,297 technical consultations to different agencies during the Seventh Development Plan, to bring the total to 29,425. Additionally, three more laboratories were approved in the private sector to conduct specified tests, bringing the number of such laboratories to 14 by the end of the Seventh Plan.

14.2.2.4 Institutional and Organizational Development

As part of restructuring the government, which was, *inter alia*, aimed at enhancing and rationalizing economic administration, Royal decree A/2 of 2003 abolished the Ministry of Industry and Electricity and put industry affairs under the Ministry of Commerce, whose name was changed to Ministry of Commerce and Industry. In addition, Council of Ministers Resolution 133 of 2003 transferred functions of the Permanent Committee of Electronic Commerce from the Ministry of Commerce and Industry to the Communication and Information Technology Commission.

To enhance the efficiency of trade, protect consumer interests and improve the investment environment, there was during the Seventh Development Plan remarkable development of trade regulations and bylaws. Thus, several trade regulations and bylaws were issued, reviewed and updated, including the trademarks regulation and its bylaw, the general competition regulation, the real estate shareholding regulation, the private laboratory regulation, the commercial mortgage regulation, the hotel consultations regulation, the vehicle recall bylaw, and the executive bylaw governing practicing security consultations. More trade regulations are expected to be modified and updated under the Eighth Development Plan, including: the trade fraud control regulation, the sales-by-installment regulation, the companies regulation, the dumping control regulation, the electronic transactions system, the Chambers of Commerce and Industry regulation, and the National Committee for Consumer Protection regulation.

In addition, to improve compliance procedures, SASO devised a bylaw for regulating the methodology of insuring compliance of Saudi products with approved ISO standards, and another for regulating selection of the agencies authorized to grant the ISO9000 quality certificates and the ISO14000 environment certificates to companies and enterprises.

14.2.2.5 Development of Employment

Employment in the domestic trade sector increased at an average annual growth rate of 1.8%, from 1.1 million workers in 1999 to 1.2 million workers in 2003; thus constituting then 14.4% of total employment (Table 14.2.4).

During the same period, the ratio of Saudi manpower in the domestic trade sector to total manpower rose from 17.8% to 19.7%, i.e., at an average annual rate of 4.3%, compared to 1.3% for expatriate labor. This is a positive development, since the trade sector provides promising jobs opportunities to Saudis nationals. Moreover, the modest growth in the total manpower of 1.8%, compared to a growth rate of 4.5% in value added for trade sector, indicates improvement in the productivity of domestic trade activities.

Table 14.2.4
Employment in the Trade Sector
Seventh Development Plan

Type of Employment	1999		2003		Average annual growth rate (1999–2003) (%)
	No.	(%)	No.	(%)	
Saudi	197,478	17.8	233,906	19.7	4.3
Foreign	909,129	82.2	956,255	80.3	1.3
Total	1106,607	100	1190,161	100	1.8

Source: Ministry of Economy and Planning.

14.2.3 ISSUES AND CHALLENGES

The remarkable progress made by the domestic trade sector notwithstanding, the following are some of the remaining challenges that need to be addressed.

14.2.3.1 Development of SMEs

Constraints, such as poor financial, managerial and marketing capabilities, that face most SMEs lower their economic efficiency, and impair their competitiveness, which, in turn, limits their ability to play an effective role in social and economic development. Many of these constraints can be

removed by providing adequate finance, intensifying training for employees, and increasing awareness by owners of the importance of enhancing their administrative and planning capabilities; in addition to establishing a body responsible for prompting these enterprises.

14.2.3.2 Combating Dumping

Dumping low-cost, subsidized foreign goods onto the domestic market impairs competitiveness of national products. It is, therefore, essential to expedite enforcement of the system of dumping control, and protective, preventive, and reparational measures issued by the Supreme Council of the GCC countries in its 24th session on 21–22/12/2003 to be effective from the 1/1/2004. Moreover, the dumping control units of the Ministry of Commerce and Industry needs support to enable it to deal with all relevant issues.

14.2.3.3 Business Ownership Concealment

The phenomenon of concealing the true ownership of business grows with the expansion of trade and economic activities and with the spatial development of rural and urban areas. This may require revising the existing concealment control system and enforcing it throughout the entire country

14.2.3.4 Issuance of Uncovered Cheques

Disrespect of the function of cheques, as a substitute of cash in commercial and civil dealings impedes the flow of commercial activities and slows down the pace of trade.

Appropriate measures, including spreading awareness of the function of cheques, need to be taken. In addition, there may be a case for reviewing commercial paper regulations to develop them and raise the penalties for violation.

14.2.3.5 Commercial Fraud Control

Given the limited capacity of monitoring agencies and the tremendous expansion of commercial activities, efforts to limit commercial fraud appear to be inadequate. This calls for expediting issuing the trade fraud control regulations that were recently reviewed and modified, as well as creating a national agency for consumer protection.

14.2.3.6 Development of a Trade Information System

Information is vital for investors. Therefore, the commercial and industrial information system should be developed and updated. Link the information center of the Ministry of Commerce and Industry with the Chambers of Commerce and Industry should facilitate provision of timely information on available investment opportunities.

14.2.3.7 Saudization of Manpower

The efforts made to employ Saudi nationals in the private sector and encourage them to join it have not had the hoped for success. The trade sector can absorb much national labor, for the needed skills are not high and training could be provided on the job. Hence, obstacles to Saudi citizens joining this sector should be removed, and employment mechanisms developed; all the while benefiting from relevant international experience.

14.2.3.8 Application of Standards and Quality Control

The Kingdom has developed a large number of product standards, utilizing international expertise and domestic capabilities. This has contributed effectively to developing the goods and materials circulating in the domestic market, whether imported or domestic, and ensuring their safety and quality. However, there is evidence that some available commodities and products do not comply with approved specifications and other quality control standards, and there are goods and products for which there are no standard specifications. Furthermore, some approved standards need revision.

Hence, the following initiatives are suggested: enhancing participation and cooperation with academic and scientific centers inside and outside of the Kingdom; strengthening the monitoring agencies to ensure full application of approved specifications and quality control standards; developing the capabilities of the system for monitoring drugs, foodstuffs and other goods that affect community health; enhancing the role of the private sector in examining and inspecting goods in accordance with the private laboratories regulations; and ensuring at in various entry points that imports comply with Saudi standards.

14.2.4 DEVELOPMENT STRATEGY

The strategy for developing the domestic trade sector aims at the following.

14.2.4.1 Objectives

The key objectives for domestic trade under the Eighth Development Plan are as follows:

- To develop domestic trade according to the needs of the national economy and the community.
- To provide the needs of domestic markets for goods and services according to Saudi and international specifications and ensure their availability at reasonable prices.
- To protect consumers from fraud, monopoly and health hazards.
- To eliminate business ownership concealment.
- To replace foreign labor with national labor.

14.2.4.2 Policies

The above objectives will be implemented by adopting the following policies and measures:

- Enhancing confidence in dealing with commercial paperwork.
- Enhancing cooperation between the Ministry of Commerce and Industry and the Council of Chambers of Commerce and Industry.
- Monitoring the goods in the domestic market to verify quality and authority and compliance with approved specifications.
- Deploying on a regular basis monitoring teams in all markets in all regions to ensure that goods and services comply with Saudi standards and specifications.
- Enhancing monitoring and inspection processes at all land, sea and air entry points to ensure that imports comply with Saudi Standards and Specifications.
- Developing and updating Saudi specifications and standards on a regular basis to raise standards of national products to international

levels.

- Organizing consumer awareness programs and informing the public of the techniques for and methods of ascertaining the quality of products in the markets.

14.2.4.3 Targets

The major targets for domestic trade under the Eighth Development Plan are:

- Expanding domestic trade at an average annual rate of 5.2%, to constitute 8.3% of GDP by the end of the plan.
- Expanding some of the main services provided by the Ministry of Commerce and Industry at the following average annual rates: registration of companies by 16%, i.e., by 1674 companies per annum; Individually-owned enterprises by 17%, i.e., by 62,384 per annum; registration of trade agencies by 25%, i.e., by 359 per annum; registration of trade marks by 12%, i.e., by 8,396 trade mark per annum; licenses of professional services offices by 17%, i.e., by 394 per annum; licenses of hotels by 5%, i.e., by 110 hotels per annum; testing and analyzing samples of locally produced and imported goods at quality control laboratories by 17%, i.e., by 505,998 samples per annum; and issuance of certificates of origin by 14%, i.e., by 246,867 certificate per annum.
- Issuing 18 licenses for privately-owned laboratories, organizing 47 local trade shows, participating in 26 international trade shows, and organizing 12 marketing festivals.

14.2.5 FINANCIAL REQUIREMENTS

Financial allocations required by the trade sector (Ministry of Commerce and Industry – trade sector, SASO) under the Eighth Development Plan are estimated at approximately SR 2019.2 million, including for financing management, operation and maintenance; national manpower development; improving support services; specifications and quality control laboratories; and promoting international trade relationships.

CHAPTER FIFTEEN

FINANCIAL SERVICES

15. FINANCIAL SERVICES

15.1 INTRODUCTION

The Kingdom of Saudi Arabia enjoys an advance banking system in terms of both quality of service and efficiency of regulation. Moreover, having overtaken the Kuala Lumpur Stock Exchange in 2003, the Saudi stock market is one of the largest in terms of market capital in the Arab and Islamic worlds. However, notwithstanding these and other impressive achievement during the previous development plans, particularly the Seventh Development Plan, the financial services sector will continue to face challenges arising from internal and external developments.

The major challenge internally lies in the growing need for increasing the sources of finance for the private sector to enable it to contribute to economic growth and to the creation of more job opportunities for Saudi nationals. This will entail the consolidating and developing bank finance, as well as funding of the private sector by the domestic capital market. The new Capital Market Law is expected to address this challenge by providing an efficient regulatory framework for capital market operations.

Externally, the most prominent challenges that require strengthening the financial services sector to render it more competitive regionally and internationally are the accession of the Kingdom to the WTO; compliance with the New Basel Capital Accord (Basel II), currently being developed by the Bank of International Settlement (BIS); and Gulf integration, including achieving currency union by 2010. In addition, there is the challenge of absorbing the Saudi private capital repatriated in 2002 and 2003, in the wake of the remarkable performance of the Saudi stock market, in comparison to many other financial markets. The Capital Market Law is expected to facilitate such absorption.

This chapter deals with the main features of the financial services sector, reviews the key issues and challenges that may face it under the Eighth Development Plan, and highlight the features of development strategy and the future vision for it.

15.2 CURRENT CONDITIONS

15.2.1 Main Features of the Banking Sector

The sector comprises 10 national and joint-venture (foreign-domestic) banks, and two branches of Gulf Banks. In addition, Albilad Bank, a Saudi joint-stock company, has been established and branches for six foreign banks that were granted licenses are expected to start operating by the beginning of the Eighth Development Plan. The number of bank branches increased rapidly to a peak of 1,229 in 1998, then declined to 1,196 in 1999, to increase again to 1,208 in 2003. That the number in 2003 was lower than in 1998 is attributable mainly to proliferation of Automated Teller Machines (ATMs), which doubled in number over the period 1999–2003 to reach 3,676, and rapid growth of point-of-sale transactions; thereby reducing pressure on bank branch networks.

Bank branches are widespread. Nevertheless, the ratio of number of branches to population size, which is to 54.5 branches per million inhabitants, is still low compared to 244.9 in the UK, 272.9 in the USA and 303.4 in Japan. As in most developing countries, the reason is the prevailing low banking awareness, with cash, rather than credit, still widely used for personal and commercial payments.

Most people use bank cards to obtain cash, but not to make direct payments. ATM cards are more popular than credit cards, with the former used to withdraw cash directly from a current account. Often, people hold large amounts of cash, using ATMs less than 10 times (per person) per year, compared to 36.6 times in the UK and 52 times in the USA, and the average withdrawal is \$166.5, compared to \$84 in the UK and \$68 in the USA.

There is thus a need for enhancing banking awareness for the banking system to play a more prominent developmental role as a channel for mobilizing and utilizing available financial resources of society. Table 15.1 shows the performance indicators of the banking sector.

Table 15.1
Performance Indicators of the Banking Sector

	1999 (SR billion)	2003 (SR billion)	Increase (%)
Total Bank Assets	415.2	545.2	31.3
Total Bank Deposits	246.1	356.3	44.8
Bank Loans	166.3	247.0	48.5
– Public Sector	14.3	25.9	81.1
– Private Sector	152.0	221.1	45.5
Investment in Securities	112.5	158.1	40.5
– Government	102.3	150.7	47.3
– Private	10.2	7.4	-27.5
Total Capital	42.3	47.0	11.1
Bank Profits (SR billion)	6.3	12.1	92.1
Rate of Return on Capital	14.9%	25.7%	—
Rate of Return on Assets	1.5%	2.2%	—

Source: Saudi Arabian Monetary Agency, Quarterly Statistical Bulletins.

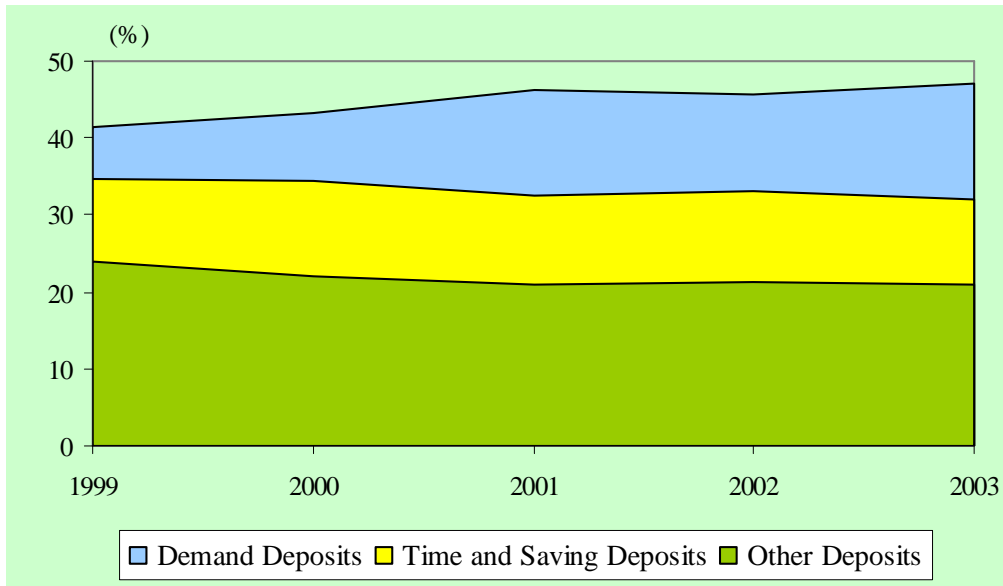
A. Bank Deposits

Bank deposits increased substantially under the Seventh Development Plan, from SR246.1 billion in 1999 to SR356.3 billion by the end of 2003. Although the ratio of bank deposits to GDP remained relatively stable during the past decade, it increased from 40.8% in 1999 to about 44.3% by the end of 2003, due to the significant increase in banking resources resulting from transferring the salaries of workers of the public sector and some workers of the private sector directly into bank accounts.

The ratio of demand deposits to time and saving deposits rose from 119% in 1999 to 126% in 2000 and to 148% by the end of 2003. Thus, the percentage share of demand deposits increased from 41.3% of total deposits in 1999 to about 47% in 2003, while the shares of other types of deposits decreased. These trends are shown in Figure 15.1.

The low level of inflation, which averaged less than 1% during the Seventh Plan period, and stability of the foreign exchange rate contributed to lowering the cost of funding. Nevertheless, banks are reluctant to provide medium and long-term loans, due to concerns about the mismatch between the maturity terms of assets and liabilities. To encourage banks to support more business ventures, it is necessary to raise the proportion of time deposits, perhaps through development of new saving instruments conformant with Islamic teachings and values, as well as by creating a market for certificates of deposit (CDs) to enable depositors to obtain cash by selling their certificates rather than making cash withdrawals from banks.

Figure 15.1
Structure of Bank Deposits



B. Bank Credit

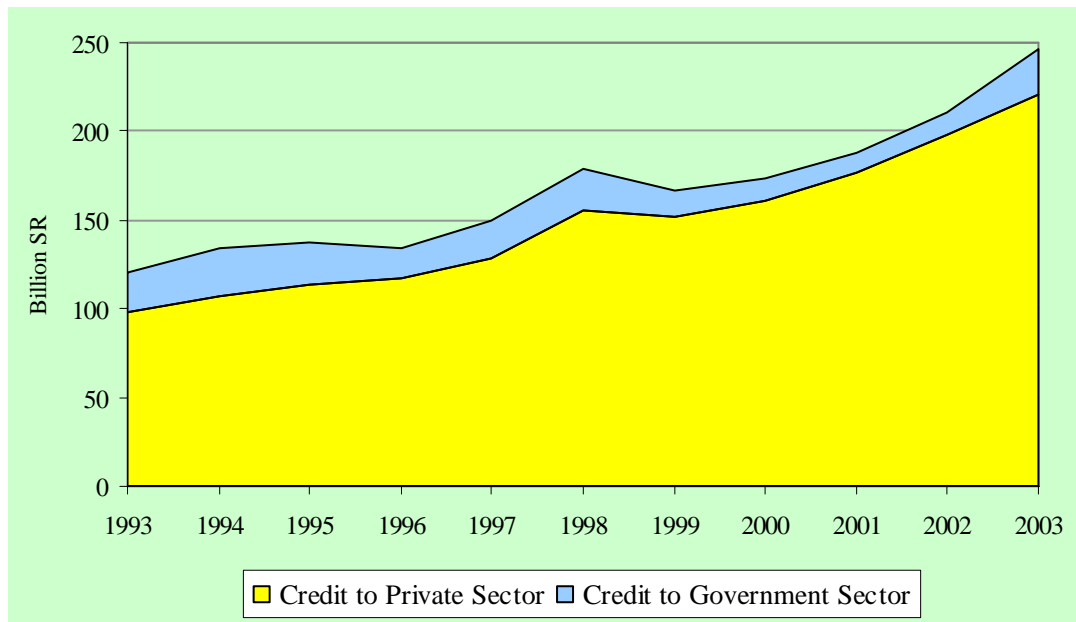
Bank credit increased significantly over the last decade, from SR120 billion in 1993 to about SR247 billion by the end of 2003, as shown in Figure 15.2. Such credit contributes, *inter alia*, to creation of job opportunities, either directly through business lending, or indirectly through personal lending, which stimulates consumer demand for goods and services.

In 2003, about 10.5% of total bank credit was granted to government, with the rest granted to several private-sector activities. With almost SR52 billion, the trade sector received a significant share, amounting to 20%, of total credit provided to the private sector; most of which was used to finance inventories of imported goods. The construction sector received about SR22 billion and the manufacturing sector more than SR26 billion. Consumer loans amounted to more than SR63 billion, of which more than SR27 billion were used to finance vehicle purchases. Loans for real estate finance amounted to about SR5.2 billion.

Although financing the purchase of consumer goods is profitable for banks, there is an increasing rate of default, mostly on credit card advances and personal loans. This indicates the need for enhancing awareness of the

importance of proper management of personal finance. Banks themselves should also make sure that their clients are not taking on excessive financial commitments and that lending risks are properly appraised.

Figure 15.2
Development of Bank Credit



By the end of 2003, short-term loans constituted more than 59% of total bank credit, compared to 25.6% only for long-term loans (more than three years). However, the relative share of short-term credit has been in decline over recent years, for in 1996, it amounted to about 80% of total credit, compared to less than 9% for long-term credit. One factor encouraging longer lending terms has been the rise of consumer credit. Over half of the personal loans extend for periods of three years or more. This is partly because finance of vehicle purchase usually extends over such a period, while, in comparison, loans granted to businesses for financing inventories are typically for one year or less.

It is envisaged that under the Eighth Development Plan, the legal framework governing property mortgages would be reconsidered. The largest part of housing and real estate development is currently financed on a cash basis. Hence, a significant portion of capital is locked up in real estate. Since purchasing property through mortgages and re-mortgages would free more capital for investment, it is hoped that a mortgage system that conforms to the Shariah law would be developed. Much can be learnt from international experience with Islamic mortgages, including Murabaha

and Ijara. This may also enhance the role of the Real Estate Development Fund (REDF), through gradually converting it from an institution engaged only in lending to one that also offers mortgage guarantees.

Small-scale, and to some extent medium-scale, enterprises, face difficulties in obtaining finance due to many reasons, including failure to keep adequate accounts, lack of separation between family and business finances, and lack of knowledge on how to prepare business plans. To address this situation, the commercial banks are expected to establish units to offer practical guidance to SMEs, possibly in cooperation with the Saudi Industrial Development Fund (SIDF) in the case of industrial firms.

15.2.2 Size and Competitiveness of Banks

Table 15.2 ranks banks by size of capital, indicating a need for supporting their capital base to enable them to develop and compete globally. The smallest banks find it increasingly difficult to obtain adequate return on investment in the domestic banking services network, which should lead to considering bank mergers to increase size, and opening possibilities for development and provision of more services. Bank mergers would also make the banking sector more able to meet the financial requirements of large projects (for example in petrochemicals and gas utilization) from own resources or through concluding joint-finance agreements. All of this would widen the scope of banking activities, enhance the role of banks in utilizing national savings and provide more profitable funding opportunities with lower risks.

Table 15.2
Ranks of the Banks by Size of Capital, 2003 (SR billion)

Banks	Capital	Assets	Loans	Deposits	Net Income
National Commercial Bank	10.33	117.43	49.75	90.45	3.01
Saudi American Bank	8.88	79.04	34.91	61.77	1.43
Riyadh Bank	8.55	71.51	27.95	45.88	1.59
Alrajhi Banking Corporation	7.25	64.68	n. a.	47.20	2.04
Saudi French Bank	5.05	53.50	26.72	42.63	1.19
Saudi British Bank	4.75	46.06	26.12	36.09	1.26
Arab National Bank	3.98	49.20	20.17	33.72	0.77
Saudi Hollandi Bank	2.55	27.96	13.96	21.58	0.60
Saudi Investment Bank	2.63	21.71	10.33	14.40	0.46
Al-Jazira Bank	0.88	8.99	4.66	7.54	0.09

n.a = not available.

Source: *The Bankers; Saudi Banks web sites.*

It is worth noting that Saudi banks have a comparative advantage in Islamic banking, which could, if deemed necessary, contribute to enhancing their competitive advantage in Arab and Islamic countries and eventually internationally.

15.2.3 Specialized Credit Institutions

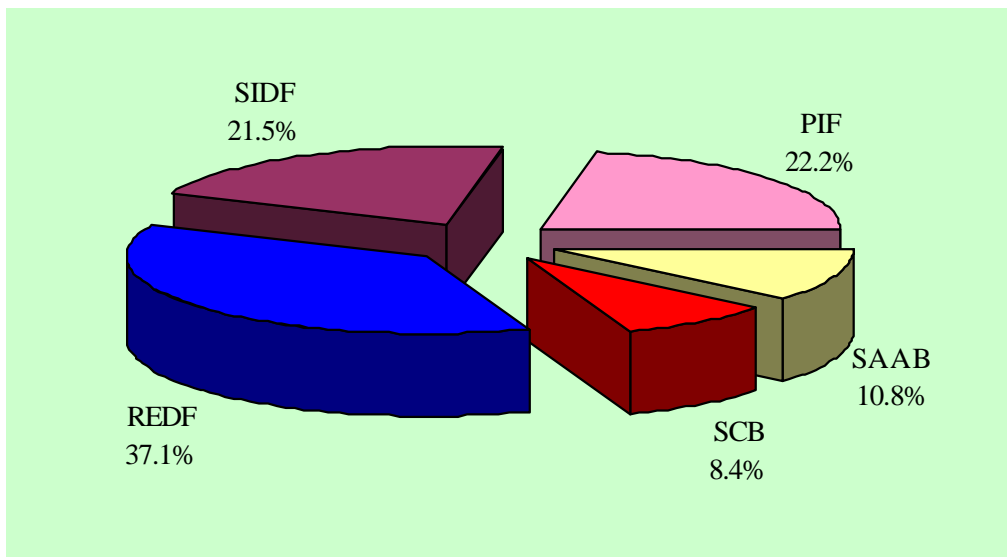
The government has established five specialized credit institutions (SCIs) to meet the needs of the private sector firms and public enterprises for long-term loans on favorable terms in such vital fields as industry, agriculture and housing, where loans are not usually provided in sufficient amounts by the commercial banks. Fully financed by the State and supported continually by the annual State budget, these institutions have contributed to the expansion of agricultural, industrial and craft activities, in addition to financing private housing in the various regions. In 2003 the total capital of these institutions amounted to SR201.65 billion*, and the total value of the loans they granted since they were established until then exceeded SR312.6 billion.

Total net loans granted by SCIs increased from SR148.9 billion in 1999 to about SR153.4 billion in 2003, a modest growth rate of 3.0%, reflecting keenness to keep the size of loans within the limits of repayments (self-finance policy); thus avoiding any burdening the State budget further.

In 2003, the loans provided by the SCIs amounted to about SR6.1 billion, while repayments amounted to about SR4.9 billion. Figure 15.3 shows the distribution of these loans; REDF came first with a share of 37.1% of total loans, followed by SIDF, the Public Investment Fund (PIF), the Saudi Arabian Agricultural Bank (SAAB), and the Saudi Credit Bank (SCB) at 21.5%, 22.2%, 10.8% and 8.4% respectively. Under the Eighth Development Plan the capital base of REDF and SCB will be increased by SR9 billion and SR2 billion, respectively.

* The capital of SIDF, REDF and the Saudi Credit Bank was recently increased by SR. 13 billion, and SR. 18 billion and SR. 5 billion respectively.

Figure 15.3
Distribution of Loans Granted by the Specialized
Credit Institutions, 2003



15.2.4 The Saudi Stock Market

Under the Seventh Development Plan the Saudi Stock Market grew steadily, with the general index of stock prices rising from 2028.5 points in 1999 to 4437.6 points in 2003 and then to 6593.7 points in the third quarter of 2004. This substantial rise is attributable to many factors including increased corporate profits, enhanced confidence in the domestic market, decreasing rates of return on deposits, increasing numbers of investors resulting from enhanced awareness of securities investment, and partial repatriation of Saudi funds invested abroad. Table 15.3 shows the major indicators of the Saudi Stock Market development under the Seventh Development Plan. The number of transactions increased at an average annual rate of 71.2% during the 1999–2003 period and the number of traded shares increased from 528 million to 5566 million, while their value increased from SR56.6 billion to SR596.5 billion.

The Saudi Capital Market Act was issued by Council of Ministers Resolution 91 of 2003 and the Security Exchange Commission was established by Royal Decree A/114 of 1/7/2004. As a result, transactions in Saudi shares are expected to grow steadily under the Eighth Development Plan. In addition, Privatization of public sector organizations and selling of the government shares in joint ventures will greatly increase the size of the

market. Moreover, listing more companies in the Stock Exchange will accelerate growth of the opportunities available to investors.

Table 15.3
Saudi Stock Market Indicators

Year	General Index	Number of Transactions	Number of Traded Shares (million)	Value of Traded Shares (SR billion)
1999	2028.5	438,226	528	56.6
2000	2258.3	498,135	555	65.3
2001	2430.1	605,035	691	83.6
2002	2518.1	1,033,669	1,736	133.8
2003	4437.6	3,763,403	5,566	596.5
2004*	6593.7	4,421,724	2,960	512.1

* For the third quarter of 2004.

Source: Saudi Arabian Monetary Agency, *Quarterly Statistical Bulletins*.

15.2.5 Government Securities

Under the Seventh Development Plan the market in government securities developed markedly in terms of type, denomination, maturity and rates of return. Investment in such securities by the banks who are the main dealers, increased from about SR102.3 billion in 1999 to about SR150.7 billion in 2003; an increase of 47.3% (see Table 15.4.) Enabling SAMA to use modern techniques for management of bank liquidity [Repurchase Agreements (Repos) and Reverse Repurchase Agreements (Reverse Repos)]; thereby expanding the range of indirect techniques used in domestic liquidity management. The average value of the Repos and Reverse Repos agreements amounted to about SR1.9 billion and SR2.7 billion respectively in 2003.

Table 15.4
Bank Investments in Government Securities
(1999-2003)

	(SR billion)		
	1999	2003	Change %
Government Bonds	100.0	150.50	50.5
Treasury Bills	2.3	0.17	-92.6
Total	102.3	150.67	47.3

Source: Saudi Arabian Monetary Agency, *Statistical Bulletins*.

15.2.6 Investment Funds

The Kingdom enjoyed the most-active investment funds in the Islamic world on the number the number of investment funds increased from 134 funds in 1999 to 170 by the end of 2003, while the number of subscribers to them increased from around 79,000 to about 172,000 investors and their total assets increased from SR34.7 billion to SR53.9 billion; an increase of 55.3% (Table 15.5). In 2003 domestic shares accounted for 38.8% of the total shares component of these funds while domestic bonds accounted for 5% of the total bonds component. However, the investment funds industry and its management are currently confined to the banking sector, while enhancing competition requires opening the way to participation by non-banking groups. The Capital Market Act provides an adequate framework for this by entrusting the Security Exchange Commission mandate with licensing independent brokerage firms to offer investment fund and securities trading facilities.

Table 15.5
Indicators of Investment Funds Development
(1999–2003)

	1999	2003
Number of Funds in Operation	134	170
Number of Subscribers	79,322	172,197
Total Assets (SR, billion)	34.7	53.9

Source: Saudi Arabian Monetary Agency, Quarterly Statistical Bulletins.

15.2.7 The Insurance Market

The New Insurance Act, issued by Royal Decree M/32 of 31/7/2003, provides a regulatory and organizational framework for the domestic insurance market, enhances SAMA's supervisory role in this field, and identifies administrative criteria and requirements for ensuring quality of insurance services and protecting customers and investors.

By 2003, the number of specialized insurance companies, brokers, agents, consulting bureaus and insurance auditors reached 104 companies (55 in Riyadh, 31 in Jeddah and 18 in Damman). The insurance industry covers health, traffic accidents, flight, fire, engineering, commodity and miscellaneous accidents.

A survey of the insurance market, conducted by SAMA's Institute of Banking Studies in 2002 found that total insurance subscriptions amounted to about SR3.0 billion; an increase of 16% over 2001. With a share of 27.5% of total subscriptions, health insurance accounted for the majority of subscriptions, followed by vehicle insurance (21.3%) and fire and property insurance (16.6%). The Cooperative Insurance Companies Control Act, issued by the above mentioned Royal Decree, is expected to boost competition and lead to further development of insurance services during the period of the Eighth Development Plan.

15.3 DEVELOPMENT STRATEGY

Success of the financial services development strategy depends on the degree of efficiency and effectiveness of economic policies in general and monetary policies in particular. The objectives, policies and targets set for the development of the financial services sector by the Eighth Plan are summarized in the following:

15.3.1 Objectives

The main objectives:

- Contributing to improving performance of the national economy and increasing and diversifying sources of income.
- Encouraging and mobilizing national savings and providing finance to various economic activities.
- Maintaining stability of the banking system and enhancing its efficiency and capacity.
- Developing local capital markets and insurance services and raising their efficiency.

15.3.2 Policies

To attain the Objectives set for the development of the financial services sector, the Eighth Development Plan adopts the following:

- Encouraging merger of banks and expanding the establishment of specialized investment banks.
- Enhancing the regulatory framework for residential and commercial mortgages.

- Supporting the financing of SMEs.
- Establishing a market for corporate bonds, including bonds issued by government institutions.
- Opening the securities market to foreign investors.
- Encouraging transformation of family owned companies into cooperation companies listed in the stock market.
- Cooperating with the GCC countries to establish regional capital markets.
- Enhancing public awareness of proper financial planning and debt management.

15.3.3 Targets

The main targets for the development of financial services under the Eighth Development Plan are as follows:

- Achieving an average annual growth rate of about 6.1% in the financial services sector during the period of the Plan.
- Increasing contribution of the financial services sector to GDP to about 6.3% by 2009.
- Providing a total of SR 44.2 billion in loans by specialized credit institutions including SR 6.65 billion by the Saudi Agricultural Bank, SR 11.3 billion by SIDF, SR 22 billion by REDF, SR 3.5 billion by the Saudi Credit Bank, and SR 750 billion by other lending program.

CHAPTER SIXTEEN

FAMILY AND SOCIETY

16. FAMILY AND SOCIETY

16.1 INTRODUCTION

The family is the basic unit of society and one of its vital institutions; for it is responsible for maintaining social cohesion and strengthening the social fabric, through caring for its members and bringing up its young on a set of values and principles cherished by society. Society has entrusted the family with these functions to ensure stability and order, as well as guarantee sustainable social development. It is, therefore, necessary to create all favorable conditions for preserving cohesion of the family, raising its standard of living, and protecting its values.

Considering it the nucleus of society, the Kingdom of Saudi Arabia has focused attention on the family, with the Kingdom's Basic Law emphasizing "the keenness of the state on strengthening it; preserving its Arab and Islamic values; and caring for all its members by providing them with the appropriate environment for promoting their faculties and capacities". Moreover, the Basic Law entrusted the state with the responsibility for guaranteeing the rights of every citizen and family in emergency, illness, disability and old age, for supporting the social security system, and for encouraging organizations and individuals to contribute to charitable causes.

In the last few decades, pressures on the family, problems besetting it and challenges facing it, all of which imperiling its basic role of preserving the social fabric, have focused attention on family issues, nationally, regionally and internationally. Problems of poverty, unemployment, violence, drug addiction, illiteracy, crime, divorce, and family breakups, which have multiplied and become more acute around the world, have led most countries to place protection of the family and preservation of its cohesiveness high on the list of development priorities.

Causes of increased pressure on the family, worldwide, are varied. These include poor response to the needs of the more vulnerable groups of population, such as children, the elderly and the disabled; and urban expansion and migration, which have had a large impact on family structure, unity, values and modes of living. Moreover, the substantial cultural, social and behavioral effects of vast developments in dissemination of information have been challenging the cultural and social

fabric of Arab and Islamic societies. Youth unemployment has also intensified family tensions. Such pressures have exposed the family to fundamental changes in size; ability to extend material and moral support to members; relations among members, as well as with others; role in production and development, positions of members on political, social and cultural issues; and attitudes towards the customs and traditions that characterize our Arab and Islamic civilization identity.

Evidently, the traditional approach of addressing the family issues; prospect and challenges through only one sector (Social Welfare), or one government agency (Social Affairs), will fail to cover the full range of roles played by the family, nor provide the material and human support needed to enable it to rise to the current developmental challenges. Hence, the Eighth Development Plan focuses on integrative aspects.

The pressures facing the Saudi family should not be exaggerated. Nevertheless, there are pockets of poverty, unemployment and illiteracy that need to be treated, in addition to social problems, such as divorce that call for attention.

This chapter addresses the current conditions of the family and reviews the major issues and challenges facing it. It also highlights the objectives, policies and targets of the Eighth Development Plan relating to family and society.

16.2 CURRENT CONDITIONS

16.2.1 Family Conditions

In 2004, total population of the Kingdom was about 22.6 million, of whom 16.5 million, or 72.9%, were Saudi citizens. Available demographic data for the 1992–2004 period indicate rapid natural growth of the Saudi population; at an average rate of 2.5% annually. This, in turn, is reflected in the age structure by the dominance of young age groups, with the ratio of people in the below-15- years age groups to total population reaching about 40.4% and a 79% rate of dependency (percentage of population below 15 and above 64 years old to population in the age group 15–64 years old). Despite the fall in the rate of dependency from 100.4% in 1996, it is still high in comparison with many other countries, including Arab countries where the overall average is a little over 72%. It is worth noting

here that high dependency rates lead to higher expenditures on services in order to meet the increasing needs of dependents. Moreover, with higher enrollment in education by the 15–24 age group and poor participation of females in economic activity, economic dependency rates are in actual fact much higher than age dependency rates.

As a result of high population growth rates, average Saudi family size reached 7 persons in 1996; varying between 7.5 in rural areas and 6.8 in urban areas. Thus, the Saudi family is in need of economic support through provision of job opportunities, increasing income, and improving social care and services, particularly that the age structure of the family is characterized by the dominance of young age groups, such as children and youth in the critical age of growth and dependency.

The following sections will review the most prominent indicators and characteristics of the Saudi family, as well as the variables affecting it, which have all set the framework for the objectives, policies and programs of the Eighth Development Plan.

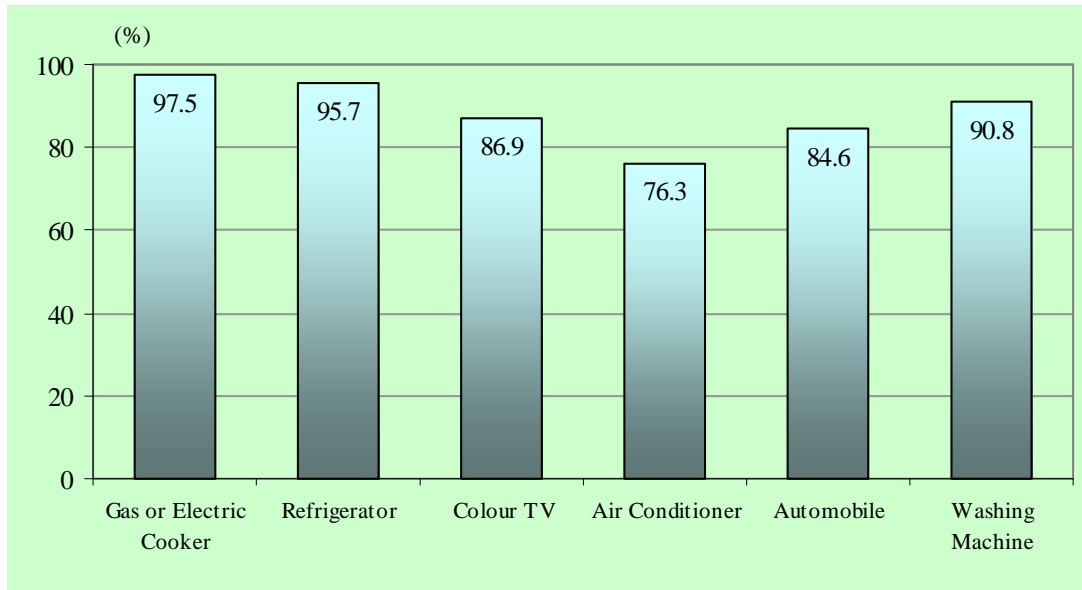
Housing

The Saudi family is provided with almost all the necessary requirements of modern accommodation. 97.5% of families use gas and electricity for cooking, 95.7% have their own refrigerators, 86.9% own color television sets, 76.3% have air conditioners, 84.6% have their own cars, and 90.8% use washing machines (Figure 16.1).

Findings of the 2000 Demographic Survey show that 32.7% of families live in apartments, 29.8% in conventional homes, 20.2% in villas, and the remaining in different types of housing units.

The ratio of average leasing cost of housing units to average family income increased from 26% under the Sixth Development Plan to 30% under the Seventh. Correspondingly, rate of ownership of housing units dropped during the same period from 65% to 44.5%, due to limited real-estate financing opportunities and inability of the Real Estate Development Fund loans to keep pace with increasing demand.

Figure 16.1
Selected Goods Owned by Saudi Families



Thus, the housing situation of the Saudi family is clearly positive in terms of both health and environmental requirements and material needs for decent living. However, housing has started to become a major concern for Saudi families, particularly in the low and middle income groups; requiring quick and radical solutions.

Education

With the decrease in the number of illiterate members of the family and the increase in enrollment rates in education in the last three decades, the educational profile of the Saudi family has undergone major changes, particularly with respect to females.

According to the 2000 Demographic Survey, 11.1% of males aged 10 years old and above were illiterate, 16.7% could read and write, 26.2% completed primary education, 20.3% completed intermediate education, 15.6% completed secondary education and 6.9% completed university education. Data on the age structure of educational achievement show evident generational differences. 65.7% of males aged 60 and over were uneducated, compared with 14.9% for the 40–44 age group and nearly approaches zero for the 10–14 age group, which goes to show ongoing dramatic change in the educational profile of household heads and younger generations.

Differences in rates apart, the trends are also positive for females. 28.9% of those aged 10 years old and above were illiterate, 23% could read and write, 21% completed primary education, 13% completed intermediate education, 11% completed secondary education and only 3% completed university education. 94.4% of females aged 60 and over were uneducated, compared with 55.6% for the 40–44 age group and only 3% for the 10–14 age group.

Hence, the educational gap between males and females is narrowing, which is also confirmed by the rates of enrollment in primary education for the 6–9 age group, where the gap has all but disappeared, particularly in urban areas. Thus, in the coming years the educational profile of both heads of the Saudi family will change from illiterate or semi educated to educated, with all the consequent positive effects on education. It is worth noting that the Council of Ministers Resolution stipulating mandatory education from 6–15 years of age, for both males and females, has had a positive impact on narrowing the educational gap.

The positive change in the educational profile of the Saudi family is consistent with the findings of the 1996 Family Health Survey, which showed that 93% of mothers prefer their daughters to receive university education, compared to 97% for sons. Interestingly, even though there are some differences between urban and rural areas, the rates are still relatively high in rural areas, which indicates that the Saudi family is firmly convinced of the importance of providing university education for sons and daughters alike, rather than being content with a minimum level of education.

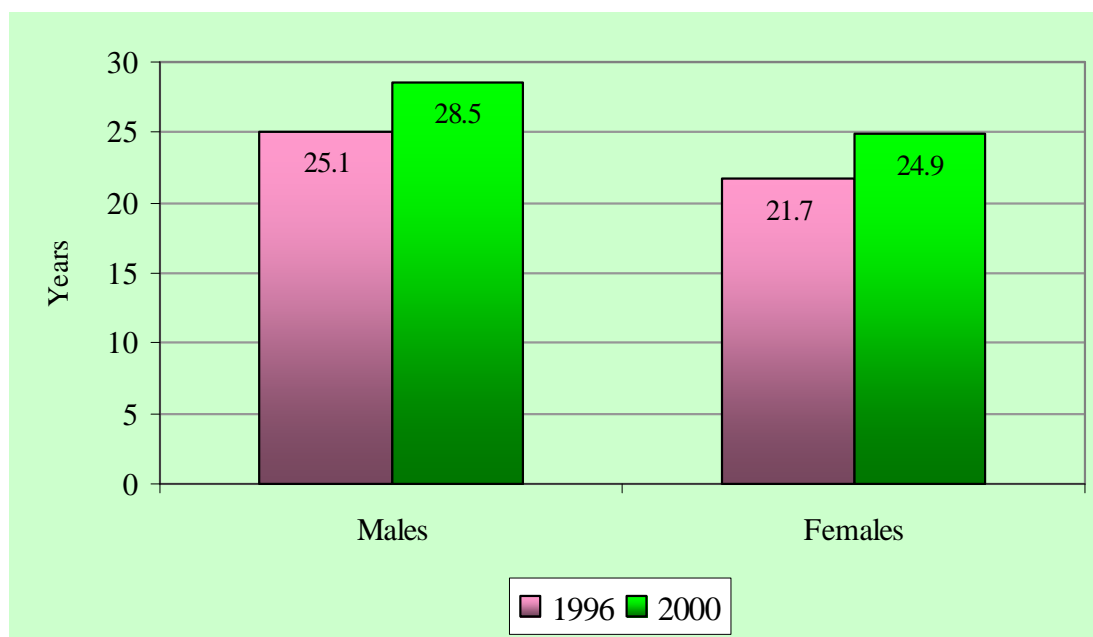
Findings of the same Survey show that, as a result of the improved educational profile of the family, 91% of married women prefer that their daughters take up jobs, and further 4% prefer the same but under certain conditions. In urban areas, 3.9% of mothers rejected the notion of work for their daughters, while in rural areas the corresponding rate was 7.3%. Thus the majority of families would like their sons and daughters to have education and work opportunities, equally to a large extent. Taking into consideration the large size of the Saudi family and the high ratio of members who are of school and work age, these findings confirm the pressing need for providing educational services and job opportunities to both genders.

Marriage

The Saudi Family Health Survey reveals a change in the average age at first marriage. Data show a decline in the rate of marriage at 18 years of age or less from 75% among females in the 35–49 age group to 55% among females in the 25–29 age group, to about 31% among females in the 20–24 age group.

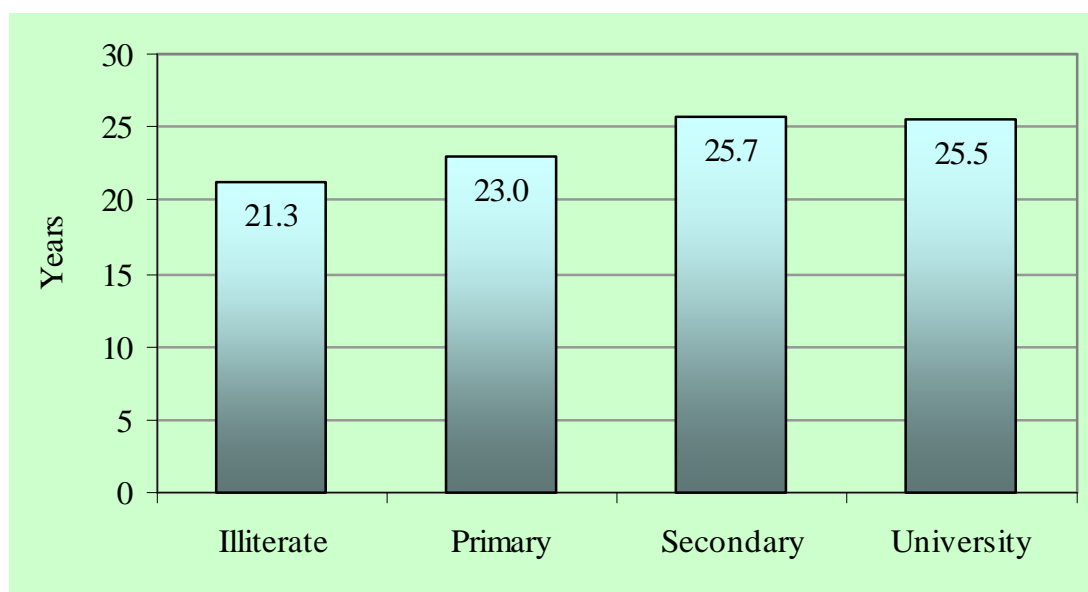
The above trends become clearer when the average age at marriage is calculated from the data of the 2000 Demographic Survey; 24.9 for females, compared to 28.5 for males, with no significant differences between rural and urban areas. Comparison with the findings of the 1997 Family Health Survey shows a substantial increase from 21.7 years for females and 25.1 years for males (Figure 16.2). These latter findings also show a correlation between educational attainment and average age at first marriage for females; 21.3 years for illiterates, 23 for primary school certificate holders, 25.7 for secondary school certificate holders, and 25.5 for university graduates (Figure 16.3).

Figure 16.2
Development of Average Age at Marriage



Source: Demographic Survey 2000.

Figure 16.3
Average Age at Marriage for Females
by Educational Level



Source: Saudi Health Survey 1996.

The change in attitude of successive generations towards marriage and family patterns may be measured by indicators such as the preferred, compared with the actual, family size. While 48% of mothers prefer that their daughters give birth to 6 or more children, 38% prefer 4 or 5. Among mothers in the 30–34 age group, 60.8% have had 5 or more live child births, compared to 84.9% for the 45–49 age group. Thus, the younger generation has a clear preference for smaller families.

Change has also occurred in patterns of marriage among relatives, particularly with the increase in the education of females. Findings of the Survey show that incidence of marriage among relatives, particularly first-degree kin, continues to be high. However, preference for this pattern of marriage decreases, the higher the level of education of the female. Thus, the rate of marriage to a relative among females who did not attend school at all is 58%, compared to 50% among females who completed primary school and 36% among university graduates.

Survey findings also show that incidence of polygamy is greater in rural than in urban areas. The rate of women under fifty whose husbands have other wives was 16% in urban areas, compared to 26% in rural areas. The

findings also suggest an inverse relation between incidence of polygamy and level of female education, with a rate of 28.3% among illiterate females, compared to 7.9% among university graduates.

However, the most significant change is probably the increasing rate of divorce. During the 1993–2001 period, the compound annual growth rate of divorce deeds was 4%, compared to 3.3% for marriage contracts. While there are neither data on the causes of divorce nor on the educational and economic background of divorce cases, it is possible to conclude that there is an increase in the rate of divorce, which calls for a systematic study of the phenomenon aimed at addressing it, along with its economic and social consequences.

Health

The changes that have affected family health situation may be evaluated by assessing development of general health and its impact on the family, as well as by appraising changes in attitudes of new generations towards health issues and the extent of their acceptance of modern health practices.

Average life expectancy is one of the best indicators of health development, since it can be regarded as an indicator of the overall success of national efforts to improve health in a country. In Saudi Arabia, average life expectancy increased from 53 years in the seventies of last decade to 71.9 year in 2003; 71 for males and 73.6 years for females, placing the Kingdom in a similar rank to that of many developed countries.

While general health indicators reflect evident achievements, family health indicators confirm that progress was made at both the national and family levels, for without the family utilizing available health services regularly, it would not have been possible to attain high national health standards. Of the total number of family members over 15 years old who were covered by the Survey and who had used different types of health services, 83.3% had consulted physicians, 2.8% had seen trained nurses, 7.8% had sought help from pharmacists and only 1.6% had consulted traditional curers. Moreover, 95% of children have taken all the required vaccinations, pregnant mothers in 90% of childbirths during the previous three years received health care, and 91% of childbirths took place in health institutions.

These indicators clearly show that a high degree of acceptance of modern health practices and positive interaction between the family and health institutions have been manifested in the health progress achieved in the past three decades.

16.2.2 Social Services

Extensive direct services are offered to the family by government and by NGOs. It may be worthwhile to refer here to two types of services. The first is general public social services offered to all people, such as education, health and housing (which are dealt with in detail in this Plan document), and the second is social welfare services offered exclusively to groups with special needs. Services of the latter type, which are offered by both the Ministry of Social Affairs and NGOs, may be divided into two categories: (a) direct services offered through institutions and centers, and (b) assistance in kind, financial assistance and stipends.

Services Offered by Ministry of Social Affairs

The Ministry provides the following services, through a number of social welfare and development institutions:

- Special services provided to the disabled and the paralytic through 29 rehabilitation centers, the beneficiaries of which totaled 8,062 persons in 2002.
- Four social nursery homes providing care for orphan children, twelve social education homes providing services to both males and females, and two model social education institutions. Beneficiaries from the orphanages totaled 1912 children in 2002.
- Ten homes for the care of elderly, which served 664 persons in 2002.
- Five social guidance homes providing care to juveniles, twelve juveniles social observation homes, and three juveniles institutions for girls. Beneficiaries of services offered by these institutions totaled 13,684 persons in 2002.
- Local community development services provided by 7 social service centers in major cities, 18 development centers, and 95 development committees in villages. Beneficiaries of these centers and committees totaled 121,690 persons in 2002.

In addition to the services provided to groups with special needs through institutions, the Ministry also provides non-institutional care services such as the foster family program, the in-family assistance program for paralytic children, and the disabled assistance program. Beneficiaries of these programs numbered 90,314 individuals in 2002.

The total number of beneficiaries of the institutional and the non-institutional social welfare services provided by the Ministry in 2002 was 236,326 persons distributed as follows: 51% benefited from social development centers and committees; 36% from the financial assistance program, which offers in-family help to the disabled; 6% from juveniles care and observation institutions; and the remaining 7% from services provided by special care homes offering care for orphans, the elderly and the disabled.

Services Provided by NGOs

NGOs, which in 2001, numbered 226, of which 204 were male NGOs and the remaining female NGOs, undertake a wide range of activities, including:

- Education, training and rehabilitation programs, which benefited 55,411 children.
- Child care programs, which benefited 97,264 children.
- Health care programs, which benefited 984,117 individuals.
- Care programs for the disabled and the elderly, which benefited 17,211 individuals.
- Charity housing and housing improvement programs, which benefited 11,151 individuals.

Thus, the total number of individuals who benefited from NGOs programs was 1,165,154 in 2001, which is approximately five times the number of beneficiaries from the social welfare services provided by the Ministry of Social Affairs. It is also worth noting that during the period 1982–2001, the total expenditure of NGOs on activities, programs and assistances was SR8.6 billion; while government subsidies to NGOs did not, on average, exceed 11.7% of their total expenditure.

16.3 ISSUES AND CHALLENGES

This section reviews the key issues and challenges related to the family that call for attention in the Eighth Development Plan. Several of the issues raised intersect with sectoral treatments given in other chapters, covering, for example education, health, and job creation. However, the focus here is on aspects to do with the family. For example, in relation to education, the focus will be on issues like impact of educational curricula on the family, vitalizing parent boards, improving quality of education, and illiteracy. Similarly, in relation to health services, issues such as maternal and child health care are raised.

16.3.1 Multiplicity of Partners and Coordination

The foremost issue with regard to the family is the multiplicity of the agencies responsible for providing the family with support and services. In view of the existence of several family and age groups with varying needs, it is not feasible to entrust one government body with the responsibility for providing all the services needed. On the contrary, the roles played by specialized agencies working in education, health, labor, and social affairs are vital. Indeed, these agencies are partners in providing family support. Hence, coordination of their efforts is of paramount importance, not only for averting duplication and guarding against wasting human and financial resources, but also for identifying gaps in the support being provided and proposing policies and programs to close such gaps.

In addition to coordination among government institutions, coordination is also necessary with and among NGOs and the private sector. Financial contributions of the NGOs that provide programs and activities aimed at promoting family development are close to one billion Saudi Riyal a year. In addition, through its annual payments to the Zakat and Income Department, the private sector provides for the greater part of the assistance offered by the Social Security Agency to needy groups. Moreover, private sector contributions enable NGOs to perform their developmental tasks.

Given the significant wide participation of the private sector and NGOs, it is necessary to devise an effective mechanism to coordinate the efforts of the three partners: the state, the private sector and civil society. The Plan,

therefore, proposes formation of a national commission for family affairs (Box 16.1).

Box 16.1: Objectives and Tasks of the Proposed National Commission for Family Affairs

Objectives:

- Invigorate the role of the family in society.
- Enable the family to enhance social ties.
- Provide support to all agencies concerned with family affairs.
- Coordinate among the agencies concerned with family affairs, within the framework of adopted policies.
- Promote family awareness and address adverse phenomena facing the family.
- Establish a database on family affairs and provide access to it to all relevant agencies to serve as a scientific base for policy and program formulation.

Tasks:

In order to achieve its objectives, the proposed Commission would undertake tasks such as:

- Formulate public policies for family care.
- Develop relevant indicators.
- Create coordination mechanisms among the three partners (the state, the civil society and the private sector) nationally and regionally.
- Conduct studies and research and organize symposia and conferences on various family issues.
- Prepare information and cultural programs designed to raise awareness, addressed to the family.
- Issue pamphlets, magazines and printed and audiovisual material on family affairs.
- Propose draft laws and regulations designed to enhance the role of the family in society.

16.3.2 Regulations

The family, by virtue of its various family members (children, women, youth, elderly members, etc.) have diverse and varied needs. In addition, the family is undergoing dramatic changes in form, structure, and relationships among members. Moreover, rapid demographic and economic and social changes, multiplicity of the roles played by women within the home and outside, urban expansion and other developments, have increased pressures on the family. All these factors necessitate reviewing the relevant regulations to examine whether they adequately identify family rights and obligations and delineate the respective roles of the various agencies.

Current regulations that govern how government agencies organize their family related work and programs have served their purpose. However, as everywhere, regulations seldom anticipate social change, which, again, necessitates frequent review to ensure that they keep pace.

Notwithstanding the important role played by the current regulations related to the elderly, e.g., those that govern social care homes or provide for economic protection such as pensions, social insurance and social security regulations, there is still a need for a comprehensive system for the care for the elderly. Such a system would guarantee their rights at all levels, as well as specify the obligations of various institutions towards them.

Similarly, there is a need for a comprehensive childcare system that guarantees children's rights, stipulates obligations of state and society towards them, and specifies the penalties that attach to violation of these rights and failure to meet these obligations.

Likewise, there is a need for a comprehensive system for juvenile care that provides them with care, rehabilitation and employment, and gives attention to protection from delinquency, as well as to remedial and punitive measures where needed.

Accelerating rates of participation of women in the labor market call for developing regulations to encourage participation of women in economic activity, while safeguarding their family roles as wives and mothers, benefiting from examples of international experience that have succeeded in doing so through appropriate incentives, measures and directives. As an initial step, regulations could be reviewed to provide better for maternity leave, temporary unpaid leave for taking care of children under five, early retirement, part time work, and cooperative nurseries at the workplace. In addition, low participation of women in investment needs to be addressed, through revising the regulations that prevent women from investing in many business sectors.

Regulations governing care for the disabled also need revision, to encourage their care in the family and local community and benefit from modern trends.

16.3.3 Development of Social Services

The Ministry of Social Affairs and the NGOs perform their functions very efficiently, particularly in meeting current demand for their services. However, existing indicators do not address adequacy and quality of services, nor degree of user satisfaction. Hence, under the Eighth Development Plan, evaluation studies of the social welfare services, including surveys of user perceptions, will be conducted to form a basis for reviewing existing policies, procedures and standards, with the aim of enhancing service efficiency and effectiveness.

In addition, the Eighth Development Plan will encourage NGOs to provide direct institutional social care services, except for services specific to juvenile delinquency, with government bodies undertaking supervision, monitoring and support; for which the Ministry of Social Affairs will develop effective mechanisms.

The essential role envisaged for NGOs requires not only financial support, but also management and technical support, to enable this remarkable experience of the Kingdom to become the “best-practice” benchmark in the region.

16.3.4 Poverty and Social Security

Poverty is not just low income, for it is multidimensional. It is hunger, lack of shelter, being ill but unable to see a physician, inability to go to school and learn to read and write, unemployment, fear of the future, living day to day, and a child dying due to an illness caused by polluted water.

In this wider context, the fight against poverty and its repercussions takes many forms and cannot be carried out by a single sector using a single approach. Yet, unemployment remains the primary underlying cause of poverty.

Studies being undertaken, within the framework of developing the poverty eradication strategy, should give a better idea of the extent of the problem. However, available evidence, particularly in view of the substantial development in education and public health, indicates that poverty is limited to certain specific pockets, which, of course, does not detract from

the importance of eradicating it, nor from giving it the high priority it deserves..

Unemployment stood at 9.7% in 2002 and was higher among females. The rate, at 10.8%, is highest for male secondary school graduates, compared to 27.9% for females with the same qualification. Female graduates of the educational system suffer unemployment most, followed by young males, and finally, but to a lesser degree, by the heads of families. Thus, in addition to the social pressures it creates, youth unemployment burdens family heads with additional responsibilities.

It is worth noting that extended family, which used to provide various forms of social support and solidarity, is no longer the predominant family mode. Therefore, it is necessary to establish effective social security arrangements, which, in turn, requires partnership between the state and the NGOs.

As discussed above, social care services are provided by the state and NGOs to those segments of society with special needs, who are generally of low income. Moreover, state agencies also provide income support to poor families, through pensions and financial assistance. The Ministry of Social Affairs provides social security pensions to the disabled, the orphans, women without supporters, families of prisoners, victims of personal disasters and other needy people. Over the years, the amounts paid have increased, with expenditure on pensions increasing during the 1993–2003 period from SR2514 million to SR2985 million, which is equivalent to a growth rate of around 1.7% per annum, while expenditure on financial assistance grew by about 4.5% per annum. However, the level of pensions requires continuous review in light of the needs of poor families, as should the present arrangement of paying pensions annually, rather than monthly.

16.4 DEVELOPMENT STRATEGY

The strategy of development of the role of the family in society and family care will be implemented through the following objectives and policies.

16.4.1 Objectives

Under the Eighth Development Plan, the principal objectives are:

- To strengthen family ties, preserve the Arab and Islamic values of the family, provide care to its members and provide an environment favorable to the promotion of their faculties and capabilities.
- To guarantee the right of all citizens in emergency, illness, disability and old age.
- To support the social security system and encourage individuals and institutions to participate in charitable activities.

16.4.2 Policies

Under the Eighth Development Plan, achieving the principal objectives relies on the following policies:

- Promoting coordination among all state, private-sector and civil-society actors in family care.
- Encouraging voluntary work and expanding participation of citizens.
- Providing for participation of the private sector in social care and rehabilitation.
- Changing social care to include all needy groups.
- Providing social care services in all regions.
- Establishing social observation and guidance homes in all regions.
- Establishing more comprehensive rehabilitation centers in regions that need them.
- Continuing to improve quality and efficiency of social services.
- Reconsidering the social security system to keep abreast of developments in society.
- Reviewing and developing the regulations governing social development, particularly those related to children, juveniles, orphans, the disabled, and the elderly.
- Developing coordination among various government and civil agencies to attain integration of services provided to beneficiaries.
- Preparing studies and surveys to evaluate effectiveness of the services offered by the social safety network.

16.4.3 Targets

The following targets are expected to be reached under the Eighth Development Plan:

- Establishing a national commission for family affairs, representing all agencies concerned, and determining its tasks and responsibilities.
- Preparing a social guidance information and media plan and commencing its implementation.
- Promoting participation of the private sector in social welfare and rehabilitation and determining participation rules and regulations.
- Establishing two care homes for the elderly.
- Establishing 9 juvenile care homes and institutions.
- Opening 4 comprehensive rehabilitation centers for the disabled.
- Organizing annual training courses for volunteers in social work, in collaboration with the agencies concerned.
- Establishing a comprehensive database for social welfare services and an information system linking social welfare agencies in all regions.
- Opening 10 social security offices in regions that need them.
- Reviewing and evaluating the social security system.
- Reviewing and developing social development regulations.
- Reviewing coordination mechanisms among all family care agencies, with a view to developing and upgrading their efficiency.
- Preparing annual surveys and comprehensive studies to evaluate the efficiency of the services offered by the social safety network.