

Economic Diversification and Oil Revenues in the Arab Gulf Countries - The Case of Saudi Arabia

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Abstract

The diversification of the economy took on great importance after rent countries realized the depth of the imbalances and structural distortions caused by their reliance on oil, which made them characterized by a unilateral economy. The risk of dependence on this resource stems from the correlation between its prices on the world oil markets and their sharp fluctuations from time to time, and the impact on economic growth and stability in these countries. This paper attempts to assess the efforts of the GCC countries over the past decades to transform their economies away from excessive dependence on oil by creating a more diversified and productive economic system. The study will focus on Saudi Arabia's experience in diversifying the production base over the past decades and discussing the challenges that hindered its economic diversification. It will also elaborate some recommendations on how to adjust the policies of diversification in order to make them more successful in the future.

Keywords: Economic diversification, oil revenues, Arab Gulf countries, Saudi-Arabia

1. Introduction

It can be said that diversifying economic activity is a difficult task for oil-exporting countries. Few countries have historically succeeded in diversifying their economic activity and reducing their dependence on oil, especially when their oil production has been abundant and sufficient for a long time. For the GCC countries, economic diversification aims not only to reduce the negative impact of oil price fluctuations. The diversified economy tends to be more stable, has the capability of job opportunity creations and also reduces cycles of boom and depression of oil and gas prices.

The excessive-oil-dependent economic model is unsustainable model. The accumulated challenges have deepened the structural distortion in most GCC states due to dependence on oil revenues. Oil is a depleted wealth, subjected by supply and demand forces in the global market and cannot be relied upon it as a sustainable resource.

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There are three factors that have placed the case of economic diversification as a priority for the Gulf States since the discovery of oil, namely; the possibility of income depletion which comes from the price fluctuations and demand for oil because oil resources are in fact the only source of wealth. At present, the Gulf Arab states give high priority to economic diversification. However; the economic diversification for the GCC States is not a new strategy. It is the subject of political agendas, since oil and gas have become the main and only source for income in those countries.

In addition to that, with having some efforts by the GCC states since the decades of 1970s, which have led to development in some industries, services and other sectors. In other side, decrement in relative size of oil sector and increasing the size of the average of non-oil exports as a ratio of total exports.

The contribution of the oil sector in the GCC economies in all its aspects is still very high. Oil dependency is remained the engine of growth in the Gulf, and most industries, which not relies on oil, have not much hope to survive or expand in the post-oil era. This shows that diversification efforts have not yet produced a healthy pattern of sustainable development.

Either in Saudi Arabia, production base diversification of the economy has been a major objective of economic development since of the beginning of the planning process in the Kingdom. Sequential development plans have realized the potential risks in the monoculture economy and intensive dependence on oil production and export.

The diversification of economic activity in Saudi Arabia is increasingly important for at least four reasons. Firstly, it will reduce the exposure of the economy to the risks of volatilities and uncertainties in the world oil markets. Secondly, it will help to create the necessary job opportunities in the private sector to employ young peoples and the growing numbers of working-age population within the labour force. Thirdly, it will help to increase productivity and achieve sustainable growth. Fourthly, it will help to lay the foundations for a non-oil economy that will be needed over time, when oil revenues begin to fall. This study aims at discussing the justifications and policies of economic diversification. More detailed research for the efforts of economic diversification in the GCC countries over the past decades with a focus on Saudi Arabia as a case study. As well as to monitor the challenges that hinder diversification policies in these countries. Finally, to come up with a number of proposals that may lead later to the development of a new way to make economic diversification efforts successful in the GCC.

The remainder of the paper is organized as follows: The next section reviews the existing related literature on the topic. Section 3 describes the economic diversification efforts in the GCC countries. section 4 deals with the experience of Saudi Arabia in diversifying the economic base and the disengagement from oil. The paper concludes with a number of recommendations on the activation of economic diversification plans and policies in these countries.

2. Literature Review:-

Generally diversification is related to production participating. It is dividing investment on different economic sectors in order to limit the risk of excessive dependent on one resource or one sector or so few sectors. Although, beside the concentration on the basic aim in diversification; it is "decreasing the dependency on petroleum (oil) sector and its revenues by developing non-petroleum (non-oil) economy, exports and other revenue sources. In the same time, lessening the role of public sector and boosting private sector role in development. Means, it is the process that indicates the dependency on increased number of sectors that participate in creating production.

Also, the process of growing economic activities in the side of production and distribution for goods and services is economic diversification. It is not the necessitation of increasing output but it fosters economic stability by economic base diversification. To insure long-term stability, the perspective of sustainable development should be the view of economic diversification issue. By viewing from this angle, it will have the capacity to strengthen economic adoption capacity and protects the long-term possibility of basic natural resource depletion and, due to global competition pressure, the vagaries of economic fluctuations (M. Anyaehie and A. Areji, 2015, p .89.).

Diversification in oil countries is also known as (the exploitation of oil revenues to create a production base that ensures the sustainability of the post-oil economy through the establishment of heavy industries, modernization of infrastructure and investment in various fields.). UN experts have defined economic diversification as (limitation of the excessive dependence on the oil sector by developing a non-oil economy, non-oil exports, alternative sources of government revenues and boosting private sector growth on the expense of reducing the role of the public sector.)(T.L. Carl, 2007, p.131.).

Economic diversification is a development policy. It aims at; reducing economic risks, increasing value added, and improving income level. These are by directing the economy to new or diverse markets or sectors rather than relying on a single product and market. In other words, economic diversification can be referred to as divers the sources of Gross Domestic Production (GDP), or divers of revenue sources into the public budget, or divers of foreign markets.

Finally, the variety of income resources in a country, which are not directly related together, is economic diversification. The significant dependence on production and selling of oil to other countries, which are the source of a large part of income, is a good example for that poorly diversified economic in Saudi Arabia. Means, the fluctuation of oil price will cause the wild fluctuation in standard of living. In contrast, good example for better diversified economic is South of Korea. Because different types of economic activities participate in income generation, including; Hi tech technology, financial services, manufacturing and automobile.(M.H. Shayah, 2015, p. 735.).

The global economic environment that faces the world, especially the developing countries, turned to be required a high level of production efficiency and competitiveness to withstand international competition and access to world markets. International Monetary fund's (IMF) experts confirm that oil-producing countries face special challenges in managing their economies. It is not only because oil prices and revenues are significantly fluctuate and unpredictable, but also because they have to plan for that time

when oil will be depleted. Governments must do their best to achieve the vast accumulation of large productive and financial assets during the oil production phase to sustain the post-oil development momentum. (S. Barnett and R. Ossowski, 2003, p.23.).

Certainly, justifications for economic diversifications are many. These are between countries in many sides seemed to be the same in many ways, for instance; the justifications for economic diversification from national strategy for development in Iraq year 2005-2007 has come as:

- ❖ The diversified economy provides the necessary protection against the dangers of the Dutch disease. This phenomenon occurs when the oil states exploit their natural resources, including oil, to increase their exports. It leads to the inflow of foreign currency and then raises the value of the local currency in terms of foreign currency. This is reflected in higher domestic commodity prices and lowering the capability of competitiveness in the world markets. As a result, imports will rise and exports of non-oil products fall.
- ❖ Due to large capital investments (intensive capital, light worker), the oil extraction sector in general is unable to absorb labour force. Its need in the side of labours is little and it needs a high skilled labour by comparative to other investments. So, diversifying, away from oil, would lead to the development of other economic sectors (ex. Agriculture, transformative industries and tourism). It has a clear impact on the absorption of the labour force and reducing the rate of unemployment in the economy.
- ❖ Economic diversification reduces the risk of economic exposure caused by dependence on a single export commodity rather than on a diversified export base. This will lead to greater stability in returns and hence achieving financial and economic stability. Whereas diversified economic infrastructure, by giving a bigger role to production sectors such as industry and agriculture, decreases the effectiveness of shocks on national economy which produced by falling in oil price.
- ❖ Improve and ensure the continuation of the pace of development through the development of multiple and diverse sectors, raising their value added in GDP and encouraging investment. Which they will be a source of income, foreign currency and the revenues of the general budget
- ❖ Obtaining self-sufficiency in goods and services. Increasing exports with reducing dependency on imports for consumption goods. Providing job opportunity in addition to improving levels of standard living.

In order to test the extent to which a country succeeds in achieving its goal of economic diversification, some quantitative criteria have to be used to measure this achievement. These criteria are often determined by sources of income and production and analysis of available data, especially national accounts. These usually reflect a clear picture of the economic structure.

The establishment of these standards is inseparable from the principle of progress in achieving this strategic goal in the light of the targeted current and future absorptive capacity of the national economy, including the operational capacities of governmental and public institutions. A number of measurements can be used to measure the degree of diversity in economic structures, including; the percentage of value added contribution of

the economic sectors to the value of GDP, the evolution of percentage of non-oil exports in total exports, financing the government budget depends on one sector or more, high relative importance of the private sector in GDP and sectoral diversification of the labour force.(ESCWA, 2001, p. 12.).

3. Economic Diversification in the GCC Countries

The failure of development in resource-rich countries has attracted much attention to the study of this paradox. Several hypotheses have emerged to explain this phenomenon.

The first is called the Dutch disease. Means natural resource exports lead to an abundance of foreign currency, which this will lead to a revaluation of the local currency, coupled with a decrease in the relative price of goods traded to non-traded goods. This leads to deterioration in the international competitiveness of the exporting country. Thus leads to a relative shrinkage of the goods production sector in the favor of foreign imports.

The second hypothesis is called the resource curse or the paradox of abundance. This hypothesis starts from the observation of exaggeration of spending without counting the fluctuations in the level of revenue. Since, spending when increases it cannot be easily decreased. As current expenditure rises with every jump in natural resources, because of the slow propensity to save from natural resources, the country is increasingly vulnerable to financial crises when oil prices fall and have to borrow (Venezuela and Mexico for example). Thus, gradually it moves away from the imperatives of development. (A. Ali, 2012, p.39.).

The third hypothesis focuses on the uncertainty component that underpins the growth model in countries that rely on the export of natural resources to finance the economy and the budget. Several studies have discussed the relationship between the volatility of global oil prices with financial and economic stability in the oil countries. This has been done by the occurred fluctuation in government revenues with current and investment spending. As well as the uncertainty factor that hinders governments in developing long-term investment plans for economic development and diversification.(N. Al-Jubouri, 2015, p.64.).

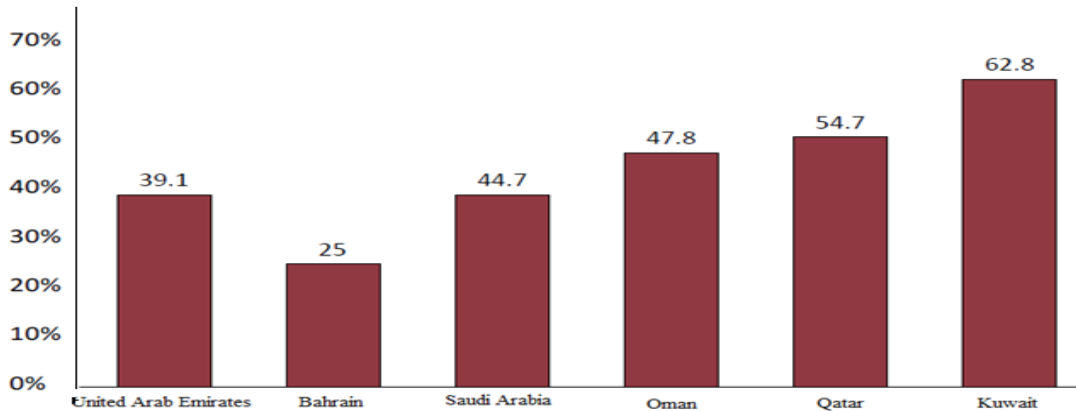
Over the past decade, the GCC has been one of the fastest growing regions in the world, benefiting from the oil price boom. Macroeconomic policies and investments in; health, education, infrastructure and business climate reform have improved dozens of human development indicators.(T. Callen and *et al*, 2014, p.6.).

However, the economic model that relies heavily on oil is unsustainable model. The cumulative consequences over the past decades of dependence on oil revenues have deepened the structural disputes in most GCC countries. Oil is a depleted wealth and is mainly subject to fluctuations in oil prices in the global market and cannot be relied upon as a major resource for the region. Although Gulf oil reserves are still the highest in the world, economic pressures may emerge in the Gulf States before decades of oil depletion. Some of them actually have shown at this time.

In Bahrain and Oman, oil reserves are expected to dry up within 20 years. The other GCC countries have longer prospects, but their need for change remains. There is a dispute in the composition of public revenues. The dispute also takes its root from the

structure of spending of these revenues, as a large part of the oil expenditure goes to current and military expenditures. This is the opposite of what is happening in Norway, the most advanced country in terms of dealing with oil revenues, where most of the oil revenues go mainly to capital spending and sovereign funds.(Gulf 2013, 2013, p.100).The economic imbalance in the GCC countries is an over-dependence on oil exports that are vulnerable to depletion (oil and gas). **Figure 1** shows the share of oil in the GCC in 2015.

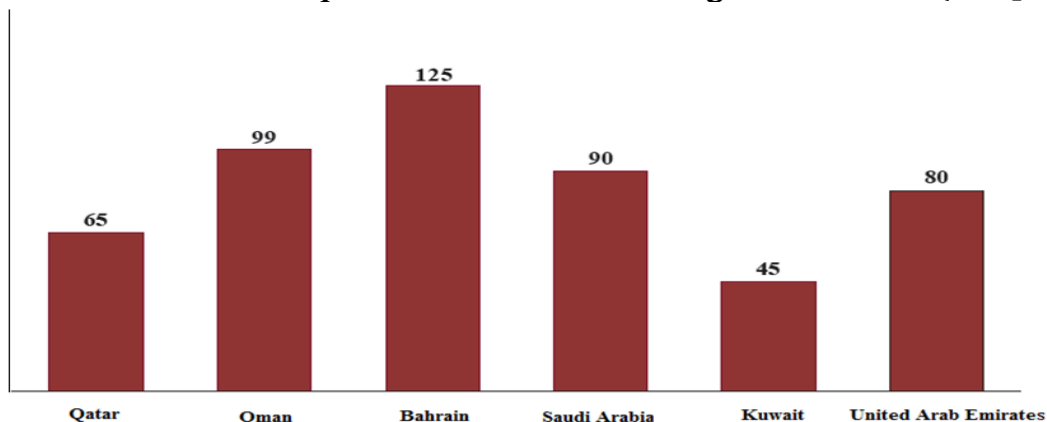
Figure 1
The share of oil in the GCC economies, 2015



Source:Gulf 2016: The Constant and the Changing, Kuwait: The Gulf Centre for Development Policies, 2016, p. 127.

The GCC countries have not benefited from the previous oil boom to reduce dependence on oil. The Gulf governments have not adopted oil policies that use oil revenues to diversify their sources of income and build sustainable development. After the price of a barrel of crude oil required to offset the budgets of most of the GCC countries did not exceed 20\$ at the beginning of this century, the price approached about 100\$ to offset the balance of public budgets in 2014-2015. It is shown in **Figure (2)**.

Figure (2)
The price of the barrel required to finance the budget in the GCC (2014-2015)



The source : Gulf 2016 : The Constant and the Changing, the Gulf Centre for Development Policies, Kuwait, 2016, p89.

The multiplicity of risks and seriousness of the challenges did not push the GCC countries to take the necessary steps in times of oil boom. In order to shift from the rent economy, that depends on extraction, deduction and distribution, to an economy dependent on production diversification of activities and exports. Also, transform the depleted natural resources to assets that generate sustainable growth in the long term, the most important of which is human capital.

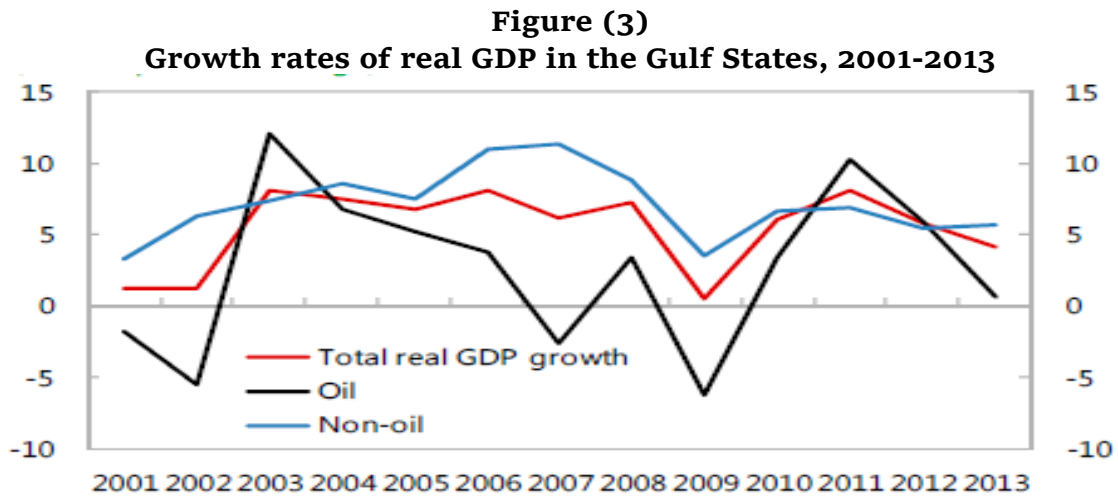
The dominant pattern of growth in GCC countries depends on oil revenues which are redistributed in the economy through the government spending mechanism. Part of this consumption expenditure is related to the wages and salaries of citizens in the public sector. Part of it is related to capital expenditure in development projects, infrastructure and social services.

The activity of the private sector, after four decades of oil exports, remains concentrated on three main areas: contracting, services, import trade and promotion of foreign product through the commercial agency system. These are by taking advantage of huge government spending in the times of oil boom, cheaper production factors, cheap energy inputs and a few skilled foreign workers. In addition to that, their income is a leakage of national capital abroad, as well as leads to a serious shift in the population structure of society. (Al- Khater, 2015, p. 27.).

The non-renewability of oil resource is the main cause of this longstanding problem (the problem of depending on one sector). Oil revenue volatility conveyed with demographic growth has brought back this issue to headlines (P. Devaux, 2013, p. 17.). The Gulf region's need for diversification has been recognized since 1960. This is when oil revenue has been invested in manufacturing and heavy industries by Kuwait and Bahrain. Also the increment of oil revenue, due to first significant increase in oil price in 1970s, has enabled Saudi Arabia to undertake numbers of mega petrochemical projects in Jubail and Yanbu cities in 1975. Finally, the late for the oil game with oil revenue discovery in 1968, Dubai has invested its oil revenue immediately in infrastructure to be a global trading centre. At the same time, financial services sector has been developed by Bahrain in 1975. (Growth Drivers, 2015, p.5.).

The GCC countries have taken a number of important steps to diversifying their economies away from oil and gas dependency. Infrastructure, education and health systems have been established, and a wide range of manufacturing industries have been established serving primarily the global market. Since the early 2000s, important economic reforms have been carried out in the Gulf States, trying to make investment opportunities attractive to both citizens and foreigners.

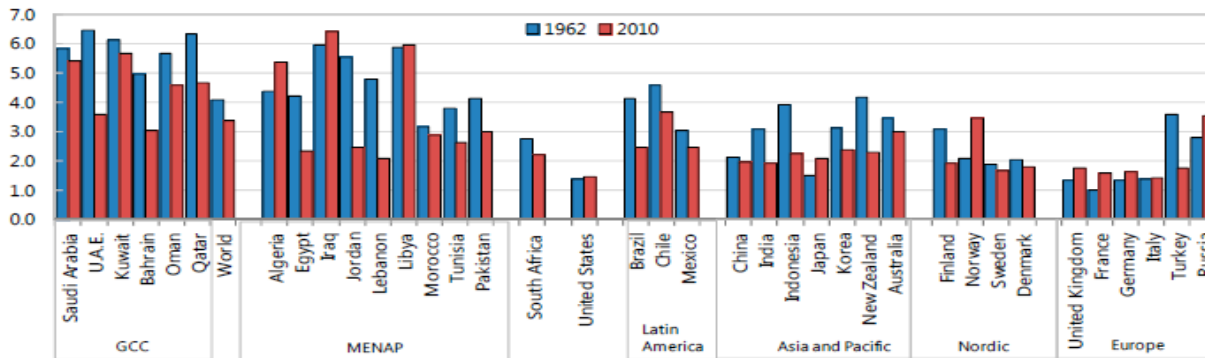
Non-oil output has been increased in GCC economies since 2000. However, progress towards real production diversification was modest. Non-oil GDP grew by approximately 6.8% in the period of 2000-2013. The real non-oil sector grew by 12%, which has boosted mainly the growth rates in Saudi Arabia and the UAE. **Figure (3)** shows the trend of oil and non-oil GDP in GCC countries during the period of (2001-2013).



Source: Callen, T. & Other, Economic Diversification in the GCC: Past, Present, and Future, International Monetary Fund, December, 2014, p.12.

Thus, the high growth rates of non-oil output were boosted mainly by higher oil prices. The increasing in oil prices since 2000 has helped rising the finance of government spending. Either, the private sector in the Gulf States has created a limited number of attractive job opportunities and workplaces for Gulf nationals. Between 2000 and 2010, seven (7) million of job vacancies in the GCC (excluding the UAE) have been created, of which 5.4 million were in the private sector. Although there is some variation between countries, at the macro level, nearly 88% of jobs in the private sector were occupied by foreign workers (85% of them were with low skills). While 70% of GCC nationals were occupied in public sector. Gulf nationals, in the private sector, also work in high-paying jobs (e.g. financial services) or in supervisory sector jobs with having low-productivity (construction, trading and transportation for example). **Figure(4)** illustrates limited progress towards export diversification in the Gulf countries during 2010 compared with 1962. This is not surprising because of the dominance of oil products on the export basket which accounts for more than 80% of total commodity exports. The GCC countries have a limited number of new non-oil exports, making the GCC's exports largely less diversified in many countries. In addition to that, the increasing of commodity exports to some Gulf countries has not stimulated the transformative industry but focused on export of services rather than the development of high level of value-added industrial exports.

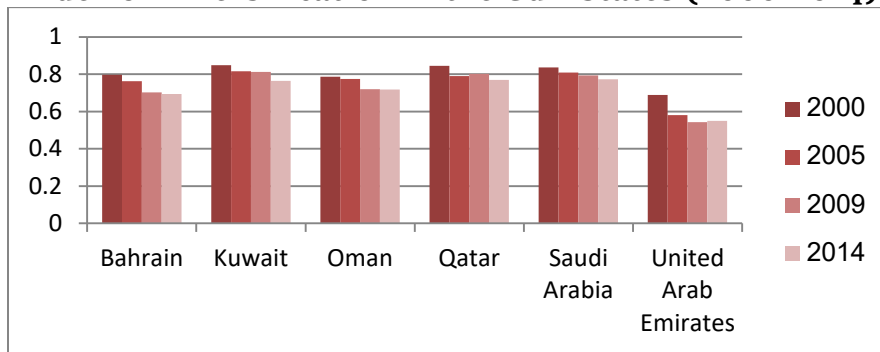
Figure (4) Export Diversification: 1962 versus 2010



The source : Callen, T. & Other, Economic Diversification in the GCC: Past, Present, and Future, International Monetary Fund, December, 2014, p.15.

Figure (5) shows the trend of the Diversification Index (*) and the Concentration Index of the GCC countries according to the statistical data of UNCTAD during the period of(2000, 2005, 2009 and 2014). This is to monitor the diversification path in these countries according to these indicators. On the individual level, it is clear that economic diversification efforts and policies have been modest in some countries, such as Saudi Arabia. Where export diversification levels have reached to 0.77 percent in 2014 which was about 0.83 percent in 2000.

Figure (5) Index of Diversification in the Gulf States (2000-2014)



The source :UNCTAD, Handbook of statistics, Various editions

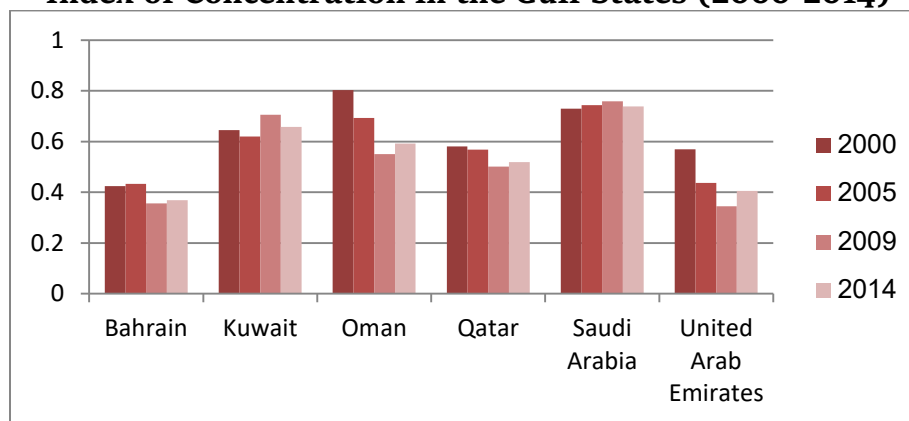
For the index of concentration (*), as shown in Figure (6), it remained unchanged (0.73%) during the period of (2000-2014). This reflects the low efforts of Saudi Arabia in diversifying its commodity exports and reducing the excessive dependence on oil exports.

* The Diversification Index measures the deviation of the share of exports of a country's major goods in their total exports from the share of national exports of those major commodities in world exports. The index ranges from 0-1, so that the closer the index to zero, the higher the diversification of exports. When the index reaches zero, the structure of national exports corresponds to the global export structure.

* The concentration index, known as the Herfindal-Hirschmann Index, measures the level of market concentration of a country's share of world exports / imports in a commodity or a particular commodity group or its diversity between more than one commodity and commodity group. The index values range from 0-1, and the minimum values of the index indicate lower concentration levels for both exports and imports, while higher values indicate higher concentration levels.

The other countries did not witness a significant improvement in the indicators of diversification and commodity concentration during the mentioned period. Exception for the United Arab Emirates, which has achieved some improvement in the diversification index to reach 0.55% in 2014 compared to 0.68% in 2000. The commodity concentration index showed a similar improvement to reach 0.40% in 2014 after it was about 0.57% in 2000. At the Gulf level as a whole, diversification efforts have been modest, has been shown that the average overall diversification rate improved slightly to reach 0.71% in 2014 compared with 0.80% in 2000. While the concentration index reached nearly to (0.54%) in 2014 after it was about (0.62%) in 2000.

Figure (6)
Index of Concentration in the Gulf States (2000-2014)



The source: UNCTAD, Handbook of statistics, various editions

Thus, despite the presence of some efforts by the GCC countries since the 1970s this has led to the development of a number of sectors, industries and other services. This led to reduce the relative size of the oil sector and increase the volume of non-oil exports on average as a proportion of total exports. The share of oil sector in the GCC economies in all its aspects is still very high. "Oil dependence remains the general framework of the growth model in the Gulf and most non-oil-dependent industries do not have much hope of survival or expansion in the post-oil era." This shows that diversification efforts have not yet resulted in a healthy pattern of sustainable development. (M. Hvidt, 2013, p.14.).

The long-term economic and social development strategies of the GCC States emphasized the importance of economic diversification. Most of these strategies aim to promote sustainable development, reduce dependence on oil and gas revenues, and increase employment opportunities in the private sector to absorb national labour. (For example; Saudi Arabia's long-term strategy 2025 and 2030, Vision 2020 in Oman, Vision 2021 in the UAE, Vision 2030 in Bahrain and Vision 2030 in Qatar). Economic diversification is an important platform for achieving all three previous objectives. However, the data has shown that countries remained in a position where the oil sector still controls the economy, and few industries and services that have been created may live for the post-oil era. (Callen and other, 2014, p.11.).

4. Diversification Experience in Saudi Arabia

Saudi Arabia is the largest GCC country in terms of land area, population size and oil reserves. With a population of over 31 million, including 11 million foreign residents and Saudi Arabia owns about 20% of the proven oil reserves in the world.

Kingdom has succeeded in establishing petrochemical industries and converting crude products to refined oil products over the past 40 years. Over the past decade, due to the increased oil prices and increased production have resulted in huge surpluses in the external account and public finances. The economy has benefited from government spending and has helped to boost private sector activity. Government deposits with the banking system have increased by nearly 56% of GDP with government debt level falling to around 1.5% of GDP by the end of 2014. (IMF Country Report, 2015, p.4.).

The performance of the Saudi economy depended on the extraction and export of oil for many years. Oil revenues are the mainstay of the general budget, the export pillar, the engine of growth and economic activity. When global oil prices increase, government revenues and expenditures increase, export of commodities rise, the economy recovers in both public and private sectors. The opposite occurs when world oil prices deteriorate and reduces the demand for it.

The planners warn early on that reliance on oil revenues, as a depleted economic resource. It is fraught with many risks in a country where public revenues do not depend on taxes, the agriculture sector is not sustainable, industry does not depend on national labour and promising economic sectors are not emerging. (M. Al-Khatib, 2014, p.1.).

Saudi Arabia relies on oil for more than 90% of public finance revenues. The main challenges facing fiscal policy makers are to protect the economy and the budget from sharp fluctuations in oil prices. This is to ensuring that oil revenues are used efficiently for development purposes and sufficient revenues are saved for the next generations.

The fiscal policy plays a crucial role in Saudi Arabia as the main instrument through which the country's oil wealth is transformed into economic outcomes and the distribution of resources for the benefit of citizens. Over the past several decades, government spending on infrastructure, education, and social programs has shifted the economy and raised living standards. (A. Al-Darwish, 2015, p.19.). However, there is agreement that the old economy (Oil-based) is not enough to achieve: sustainable economic development, the operation of the current labour force and raise living standards. Although the Kingdom's production is close to 11 million barrels of oil a day in 2017, the country has the lowest gross domestic product (GDP) per capita compared to the rest of the GCC. A major challenge for policy makers is managing the demographic pressures resulting from the rapid growth of the young population and the growth of the labour force by more than 5% annually.

In the labour market, the bulk of Saudi's labour are concentrated in the public sector, while the private sector relies on low-paid and low-skilled foreign labour. Diversification of the economy necessitates the high-productive activities and ensures having the necessary skills by young Saudis to fill these jobs. Current economic structure of Saudi Arabia is oil dependent. Better options cannot be found better than diversifying the base of production that would boost productivity and competitiveness and generate more jobs in the private sector. Sustainable growth and the establishment

of industrial economy in the kingdom would be achieved. Especially when oil revenue begins to fall, this will be more volatile and stable (A. Al- Bakr, 2015, p.7.).

The dependence of Saudi Arabia's economy on oil revenues poses many challenges for policymakers. This is including how best to deal with the country's current dependence on oil revenues. How to ensure that the local economy is protected to the fullest possible degree of volatility in the global oil market? This is through diversification of the economy and to expand the production base in the country.

The goal of economic diversification has captured the attention of economists in Saudi Arabia since its adoption of the economic planning approach to manage the economy. Saudi Arabia has longer and more detailed plans than all the GCC plans. Since 1970, Saudi Arabia has drawn up nine economic development plans. In 2004, the Kingdom established a long-term strategy spanning the period 2005-2024. In addition to these plans, there are eight sector plans, is called national plans, covering many areas such as: youth care, transportation, privatization, employment, science and technology, industry and others.(M. Havidt, 2013, p. 29.).

As for the economic development plans in Saudi Arabia, the first development plan stated in its general goal, the necessity of "diversifying national income sources and reducing dependence on oil by increasing the contribution of other productive sectors to GDP". In the 1970-1975s plan, the Saudi government supported the agricultural sector as a major tool for diversifying the Saudi economy. Several policies were implemented, including loans and subsidies to farmers, and the purchase of agricultural crops at competitive prices to support agriculture.

However, these policies have succeeded in attracting investors to the industry. The government's efforts to build a strong and independent agricultural sector that contributes to long-term economic growth have failed. The low levels of water have prompted the Saudi government to cut subsidies on industry and agriculture to reduce water consumption in the desert state because of the scarcity of water.(M. Havidt, 2013, p. 29.).

By the end of the First Development Plan (1970-1975), the annual growth of the non-oil sector was about 11.4%, although the target was 14%. The services sector was then considered to be a tool for diversify the Saudi economy during the Second Development Plan (1975-1979). Although the goal of the services sector was 13% of GDP during the Second Development Plan, the services sector (by the end of the plan in 1980) achieved only 8% of GDP.(SAMA,2014,p. 17.). In the Third Development Plan (1981-1985), the Saudi economy did not witness any significant diversification.

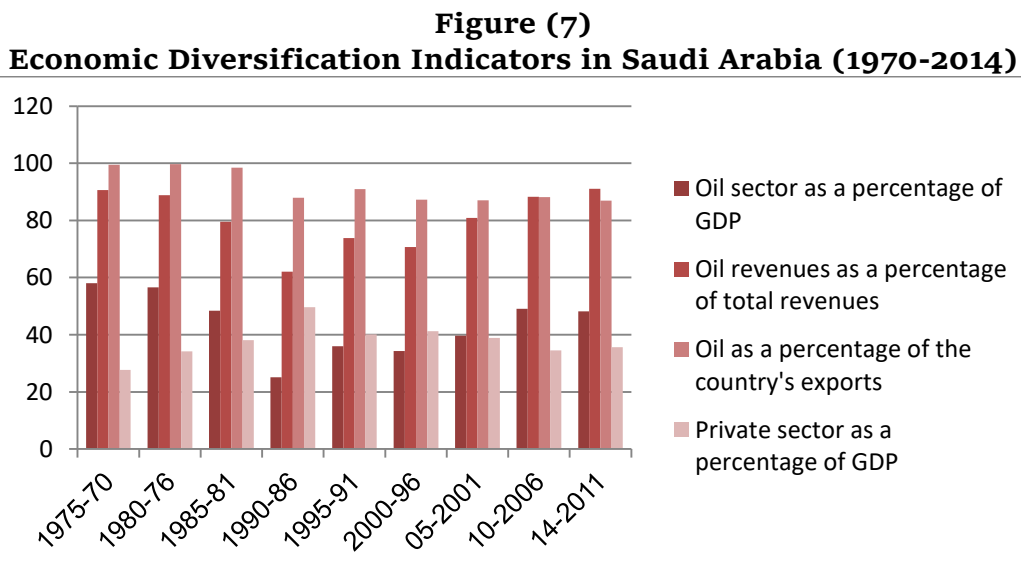
Economists consider the Fourth Development Plan (1985-1989) as a model for success in the Saudi government's efforts to diversify the economy. Several reasons have been put forward to explain the success of the Fourth Development Plan (1985-1989). All measures of economic diversification have improved compared to the previous plan (1980-1984). The share of oil in GDP has decreased by 23.24%, and the share of the private sector in GDP increased by 11.56%. Oil exports as a percentage of the country's exports fell by 17.51%. Oil revenues as a percentage of total revenues fell to 48% in the

fourth five-year plan. This is due to the fall in oil prices in 1985 and thus the decline in the contribution of oil to GDP and the strengthening the role of the private sector.

Jubail and Yanbu, both industrial cities, were established in 1975 in an effort to employ the comparative advantage of the Saudi economy (oil) and to help create job opportunities for citizens. Accordingly, many companies and factories began to work in these cities during the fourth plan, resulting in increasing private sector contribution to GDP. As a result, the creation of these cities participated to assimilate many job seekers in Saudi Arabia and contributed to reduce the rate of unemployment. Subsequent development plans have not seen much success in raising the level of economic diversification in order to be mentioned. (B. Al-Bassam, 2015, p.115.).

The Saudi government's efforts to diversify the economy can be traced through four variables that illustrate the nature of economic diversification in Saudi Arabia: the share of the oil sector in GDP, the share of the private sector in GDP, oil exports as a percentage of the country's exports, and oil revenues as a percentage of total Revenue. **Figure (7)** shows the average of variables of economic diversification for each development plan.

The averages have been used, rather than the years, because provide more realistic data and highlight the course of each plan in achieving economic diversification.



❖ Oil sector as percentage (%) of GDP

The share of the oil sector in GDP reflects the importance of this sector in achieving economic growth in the oil countries. In the Saudi economy, there has been no stability in the oil sector's share of GDP over time. As shown in table 1 and 2, this share is affected by the fluctuations in the oil prices in the global market. For example, when oil prices fell in the period of 1985-2000, the oil sector's share of GDP declined, while oil price recovery at the turn of the 21st century led to the rise of this share again. Looking at the share of the oil sector as a percentage of GDP, we can conclude that the price of oil leads to economic growth in Saudi Arabia; this indicates a low level of economic diversification.

❖ Oil revenues as a percentage of government revenue

The diversification of national income is an important factor in economic diversification. The reliance on one source of income leads the economy to be linked with the fluctuations in the price of that source in the global market. As shown in table 2, the Saudi national income is almost entirely dependent on oil. In addition, the oil revenues represent a high percentage level of the total government revenues amounting to 90.56% during the first plan (1970-1975) and 91.05% during the last plan (2010-2014). Thus, oil revenues continue to be the driving force of the Saudi economy despite the multiplicity of economic development plans aimed at diversification.

❖ Oil as a percentage of exports

Oil in Saudi Arabia accounted for more than 86% of the country's total exports during the 2010-2014 development plan. This proportion has remained fairly constant since the 1985-1989 Development Plan. Thus, the government's efforts to reduce dependence on oil have not succeeded by taking the amount of oil exported as a percentage of the country's total exports as an indicator of economic diversification. Countries with exporting a wide range of goods and services are more productive and sustainable than economies that depend on a few commodities in their major exports. In addition, Bose and Groning (2011) have found that when the natural resource becomes dominant over the country's exports, it leads to corruption be increased and negatively affects the institutional quality of the economy.(M. Busse and S. Gröning, 2011, p. 6.).

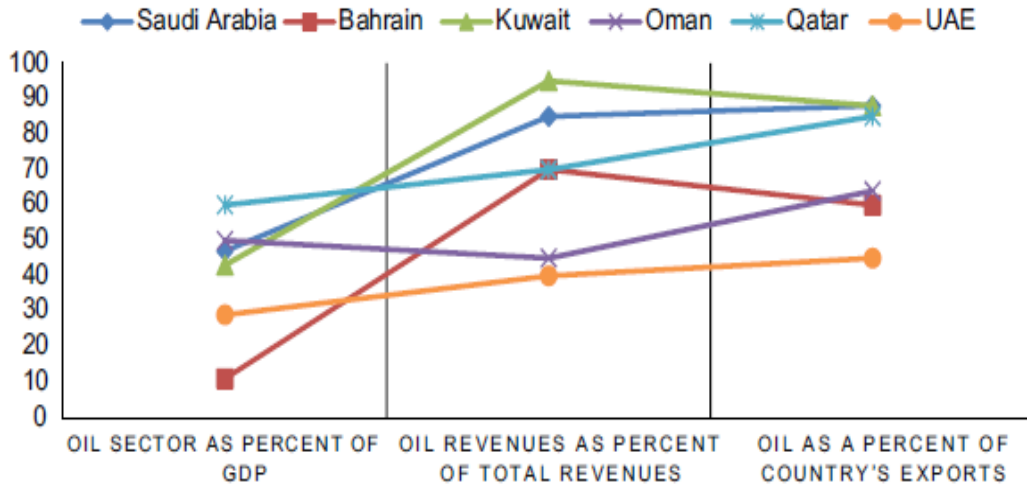
❖ The role of the private sector in the economy

According to Table 3, the private sector represents 35% of GDP at the period of 2010-2014, which is not significantly different from its share in the periods of previous development plans.

In fact, in the economic development plan of 1985-1989, this ratio was higher and reached about 49%. These numbers indicate instability of the share of the private sector in GDP in Saudi Arabia through multiple development plans. According to Mahran (2012) "the great dependence of the Saudi economy on oil, together with the dominant role of the public sector in the economy have led to competition of the private sector to play an important role in the national economy. To better understand economic diversification in Saudi Arabia, it should be compared with similar economies in the GCC by using selected economic indicators. Although oil and gas are the natural resources that drive most of the GCC economies, all these countries have economic diversification plans.

Figure (8) shows that the UAE economy has the lowest level in all economic indicators, which explains the UAE is on a high level of economic diversification. On the other hand, Saudi Arabia and Kuwait show the highest dependence on oil among the GCC countries, which explains the low level of economic diversification in both countries.(B. Al-Bassam, 2015, p.116.).

Figure (8)
Economic Diversification in The GCC



Busse, M., Gröning, S., The resource curse revisited : governance and natural resources , Public Choice, 154(1), 2011, p.6.

Thus, the efforts of economic diversification by the Saudi government have shown limited success in changing the reality of its oil economy since the first development plan in 1970.

Recently, United Kingdom of Saudi Arabia announced ambitious agenda under the name of The Vision of 2030. This aims to fix the economic structure. The duty of this plan is to reduce the historical excessive dependency on oil through diversifying the source of revenue and to control the pattern of government expenditure. This agenda supports a wide range of work planning. Although the direct courage to restructure its economy was the effects of a significant fall in world oil prices.

The logical base for these reforms has long been evident. Because of selling the oil generates the great part of government revenue and public sector is a major sector for job, Saudi's officials expressed their fairness of the poverty of the Kingdom for economic diversification results its long-term financial security to be exposed by risk.

5. Conclusion

Several policies have been implemented to support economic diversification in the GCC and Saudi Arabia in particular over the past decades. But, they have been under the level of the Goals of economic development plans. For the success of economic diversification efforts in these countries, emphasis should be placed on:

- ❖ The importance of drawing up a specific strategy for economic diversification, translated into a work plan with appropriate indicators, monitoring and evaluation system. With the need to draw up an appropriate and measurable development plan that supports the contributions of non-oil sectors to economic development.
- ❖ To create favorable conditions for the private sector in terms of limiting the role of the government in strategic direction, and transforming production activities into the private sector. This is often characterized by expertise and efficiency in allocating

resources and high productivity. The Government's focus on privatization and public-private partnership will also contribute to reducing its role in the economy. This should increase productivity in primary sectors over time.

- ❖ Supporting companies to exceed the limits of domestic markets and stimulate export through; supporting export, the establishment of banks for development, institutions to support export and providing the finance and support business facilities. The experiences of the oil countries, that have managed to diversify, indicate that the focus on; the competition in international markets, technological modernization and hiking the quality step are the crucial to the success of economic diversification efforts.
- ❖ To overcome market failures, GCC countries need to change the structure of available incentives to workers and businesses. Most GCC nationals work in the public sector, with high salaries and generous benefits. These countries can stimulate private sector activity by; reducing the size of the public sector, setting a maximum wage for workers and improving what they get from supporting and training.
- ❖ The development of SMEs to obtain the necessary financial and other forms of support, especially in commercial goods and high value-added industries.
- ❖ The use of foreign capital to promote the transfer of technology, one of the means of diversification of the economy. In the 1980s, Indonesia attracted foreign capital through the establishment of free trade area, the provision of tax incentives, and the relaxation of tariff and non-tariff barriers. In Mexico joining to the North America Free Trade Agreement (NAFTA) played a great role to attract foreign direct investment that eased the development of automobile sector.
- ❖ The need to examine and complete the process of trade liberalization. Simplifying the tax and management system, ensuring a financial system that provides adequate financing for investments, and improving infrastructure. These policies can create good environment for business, improving the quality of government institutions and develop skills.

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