

Economic reform and change

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When King Abdullah bin Abdul Aziz Al Saud succeeded to the throne in 2005, among his reform priorities was a commitment to diversify Saudi Arabia's economy. Not that Saudi Arabia is turning its back on oil; the King's plan is to establish the conditions that will allow the country to make the shift from being primarily a commodity producer, and subject to the ups and downs of the global oil market, to becoming a diversified industrial and knowledge-based economy.

High average oil prices have provided the means to put his reforms into effect. GDP has risen from US\$188 billion in 2000 to US\$467 billion in 2008, according to government estimates. Inward FDI flows

of US\$24.3 billion in 2007 recorded an annual increase of 33 per cent. These investments will leap to a total of nearly US\$1 trillion by 2018, says the government. A budget surplus of US\$100 billion is forecast for 2008.

The last three and a half years have seen an unprecedented programme to expand infrastructure, as well as focusing on education, and promoting the development of industry and knowledge-based businesses that will generate employment. At the same time, King Abdullah recognises that the country can do much more with its oil, which makes up around a quarter of the planet's reserves. The kingdom will be investing US\$1 billion annually over the next five years to increase its refining capacity and develop value-added petrochemicals by building four new refineries. To give an example of the potential, the chemicals refined from a barrel of oil are worth ten times its price as crude.

Coupled with the drive to establish core industries, King Abdullah has pushed to further develop Saudi Arabia as a trading hub. Located between the burgeoning markets of China and Central Asia, Saudi Arabia has also been strengthening its transportation infrastructure, building and expanding airports, roads, and a new rail link called the LandBridge, that includes a 1,000 kilometre stretch between Riyadh and Jeddah, as well as a link between Damman and Jubail.

More ambitious yet are the six economic cities currently under construction, and that have already attracted investment worth more than US\$35 billion. Headed by the flagship project the King Abdullah Economic City, five other developments in Hail, Jizan, Medina, and the Northwest of the Kingdom and in the Eastern Province, aim to be vibrant communities by at least 2020.

Spread out around a country the size of western Europe, the new cities will take the pressure off Riyadh, Mecca, and the Eastern Province, which now house almost 65 per cent of the population, and are home to 75 per cent of businesses. As with the creation of Jubail and Yanbu in the 1970s, these new cities are not simply export zones; there is a commitment to attract expertise and investment in key areas through clustering; in the same way that Silicon Valley has. Providing a wide range of infrastructure and facilities will do this.

Businesses looking to locate in these new cities will find that red tape has been cut to a minimum, and that the Saudi Arabian General Investment Authority offers a one-stop shop for investors. In keeping with King



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Abdullah's reformist ambitions, they will also be models of social tolerance.

King Abdullah Economic City will cover 150 square miles – bigger than Washington DC, and is a hypermodern, eco-friendly mix of port and industrial zone, financial centre, residential quarters, luxury resort, and schools and colleges. Two million people will work and play inside the protected zone. The plans are that by 2010 up to 10,000 housing units will have been completed in King Abdullah City with around 500 inhabited, and 10 per cent of the city finished.

The aims of the cities go beyond job creation to urban renewal and modern benefits for a society that has doubled to include 17 million Saudis (60 per cent of whom are under 30 years of age) of a total population of 25 million in 18 years.

The government says that by 2020, the new cities will have added an extra US\$150 billion to GDP growth, along with 1.3 million new jobs, as well as homes for almost 5 million people. The 10x10 programme, implemented by the National Competitiveness Centre, and set up by King Abdullah in 2005, aims to put Saudi Arabia among the world's most-competitive nations by 2010. According to the International Finance Corporation -World Bank 2009 Report on *Ease of Doing Business* the country already comes in at 16 among 181 countries globally, and is first in the Middle East.

Saudi Arabia's privatisation and economic diversification efforts have gained momentum since King Abdullah set up the Supreme Economic Council (SEC). The SEC's objective is to speed up economic reforms aimed at opening Saudi markets and ensure stability for investors. The SEC evaluates economic, industrial, agricultural and labour policies to assess their effectiveness and impact on the national economy, diversification of the country's economic base and the growth of its competitive economic strength.

King Abdullah has presided over an impressive list of economic achievements, ranging from the institution of economic initiatives designed to transform petrodollars into a sustainable economic infrastructure to Saudi Arabia's entry into the World Trade Organisation. Equally important, the King has talked openly about fighting corruption and the need for substantive financial-sector reform including increasing transparency.

Over the last three and a half years, the Kingdom has been continuously revising its business-related laws to increase transparency and strengthen the country's global competitiveness. They include the Capital Markets Law, the Company Law, the Agency Law, the Insurance Law, the Mining Law and the Labor Law. These are all aimed at forwarding the process of economic liberalisation. The demographic reality of an educated and trained youth coupled with the

government's emphasis on developing human resources, offer attractive possibilities for foreign investors. Joint ventures with the Saudi government and the private sector have already groomed a generation of managers and technocrats.

Under King Abdullah, Saudi Arabia has established a sound regulatory and financial infrastructure based on financial standards and payment systems equivalent to those in major industrial countries. This has resulted in a strong banking sector that benefits from management expertise and the most sophisticated technologies. Foreigners can invest in the stock market through investment funds. The Saudi stock market is the largest in the region. The Saudi riyal has a strong record of stability and inflation rates in Saudi Arabia are very low. The Kingdom is signing bilateral agreements with an increasing number of countries to provide relief from double-taxation.

All these measures have been contributing to the development efforts and the consequent positive changes in the structure of the Saudi economy, especially during the past three and a half years of King Abdullah's enlightened reform programme. **F**

King Abdullah Bin Abdul Aziz Al-Saud

