3 The Non-Oil Sector–
The Industrialisation Process

*If industry is good, why should our people be deprived of a good thing? If industry is a burden, we are ever ready to help the industrialised states in carrying this burden.*

(DR GHAZI ALGOSAIBI)
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INTRODUCTION

In the last chapter the rationale of developing the oil sector was outlined. Here the uses to which oil revenues are put will be explored in relation to their impact upon the industrialisation process in Saudi Arabia. Given a decision to industrialise it then becomes necessary to select those industries most suitable to the endowments of Saudi Arabia. Significantly the kingdom has a cheap energy source, and it seems logical to exploit this in industries requiring a relatively high-energy input. What the country lacks in the short run is an adequate supply of skilled labour; therefore there is a further pressure to concentrate upon capital intensive production. With only a relatively small domestic population industry must have a competitive edge in world markets; it becomes imperative to concentrate upon those sectors in which it has a comparative advantage.

But the route that industrialisation takes is not straightforward. Clearly Saudi Arabia must diversify; it cannot for ever rely upon the oil sector as a perpetual source of revenue. Oil is depletable, reserves must eventually be exhausted. But if oil reserves are to disappear, does not the advocacy of ‘oil-related’ industries lose its meaning? This does not necessarily follow, but there are a number of conflicts. Current oil-production levels are maintained not only to support the massive
development effort, but also the world economy and particularly the economies of its western allies. If the development effort is to succeed, the scale of government financial aid must eventually diminish as the private sector takes over and profitable industries are established. At this stage oil revenues will not be required to the same high levels particularly as the infrastructure programmes will be complete.

A difficult decision then has to be faced. Does Saudi Arabia still maintain its high oil-production levels and continue to act to moderate oil price rises within OPEC? The interests of domestic industry may be better served by restricting oil production to the needs of the Saudi economy; that is the country should no longer provide the energy source for those industries abroad with which its domestic industries compete. It may best help domestic industry by releasing the reign upon oil prices. This may naturally arise if a cutback in Saudi oil production created a world oil shortage.

The hope must be that the majority of new Saudi industries will survive and prosper even in the absence of domestic oil supplies. But there has to be a suspicion that many industries will only survive by virtue of a cheap energy supply. For this reason Saudi Arabia will not be able to afford to maintain the current depletion rate of its oil reserves. Reserves must be preserved to allow domestic industry a long life and a competitive advantage.

Many factors complicate this future decision. Industry can flourish in Saudi Arabia only with the assistance of foreign expertise and technology. As will be seen later in this chapter, basic industries and petrochemicals are being developed through joint ventures with foreign companies and governments; these are invariably linked to guarantees of future oil supplies. Of course the penetration of Saudi products in world markets will depend upon trading relations. Governments have been known to put up barriers against imports which they feel are being unduly subsidised. Cheap oil supplies to Saudi industry may be regarded by some as subsidisation.

Other issues, political rather than economic, are important; security and defence in Saudi Arabia is to some extent dependent upon its strong alliance with western countries; to damage their allies economically might result in a decline in their ability to come to the defence of Saudi Arabia, and perhaps lessen their determination to support the country.

Perhaps one should not look too far into the future. Many factors may change. Increasingly governments will search for alternative energy sources; there may no longer be a world dependence upon Saudi Arabian oil supplies. OPEC may cease to exist. Within the country the