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ECONOMIC REFORM AND
RESTRUCTURING STRATEGY
IN
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Mr. Chairman, Excellencies and Distinguished Guests,

I am very grateful to the Chicago Council on Foreign Relations for inviting me in the Land of Lincoln to address such a distinguished gathering on economic reforms and restructuring strategies implemented over the last ten years in the Kingdom of Saudi Arabia.

The Kingdom's role and responsibilities in the global economy have been primarily dictated by our unique position as the world's largest producer and exporter of oil. For decades, we have strived to secure the stability of this source of energy. On many occasions the Kingdom had to employ its excess capacity to mitigate the impact on global markets of temporary short supply or price hikes, whether due to global increases in demand, production cutbacks, shortage of refinery capacity, political unrest or speculation.

As an important member of the international financial institutions, including the IMF and the World Bank, the largest economy in the Middle East and one of the largest exporter and importer of goods and services in the world, Saudi Arabia has a resilient economy which is highly integrated globally. In fact, since its inception one hundred years ago, the Kingdom has always believed in free trade and market economy principles, with open and liberal policies complimented with transparent and predictable procedures.

Our economic relationship with the United States is of paramount importance and extends beyond trade in oil. We are the largest US trade partner in the Middle East and the 26th largest export market in the world. Last year, two-way trade with the United States was 34 billion dollars. In 2005, U.S. services exports to Saudi Arabia

reached 1.7 billion dollars and the U.S. foreign direct investment totaled 3.8 billion dollars. I am most certain that our trade relations will continue to grow, especially following the Kingdom's accession to the WTO and our adoption of new economic policies to encourage diversification and growth.

Ladies and Gentlemen,

The Kingdom has set for itself a challenging objective to successfully adapt to global changes with their momentous developments, while at the same time preserving valuable traditions. To help achieve this objective, the Kingdom, in the past decade, embarked on an ambitious program of self imposed social and economic reforms with carefully designed restructuring strategies. While social reforms are important in their

own right and some are perhaps more effective means of achieving the objective, I would like to concentrate here on the economic side of reform and restructuring. The key to the reform program is the creation of a vibrant diversified economy that can support sustained growth for the Kingdom. This is a mouth-full but sounds like a legitimate reform program desired by any aspiring economy.

I would like to delineate the five basic mechanisms and strategies that have been crafted and implemented to allow the creation of such an economy:

Streamlining the decision making process:

First and foremost, the Kingdom needed to re-examine its decision making process. The traditional decision making process was based on the concept of “consensus”, which is a strong version of participatory

government. The Kingdom came to realize that this positive aspect of consensus is offset by the unjustifiable long time it is required to reach. Nowadays decisions are made in a timely manner and consistent with the quickening pace of changing events. Therefore the Kingdom took several measures to streamline its decision making process. The Government created several specialized agencies with substantial decision making authority, notable among which are:

- The Supreme Council for Petroleum and Minerals
- The Supreme Economic Council;
- The Supreme Commission for Tourism; and
- The General Investment Authority.

Furthermore, during the last cabinet appointments, three years ago, the Government consolidated and restructured several ministries. Finally, voting is now often used to cap sessions of extensive debate and consultation.

Diversification of the economic base:

The second element of the reform strategy is to diversify the base of our economy away from its sole dependence on oil. The Government has encouraged the growth of value-added industry in areas where the Kingdom has a comparative advantage. We now see impressive growth in non-oil industries. The volume of exports of these industries reached US\$ 23 billion and has been achieving an average annual growth of 13% during the past ten years. As a result of the Kingdom accession to the WTO in December of last year, we expect a substantial increase of the level of growth in the export of these

industries as has happened to other newly acceding countries to the WTO such as China, Jordan and Oman. To develop a common understanding of the future of non-oil industry, the Ministry of Commerce and Industry is organizing a national debate on the basic characteristic of a National Industrial Strategy. This strategy which has been formulated from inputs of all major stakeholders will soon be submitted to the Supreme Economic Council for approval.

Strengthening the role of the private sector:

The third and very important element of the reform strategy is the capitalization on the vigor and vitality of the private sector and officially declaring its role as the prominent one in the development of the economy. As a consequence, the Government published a white paper announcing the various ways

of private sector involvement in the management and execution of economic activities. An important section of the paper addresses the privatization of twenty major service sectors including telecommunications, postal services, port authorities, domestic aviation, education, electricity generation and distribution, sewage treatment, water desalination and railways.

Although, the paper did not include a time-table for the privatization program of each named sector, nonetheless substantial steps have already been implemented in practically all of these sectors.

Additionally the Government opened up the very important gas sector to foreign investment when it signed agreements with several international consortia of oil and gas companies. As a consequence of the increasingly

active role of the private sector, the Government role now focuses on making policies and sector regulations. Therefore, several regulatory authorities have been established to balance the interest of the competitive agencies in the private sector and also the interests of the consumers. The most important authorities are:

- Telecom and IT Regulatory Authority;
- Electricity and Water Regulatory Authority;
- Securities and Exchange Commission;
- Industrial Cities and Technology Parks Authority;
- Food and Drug Authority; and
- Capital Market Authority.

Creating a favorable investment climate:

Fourthly, the government realized that the Kingdom must compete for foreign investment as well as Saudi investment, which itself is international in nature. The General Investment Authority is charged with the mandate to examine investment climate in the Kingdom and to suggest the introduction of changes, whether legislative, procedural or otherwise, in order to make Saudi Arabia a strong competitor for foreign as well as domestic investments.

A diagnostic program has been launched and completed. Many recommendations have been implemented, including simplification of steps needed to be completed by start-up businesses in Saudi Arabia. The Kingdom shortened the investment negative list and removed market access impediments of businesses in Saudi

Arabia. The results have been impressive. The Kingdom received the largest share of foreign investment among Arab countries. In 2005, the World Bank and the IMF boosted the Kingdom rank from 67 to 38 as the best investment environment, ahead of France, Portugal and Italy. Today I am happy to report that these changes have also been favorably received by the international financial community. Saudi Arabia has been awarded the favorable Sovereign Rating of (A+) from Standard and Poor's and Fitch rating agencies.

In preparation for substantial growth in the petrochemical industry the Government embarked on an ambitious expansion of the Jubail industrial city with expected investment of US\$ 46 billion over the next five years creating 120,000 jobs.

The private sector initiative has been recently announced to create three economic cities:

1. King Abdullah Economic City in Rabegh on the west coast with expected total investment of US\$ 30 billion focusing on promoting energy and transport related industries while creating 500,000 job opportunities.
2. Prince Abdulaziz bin Musaed Economic City in Hail, in the north of Saudi Arabia with expected investment of US\$ 11 Billion and focusing on transportation and logistical services while creating 120,000 job opportunities.
3. And only last week-end Al-Madina Economic City was announced to become an international knowledge based industry icon.

As you have probably noticed, these mega projects have been established in non-major cities in the Kingdom to emphasize the goal of achieving regional balanced development in the Kingdom.

Overall, during the next ten years the various sectors in the Kingdom have been allocated approximately one trillion dollars for development or improvement:

- 180 billions for infrastructure
- 75 for Housing
- 112 billions for petrochemical expansion
- 140 billions for electrical power generations
- 100 billions for water desalination
- 28 billions in Agriculture
- 80 billions for telecom
- 53 billion for Tourism
- 50 billions in gas production
- 13 in mining extraction

As the United States has been the Kingdom's foremost trading and investment partner, and in order to encourage the full participation of US companies in the implementation of these projects, Saudi Arabia has organized in May of last year the first major Saudi road show by visiting five US cities namely Chicago, Houston, Atlanta, NY and Washington D.C., to introduce these projects in full detail. Needless to say that these shows will also take place in Europe, China, India and Japan for the same purpose.

As you can see the surplus revenues generated from oil export is targeted to upgrade the Kingdom's infrastructure, diversify the economy and create jobs for the growing population. These funds have also enabled the Kingdom to repay 60% of the national debt. This is a big relief in any reform effort.

The integration of the economy in the world economy:

The fifth and very important element in the reform program is the integration of the Saudi economy in the world economy. Even before joining the World Trade Organization, Saudi Arabia has always followed the basic principles of the multilateral trading system. The Kingdom has always been one of the leading participants in international trade. Its total trade amounts to two-thirds of its GDP. In 2005, Saudi Arabia ranked the 12th largest exporter and 22nd largest importer of goods in the world. Further more, the Kingdom has always been proud of its trade regime, where:

- Transparency, predictability and due process are the cornerstones of its trade policy.

- Prohibited Trade Related Investment Measures (TRIMS) and export subsidies do not exist.
- Corporate taxes have been reduced from 45% to 20%, with unlimited loss carry forward.
- Its membership in the GCC Customs Union has established a Common External Tariff with very low, stable, predictable and declining import duties complemented by the absence of quantitative restrictions.

However, it is the Kingdom's successful accession effort to the WTO that formally integrated it into the multilateral trade regime. The conditions for qualification to membership necessary led to the completion of many details in the reform program. Consequently, we have made a large number of commercially meaningful market access commitments

on goods and services. We also undertook a number of important commitments on normative issues. While many existing regulations were amended, new laws were enacted with concrete procedures to implement our WTO commitments.

In fact the Kingdom Saudi Arabia enacted forty-two new trade-related laws and regulations; nineteen of them were required for our WTO accession. These legislations addressed a variety of issues, including customs valuation, import licensing, technical barriers to trade, sanitary and phytosanitary, anti-dumping, countervailing and safeguards measures, co-operative insurance, accredited private laboratories, foreign investment and capital market. I am also proud to inform you that as a full-fledged member of the TRIPS agreement and the Paris and Bern IPR Conventions,

Saudi Arabia commands today the full and most updated Intellectual Property Rights laws and regulations including those addressing Trade Marks, Trade Names, Trade Secrets, Competition, Copyrights, Patents, Geographical Indications, Industrial Design, Integrated Circuits and Border Measures. We are also working diligently, on enforcing these legislations with strong punishments to combat piracy, eliminate infringements and substantially clear our market of fraud and fake products.

Furthermore, the Kingdom in conjunction with the Gulf Cooperation Council states is negotiating free trade area agreements with our major trading partners.

Mr. Chairman, Distinguished guests,

The economic reform program, I have outlined, is a testimony to the wisdom of our visionary leader King

Abdullah bin Abdulaziz. Since the days when he was the Crown Prince, he believed in simple yet robust forward-looking policies which emphasize the reforms that can be implemented through a gradual yet steady process of change and restructuring without endangering the genuine and valued traditions. We believe that the five-element strategy, I presented to you today, is already showing clear signs of success. We are confident that this strategy will help create a world-class diversified economy that will support sustained growth for the Kingdom.

Mr. Chairman, thank you very much for allowing me to speak to this distinguished Council today. It has been a great pleasure.