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.

Minister of Industry and Electricity

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 the country. Significantly the Kingdom has a cheap energy source, and it seems logical to exploit this in industries requiring 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, Saudi Arabia must develop a competitive edge in world markets; it is imperative to concentrate on those sectors in which it has a comparative advantage.

It is clear that the route that industrialisation takes is not straightforward and that Saudi Arabia can no longer continue to rely upon the oil sector as a perpetual and almost unlimited source of revenue. The need to diversify is paramount and it is no longer seen as a remote goal of the government. A reduced dependence on oil has several advantages; it allows import substitution and export enhancement thereby allowing the Kingdom, at least, partial isolation from the uncertainties generated from the price instability associated with a single product economy. In addition oil is depletable and reserves must eventually be exhausted. Oil production has a forecast lifespan of seventy years but oil discovery in the Rub al Khali may take it well into the twenty-second century. In addition it has been a long-standing objective of the Kingdom to develop solar energy as an alternative to oil and the first solar power plant was completed in 1402.

A programme of downstream industrialisation has been undertaken in order to reduce the Kingdom’s dependence on crude oil exports but if oil reserves are to disappear, does not the advocacy of
'oil-related' industries lose some of its meaning? This does not necessarily follow, but there are a number of conflicts. High oil production levels were 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 infrastructure programmes are completed.

A difficult decision has to be faced. The enormous fall in crude oil prices from $27 in the last quarter of 1985 to almost $9 by July 1986, clearly highlights the problems of relying on a single commodity as a source of revenue with consequent effects on the Saudi budget. Does the Kingdom maintain its high production levels and maintain its share of the world market? This may be to the Kingdom's advantage. It is a low cost producer and cheaper oil may halt the search for oil substitution and the development of non-OPEC oilfields thus counteracting the fall in net imports by industrialised countries. Increasing concern over the safety of atomic energy may also enhance this process. Alternatively 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.

While the hope must be that the majority of new Saudi industries will survive and prosper even in the absence of domestic oil supplies, it is possible that many industries will only survive by virtue of a cheap energy supply. For this reason Saudi Arabia will not be able 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 on trading relations. Governments have been known to put up barriers against imports which they feel are being unduly subsidised or which have unacceptably high levels of import penetration. For example, on 12 May 1986 the EEC