

RPTR1

## TRADE AND INVESTMENT PROMOTION PLANNING SYSTEM

## 89/90 TRADE AND ECONOMIC OVERVIEW

Mission: RIYADH

Country: SAUDI ARABIA

AFTER FIVE YEARS OF RECESSION, THERE ARE SIGNS THE SAUDI ECONOMY HAS BOTTOMED OUT. THE GOVERNMENT BUDGET OF LATE DECEMBER 1987 PROJECTED EXPENDITURES AT CDN \$47 BILLION, APPROXIMATELY 16% LESS THAN THE PRECEDING YEAR. ALTHOUGH NO MAJOR NEW CAPITAL PROJECTS WERE ANNOUNCED, UP TO CDN \$15 BILLION HAS BEEN EARMARKED FOR ONGOING PROJECTS. BUSINESS CONFIDENCE IS RECOVERING AS EVIDENCED BY RENewed ACTIVITY IN THE LOCAL STOCK MARKET AND THE NUMBER OF APPLICATIONS SUBMITTED FOR INDUSTRIAL LICENCES. INVENTORIES HAVE BEEN REDUCED AND COMPANIES ARE STARTING TO RESTOCK. OIL REVENUE IS THE CRITICAL FACTOR SINCE DIRECTLY OR INDIRECTLY IT ACCOUNTS FOR 60 PERCENT OF GDP. REDUCING THE ECONOMY'S DEPENDENCE ON CRUDE PETROLEUM EXPORTS HAS BEEN ONE OF THE PRINCIPAL GOALS OF THE GOVERNMENT'S FIVE-YEAR DEVELOPMENT PLANS (1970-90). A SECOND MAJOR OBJECTIVE IS STRENGTHENING THE ROLE OF THE PRIVATE SECTOR. OVER THE PAST FIFTEEN YEARS, MASSIVE AMOUNTS OF MONEY HAVE BEEN SPENT INSTALLING THE INFRASTRUCTURE NEEDED TO ACCOMPLISH THESE GOALS. THE SAUDI-ARABIAN BASIC INDUSTRIES CORPORATION (SABIC) HAS INVESTED MORE THAN US \$11 BILLION TO CREATE A WORLD SCALE PETROCHEMICAL INDUSTRY. TWO LARGE INDUSTRIAL CITIES HAVE BEEN BUILT AT JURAIL AND YANBII TO ENCOURAGE THE DEVELOPMENT OF PRIVATE, DOWNSTREAM PETROCHEMICAL INDUSTRIES. NON-OIL INVESTMENT IS PROMOTED BY A VARIETY OF GOVERNMENT SUBSIDIES, FINANCIAL AND TARIFF INCENTIVES. THESE POLICIES HAVE ACHIEVED IMPRESSIVE RESULTS. DURING THE THREE FIVE YEAR PLANS SPANNING THE PERIOD 1970-85, THE NON-OIL SECTOR GREW AT AN AVERAGE ANNUAL RATE OF 11 PERCENT. SABIC SUCCEEDED IN BRINGING THIRTEEN WORLD SCALE PRIMARY INDUSTRIES ON STREAM, TEN OF WHICH HAVE MAJOR FOREIGN PARTNERS. NON-OIL MANUFACTURING EXPANDED AT A SIMILAR PACE SO THAT BY THE END OF THE THIRD PLAN, THE PRIVATE SECTOR'S SHARE OF GDP HAD GROWN TO 37 PERCENT. IN THE EARLY EIGHTIES PROGRESS STALLED DUE TO A STEEP DROP IN OIL REVENUE AND THE COMPLETION OF MOST LARGE SCALE INFRASTRUCTURE PROJECTS. THE RESULTING SHARP ECONOMIC CONTRACTION PRECIPITATED A 45 PERCENT DROP IN GDP AND A MAJOR SHAKOUT IN THE BUSINESS COMMUNITY. THE GOVERNMENT RESPONDED WITH A SERIES OF INITIATIVES TO REINVIGORATE THE ECONOMY. CUSTOMS POLICY, PUBLIC SECTOR PROCUREMENT, STIMULATION OF LOCAL DEMAND, EXPORT PROMOTION AND THE SETTLEMENT OF COMMERCIAL DISPUTES, HAVE ALL BEEN LOOKED AT WITH A VIEW TO CREATING A MORE FAVOURABLE BUSINESS CLIMATE. SPECIAL ATTENTION HAS BEEN FOCUSED ON THE BANKING SECTOR TO STIMULATE NEW LENDING AND TO MOBILIZE INVESTMENT CAPITAL. THE GOVERNMENT IS ALSO ACTIVELY PROMOTING JOINT VENTURES IN THE KINGDOM WITH EMPHASIS ON HIGH TECH PRODUCTS, AGRIBUSINESS AND IMPORT SUBSTITUTION. DESPITE EFFORTS TO RESTRUCTURE THE ECONOMY AND BOOST THE ROLE OF THE PRIVATE SECTOR, OIL EXPORTS ARE STILL OF PRE-EMINENT IMPORTANCE. IF ACTUAL OIL RECEIPTS COME CLOSE TO THE US \$18 BILLION PROJECTED FOR 1988, THE NASCENT ECONOMIC RECOVERY WILL CONTINUE AND POSITIVE GROWTH CAN BE EXPECTED TO RESUME. IF THE PRICE COLLAPSES, THE RECESSION WILL DRAG ON FORCING THE GOVERNMENT TO DRAW DOWN FURTHER ITS ESTIMATED US \$60 BILLION IN FOREIGN RESERVES. IN EITHER CASE THE