Economic Diversification in Saudi Arabia: Looking beyond Oil

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ABSTRACT

Fluctuations in oil prices have always been a focal issue of economic and financialconcern. Countries that depend on petroleum reveniues such as Saudi Arabia suffer to varying degree from oil price flactuation. As Saudi Arabia continue along its path of economic progress, avoiding the resource curse, several policies have been undertaken to improve businesses environoment, inproving educational systems, fostering private sector and SME's, and pushing investments towards high-productivity manufacturing sectors. Yet, challenges facing the government to diversify its economy away from oil. Diversification progress in still slow and less than expected. This paper considers the diversification as an alongstanding goal for Saudi Arabia, trcking and exploring the country's non-oil sectors' development potential.

Keywords: Economic diversification, Oil revenue, Non-oil sectors, Saudi Arabian economy.

INTRODUCTION- BACKGROUND

Since summer 2014 to the onset of 2016, oil prices had sharply dropped down, losing around 70% of their value. Furthermore, this crash down to below 30$ a barrel may not be the end; some predictions estimate the price may reach a number last seen in 2009, as mentioned in the Telegraph. Several banks have warned about the fall back of the oil prices. Standard Chartered was the latest major bank to indicate that they might fall to 10$ [1]. Barclays Bank, on the other hand, predicted a fall back to 37$ in the onset of 2016, to a rise to 55$ in 2017 [2]. Others expected a three-digit rise in the prices as of the end of the year [3]. It is noted that the prices had witnessed clear fluctuations during 2016, with expectations for rises during 2017. Fluctuations in oil prices have always been the focus of economic and financial concern. Countries that depend on petroleum reveniues such Saudi Arabia suffer to varying degree from oil price decrease. In order to balance its government expenditures, Saudi Arabia requires prices to be above the breakeven price (approximately 104.4).

However, the consequences of these fluctuations certainly make up a non-negligible threat to the economies of the OPEC countries. GCC countries are considered one of the most harmed regional blocks by lowered oil prices, since oil is the main source of their income. It covers about 80% of the gross domestic income, and about 49% of the gross gulf regional product. And of course Saudi Arabia is among those countries if not the most affected by this news.Despite the fact that the share of oil sector in the total Saudi GDP is not the highest among the GCC countries (as in Kuwait, Qatar, and Oman), the large number of population in Saudi Arabia is more prone to be harmed from low oil prices. With larger population, it is more difficult to reduce government spending in this situation like in other smaller countries.

For this reason, economic diversification has been one of the aims of the subsequent development plans. It was stated in the ninth five-year development plan: “Diversifying the production base of the Saudi economy has remained a main aim of its economic development since the beginning of development planning initiative in Saudi Arabia. The first development plans recognized the potential danger in relying solely and heavily on the production and export of oil”[4: 33]. Thus, targeting economic diversification is an essential element in building a contemporary sustainable economy. The ambitious 2030 Saudi vision plan designed a large scale economic diversification that would lower relying on oil as a depleting sole source of income. Successfully achieving this design will always depend on successfully achieving supporting policies relating to reviving other non-oil economic sectors. As oil still dominates the Saudi economy, large various efforts, especially investing in the human capital, are needed.

Hithereto, many policeis that support economic diversification have been implemented. These policies include developing infrastructure, strengthing the business environment, financing SMEs, and improving educational returns [5]. A considerable growth in non-oil sectors has been achieved due to the diversification efforts of the government. Those achievements include: investments in transformational industries, retail business, communications and information technologies, and construction and building. However, the challenges facing Saudi Arabia after this slump has re-shed light on the necessity of economic diversification[6].

The current slump in oil prices has demanded a fundamental review of how to widen the economic diversification. Thus, this paper aims at analyzing the reality of economic diversification and widening the production base in Saudi Arabia. We define the concept and aim of economic diversification, and explore the Saudi economy and its concentration indicators. Then we explore the Saudi economic diversification and its success fundamentals.

ECONOMIC DIVERSIFICATION- CONCEPT AND OBJECTIVES:

It is always dangerous for any economy to rely on one or few natural resource, falling into lopsided economic profile and“resource curse”. limited number of sources of income, as its disturbances, subject to international markets, hugely and directly impact the budget, financial stability, and economic development of the country. Thus, few sources cannot be enough for boosting a multidimensional sustainable development process. The IMF (International Monetary Fund) issued warnings expressing the demanding necessity of diversifying GCC economies to suppress the pitfalls of low oil prices. Though some progress has been achieved in their economic diversity, they still have a long way to boost work and production in the non-oil tradable sector [7]. Hence, these countries are seeking to find and implement fundamentals and policies that will push its ED way forward, saving on the other hand their natural resources from draining and lowering their economic dependence on oil.

Samuelson (1968) describes economic diversification as “an act of investing in a variety of assets, mentioned its benefitas that which reduces risk especially in the time of recession,inflation, deflation etc.” [8: 478]. However, diversification usually refers to diversifying exports and applying “policies aiming at lowering reliance on a limited number of export commodities that are always subject to international disturbances and declines in price and quantity” [9: 4]. While economic diversification is manifested by the availability of an established variety in exports, production, and sources of income, it generally represents the “modification of national income sources to reduce the dependence on one particular resource” (10: 1]. Accordingly, we can define Economic diversification as:diversifying national sources of income through restructuring the economy and raising the level of contribution of the different economic sectors in the income, by building a wide base of local and exported products that do not depend on one resource that becomes subject to economic disturbances when any changes happen to it.

For this diversity to happen there should be radical changes in the economic structures so that they are based upon a large base of production facilities for chains of high value-added and competitive industries.

Economic diversification includes horizontal diversification, which means creating opportunities for producing new commodities linked or unlinked to a primary sector like mining and energy and agriculture … etc., and vertical diversification, which means developing the product to further raise its added value by using local or imported inputs by transferring from an industry to another and expanding it vertically. The latter is the diversification that generally GCC countries and especially and mainly SA adopt by extracting oil and gas and then manufacturing refined products, petrochemicals, and energy-intensive industries like aluminum. These manufacturs depend on oil and usually occupy large scale projects that are capital-intensive and generally government-owned. The IMF notes that even if the current model for growth achieved tangible positive socioeconomic results, it has weak points and demands variety to exit from the circle of rentier economy, away from only oil related products. Thus, real diversification requires achieving more horizontal integration in the diversification by manufacturing products that replace imports such as food, building materials, communication and information technology, tourism, … etc. Accogingly, we can specify the urgent necessity for economic diversification in Saudi Arabia through the followed [11]:

1- Achieving economic growth and sustainable development which boost living standards, generate wealth and employment opportunities, and encourage developing new knowledge and technology.
2- Ensuring stable economic environment which encourages local and foreign investments and boosts a favorable climate for business environment.
3- Restructuring national economy in a way that makes it more diverse and productive and less vulnerable to reliance on one or limited sources of income.
4- Achieving diversification in national sources of income and relying on more than one source to avoid only one-source revenues.
5- Boosting the level of contribution of various economic sectors in the national income and improving their efficiency, effectiveness, and interconnectedness, especially the processing manufacturing industries sector.
6- Reducing the risks of pricing disturbances of exported commodities and raising the rate of trade by diversifying exports.
7- Increasing job creation for citizens in the private sector by developing various economic sectors.
8- Raising work productivity, human capital, and, in turn, economic growth rates.
9- Putting the foundations of the non-oil economy that will be more and more demanded with time when oil revenues irreversibly diminish. Indeed, last year showed clear dwindle in oil revenues.

THE SAUDI ECONOMY- AN EXPLORATION:

Saudi Arabian's oil wealth has long been both a blessing and a curse. Oil wealth has enabled remarkable transformations. Over the last four decades, Saudi Arabia has transformed from a less developed to a wealthy and powerful country [12].The Saudi economy has achieved consecutive successes in the recent years, aiming at diversifying its economy as the most important strategic goal that has accompanied development plans. Different economic indicators shows that there has been an improvement in the level of oil concentration and some progress in economic diversification, but still below the desired levels. Here we address the Saudi economy from a number of axes as follows:

1- The oil wealth had a role in multiplying the power of the Saudi economy and its GDP value, which represents a quarter of the total GDP for all the MENA countries [13]. The real GDP had been affected in the last two years by the lowered oil prices where it declined 13.83% in 2015 of its value in 2014, then further declined by 1.86% in 2016. But the GDP measured by constant prices, did not decline in the last two years but rather raised and achieved growth at rates 4.11% and 1.40% respectively.
2- The continuous rise in the GDP values throughout the last nineteen years except for 2009 and 2016. While it was about 1.95 trillion SAR in 2008, it declined in 2009 by 17.45% as a consequence of the

global financial crisis.Then, economy recovered, rising to 2.51 trillion SAR in 2011, reaching 2.84 trillion SAR in 2014.

3- With the fall in oil prices in the last two years, the GDP declined in 2015 to 2.44 trillion SAR, then to 2.39 trillion SAR. In this period, the oil sector recorded the highest negative growth reaching -45.70% then -9.75% in 2015 and 2016, respectively.

4- The real GDP data (in constant monetary terms) showed the Saudi economy continued to achieve positive growth rates but at a slower pace than before: in 2016 it raised by 1.40% compared to a rise of 4.11% in 2015. In addition, the non-oil sectors recorded a slowdown in their growth: the public sector continued to decline since 2013 (6.93%) to 0.51% in 2016, and the private sector recorded a decline of 0.11%. The oil production sector, on the other hand, was the highest growing (3.37%), despite the clear decline from its rate in 2015 (5.27%).

5- Sectors like oil refinement and houses ownership recorded an improvement in their growth rates, while others like agriculture, forestry and fishing, electricity, gas, and water, and transportation, storage, and communication declined in their growth rates. Some sectors (Mining and quarrying, manufacturing, constructions, and wholesale, retail, restaurants, and hotels)continued to record negative growth rates.

6- Per capita GDP data shows a continuous contrast . While it amounted to 75.590 SAR in 2008, it raised to 88.497 SAR in 2011 and continued to raise to its highest amount (94.274 SAR) in 2012, starting to decline afterwards reaching 75.641 SAR in 2016.With respect to business environment, Saudi Arabia ranked number 29 of the world's most competitive economies out of 144 countries in 2016 according to "the Global Competitiveness Index", representing the third among the Arab countries after the UAE and Qatar [14]. In the last four years there has been a clear regression in the Saudi rank. Its best rank was in 2011 when it was the world's 17th.

According to World Economic Forum database, Saudi Arabia lost a new place in 2015 at the international level, by its regression from rank number 24 to rank number 25. This was also the case in 2016 where it lost four places down to rank number 29 worldwide. Despite this is the fifth year in row in which SA's international rank regresses, it remains the third among the GCC countries. In reality, although SA is the largest GCC country, it faces several macroeconomic challenges; the competitiveness index contains 12 pillars that collectively measure the national economic performance of a country. For SA, "a stable macroeconomic framework" and "good health and primary education" were the pillars that had seen the most progress throughout the past years, but the latest report showed a clear regression in the macroeconomic framework because of the balance of the government budget and inflation rates, and the fallback of national savings.

The report shows that "good health and primary education" composes the pillar that has the highest potential in boosting the Saudi's competitiveness by achieving 6.0 points out of total 7.0 points, next the "market size" (5.4), then "institutions" (5.1), "appropriate infrastructure" (5.1), and finally "the ability to harness the benefits of existing technologies". The reason of the SA's regression in global competitiveness turns out to be in the balance of the government budget, which goes back to the sharp decline in oil prices, causing the fallback of the Saudi rank in the government budget balance indicator to 136, and to 125 in the women contribution in the labor market, and to 126 in the ease of doing business.

From another perspective, SA's global position in the "Ease of Doing Business" declined: After it enjoyed the 22nd rank globally in 2012, it was sharply falling back until it reached the 94th in 2016. This in turn caused a sharp fallback in both the "Starting a Business" and "Dealing with Constructions Permits" indicators [15].

SAUDI ECONOMIC -CONCENTRATION AND DIVERSIFICATION

Economic diversification is a demanding need for the Saudi economy, because its economic structure is still greatly dependent on oil. There has not been any concrete change in the structure of diversifying the production base of the country, which would create private-sector employment opportunities, increase competitiveness and productivity, achieve sustainable growth, and establish an industrial economy important for the future when oil revenues begin to decline, stabilizing the growth rates.The reliance of Saudi Arabia’s economy on oil revenues raises two key challenges for policymakers. One is how to best manage dealing with the current large dependence of the country on oil revenues and ensure the protection of the local economy, to the largest extent possible, from fluctuations in the world oil market. The second is how to help the Saudi economy diversify their activities so that their reliance on oil revenues is suppressed over time.

Before we talk about the different indicators of the economic concentration, we study the evolution of the oil production and the Saudi rank in the world oil market, a followed [16]:

1- Saudi Arabia's production of crude oil has increased in the recent years to a large extent. While the production volume reached 2962 million barrels in 2000, it had rapidly grown to reach 3720 million barrels in 2015 (about 12.7% of the global oil production), raising 4.9% of its volume in 2014.
2- The daily crude oil production volume of SA reached 10.19 million barrels in 2015 which is a bit higher than its rate in 2013 (9.64 million barrels a day). The average daily production in 2016 reached 10.46%, as first estimates, recording the highest daily rate during 2000-2016, and in the front of all the world’s countries in oil production for the second year respectively. Saudi Arabia therefore came top of Russia, which remained the first country in oil production in the world during 2004-2014.
3- Saudi Reserves of crude oil increased during the previous years to reach 266.5 billion barrels in 2015, and the natural gas reserves also increased reaching 303 billion cubic feet in 2015.

Table (1)
Saudi Production of Crude Oil (Million barrels)

Year	Total	Rate of change (%)	Average daily production
2000	2962.60	--	8.09
2001	2879.46	-2.81	7.89
2002	2588.98	-10.09	7.09
2003	3069.74	18.57	8.41
2004	3256.30	6.08	8.90
2005	3413.94	4.84	9.35
2006	3360.90	-1.55	9.21
2007	3217.77	-4.26	8.82
2008	3366.34	4.62	9.20
2009	2987.27	-11.26	8.18
2010	2980.43	-0.23	8.17
2011	3398.52	14.03	9.31
2012	3573.40	5.15	9.76
2013	3517.62	-1.56	9.64
2014	3545.14	0.78	9.71
2015	3720.30	4.90	10.19

Source: Saudi Arabian Monetary Agency (2016)

Saudi Arabia plays a central role in the world oil market as the second largest oil reserver in the world, and the most important swing producer. it has more than 5.7% of shares in the proven oil reserves. It could quickly increase its production thanks to its high excess capacity which exceeds 2.7 million barrels a day, which represents more than half the global excess capacity. This large excess capacity enables Saudi Arabia to play this central role positively contributing to achieving stable economies and growth in the world. The following table shows the role of Saudi Arabia and other oil-producing countries in the world oil market [17]:

Table (2)
The role of Saudi Arabia in the world oil market

Country	Production million barrel/day	Percent of total	Reserves in 2015 (billion barrel)	Percent of total
Saudi Arabia	12014	13.1	266.6	15.7
Russia	10980	12.0	102.4	6.0
USA	12704	13.8	55.0	3.2
Iran	3920	4.2	157.8	9.3
China	4309	4.9	18.5	1.1
Mexico	2588	2.9	10.8	0.6
Venezuela	2626	3.1	300.9	17.7
Canada	4385	4.9	172.2	10.1
Norway	1948	2.0	8.0	0.5
UAE	3902	4.0	97.8	5.8
Nigeria	2352	2.6	37.1	2.2
Kuwait	3096	3.4	101.5	6.0
UK	965	1.0	2.8	0.2
Iraq	4031	4.5	143.1	8.4
Total of OPEC	38226	41.4	1211.6	71.4

Source: PB (2016)

1- The cumulative production: Saudi Arabia 13%, the rest of the world 87
2- The cumulative production of Saudi Arabia from 1990-2015 reached about 90.8 billion barrels from a total of 704 billion barrels, 12.9%.
3- The reserves of SA in 2015 reached 266.6 billion barrels from a total of 1697.6 billion barrels worldwide, 15.7%.

ECONOMIC CONCENTRATION INDICATORS

Realizing the importance of horizontal and vertical economic diversity, Saudi Arabia put the 7thgoal of the ninth development plan as: “horizontally and vertically diversifying the economic production base, widening production and capacity capitals of the national economy, boosting its competitive ability, and maximizing return/revenues of its relative advantage [18: 28]. Despite the constant efforts and attempts of the Saudi authorities, the Saudi economy is still characterized by its highconcentration. The oil sector accounts for a large share of the GDP, government revenues, exports, and of other indicators. Thus, the importance and inevitability of economic diversification has been increasing so that it became the 2ndgoal of the tenth development plan.

Economic diversification is measured by following the structural change in the outcome, calculating the share of the non-oil sector in the GDP, measuring how much the government budgets depended on oil by calculating the contribution of the oil sector to the total government revenues, and also measuring the diversity of the national exports by calculating the contribution of the non-oil exports to the total exports. The contribution of the private sector can also be measured as a measure of economic diversification, by calculating the contribution of the private sector in the GDP, or determining the added value of the economic activity through the front and back links between the different economic activities. In the following, we mention only the first three indicators as the most important and most commonly used indicators in determining the degree of economic diversification (or economic concentration).

Table (3)
GDP by economic activity at current prices(Million SAR)

Economic Activity	2011	2012	2013	2014	2015	2016
Agriculture, forestry, and fish	48,163	49,816	51,735	53,719	64,267	64,879
Mining and quarrying	1,215,518	1,311,448	1,232,823	1,130,054	599,187	534,317
A- Crude oil and natural gas	1,206,751	1,302,081	1,222,898	1,119,489	587,979	523,219
B- Other mining and quarrying activities	8,767	9,368	9,925	10,564	11,214	11,098
Transformational industries	252,003	270,180	278,071	306,189	303,114	301,667
A- Oil refining	64,216	68,583	61,536	71,004	54,822	55,995
B- Other industries	187,787	201,597	216,535	235,185	248,292	245,672
Electricity, gas, and oil	28,285	30,076	30,623	32,479	36,0767	37,820
Building and construction	107,021	118,513	134,588	152,965	162,975	159,641
Wholesale, retail, restaurants, and hotels	197,926	219,144	241,586	266,649	278,030	276,139
Transportation, storage, and communication	115,272	124,279	134,258	144,713	155,289	160,402
Financial services, insurance, real estate and business services	195,054	232,438	269,805	292,991	310,412	326,022
A- Houses ownership	96,715	124,391	153,460	168,943	181,538	192,249
B- Others	98,339	108,047	116,345	124,048	128,874	133,773
Community, social, and personal services	41,892	45,969	49,740	53,607	55,759	27,291
Calculated banking services	20,077	20,672	21,215	21,642	22,072	22,466
Subtotal	2,181,057	2,381,191	2,402,015	2,411,723	1,943,028	1,895,712
Producers of government	312,308	349,649	368,070	391,626	475,067	482,052

services						
Total GDP - import fees	2,493,365	2,730,840	2,770,085	2,803,349	2,418,095	2,377,764
Import fees	17,285	21,494	21,174	23,520	25,995	20,800
Total GDP	**2,510,650**	**2,752,334**	**2,791,259**	**2,826,869**	**2,444,090**	**2,3928,564**

Source: General Authority of Statistics (2017).

The previous data shows anincrease in the percentage of the oil sector contribution in the GDP [19].Crude oil and natural gas GDP amounted to 1222 billion SAR, representing 43.8% of the total GDP which was about 2.79 trillion SAR in 2013. And as a consequence of the decline of the oil prices since 2014, the GDP of the crude oil and natural gas declined in 2016 to 523 billion SAR, only 22% of a total GDP of 2.4 trillion SAR. However, the non-oil sector has witnessed a strong growth during the last decade. It almost doubled during 2004-2014 by monetary terms, and tripled in 2014 its value in 2004 by the real terms [20].

As shown in table 4, the oil revenues has increased during the recent years except for a slight decline in 2013 and 2014. While it reached 670 billion SAR in 2010, it increased in the sequent years to reach 1144billion SAR in 2012, but then decreased in the sequent years to reach 913 billion SAR in 2014.A decline in oil revenues in 2015 is noted, accompanied by a large decline in the general revenues of SA reaching 446 billion SAR, and the total revenues reached 616 billion SAR, a decrease of 51% for the oil revenues and 41% for the general revenues. Despite the contrast between the contribution of oil revenues and the total actual revenues of SA in the previous years, the sector still occupies a large percentage of the revenues, which was equal to 87% in 2014, and then further decreased to 72.5% in the following year [21&22].

Table (4)
Actual revenues in Saudi Arabia for 2008-2015 (Billion SAR)

Years	Oil revenues	Other revenues	Total revenues	Oil sector %
2008	983.37	117.62	1100.99	89.32
2009	434.42	75.38	509.81	85.21
2010	670.27	71.35	741.6	90.39
2011	1034.36	83.43	1117.79	92.54
2012	1144.82	102.58	1247.40	91.78
2013	1035.05	12.32	1156.36	89.51
2014	913.35	131.02	1044.37	87.45
2015	446.44	169.47	615.91	72.48
2016	329.00	199.00	528.00	62.31

Source: Saudi Arabian Monetary Agency (2016)& Ministry of Finance (2017).

The oil exports revenues value has increased during the recent years except for 2009 and 2013. While it reached 605 billion SAR in 2005, it increased in the sequent years to reach 1053 billion SAR in 2008, but then decreased in 2009 reaching 611 billion SAR. Then, it continued to increase again up to 2012 reaching 1265 billion SAR and decreased to 537 billion SAR in 2015. Despite the contrast between the contribution of the oil exports and the total exports of Saudi Arabia in the previous years, the sector still occupies a large percentage of the exports equal to 74.19% in 2016 [23].

Table (5)
Exports of Saudi Arabia (Million SAR)

Year	Refined products (oil exports)	Total	Percentage %
2005	605,881	677,144	89.48
2006	705,811	791,339	89.19
2007	769,935	874,403	88.05
2008	1,053,860	1,175,482	89.65
2009	611,490	721,109	84.80
2010	807,176	941,785	85.71
2011	1,191,052	1,367,620	87.09
2012	1,265,550	1,456,502	86.89
2013	1,207,080	1,409,747	85.62
2014	1,066,590	1,283,620	83.09
2015	573,412	763,313	75.12
2016	510,729	688,423	74.19

Source: The General Authority of Statistics, 2016.

IMPACTS OF ECONOMIC DIVERSIFICATION ON THE SAUDI ECONOMIC DEVELOPMENT

There is a demanding importance to increase economic diversification in Saudi Arabia for several reasons, some of which would enable less exposure to the economic risk of price disturbances in world oil markets. Others would help provide more employment opportunities in the private sector, taking in millenials and the growing number of working-age population to be among the workforce. The third reason is that it would help increase productivity and achieve sustained growth. Finally, diversification would help put the foundations for a non-oil economy that is highly needed as time passes and when oil revenues diminish. Despite the various aspects of economic diversification available for every county, there are a number of common themes in the experiences of several countries. These countries put incentives to encourage companies to boost their productivity, to develop export markets, and to support workers to acquire skills and education that would provide them with jobs in newly evolving areas. Despite the contrast in the degrees of success from country to country and the relatively long duration of this process, the strategies used were comprehensive and relied upon some essential elements:

1. Presenting powerful incentives for doing business;
2. Exploring and support unconventional sectors;
3. Promoting exports;
4. Improving the integration of trade;
5. Attracting Foreign direct investments;
6. Relying on technology transfer operations;
7. Developing small and medium sized enterprises SMEs;
8. Developing external investments to make non-oil revenues out of these investments.

ECONOMIC DIVERSIFICATION STRATEGY IN SAUDI ARABIA

Saudi Arabia has tried to diversify its economy from several dimensions, the most important of which are:

1. The government made steps to improve business environment;
2. It developed the national infrastructure, and invested in educating the citizens and leveraging their skills;

3. Developing economic and industrial cities to promote establishing industrial clusters and, in turn, bringing improved services. Economic and Industrial cities include about half all the processing manufacturing industries in SA. Interconnection between universities and these cities is now being carried out, to boost research and development operations and cooperative coordination;
4. Support the SMEs sector through a number of initiatives, such as “Kafala” [sponsorship] program, the Saudi Credit and Saving Bank “now the Social Development Bank” offers loans for SMEs, establishing units inside banks specialized for SMEs, and establishing the Saudi Credit Bureau (SIMAH));
5. Pushing investments in high-productivity manufacturing sectors, and using foreign exchange to boost technology transfer, promote and support exporting non-oil products;
6. Ensuring that workers are given training and education systems that enable them work in the private sector, and developing scientific research;
7. Benefiting from the experiences of economically diverse countries such as Canada, Norway, and Malaysia;
8. Benefiting from the competitive advantage which GCC countries achieved in the communication and information technology area. According to communication and information technology development indicators, the GCC countries are considered in the top 60 ranks in the list of 166 countries according to the annual report of the International Telecommunication Union.

These serious steps has resulted in slightly lowering the contribution of oil sector in the previous years, making it obligatory for the authorities in Saudi Arabia to take more procedures to achieve reassuring rates for the oil sector contribution in the national economy.

FUNDAMENTALS OF A SUCCESSFUL SAUDI ECONOMIC DIVERSIFICATION POLICY

There is an agreement that a powerful Saudi economy would increase opportunities for success of economic diversification strategies, and its ability to grow and overcome challenges of relying on one income. The powerful manufacturing sector that has been growing in the recent years makes economic diversification achievable, besides several other powerful sectors like construction and building, trade and commerce, and insurance and financial services. A continuous growth of the GDP for various sectors is noticed. Manufacturing sector GDP reached more than 252 billion SAR in 2011, continued to increase reaching 306 billion SAR in 2014, and then it slightly decreased during 2016 to just exceed 300 billion SAR.Construction and building is considered one of the important sectors in SA and is rapidly growing since it is the largest of all the construction sectors in the Middle East. The GDP value for the sector reached 107 billion SAR in 2011, and continued to increase in the sequent years to reach 160 billion SAR in 2016.The same goes for the trade, hotels, and restaurants sector which is considered one of the most growing sectors in SA during the study range of years. Its GDP reached in 2011 about 198 billion SAR and increased to 276 billion SAR in 2016.The GDP for the sector of financial, insurance, real estate, and business services also increased in the same period. While it reached 195 billion SAR in 2011, it increased to 326 in 2016.The share of oil sector during 2016 reached about 25% of the GDP, as a result of the decrease in oil prices and in turn the GDP of this sector.Both the manufacturing sector and the financial, insurance, real estate and business sectors were equal, each reaching 13% in 2016.The share of the trade, restaurants, and hotels sector reached 12% during the same year, and the share of the construction and building sector reached about 7%.The previous data shows the strength of several economic sectors in Saudi Arabia, their ability to rapidly grow, and so the increasingly available economic diversification opportunity in the light of the strength of these sectors.

CONCLUSION

Diversification economy is not asn easy task, there are considerable uncertainties surrounding challenges and oil revenews. There are needs to enable economic environment to effectively act away from oil.The current growth model depends on oil revenues which are redistributed in the national economy through governmental spending on development and infrastructure projects, social services, and wages and salaries of the government-sector workers.The importance of diversifying the economy away from oil stems from the fact that oil is an exhaustible resource, prone to disturbances and the only element generating wealth to the country. Otherwise economic diversification would not be that important [24]. Saudi Arabia needs the oil price to be at 100 USD a barrel to achieve its financial balance, and hence, the current low prices necessarily push to initiate an economic diversification policy and encourage the private sector to increase its role in creating jobs and new business opportunities. According to the ambitious vision plan 2030, success of diversification efforts and avoiding economic exposure requires a comprehensive reform of the general framework of the national economy. This comes through designing flexible growth models within which economic policies are integrated in a way that ensure achieving the desired objectives. Both the role of the private sector and the human capital development remain the two key determinants of the next stages in economic diversification and transformation to a more stable and sustained knowledge economy, providing the country with revenues from renewable and productive resources and areas.

Based on the above, it is recommended to use oil revenues for investing in various economic sectors, especially manufacturing industries and agriculture to boost added values in the national economy. Performance of the private sector should be developed through improving business environment and offering more investment incentives to encourage the private sector to expand horizontally as well as vertically in investments operations. Additionally, the government should continue to offer the private sector with the needed funding for the expansion operations, new investments, and supporting SMEs to initiate, grow, and stabilize.Continuing to develop infrastructures of transportations networks, ports, airports, and communication networks is essentialfor developing the private sector and its presence in the economic activity.For the growth models, more focus on the human resources development is recommended, through developing skills, abilities, and knowledge of the workforce by creating and training operations, to raise their contributions in the production process in a sustainable way. Additionally, it is important to dign more trade agreements to offer the private sector incentives for expansion in the export processes worldwide and then boost the revenues from the exports.Accelerating the transformation process from a rentier economy to a knowledge -based economy can be accomplished by working on localizing technology and stimulating innovation. It is also impartant to promote and boost the competitive ability of the promising areas which can contribute in replacing imports and diversifying exports (manufacturing, the digital sector, logistics, wholesale and retail trade, tourism and hospitality, health, construction and building…etc).

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