

Export and Investment Promotion Planning System

88/89 Trade and Economic Overview

Mission: 347 RIYADH

Country: 322 SAUDI ARABIA

FOLLOWING 4 YEARS OF RECESSION, THERE ARE SIGNS THAT THE WORST IS OVER & THE SAUDI ECONOMY IS ABOUT TO TURN THE CORNER. AFTER A 10 MONTH HIATUS, THE GOVT PRODUCED A BUDGET IN LATE DEC. 1986 WHICH PROJECTED EXPENDITURES AT CDN \$60 BILLION, APPROXIMATELY THE SAME LEVEL AS THE PRECEDING YEAR. ALTHOUGH NO MAJOR NEW CAPITAL PROJ. WERE ANNOUNCED, CDN \$18 BILLION HAS BEEN EARMARKED FOR ONGOING PROJ & THE REPAYMENT OF OVERDUE ACCOUNTS. GROWING BUSINESS OPTIMISM IS EVIDENCED BY RENEWED ACTIVITY IN THE LOCAL STOCK MKT & THE NUMBER OF NEW APPLICATIONS SUBMITTED FOR INDUSTRIAL LICENCES. INVENTORIES HAVE BEEN REDUCED & CO ARE STARTING TO RESTOCK. THE PIVOTAL DEVELOPMENT IS THAT OIL PRICES HAVE STABILIZED AROUND US \$18 WITH THE PROSPECT OF FUTURE INCREASES. THIS IS CRITICAL SINCE OIL REVENUES DIRECTLY OR INDIRECTLY ACCOUNT FOR 60% OF GDP. REDUCING THE ECONOMY'S DEPENDENCE ON CRUDE OIL EXPORTS HAS BEEN ONE OF THE GOVT'S PRINCIPAL GOALS IN IMPLEMENTING ITS 4-5-YEAR DEVELOPMENT PLANS (1970-90). A SECOND MAJOR OBJECTIVE IS STRENGTHENING THE ROLE OF THE PRIVATE SECTOR. OVER THE PAST 15 YEARS, MASSIVE AMOUNTS OF MONEY HAVE BEEN SPENT INSTALLING THE INFRASTRUCTURE NEEDED TO ACCOMPLISH THESE GOALS. IMPRESSIVE RESULTS HAVE BEEN ACHIEVED. DURING THE 3-5-YEAR PLANS SPANNING THE PERIOD 1970-85, THE NON-OIL SECTOR GREW AT AN AVERAGE ANNUAL RATE OF 11%. 13 WORLD SCALE PETROCHEMICAL PLANTS HAVE COME ON STREAM & BY THE END OF THE 3RD PLAN, PRIVATE SECTOR OF GDP HAD GROWN TO 37%. SINCE 1982, HOWEVER, THE PRECIPITOUS DROP IN OIL REVENUE & THE COMPLETION OF MOST MAJOR INFRASTRUCTURE PROJ HAVE CAUSED A SHARP CONTRACTION IN THE ECONOMY, UNDERMINING BUSINESS CONFIDENCE & STALLING FURTHER DEVELOP. THE GOVT HAS TAKEN SEVERAL INITIATIVES TO REINVIGORATE THE ECONOMY. SPECIAL ATTENTION HAS BEEN FOCUSSED ON THE BANKING SECTOR TO MOBILIZE INVESTMENT CAPITAL & REMOVE IMPEDIMENTS TO DOMESTIC LENDING. NEW NON-OIL INVESTMENT IS BEING ENCOURAGED TO REPLACE IMPORTS & EXPAND EXPORTS OF DOWNSTREAM PETROCHEMICALS. FOREIGN PARTNERS ARE UNDER PRESSURE TO OFFSET MAJOR CONTRACT AWARDS WITH JOINT VENTURE INVESTMENTS IN HI-TECH INDUSTRIES. OIL REMAINS THE KEY. IF THE PRICE RECOVERY CONTINUES & PETROLEUM REVENUES INCREASE, THE ECONOMY WILL RESUME POSITIVE GROWTH, PROBABLY IN 1988. THE EXTRAVAGANCES OF THE BOOM YEARS ARE GONE FOREVER BUT MANY OBSERVERS SPEAK OF A BOOMLET EARLY IN THE NEXT DECADE. THE ADDITIONAL INCOME WILL BE USED TO BALANCE THE BUDGET, STRENGTHEN DEFENCE & SECURITY, & COMPLETE THE GOALS OF THE 4TH DEVELOP. PLAN (1985/90). OPPORTUNITIES FOR CDN EXPORTERS OF GOODS & SERVICES ARE BRIGHTEST IN THE FIELDS OF EDUCATION, HEALTHCARE, DEFENCE PROD., SPECIALIZED O&M, TELECOM, TRANSPORT., AGRIFOOD & SELECTED CONSUMER ITEMS. INVESTOR INTEREST IN CDA IS ALSO GROWING, SPARKED BY THE CDN ECONOMY'S RECENT PERFORMANCE & THE GOVERNMENT'S WELCOMING ATTITUDE.