CONCLUSION

Saudi Arabia is basically an oil based economy. It was a relatively poor country prior to the discovery of oil in 1938. After the first extraction of oil in 1938 and subsequent growth in export of oil, Saudi Arabia became a rich country due to high oil revenues. It has more than 25 percent of the world proven oil reserves. It has been important member of OPEC, OAPEC and Gulf Cooperation Council (GCC). But Saudi Arabia can not afford to rely only on oil for its long term social and economic development. Because the employment opportunity is very limited in an economy which is based only on one sector namely the oil sector, as the extraction of crude oil and its further processing need large capital and high quality technique. So more unemployed persons can not be absorbed into this sector, most of whom are also unskilled. Therefore the need for diversification becomes urgent in case of Saudi Arabia. And Saudi Arabia did begin to make an attempt in this direction in the form of setting up of some manufacturing industries other than oil. The diversification is also necessary for a country dependent on a single natural resource like oil or gas, because that country can encounter the Dutch disease. This concept had arised in case of Netherlands where its value of exchange increased due to high revenue earned by the export of its newly found gas. High revenue and
increased value of exchange affected its manufacturing sector adversely. The country became dependent only on its export of natural resource. Though, this condition has never occurred in Saudi Arabia, because no manufacturing industries has ever existed prior to the export of its oil. Saudi Arabia had made its first attempt in the direction of diversification by establishing the Saudi Basic Industries Corporation in 1976. Which is Saudi Arabia’s main non-oil industrial enterprise. Apart from this Saudi Arabia is now establishing its own refineries through the joint ventures and increasing its stake in their establishment. It is also importing the technical know-how from foreign countries and institutions. It is bringing the highly vocational subjects for the study in their college and universities in order to equip their own population to deliver in the modern enterprises. It is also sending its students and researchers to high-tech institutions in developed countries for the same purpose. It has also now started the processing of the by-products of oil industry like polythene etc.

Before the oil was discovered, the Saudi economy was a primitive economy. The main economic activity prevalent at that time was the raising of livestock by Bedouins, primitive agriculture and production of simple tools by craftsmen. The production of food and other materials was on the subsistence level only. The major revenue for kingdom of Saudi Arabia came from the annual pilgrimage of Hajj. But this was also
not an assured source of revenue and income due to security reason and inhospitable weather. The concern regarding the revenue has increased especially in 1930s, where the arrival of pilgrims fell drastically due to worldwide recession. Hence, there was an urgent need for some other source of revenue which came in the form of discovery of oil in 1938, in Dhahran. In the Arab World the first indication of presence of oil in Iraq came with a report from a mission of Geneva export in 1871. A businessman, Charles R Crane was invited by king Abdul Aziz to Saudi Arabia to look for oil reserves. He brought an engineer named Karl Tunichell who in his report, indicated the presence of oil in the eastern province around Dhahran. To extract the oil from that region, an American company, the Standard Oil Company of California (SOCAL) was signed in for concession. This company further passed on its job to its subsidiary named California Arabian Standard Oil Company. The oil was first found in Dammam located north of Dhahran in 1938 at the seventh drill. In Saudi Arabia first oil well was drilled in Dhahran and oil in commercial quantities were discovered. And after that the commercial production of oil in Saudi Arabia was started by this company. The company’s name was changed to Arabian American Oil Company in 1944. And the name was further changed to Saudi Aramco. A major step was taken by Saudi government in this regard was the nationalization of this largest oil company which was a joint venture of
American Companies. It occurred in a phased manner. First in 1973, the government took 25 percent stake in it, then in 1974 this share was increased to 60 percent and lastly in 1980 it became the totally owned enterprise of Saudi government. Saudi Aramco is the largest oil company in OPEC with its headquarter in Dhahran on the shores of Arabian Peninsula.

Saudi Arabia maintained the policy of keeping its output of oil at high level and its price at low in the global market. Because Saudi Arabia always considered its long term interest, not harming harshly the consumers of its oil so that flow of its oil revenue remained uninterrupted. And that the consumer countries did no have any incentive to find alternate source of energy because of high oil prices in the global market.

Therefore, the main concern of Saudi government, has been the diversification of its single commodity based economy. For this purpose the government has been promoting the “downstream” industry in the country. Establishing “Petromin” a petroleum company in 1962 and SAMARIC (Saudi Arabia Marketing and Refining Company) had been a remarkable achievement in this direction. Production of oil had been constantly increased over the years since 1970s, the production is increased from 1386.67 million barrel in 1970 to 3217.70 million barrel in 2007. Like the output the amount of oil exported has also shown the
overall increasing trend. Its export of oil stood at 1174.17 million barrel in 2007. The percentage of exported oil in its total production has not shown much variation, it remained hovering around 75 percent to 80 percent. The revenue earned from the export of oil has, however, jumped up many fold. It was 135,957 million Riyals in 1976, which increased to 642,800 million Riyals in 2007. It was an around five fold increase in oil revenues. The government of Saudi Arabia is in pursuit of diversification of its oil based economy and has taken several steps and initiated several projects in this direction. Nevertheless, oil still accounted for 87 percent of government’s income, 85 percent of export and 54 percent of GDP in 2007.

Saudi government is trying to develop its downstream activities such as refining, petrochemical and non-oil industries, such as automobile. The Saudi government has been able to substantially boost the spending on job training and education, infrastructure development. Apart from this the government has also been promoting the privatization and first of all the telecommunication department was privatized. The scope of privatization in other sector is being explored continuously.

Since Saudi Arabia’s oil reserves are the largest component of her wealth, the Saudi government has to evolve strategy for the optimal utilization of oil revenues. For this Saudi Arabia should invest a large
portion of its current oil revenues in areas yielding a high real return to compensate for depletion of oil. Saudi Arabia’s revenues from oil had been rising constantly due to ever increasing export and high price of oil in the international market. In 1982 the average export prices per barrel of oil reached above US $ 30. The Saudi government made the use of high income in building its infrastructure like good highways, ports, airports, telecommunication, electricity industries and various other urban services, like establishment of schools, colleges and hospitals. Saudi government also spent a large amount in building the gas gathering system and the pipe line for gas and crude oil to bring the raw material to the two main industrial sites i.e. Jubail and Yanbu. It invited multinational foreign companies for developing the downstream sectors like refineries and petrochemicals. It also earned revenues from foreign companies by increasing royalty and slapping taxes on them. Saudi government has also distributed its oil revenues among people through a wide spread subsidiary programme for utilities, fuels, agriculture and social services in the industrial sector and several other areas. The pressing need for diversification came after a series of external shocks during the mid 1980’s. For example, the price of oil fell below ten Dollar per barrel in 1985. Apart from this, the Dollar also faced the depreciation in international market. These events led to the drastic fall in the revenue and exchange reserves of Saudi Arabia. Consequently, the
Saudi planners gave a thought towards the possible avenues for diversification. This diversification was basically aimed at the petrochemical industries and various non-oil sectors such as agriculture, manufacturing etc. The initial step which Saudi government took in the process of diversification was to restructure the Petromin for promoting investment in oil sector, purchase of 50 percent equity of star enterprises in Saudi Arabia by Saudi Aramco and joint venture with Texaco. Despite these attempts made by Saudi Government, the objective of diversification had not been satisfactory during 90s. Since 75 percent of government revenues and 90 percent of export earnings still came from oil. There had not been the powerful growth of enterprise within the country. The country faced with large budget deficits during that period. The foreign exchange resources has also depleted, which were lower than in 1970s and 1980s. The per capita income also declined in this period.

The employment opportunities had also been decreasing during 90s. To understand the diversification it is essential to study the structural composition of Gross Domestic Product of Saudi Arabia. To see the pace and direction of diversification the plan wise study was considered to be useful. Saudi government, in order to develop its economy, started a five year developmental programme. For this purpose, the Central Planning Organization (CPO) was established in
1965. First five year plan (1970-74) was started in 1970. The foremost objective of first plan was to establish an infrastructure that could support a modern economic base. Other objectives were to institute an economic and social development policy and to develop the human resources, necessary to implement the economic transformation. In pursuits of these objectives, the roads, big ports and airports were built all over the country and major cities and towns. The construction sector saw the boom in this plan. Big cities and towns were developed in this period with sizeable population.

The second plan extended from 1975 to 1980. Government was more stronger economically in this period than the first plan. The target was to absorb the increased wealth in the development of economy. In the second plan, a framework of ten years and twenty years planning was introduced to provide a long range perspective. The important milestone achieved in this plan, was the creation of two industrial cities at Jubail and Yanbu, complete with water, electricity, houses, hospitals and modern ports etc. Other achievements were establishment of SABIC in 1976 and SIDF, and expansion of subsidies given to local agriculture.

The third plan covered the period 1980-85. The main focus of this plan was to develop its human resource and involve more and more of its Saudi citizens in the nation building. Government encouraged the private sector to expand training programmes for Saudi citizens, and
gave them loans for this purpose. The fourth five year plan covered the period 1985-90. The objectives of this plan were the continuation of those set in the previous plan. In this plan also the greater emphasis was given to the human resource development and reduce the dependency on single commodity oil. The plan was also made to cut the Expatriate workers by half a million approximately. The fifth plan covers the period 1990-95. The objective of this plan was more or less same as of previous plan like promotion of private sector in non-oil and oil related activities, development of human resource and creation of job opportunities for Saudis. The sixth plan started in 1995 and ended in 2000. In this plan, the role of private sector was further enhanced. The energy and mineral sectors besides the non-oil sectors were made open to the private sector participation. Which helped to generate employment in the kingdom in a big way. The private sector accounted for about 99 percent increase of total employment in the country, and the share of oil related activities in total employment was less than 1 percent in this period. Seventh plan covers the period 2000-2005. The Supreme Economic Council was established in 2000 to over see the planning activity. This plan had been very much favourable for the kingdom as the country was enjoying with high revenue due to high price of oil in the global market. The foreign ownership of new industrial ventures were allowed in this plan to promote the private
sector by introducing the new investment laws in 2000. The eight five year plan covers the period 2005-2009 which has been prepared in the context of long-term development strategy with definite targets and objectives. The objectives of plan are the increasing participation of private sector, enhancing the skill of Saudi citizens as per with non-Saudi population and increasing the standard of living of the population of the country. The common objective of all the planning is to preserve the Islamic values and uphold the tradition and culture of Saudi Arabia.

The petrochemical industry produces chemical products that are derived mainly from petroleum or natural gas. Petrochemical contains carbon compounds in combination with hydrocarbon, oxygen, nitrogen and other elements. The raw material from which petrochemicals are derived are called feedstock/hydrocarbon. A variety of products like plastic materials, synthetic rubber, synthetic fibres etc. are made from petrochemical products. About 90 percent of world output of organic chemicals are produced from petroleum hydrocarbons. Petrochemical also include few inorganic chemicals such as ammonia, sulphur and carbon blocks. It was expected that the export – oriented hydrocarbon based petrochemical industries would diversify the economic structure and reduce the exclusive dependency of the country on oil exports. The foundation stone of Saudi petrochemicals were laid by the establishment of General Petroleum and Mineral Organization in 1962, Saudi Basic
Industries Corporation in 1976 and the Industrial cities of Jubail and Yanbu. The financial arrangements for their various projects were secured through the public investment funds of the Ministry of Finance and national economy in Saudi Arabia. Industrialization process in Saudi Arabia underlines the need to utilize the vast amount of gas present in the country and need to lessen the impact on Saudi people, when crude oil supply begins to decline. In implementing the industrialization programme, SABIC has so far formed eight joint venture companies —

(1) Saudi Petrochemical Company (SADAF)  (2) Al-Jubail Petrochemical Company (KIMYA) (3) Saudi Yanbu Petrochemical Company (YANPET) (4) Saudi Methanol Company (5) National Methanol Company (6) Al-Jubail Fertilizer Company (7) Arabian Petrochemical Company and (8) Eastern Petrochemical Company (SHARQ). Various petrochemical products like basic chemicals, fertilizers, polymers and metals are produced at those complexes. SABIC has also its modern research and development complex. These plants are owned equally by SABIC and the foreign partners. SABIC accounts for over 7 percent of world petrochemical production. SABIC has also expanded its programme outside the country. Among them has been the agreement towards the formation of a joint venture company between SABIC and China Petroleum and Chemical Corporation, and
signing a contract between SABIC and German contractor to built a polythene plant in Gelsenkirchen, Germany. Apart from this all the joint ventures of plants of SABIC are constantly on the expansion path in Saudi Arabia and diversifying its products. Further, the private sector has been increasing it share in the petrochemical industry in Saudi Arabia. Saudi Venture capital Group (SVCG) comprising Saudi key businessmen, made a venture with Chevron to build world class aromatic plant in Jubail. It was the first wholly owned private petrochemical venture in Saudi Arabia. Other private investors in this field are TASNEE, SIPCHEM, SAHARA Petrochemical Company, Lujian Industrial Co. etc. About 70 percent of the existing petrochemical projects in Saudi Arabia are joint ventures with industry majors including Exxon Mobile Corporation and Chevrron Philips. SABIC has state of art research center in Jubail, Houston, India and Netherlands.

Saudi Arabia is also looking for downstream expansion in its petrochemical industry i.e. to develop plastic conversion plants. So that it can serve the export markets directly from the country, thereby capturing more of the value chain. The target has been to increase Saudi Arabia's share in the global plastic market to 15 percent by 2020 from 1 percent currently. The diversification efforts also led to the establishment of HADEED Steel Company in 1983. In all its industrialization programme SABIC has been equally concerned about
the development of Saudi manpower. So it invested equally in manpower development so that most of the skilled and semi-skilled labour force would be Saudi nationals in future. Their percentage should be gradually increased until the plants are entirely run by Saudis. Lastly, it can be said that Saudi industrial policy has been able to reduce the degree of dependence of the economy on the oil sector.

The privatization policy has contributed significantly to the process of diversification of the Saudi economy. A host of sectors are being opened to the private sector. Telecommunication, electricity, mining, airlines, postal services, railways, port services and water utilities are some of the potential areas for investment. To further promote foreign investment and serve the business community SAGIA was setup in 2000. Saudi Arabia promulgated the new investment laws under which the foreign companies can acquire the 100 percent ownership of local ventures in Saudi Arabia. They can have access to interest free loans from Saudi Industrial Development Fund. The Supreme Commission for Tourism was established in 2000 to help the tourism sector to grow and coordinate with the private sector, for further investment. For this purpose Saudi Arabia invests huge amounts in real estate. A number of economic cities had been developed in Saudi Arabia. King Abdullah economic city is one of six economic cities being developed by "Emmar Properties", a UAE based company. Since
kingdom of Saudi Arabia has diverse natural and heritage resources, numerous tourist facilities and infrastructure has been developed by Supreme Commission of Tourism, later known as General Commission for Tourism and Antiquities. It has increased employment and investment opportunities for citizens. Privatization leads to development of financial markets by encouraging investors and investment companies to diversify their portfolios by investment in companies. Financing activities are being accomplished by public investment fund, Saudi Industrial Development Fund (SIDF), the funds for agriculture and real estate and the Saudi Credit Bank. Saudi Arabia has 11 domestic banks and their capitalization has doubled between 1991 and 1995. The local monetary system was increasingly developing which is reflected in increased reliance on banks and banking services. Now the state controlled energy sector of Saudi Arabia is opening to the foreign investment inflow in a considerable way. The government is reopening the door to foreign investment due to shortage of capital and modern sophisticated technology and skilled human resources. For a long time the efforts had been to focus on developing the massive oil revenues, with little attention to natural gas. But the creation of master gas system in the early 1980s reflects growing interest in this unused hydrocarbon. During the last two decades Saudi Aramco efforts in this direction has been successful. Natural gas is largely used in power generation, water
desalination and to satisfying an impressive growth in petrochemical industry. It also helps in creating the jobs. There has been reforms in the financial regime in order to increase FDI in Saudi Arabia. The country attained full membership of WTO as 149th member in December 2005. Opening of the Saudi economy to the world economy under WTO has meant reduction in tariff, access to service sector, greater foreign participation, transparency in trade issues and elimination of technical barriers to trade etc. Development of mining sector occupies a prominent position in Saudi Arabia’s diversification programme. The government views the private investment in the mining sector as the engine of growth. An important catalyst for private investment in the mining sector was creation of Saudi Arabia’s mining company “Maadan” in 1997. Saudi Arabia’s objective for the mining sector include establishing industries for extracting and processing the minerals and making the country a leading exporter in that regard. Although, Saudi Arabia has put in substantial efforts in the diversification process and acquired a significant progress in achieving its goals of diversification. But the importance of oil revenue in the nation building remains paramount.