The Economic Structure of Saudi Arabia

Before the discovery of oil, the economic structure in Saudi Arabia was based on traditional economic activities. But since 1970's the economy in Saudi Arabia has been dominated primarily by the production and export of oil. This study would explore all the aspects of Saudi Arabia's oil industry from the discovery of oil in commercial quantities to the present day oil market. Oil has been playing a central role in the development of Saudi Arabia through its place in government finance, exports and gross domestic products. At present the Kingdom which holds the world's largest resources of oil, is the main force for stability in the oil market, and always trying to balance the needs of the oil producers with the demand of the oil consumers. The size of recoverable oil resources in Saudi Arabia, its production capacity and the degree of development of industry, coupled with an outlook for growing oil demand will ensure a role for oil sector in the Saudi economy for years to come. So the role of oil sector is essential in the development drive and in addressing the challenges facing the economy of Saudi Arabia. We discuss economic structure in this chapter through various sub-chapters that are follows —
Pre Oil Era

The Saudi Arab Economic Structure in pre oil era had been based on traditional economic activities. This included raising of live stock by bedouins, primitive agriculture & production of simple tools by craftsmen. These craftsmen lived in small towns which concentrate around sources of water. Opportunity for economic development existed only in Hejaz because of the yearly arrival of pilgrims, visiting the holy places in Mecca and Madina.¹ But this was not enough for the satisfactory growth of economy due to various factors including security risk and inhospitable weather. Most of the population was engaged in agriculture as people used to live near wells and oases. There were large number of nomads who raised live stock, by moving their animals to the limited forage produced by infrequent rains. In the settled areas local craftsmen produced a few items needed by those living near by sources of water. Production was undertaken to serve the very small market and it existed on a subsistence level. The trade was limited to camel, caravans and the annual influx of pilgrims. In some cities like Jeddah and Mecca there were several large merchant families settled there. These merchants also benefited from the growth in international trade associated with European colonial expansion. The change in the

The economy of Saudi Arabia came with the discovery of huge resources of oil. The oil was discovered in commercial quantities in March 1938. But the petroleum industries could not be developed due to world war II. After the end of war petroleum industries started to develop. In this way Saudi Arabia entered into the new era of development. Today Saudi Arabia is one of the fastest growing nation of the world. It has become a global power through its petroleum exports. Actually in pre oil era local craftsmen produced a few items needed by those living near or visiting the scattered sources of water. In the principal cities such as Jeddah & Mecca, several large merchant families settled permanently. Colonial expansion also benefited these merchants, and attracted numerous families from as far away as the eastern province of Arabia, Iran, the Levant & Turkey.

1. Oil Era

Before an indepth analysis of Saudi oil policies, it is worthwhile to examine the structure of Saudi economy so as to understand its petroleum policies in a proper perspective. Saudi Arabian economy is dominated by oil.

“The oil sector plays the pivotal role and has been engine of growth for the over all development of the economy.”

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prices, its GDP demonstrated an upward trend from 1972 to 1982 when it increased from a mere Saudi Riyals 17,153 million to Saudi Riyals 52,217 million registering an annual compound growth rate of 30.1 percent. However, from 1983 onwards it witnessed a declining tendency recording Saudi Riyals 264,074 million in 1987. During 1983-87 it recorded a negative growth rate of 8.5 percent annually. Both the positive and negative growths in GDP has been influenced by the varying oil prices.

The history of oil in Saudi Arabia and the neighbouring countries goes back to many centuries during which seepages of oil and tar were used for a multitude of purposes. A mission of Geneva export in 1871 visited Iraq and reported plentiful resource of oil. In 1907 another mission said Iraq was a vertible lake of petroleum. In Iraq oil was found in substantial quantity in 1908. The major Iraqi field at Kirkuk was discovered in 1927. And began producing oil in commercial quantities and soon after oil was exported abroad in 1934. In 1932 petroleum was discovered in Bahrain.

“In 1923 a New Zealander, Major Frank Holmes, acting on behalf of a British syndicate, the “Eastern and General” obtained the fist Saudi oil concession from king Abdul Aziz, an exclusive concession to explore

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3. Ibid.
5. Ibid.
oil and other minerals in an area more then 30,000 square miles in the eastern region.”

The Eastern and General Syndicate were unable to persuade any oil company to invest sufficient funds for exploration. After paying the £-2,000 for two years, they ceased to fulfill their part of the agreement. The king waited for three years and then revoked the concession in 1928. According to major Frank Holmes and his London based syndicate, this episode represented one of the world’s greatest lost opportunity. King Abdul Aziz was faced with a substantial fall in revenues in 1930 resulting from a drop in number of pilgrims caused by world wide recession. After that king Abdul Aziz invited wealthy American businessmen & philanthropists to visit the kingdom. Initial exploration produced disappointing results but in 1935 a well drilled in Dhahran found oil in commercial quantities. The production of oil began in 1938 and at that time the vast size of the oil reserve was becoming apparent. Because of the commercial viability of the oil resources, another supplementary agreement was signed on 31st May 1939. This agreement was known as the supplemental agreement. It also included the Saudi Government’s rights in the two natural zones shared with Iraq & Kuwait.

7. Ibid.
"It is noteworthy that in 1937, Ibn Saud had received a very advantageous offer from Japan but, believing it to be motivated by political consideration, he rejected it. Germany also had designs on Saudi oil, and in the same year, Dr. Fritz Grobba, German representative to Iraq & Saudi Arabia, who was stationed in Baghdad also visited Jeddah. Nevertheless Ibn Saud preferred to continue his association with the Americans. It had the advantage of assuring the economic development of the country without incurring political liabilities."

In 1944 the California Arabian Standard Oil Company was renamed the Arabian American Oil Company (Aramco). In 1948 (1367/68AH) Aramco invoked an article of the supplemented agreement of 1939 (1357)/58AH) by selling a 30% interest to Standard Oil of New Jersey and a 10% interest to Socony vacuum. The redistributed ownership of Aramco was then Standard Oil of California 30%, Texas Oil Company (known as Texaco) – 30%, Standard oil of New Jersey (later known as Exxon) – 30%, and Socony Vaccum (later known as Mobile Oil) the remaining 10%.9

It was inconceivable in the political and economic context of the second half of the twentieth century that so important a national resources as oil contributing most of the country’s national income

should have remained under the ownership of foreign companies. However, the nationalization of Aramco took place in a phased manner.

In 1973, Saudi Arabia government took 25% stake in Aramco, in 1974 this share was increased to 60% and in 1980 it was amicably agreed that Aramco should become 100% Saudi owned, with the date of ownership back dated to 1976.

On 6th April 1989, the New York Times reported “At a quiet dinner a few days ago, the last American to preside over the world’s largest oil company handed over power to its first Saudi boss. The Saudi, a man who started working there more than 40 years ago as an office boy, earned engineering and management degrees as he climbed up the ladder”.

“The transfer of the Arabian American Oil Company from the American John J. Kelberer, to Saudi Ali Naimi, took place at Hamilton House, named after an American Lawyer who negotiated the first agreement that opened the kingdom to American oil companies 56 years ago and led to the formation of Aramco as the company is known to the world.”10 While the formal transfer of power was low key, in the Aramco tradition, the event was one of great moment Saudi Arabia.

Thus the oil of the kingdom which had remained for so long beneath Saudi Arabia’s desert and which then for decades had been

10. Ibid.
exploited by foreign interest became at last a national resource, controlled and managed by Saudis themselves.

Oil Resources:

Before dealing the issue in detail, the discovery of oil in the kingdom and the early efforts to exploit it is discussed. In the Arab world and Middle East the history of oil goes back many centuries during which seepages of oil and tar were used for a multitude of purposes. A German delegation of experts visited Iraq in 1871 and reported abundant availability of oil. In 1907 another delegate visited Iraq and observed that Iraq was veritable “lake of petroleum”. The major Iraqi field was discovered at Kirkuk in 1927 and began producing oil in commercial quantities. In 1932 petroleum was discovered in Bahrain. Oil exploration activity in Saudi Arabia began in 1923. When a British Company, Eastern and General Syndicate Ltd. obtained a concession in the eastern region, but since the company did not exercise its rights, the agreement was nullified in 1927. A New Zealander, Major Frank Holmes, acting on behalf of a British Syndicate had obtained the first Saudi Arabian oil concession from king Abdul Aziz bin Saud, an exclusive concession to explore for oil and other minerals in area of more than 30,000 square miles in the Al Hasa region. The Eastern and General Syndicate was unable to convince any oil company to invest
sufficient funds for exploration. After paying £-2,000 for two years, they ceased to fulfill their part of the agreement. The king waited for three years and then in 1928, revoked the concession. From the view point of Major Frank Holmes and his London based syndicate, this episode represents one of the world’s greatest lost opportunities.\textsuperscript{11}

During the period of king Abdul Aziz, a substantial fall in revenue started because of drop in the number of pilgrims caused by world-wide recession. The king invited a businessman and philanthropist, Charles R Crane to visit the kingdom. Crane had already shown eagerness to meet the engineers and conduct a survey regarding minerals and oil resources of Saudi Arabia. For this purpose, engineer Karl Twitchell arrived in Jeddah in 1931. He was a civil and mining engineer. After an extensive survey of many months, Twitchell submitted his report to Saudi king. The key findings of the report was that the geological formation in eastern province around Dhahran strongly indicated the presence of oil.

In 1933, the Standard Oil Company of California (SOCAL) signed a concession agreement with government of Saudi Arabia allowing them to explore for oil. Standard Oil Company of California passed this concession to a wholly owned subsidiary called California Arabian Standard Oil Company. In 1936 with the company having no success at locating oil, the Texas Oil Company purchased a 50% stake of the

\textsuperscript{11} The New York Times, New York, 6\textsuperscript{th} April 1989.
concession. After a long search for oil that lasted around four years, the first success came with the seventh drill site in Dammam, an area located few miles north of Dhahran in 1938.\textsuperscript{12} The discovery of this well which immediately produced 1500 barrels per day, gave the company the hope to continue and flourish. The company’s name was changed in 1944 from California Standard Oil Company to Arabian American Oil Company (Aramco).\textsuperscript{13} At that time Saudi Aramco i.e. Saudi Arabian Oil Company was formed to manage the assets of Aramco. Later in 1944 Esso (which has become Exxon and mobil were brought in with the revised ownership distribution being 30 percent each for Standard Oil of California, Texaco and Exxon and 10 percent for Mobil.\textsuperscript{14} SOCAL was also invited as partners as it was also primarily a production company. The foreign corporate ownership structure was to remain in force until the time of the Arab-Israel conflict of 1973, unlike Iraq and Iran whose oil industry has been nationalised. In Iran’s case as early as 1951 by then Prime Minister Mohammad Mossadegh.\textsuperscript{15} Arguably this has the advantage of giving the Iranian government control of production levels, but in practice as the major oil company boycotted Iranian oil in retaliation there was no market for oil, the Iranian economy deteriorated

\textsuperscript{14} Opit, 6, pp.96-98.
\textsuperscript{15} Ministry of Petroleum and Oil Resources, OPEC
and Mossadegh was overthrown two years later. Saudi Arabia profited from these developments in Iran as the chief middle eastern producer at that time virtually eliminated from the market. ARAMCO’s western partner took initiative in increasing investment in Saudi oil, given the lower level of perceived country risk. Although the Saudi Arabian authority did not control the level of oil production, they had secured a profit sharing agreement with ARAMCO which entitled them to half of all revenues from oil sales.

In 1973, the Saudi Arabian government acquired a 25% share in Aramco, increased this to 60% by 1974 and finally acquired full control of Aramco by 1980. In November 1988, the company changed its name from Arabian American Oil Company to Saudi Arabian Oil Company (Saudi Aramco). Its headquarter is located in Dhahran on the shores of Arabian Peninsula. Saudi Aramco manages virtually all of Saudi Arabia’s enormous hydrocarbon enterprises. Saudi Aramco is positioned to continue to play its leading role in meeting the world demand for oil. Saudi Aramco is responsible for 99% of kingdom’s proven oil reserves of 259,200 million barrels, about a quarter of the world’s total. That is more than double the total of Iraq, the country with the world’s second largest reserves and nearly twelve times the reserves of United States. 16

Saudi Aramco produces and exports more crude oil than any other

16. Opcit, 6, pp.102-103
company. Recent production had averaged some 8 million barrels per
day. That is more than twice of output of the next highest producer and
nearly five times greater than the largest U.S. oil company.\textsuperscript{17}

Saudi Aramco maintains a maximum substantial crude production
capacity of 8.5 million per day. Saudi Aramco also ranks among the top
ten companies in gas production world wide. The company is also leader
in both the production and export of natural gas liquids (NGL) and
major producer of refined products. The company produces natural gas
in association with crude oil and non-associated gas from deep,
independent gas fields. This gas is used as fuel and feed stock for the
kingdom’s backbone industries and utilities, and for export and domestic
consumption as NGL (Natural Gas Liquids). A strong programme is
currently under way to expand gas production and processing
capabilities to meet increasing demand for gas at home to power the
kingdom’s invigorating domestic economic growth.

To develop entire natural resources sector and harness it to the
service of over all development, the Saudi government established
petromin as the state petroleum company in 1962. The role of petromin
is to maximize the usefulness of the kingdom’s oil, gas and minerals.\textsuperscript{18}

From 1975-80 petromin’s activity were governed by Saudi Arabia’s five
years plan. Petromin gave priority to projects which were expected to

\textsuperscript{17} \textit{Oil and Gas Journal OPEC}, Various issues
\textsuperscript{18} \textit{SAMA Annual Report}, Research and Statistics Development Kingdom of Saudi Arabia, rious issues
provide opportunities for private Saudi investment, and resulted in the expansion of job opportunities in Saudi Arabia.

Under the first five year Saudi plan (1975-80) petromin listed five areas of activity i.e. the exploitation of gas, the diversification of industries within the field of fossil fuels and minerals and developing the refining sector. It also included production of benzene and xylene for kingdom’s fast developing petro chemical plants. The marketing and transportation at home and abroad of Liquefied Petroleum Gas (LPG) and the speeding up of the production of minerals industries and development of precious metal resources were also under the priorities of petromin. Petromin formed petrolube, a company jointly owned with Mobil in 1988, for the production and marketing of the Kingdom’s lube oil. Petrolube has blending plants in Jeddah, Jubail and Riyadh.

After that Saudi Arabia established the Saudi Arabic Marketing and Refining Company (SAMARIC). SAMARIC was to be responsible for refining and domestic marketing operations. SAMARIC was to take over three domestic refineries at Yanbu (170,000 barrels a day), Jeddah (90000 barrels a day) and Riyadh (134,000 barrels a day). The new company was to hold a 50% share in the two joint venture export refineries at Yanbu (with Mobil) and at Jubail (with Shell). SAMARIC was also to take responsibilities for the marketing of the Kingdom’s oil products both at home and abroad. In this context, it is claimed that in
1988 the Kingdom of Saudi Arabia took a major step towards its objective of expansion of “down stream” in the oil sectors by purchasing a 50% stake in Texaco’s Petrol Refining and retailing business in 23 eastern and southern states of the U.S. Petromin was to become primarily a state holding company with shares in the newly formed specialized oil subsidiaries.

As far as oil is concerned, Saudi Aramco is the largest oil producer in the Kingdom. Saudi Aramco’s oil operations encompass the Kingdom of Saudi Arabia, including its territorial water in the Persian Gulf and the Red Sea totalling more than 1.5 million square kilometer. This area is larger than the combined area of Texas, California, Oklahoma and Utah, or of France, Spain and Germany. Most production comes from plants which are located in the coastal belts of eastern province in an area extending 300 km north and south of Dhahran. In May 2005 Saudi Aramco Vice President announced Aramco’s plan to built projects worth about 478.5 billion Saudi Riyals in the next five years. Due to the unprecedented global demand for oil, Aramco announced that the production of its oil doubled by the end of 2006. The company expects expansion in all supporting fields also for years to come as demand increases.
Oil Production:

Saudi Arabia has the world’s largest reserves of oil deposits. Further it has been the largest producer of oil also for various years. However, there had been some fluctuations in the size of oil production. Given its relatively high production level, accounting for nearly 13% of world output and 35% of total OPEC output in 1991, and more significantly, its small domestic needs, the Kingdom’s dominance of international crude oil markets remains unchanged. Although reluctant to play the role, Saudi Arabia has become the “swing producer” balancing international oil demand and supply. Therefore, within limits Saudi oil production policies can have a profound impact on international prices. Since the early 1970s the Kingdom has occasionally used this dominance to influence oil prices, usually to further its objectives of sustaining long term oil consumption and ensuring economic stability in the industrialized world.

Oil wealth has made possible rapid economic development which began in the 1960’s and accelerated spectacularly in the 1970’s. Following table shows the massive fluctuation in oil production levels.
<table>
<thead>
<tr>
<th>Year</th>
<th>Total Production (Million Barrel)</th>
<th>% Change</th>
<th>Daily Average (Million Barrel)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>1386.67</td>
<td>18.13</td>
<td>3.80</td>
</tr>
<tr>
<td>1975</td>
<td>2582.53</td>
<td>86.23</td>
<td>7.08</td>
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<td>1980</td>
<td>3623.80</td>
<td>40.32</td>
<td>9.90</td>
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<tr>
<td>1985</td>
<td>1158.80</td>
<td>-68.02</td>
<td>3.17</td>
</tr>
<tr>
<td>1990</td>
<td>2340.50</td>
<td>101.00</td>
<td>6.14</td>
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<td>1991</td>
<td>2963.00</td>
<td>26.59</td>
<td>8.12</td>
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<tr>
<td>1992</td>
<td>3049.40</td>
<td>2.91</td>
<td>8.33</td>
</tr>
<tr>
<td>1993</td>
<td>2937.40</td>
<td>-3.67</td>
<td>8.05</td>
</tr>
<tr>
<td>1994</td>
<td>2937.90</td>
<td>0.017</td>
<td>8.05</td>
</tr>
<tr>
<td>1995</td>
<td>2928.54</td>
<td>-0.3199</td>
<td>8.02</td>
</tr>
<tr>
<td>1996</td>
<td>2965.45</td>
<td>1.26</td>
<td>8.10</td>
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<tr>
<td>1997</td>
<td>2924.28</td>
<td>-1.38</td>
<td>8.01</td>
</tr>
<tr>
<td>1998</td>
<td>3022.27</td>
<td>3.35</td>
<td>8.28</td>
</tr>
<tr>
<td>1999</td>
<td>2761.10</td>
<td>-8.64</td>
<td>7.56</td>
</tr>
<tr>
<td>2000</td>
<td>2962.60</td>
<td>7.29</td>
<td>8.09</td>
</tr>
<tr>
<td>2001</td>
<td>2879.00</td>
<td>-7.29</td>
<td>7.89</td>
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<tr>
<td>2002</td>
<td>2588.98</td>
<td>0.33</td>
<td>7.09</td>
</tr>
<tr>
<td>2003</td>
<td>3069.74</td>
<td>18.56</td>
<td>8.41</td>
</tr>
<tr>
<td>2004</td>
<td>3256.30</td>
<td>06.07</td>
<td>8.90</td>
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<tr>
<td>2005</td>
<td>3413.94</td>
<td>04.84</td>
<td>9.35</td>
</tr>
<tr>
<td>2006</td>
<td>3360.90</td>
<td>-1.55</td>
<td>9.21</td>
</tr>
<tr>
<td>2007</td>
<td>3217.77</td>
<td>-4.25</td>
<td>8.82</td>
</tr>
</tbody>
</table>

The data about Saudi Arabia’s oil production and annual change since 1970s is provided in Table-1. Table provides information regarding changes in oil production in terms of million barrels per day, and percentage change is estimated by comparing to preceding year’s production levels.

From Table-1 oil production has increased continuously from 1970 to 1980 and afterward decreases substantially in another five years to 1985. It had been mainly due to the cut in Saudi oil production in mid 1980’s due to glut in international oil market. The production of oil more or less increased during 1990-92, after that and more or less remained constant upto 1997. After 1997 production level has fluctuated
up and down slightly up to 2005. In 2006-07 production level decreased and shows negative percentage change during 2006-07.

**Oil Export:**

Along with the production and export of oil in Saudi Arabia since 1970, the role of oil in domestic economy and polity has also been increasing. The Kingdom's dependence on oil export and its importance is particularly visible from early seventies. Saudi exports consist of almost exclusively crude and refined oil export. Saudi Arabia has been described as the world “mother lode” of oil and gas reserves. Therefore, it would be appropriate to study the trends in the Saudi oil exports. The relationship between oil production and export is shown in Table-2.
Table-2

Saudi Arabia: Oil Production and Export (million barrel)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Production</th>
<th>Export</th>
<th>% Share of oil export in total production</th>
<th>% change in share of total oil export in total production</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>1386.67</td>
<td>1174.17</td>
<td>84.67</td>
<td>—</td>
</tr>
<tr>
<td>1975</td>
<td>2582.53</td>
<td>2409.39</td>
<td>93.29</td>
<td>10.18</td>
</tr>
<tr>
<td>1980</td>
<td>3623.80</td>
<td>3375.69</td>
<td>93.15</td>
<td>-0.15</td>
</tr>
<tr>
<td>1985</td>
<td>1158.80</td>
<td>780.72</td>
<td>67.37</td>
<td>-27.67</td>
</tr>
<tr>
<td>1990</td>
<td>2340.50</td>
<td>1642.42</td>
<td>70.17</td>
<td>4.15</td>
</tr>
<tr>
<td>1995</td>
<td>2928.54</td>
<td>2296.13</td>
<td>78.40</td>
<td>11.72</td>
</tr>
<tr>
<td>1996</td>
<td>2965.45</td>
<td>2236.01</td>
<td>75.40</td>
<td>-3.82</td>
</tr>
<tr>
<td>1997</td>
<td>2924.28</td>
<td>2257.33</td>
<td>77.19</td>
<td>2.37</td>
</tr>
<tr>
<td>1998</td>
<td>2332.48</td>
<td>2232.48</td>
<td>77.17</td>
<td>-0.02</td>
</tr>
<tr>
<td>1999</td>
<td>2087.68</td>
<td>2087.68</td>
<td>75.61</td>
<td>-2.02</td>
</tr>
<tr>
<td>2000</td>
<td>2282.38</td>
<td>2282.38</td>
<td>77.03</td>
<td>1.42</td>
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<tr>
<td>2001</td>
<td>2203.10</td>
<td>2203.10</td>
<td>76.51</td>
<td>-0.52</td>
</tr>
<tr>
<td>2002</td>
<td>1928.89</td>
<td>1928.89</td>
<td>74.50</td>
<td>-2.01</td>
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<tr>
<td>2003</td>
<td>2380.85</td>
<td>2380.85</td>
<td>77.55</td>
<td>3.50</td>
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<tr>
<td>2004</td>
<td>3256.30</td>
<td>2486.77</td>
<td>76.36</td>
<td>-1.19</td>
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<tr>
<td>2005</td>
<td>3413.94</td>
<td>2631.24</td>
<td>77.07</td>
<td>0.71</td>
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<tr>
<td>2006</td>
<td>3360.90</td>
<td>2565.72</td>
<td>76.34</td>
<td>-0.73</td>
</tr>
<tr>
<td>2007</td>
<td>3217.77</td>
<td>2441.16</td>
<td>75.84</td>
<td>-0.5</td>
</tr>
</tbody>
</table>

Source: Central Department of Statistic, Ministry of Planning, Govt. of Saudi Arabia, various years.
The above table provides information about the total production of oil and its export by Saudi Arabia. In 1970 the total production of oil was 1386.67 million barrels. Out of this total oil production, Saudi Arabia exported 1174.17 million barrels and thereby Saudi Arabia exported 84.67% of the total oil production. In 1975 the total production increased to 2,582.53 million barrels and the total export was 2,409.39 million barrels. In this way the total export was 93.29 percent of the total oil production. There had been a percentage change of 10.18% in the share of oil export to the total production over the period of 1970 to 1975. In the year 1980 production of oil had significantly increased and reached at 3,623.80 million barrels. Out of this total production of oil Saudi Arabia exported 93.15 percent which was equal to 3,375.69
million barrels. Over the period of 1975 to 1980 there had been a
decline in the percentage share of oil export to the total production to
the level of -0.15 percent.

In 1985, the total production of oil was 1,158.80 million barrels. Out of
the total production of oil, Saudi Arabia exported 780.72 million
barrels and therefore the share of oil export in the total production came
down to 67.37 percent and registered a negative growth in share of total
oil export. In 1990 there has been an increment in the share of oil export
in total production which is equal to 70.17 percent. During the period of
1985-90 there was a positive growth in the share of oil export to the
total production i.e. equal to 4.15 percent. This trend gets improved in
1995 when Saudi Arabia exported 78.4 percent of the total oil
production and registered the highest growth rate of 11.72 percent in the
share of oil export in total production. In 1995-96 though the total
output has increased from 2,928.54 million barrels to 2,965.45 million
barrels but the share of export declined when Saudi Arabia exported
2,236.01 million barrels. For this period there has been negative growth
in the share of oil export to the total production which is -3.82 percent.
In the next year the total production of oil has declined but the export of
oil has increased and Saudi Arabia exported 77.19 percent of total oil
production and realized a positive growth in the share of export to the
total production. In 1998 the total production approached to 3,022.27
million barrels and out of this the total export was 2,332.48 million barrels and therefore, the share remained more or less same. After 1998 there has been a decline in the total oil production as well as export of oil. The total oil production declined to 2,761.10 million barrels and therefore a negative growth rate has been found in the share of oil export to the total production. In 2000 though the production increased to 2,962.60 million barrels but it remained less than the total oil production of 1998. For this year total export of oil was 77.03 percent of the total production and positive growth rate could be witnessed in the share of export to the total production in comparison to the previous year. Since 2000 there had been a continuous decline in the production as well as the percent of oil export, but in 2003 once again the total production of oil increased to 3,064.74 million barrels. The share of oil export in the total production also increased and reached to 77.55 percent and thereby registered a growth rate of 4.09 percent over the previous year. Since 2003 and till 2007 the production level has varied slightly up and down, but the percentage share of oil exports declined marginally.

From the above information we can divide the whole period of analysis into two parts. From 1970 to 1980 when there had been an increment in total production of oil and export of oil. The period of 1980 to 2007 can be regarded as the period when there has been an average
decline in share of oil export in the total production of oil. Despite all odds oil export has more or less maintained its position of 2/3 of total output being exported by Saudi Arabia.

**Oil Revenues:**

As far as revenues are concerned, Saudi Arabia has received huge revenues from petroleum exports. Particularly since the dramatic increase in the international petroleum prices in 1973-74. Revenue which came from oil was used in part to finance an ambitious programme of infrastructural development and modernization. This led to various welfare programmes for health, education and social purposes. Substantial budgetary allocation were made to the country’s armed forces and to the purchase of sophisticated weaponry from abroad. Due to increase of revenue, public sector employment expanded quickly and heavy consumer and producer subsidies introduced.

The importance of oil revenue in Saudi Arabia could be ascertained by looking at the proportion of oil revenues to the total revenues. Trend of total revenue and oil revenue is shown through following.
Table - 3

Trend of Total Revenue and Oil Revenue (Million Riyals)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Revenue (Million Riyals)</th>
<th>Oil Revenue (Million Riyals)</th>
<th>% Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>135,957</td>
<td>121,191</td>
<td>89.1</td>
</tr>
<tr>
<td>1980</td>
<td>348,100</td>
<td>319,305</td>
<td>91.7</td>
</tr>
<tr>
<td>1990</td>
<td>316,639</td>
<td>246,297</td>
<td>77.8</td>
</tr>
<tr>
<td>1995</td>
<td>146,500</td>
<td>105,728</td>
<td>72.2</td>
</tr>
<tr>
<td>2000</td>
<td>258,065</td>
<td>214,424</td>
<td>83.1</td>
</tr>
<tr>
<td>2001</td>
<td>228,159</td>
<td>183,915</td>
<td>80.6</td>
</tr>
<tr>
<td>2002</td>
<td>213,000</td>
<td>166,100</td>
<td>78.0</td>
</tr>
<tr>
<td>2003</td>
<td>293,000</td>
<td>231,000</td>
<td>78.8</td>
</tr>
<tr>
<td>2004</td>
<td>392,291</td>
<td>330,000</td>
<td>84.12</td>
</tr>
<tr>
<td>2005</td>
<td>564,335</td>
<td>504,540</td>
<td>89.40</td>
</tr>
<tr>
<td>2006</td>
<td>673,682</td>
<td>604,470</td>
<td>89.72</td>
</tr>
<tr>
<td>2007</td>
<td>642,800</td>
<td>562,186</td>
<td>87.45</td>
</tr>
</tbody>
</table>

This table shows that total revenue of Saudi Arabia increased considerably from 1976 to 1990, but percentage of oil revenue in total revenue decreased in 1990. Oil revenue has decreased close to the previous level of that in 1976. After that revenue has increased considerably upto 2006 and slightly declined in 2007. The percentage share of oil revenue in total revenue in the period 1995-2006 increased initially and then decreased in the later period i.e. 2007.

**Oil Policy:**

Oil policy in Saudi Arabia is determined at the highest level of government body i.e. The King and the crown prince (Deputy Prime Minister) who take decision about Saudi Arabia’s oil policy. During the
1970’s an image of Saudi Arabia as an oil producer emerged that still exercised significant influence on perceptions of Saudi government. In the light of small Saudi population and economy’s limited absorption capacity oil revenues generally surpassed the domestic requirements of development and a welfare state. Hence surpluses were invested abroad and this led to some analyst conclude that Saudi could be best persuaded to keep a high level of production if high yield investment are offered to them.\textsuperscript{15} It was believed in 1970s that given the nature of the oil market, lower levels of Saudi production could probably push prices higher. So that Saudi Arabia could meet its revenue needs either by high output with moderate prices or lower output with higher prices. Saudi Arabia followed over production and under pricing policy. It could only be the result of political consideration. Saudi officials not surprisingly tried to take credit in the west for their altruism.\textsuperscript{19} Economist however argued that Saudi Arabia lacking natural resources other than the oil, has a long term interest in keeping the demand for oil at high level well into the next century.

Thus, exclusively high prices could hurt Saudi Arabia by stimulating the search for all alternative sources of energy and

\textsuperscript{19} Central Department of Statistics, Ministry of Economy & Planning, Government of Saudi Arabia, 2000
encouraging greater efficiency in the use of oil, thereby suppressing demands.\textsuperscript{20}

In the past the decision of Saudi Arabia relating to oil production can provide some evidence in the debate over the mixture of economic and political consideration that may be taken into account by government of Saudi Arabia. Demand for oil increased rapidly during 1972 and early 1974 and exerted upward pressure on prices. The production of oil in Saudi Arabia increased rapidly to meet demand for oil and increase the revenues. However, actual production decision were still primarily being made by the American companies that constituted the Arabia America Oil Company (ARAMCO). Upward pressure on prices and expanding Saudi oil output in early 1973 coincided with the Arab-Israel war which broke out on October 6, 1973. Subsequently, at OPEC meeting in Kuwait on October 16, Saudi Arabia along with other members announced a six percent cut in oil production but increased prices to maintain the level of oil revenues. Then on October 20, Saudi Arabia along with other members of OPEC declared an embargo on shipments of oil to the United States and other countries helping Israel.

During the seventies, Saudi oil policies has gone through three important phases. The period of first phase is October 1973 to September 1974. In this period Saudi Arabia imposed an oil embargo on

\textsuperscript{20} SAMA Annual Report 2003, Research & Statistical Department, Kingdom of Saudi Arabia
the United States and cut oil production by up to 25 percent. Due to this cut in oil production prices increased sharply.

Second phase started from September to December 1978. In this period Saudi Arabia adjusted its oil production to meet market demand fighting OPEC at time in its efforts to minimize changes in the nominal prices of oil. In phase III (December 1978 – July 1979) disruption of the oil production of Iran and two surprise production cuts by Saudi Arabia precipitated the second oil crisis. Prices especially on the spot market again skyrocketed, and oil marketing arrangements were so disrupted that contract prices also continued to rise for eighteen months, even after Saudi production increased.21

The real price of oil did not rise between 1974 and 1978. In fact it declined when measured in constant dollar. During this period, the Saudi generally kept production at levels necessary to defend the OPEC price. In late 1978, the production of Iran began to fall rapidly resulting in an increase in the spot market prices from U.S. dollar 13 per barrel to nearly US dollar 19. Saudi Arabia expressed concern that oil prices would go out of hand and began to raise production to the maximum sustainable level of over 10 million barrels per day.22 From 1979 to early 1982, Saudi Arabia did not fall in line with OPEC marker-crude

reference price in its sale. The result was a two tier pricing system. By selling it substantially at less than a market clearing price and by increasing its production and exports the Kingdom sought to moderate what it considered runaway pricing that would accelerate inter fuel substitution and conservation.

During 1980-82 Saudi production was kept close to maximum capacity averaging between 9 million barrels per day, but even then prices in 1980 increased from $26 per barrel to $32 and then remained steady until the decision of December 1981 to increase it to $34 per barrel. During this period Saudi Arabia argued with other members of OPEC for a price strategy agreed upon in 1979. It is important to note that since early 1980s overall demand for OPEC oil was declining, yet Saudi output remained considerably high. The Iran – Iraq war erupted in September 1980 and Saudi Arabia at the outbreak of war started production of about 10 million barrels per day to prevent further increase in oil prices. But in November 1980 oil prices rose to US$ 40 per barrel which then slowly began to decline by mid 1981 and reached to $32 per barrel.\(^{23}\)

In 1983 demand for oil was declining and OPEC marker-crude price of $34 per barrel was unrealistically high when compared to spot market prices for non-OPEC oil. At this juncture Saudi Arabia pressed

\(^{23}\) Ibid
the need to keep oil prices competitive if a down trend was to be stopped. For convincing other OPEC members it agreed to take a “swing” position in the international oil market if OPEC would officially cut its marker-crude price for the first time and establish production quotas for all other members of the organization. In the late 1985 Saudi Arabia publicly announced a change in it oil policy. Instead of trying to increase world prices by producing and exporting less, Saudi Arabia argued that they and other OPEC members should concentrate on to recover market share which they have steadily lost to non-OPEC producers. To implement this new policy Saudi Arabia began to enter into a series of netback arrangements, with refineries all over the world. Netback arrangement in Saudi view permitted oil pricing to be immediately responsive to market conditions. With this Saudi Arabia sought to recover lost market share as well as increase its volume. In the short run Saudi Arabia expected a sustainable increase in revenue generation as its production grew more rapidly than the decline in prices. In the long run the kingdom expected to regain market share which it abandoned by its swing producer’s role. Throughout the late eighties because of the recession in industrial countries, coupled with the oil conservation policies, the demand for OPEC oil and role of OPEC in regulating the international oil market had been diminishing.

24. Opcit. 22, pp.15-21
Once the hostilities between Iran and Iraq ended in 1988, the OPEC producers started producing more and more oil and several of its members were not following their quota limit.\textsuperscript{25} This associated with other factors led the oil prices crash to the level of $13 per barrel in 1989 and early 1990. When Iraq invaded Kuwait on August 2, 1990 Saudi Arabia was producing around 5.5 millions of barrel per day. The U.N. Security Council immediately imposed sanction on Iraqi and Kuwaiti oil. In order to fill this gap and to prevent oil prices to rise steeply Saudi Arabia unilaterally announced its plan of increasing its oil production and produced more than 8 million barrels of oil per day in 1991. Since 1991 and till now Saudi Arabia followed an aggressive oil production policy and it maintained the production at about 8 million barrel per day. It is important to mention here that the oil prices during 1990-92 ranged in between $18 and $21 per barrel.\textsuperscript{26} But the Saudi Arabia government today faces the new challenges as well as new world energy balance. Its domestic requirement as well as its burden sharing role in the gulf war of 1991 have compelled her to take a leading role in the world energy market.

Saudi Arabia’s aim at the February 1992 OPEC meeting was to eradicate the last vestiges of the 1990 agreements and its quota shares, specially the Kingdom’s share of about 25 percent. But OPEC members

\textsuperscript{25} Gloub, David B. \textit{When Oil and Politics Mix: Saudi Oil Policy 1973-85}, Havard Middle East Paper, Cambridge, No. 4, 1985, p.3
\textsuperscript{26} Ibid.
refused to accede to Saudi pressure at the February 1992 meeting. Iran particularly was willing to risk the improved relations it had forged with Saudi Arabia and absorb the oil price cut.\textsuperscript{27} Saudi Arabia's income requirement in the wake of gulf war would, Tehran suspected, keep the Saudi from forcing other OPEC members in to accepting its objectives as it did in 1986. The final agreement reached was essentially what the Saudi wanted in the short run: a total production ceiling of almost 23 million barrels per day and a temporary quota of 35 percent of the ceiling and the maintenance of price stability. They did not achieve their long term objective: unanimous OPEC recognition of a 35 percent market share of all future OPEC output ceilings.

Long term Saudi policy imperatives for the 1990s were shaped by structural factors within OPEC and within the international oil market. Highest on the priority list was the decision to push domestic oil capacity to more than 105 million barrels per day sustainable capacity with a further 1.5 million to 2 million barrels per day surge capacity in times of emergency. Three factors prompted these expansion plans. Growth in world demand for oil over the preceding several years, combined with the Persian Gulf war, had pushed the Kingdom and other OPEC countries to their production capacities. Expecting that demand would continue to grow and that most other exporters were constrained

\textsuperscript{27} Op cit. 25
by diminishing oil reserves or financing problems, a rapid rise in capacity could capture any increase in demand that may occur. Second in light of the post 1986 intra-OPEC market share competition, oil capacity expansions have a direct impact on the ability of individual member to jockey for quota increase. Third the ability to raise output at will in the event of an unforeseen price decline, helped stabilize total oil revenues, which constituted the bulk of domestic budgetary income.

Saudi Arabia’s interest in moving downstream has also been a part of its oil policy. The drive to obtain overseas refining and storage facilities is designed to further two objectives related to security of supply. First the Kingdom wanted to obtain captive buyers of its crude, assuring stable prices and terms. Saudi Arabia would thus be more receptive to market condition in consuming countries and avoid being phased out of certain countries. Gaining further profits from refining the crude was an associated reason for moving to the downstream overseas.

Second, the Kingdom sought to provide consuming countries with “reciprocal security measures”, Under this it was to undertake supply guarantee – through capacity addition or stocking arrangements abroad in return for consumer country’s, decision to avoid taxes and import restrictions on oil. Few consuming countries, however, responded favourably to such arrangements.
However, beginning in late 1997, Saudi Arabia again faced the low oil prices. Due to a combination of factors – the east Asian economic crisis, a warm winter in the west caused by El Nino and an increase in non-OPEC oil production, demand for oil slowed and pulled oil prices down by more than one third. Saudi Arabia was a key player in coordinating the successful 1999 campaign of OPEC and other oil producing countries to raise the prices of oil to its highest level since the Gulf war by managing production and supply of petroleum. That same year Saudi Arabia established the supreme economic council to formulate and better coordination of economic development policies in order to accelerate institutional and industrial reform. Therefore, Saudi oil policies depend upon several factors such as its domestic requirements, world energy balances, regional consideration, political climate and its perceptions of 21st century oil market scenario. A combination of these factors determine Saudi oil policy.

Table – 4

Structure of GDP

(Share of oil sector and non-oil sector in Million Riyals)

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP</th>
<th>GDP from oil sector</th>
<th>GDP from non oil sector</th>
<th>Share of oil sector in GDP</th>
<th>Share of non oil sector in GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>22,279</td>
<td>10,390</td>
<td>11,889</td>
<td>46.63</td>
<td>53.36</td>
</tr>
<tr>
<td>1975</td>
<td>163,156</td>
<td>104,876</td>
<td>58,280</td>
<td>64.27</td>
<td>35.72</td>
</tr>
<tr>
<td>1980</td>
<td>544,069</td>
<td>341,641</td>
<td>202,428</td>
<td>62.79</td>
<td>37.20</td>
</tr>
<tr>
<td>1985</td>
<td>372,408</td>
<td>104,451</td>
<td>267,957</td>
<td>28.04</td>
<td>71.41</td>
</tr>
<tr>
<td>1990</td>
<td>430,334</td>
<td>158,693</td>
<td>271,641</td>
<td>35.68</td>
<td>63.12</td>
</tr>
<tr>
<td>1995</td>
<td>526,003</td>
<td>187,718</td>
<td>338,285</td>
<td>35.68</td>
<td>64.31</td>
</tr>
<tr>
<td>2000</td>
<td>697,007</td>
<td>289,165</td>
<td>407,842</td>
<td>41.48</td>
<td>58.51</td>
</tr>
<tr>
<td>2001</td>
<td>679,164</td>
<td>255,510</td>
<td>423,654</td>
<td>37.62</td>
<td>62.37</td>
</tr>
<tr>
<td>2002</td>
<td>699,689</td>
<td>263,511</td>
<td>436,169</td>
<td>37.66</td>
<td>62.33</td>
</tr>
<tr>
<td>2003</td>
<td>795,787</td>
<td>377,586</td>
<td>458,201</td>
<td>42.42</td>
<td>57.57</td>
</tr>
<tr>
<td>2004</td>
<td>930,753</td>
<td>435,330</td>
<td>495,423</td>
<td>46.77</td>
<td>53.22</td>
</tr>
<tr>
<td>2005</td>
<td>1172,399</td>
<td>681,291</td>
<td>554,108</td>
<td>55.14</td>
<td>44.85</td>
</tr>
<tr>
<td>2006</td>
<td>1324,556</td>
<td>720,664</td>
<td>603,892</td>
<td>54.40</td>
<td>45.59</td>
</tr>
<tr>
<td>2007</td>
<td>1418,746</td>
<td>778,353</td>
<td>6040,393</td>
<td>54.86</td>
<td>45.13</td>
</tr>
</tbody>
</table>

Source: 1. Ministry of Planning, Kingdom of Saudi Arabia-Achievement of the development plans

2. SAMA Annual Report 2008, Research & Statistical Department, Kingdom of Saudi Arabia
Table-4 shows the structure of GDP from 1970 onwards with interval of five years, upto 2000 and later on for every year. This has been taken for the analysis of the structure of GDP. GDP figure is made up of two constituents namely GDP from oil sector and GDP from non-oil sector. Further we have also taken the share of oil sector and non-oil sector in GDP. In the year 1970 the total GDP from oil sector was 10,390 whereas share of non-oil sector was 11,889. The percentage share of oil sector is 46.63 percent and that of non-oil sector is 53.36 percent. Gross Domestic Product (GDP) figure in 1975 increased to 163,156 million Riyals. The share of oil sector also increased to 104,876 million Riyals and that from non-oil sector increased to 58,280 million Riyals. If we look at the percentage share of oil sector in GDP, it
increased to 64.27 percent but that of non-oil sector decreased to 35.72 percent. In the year 1980 GDP further increased to 544,069 million Riyals, out of this the share of oil sector was 341,641 million Riyals and non-oil sector was 202,428 million Riyals. Percentage share of oil sector decreased to 62.79 percent but that of non-oil sector increased to 37.20 percent. In the year 1985 GDP further increased to 372,408 million Riyals out of which the GDP from oil sector was 104,451 million Riyals and GDP from non-oil sector was 267,957 million Riyals. So, the percentage share of oil sector was 28.04 percent and that of non-oil sector was 71.41 percent. Therefore, we observe that in 1985 the reverse in trend. Since the year 1990 the trend continued as before i.e. GDP figure increased to 430,334 million Riyals in which the share of oil sector was 158,693 million Riyals and non-oil sector 271,641 million Riyals. The share of oil sector increased to 36.87 percent but it remained less than the percentage share of non-oil sector which came down to 63.12 percent. So from the year 1985 and onwards percentage share of oil sector in GDP is less than that of non-oil sector in GDP and before the year 1985 it was just reverse. So we can say that the year 1985 is a turning point and the importance of non-oil sector is increasing from this period. In the year 1995 GDP further increased to 526,003 million Riyals out of which GDP from oil sector was 187,718 million Riyals and GDP from non-oil sector was 338,285 million Riyals. In percentage
terms it was 35.68% for oil sector and 64.31 percent for non-oil sector. In the year 2000 GDP was 697,007 million Riyals. The share of oil sector was 289,165 million Riyals and non-oil sector was 407,842 million Riyals. The percentage share of oil sector increased slightly to 41.48 percent and that of non-oil sector decreased to 58.57 percent. In the year 2001 GDP decreased for the first time to 679,164 million Riyals of which the share of oil sector was 255,510 million Riyals and non-oil sector was 423,654 million Riyals. The percentage share of oil sector decreased to 37.62 percent and non-oil sector increased to 62.37 percent. In the year 2002 the GDP growth trend continued and it amounted to 699,680 million Riyals. The share of oil sector in this was 263,511 million Riyals and non-oil sector was 436,169 million Riyals. The percentage share of both sectors remained more or less same. In the year 2003 Saudi GDP increased to 795,787 million Riyals out of which the share of oil sector increased to 42.42 percent and non-oil sector decreased to 57.57 percent. In the year 2004 there has been a large increase in GDP which equaled to 930,753 million Riyals. Out of which share of oil sector is 435,330 million Riyals and that of non-oil sector is 495,423 million Riyals. In this way percentage of oil sector increased to 46.7 percent and that of non-oil sector decreased to 53.22 percent. So this table shows that the GDP has increased throughout from beginning to the last, but its composition from oil sector and non-oil sector has
been varying since the year 1985. The year 1985 shows beginning of the reverse trend of the composition of GDP. Before 1985 oil sectors contribution was greater in GDP where as since 1985 the non-oil sector has greater percentage. But in recent period such as year 2004 both sector is competing each other and there is no much gap between their percentage share. But after 2004 till 2007 both the share of oil sector and non-oil sector in GDP has increased.

In the long term Saudi Arabia is likely to consume an increasing proportion of its own oil, although it is difficult to envisage export being less dominant for several decades. Oil still accounted for 70 percent of government income, 85 percent of export and 37 percent of Gross Domestic Product (GDP) in 2001. It is the share of oil in GDP that declined in last two decades, indicating a considerable degree of economic diversification even if the non oil sector remained largely dependent on oil development. In Saudi Arabia there has been a consistent tendency to treat oil as a given parameter somewhat detached from the rest of the national economy. In other words, once a level of production deemed likely to be acceptable to other OPEC members is set, the oil price is determined in international market. The de-linkage of oil and development spending was less critical in 1970’s and early 1980’s as oil revenues accruing to government reserves which acted as a buffer between revenue and expenditure. The problem by the late
1980’s and 1990’s, however, was that with sustained lower oil prices the government financial reserves disappeared and the state became a substantial net borrower from its own bank, and indeed this grew during the 1990’s- but they were privately owned, by businesses.

In reality the Saudi Arabian economy retains a high degree of responsiveness to oil market development and it has not proved possible to break. With production level fairly constant, Gross Domestic Product still rises and falls in line with oil prices changes. In the absence of the significant cushion of reserves and government debt exceeding 90 percent of GDP, the lag between the oil prices fall and the corresponding expenditure cuts is less than one year. For example, the oil revenue shortfall of 1998 when at one point prices fell to 10 Dollar per barrel resulting in a two billion dollar cut in spending the following year. This would have been even greater without the price recovery.

When oil prices fall it tends to be investment expenditure rather than government spending on salaries that is effected the most. It is the investment in diversification and in achieving self sustained, non-oil dependent development that suffers, while what can be classified as consumption through public sector wages is maintained.

The contribution of oil to development will inevitably be diminished even further as oil production level remain within the 7.5 to
8.5 million barrel per day band rather than there being any attempt to ratchet up level and face criticism of other OPEC members.

**Strategy of Reduction on Oil Dependence:**

Despite the improvement that accompanied the rebounding of oil prices, the Saudi economy still suffers from major structural problems. The massive subsidies, inefficient industries and lack of fully developed free market system hampers the ability of the Saudi economy to pull itself away from dependence on oil. As the then Crown Prince Abdullah said in a widely noted 1996 speech that the era of oil boom was over. The Saudi leadership was becoming increasingly worried of relying on a single commodity for the government’s income and wished to stimulate a diversification of the economy. The budget problems and desire for diversification work together to make strengthen the private sector an appealing policy. So for reducing oil dependency the government of Saudi Arabia has been encouraging private sector to contribute in reducing the Kingdom’s dependence on oil as a part of its efforts to attract foreign investment and diversify the economy. Few in Saudi Arabia see the same urgency for privatization as do foreign economists. Most Saudi policy makers support privatization. Saudi Arabia acceded to the WTO in 2005 after many years of negotiation with high oil revenues enabling the government to post large budget surpluses.
Reyadh has been able to substantially boost spending on job training and education infrastructure development and government salaries. Indeed privatization has been discussed in the Kingdom since the fourth development plan of 1985-90. The Kingdom telephone system is being “corporatized” to prepare it to be the first privatization of a government utility. A step motivated by strains on the telecommunication network requiring investment that the government is ill placed to make. The power sector perhaps is the most important part of the economy, that government intends at privatizing. But full privatization of power companies would force the government to implement some difficult policies. Subsidy must ultimately be removed.

The oil sector illustrated trends throughout Saudi oil policy. The Crown Prince and the senior Saudi leadership have adopted an increasingly professional approach to policy making for reducing oil dependency. They are open to a large role for foreign investment and toward structural economic reform. They are also taking more assertive stand in regional and international policies. In short Saudi policy is becoming more professional and more assertive. For reducing oil dependency in Saudi Arabia emphasis has been placed, under recent development plans, on the promotion of ‘downstream’ oil industries, such as refining and petroleum derivatives, and progress has also been made in developing the country’s non-oil industries. And the importance
of non-oil economic activities has grown steadily, reflecting Saudi Arabia's efforts at economic diversification. The progress has been achieved with an open exchange and trade system and liberal capital flows as well as foreign labours. Saudi Arabia has become an important center for regional economic growth.