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Resources Policy

journal homepage: www.elsevier.com/locate/resourpol

Economic diversification in Saudi Arabia: Myth or reality?



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ARTICLE INFO

Article history:

Received 2 December 2014

Received in revised form

11 February 2015

Accepted 12 February 2015

Available online 13 March 2015

JEL Classification:

H

O

Q

G3

Keywords:

Saudi Arabian economy

Economic diversification

Development plans

Oil sector

ABSTRACT

Economic diversification is important for building sustainable economic growth. Thus, an economy that is highly dependent on income from a natural resource is in danger of instability or even collapse if the price of such commodity decreases in the global market. Additionally, economic diversification contributes positively to creating jobs, fighting corruption, and improving the institutional quality of countries. The Saudi government has issued 10 development plans since 1970, each covering five years, and economic diversification is a main objective of all these plans. This paper examines the government's efforts to diversify the economy using four variables: oil share of gross domestic product (GDP), share of private sector in GDP, oil exports as a percentage of the country's exports, and oil revenues as a percentage of total revenues. The current analysis covers nine development plans from 1970 through 2013. The analysis concludes that, after more than 40 years of development plans aiming to diversify the Saudi economy, oil is still the main engine driving the economy. The Saudi government needs to fully consider economic diversification as a tool for better governance.

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Introduction

According to the Saudi Arabian government's first development plan (1970–1975), one of three objectives was: “[D]iversifying sources of national income and reducing dependence on oil by increasing the share of other productive sectors in gross domestic product” (Ministry of Economy and Planning, 2014, p. 23). Since then, 10 development plans have been issued, with the latest covering 2015–2019. In all these development plans, economic diversification has been a main target of the government. This paper attempts to determine whether the government has succeeded in achieving economic diversification after more than 40 years of effort to do so.

While many methods have been used to measure diversification in an economy, such as the Ogive Index, the Entropy Index, the Gini-Index, and the Herfindahl Index (Jackson, 1984; Malizia and Ke, 1993; Siegel et al., 1995), there is no consensus among economists and scholars on the best method for measuring economic diversification because each method measures only one of its aspects (Alhowais and Al-shihri, 2010; Aissaoui, 2013; Liston-Hayes and Pilkington, 2004).

The current paper uses changes in four variables—oil as a percentage of gross domestic product (GDP), private sector as a

percentage of GDP, oil as a percentage of the country's exports, and oil revenues as a percentage of total government revenues—to study the Saudi economy's diversity over the period of 1970–2013.

Even though economic diversification has been the main goal of development plans in Saudi Arabia since 1970, the result of the current analysis shows that the oil sector remains the engine driving the economy. Many reasons have been suggested to explain the government's lack of success in diversifying the economy. Among them are the absence of a clear plan that addresses in detail the process of diversifying the economy, the government support provided to industries that are profoundly dependent on oil (e.g., petrochemical industries), the almost complete dependence of the private sector on government spending and projects, and the lack of a clear and specific plan to support non-oil sectors (e.g., agriculture, service).

The paper is organized as follows. First, it discusses the importance of economic diversification for economies. Then it outlines the structure of the Saudi economy; this is followed by a justification for the approach used in this paper to evaluate the effort of the Saudi government to achieve a certain degree of economic diversification. The paper continues by discussing reasons behind the government's lack of success in its efforts to diversify the economy through nine development plans from 1970 through 2013. The paper concludes with suggestions regarding the economic diversification process in Saudi Arabia and notes a possible topic for further research.

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Economic diversification

Economic diversification has been connected to stability and sustainability in economic growth. An economy's reliance on one income resource puts at risk that economy's ability to maintain a certain level of economic growth in the long run since the economy is profoundly dependent on income from that resource (Alhowais and Al-shihri, 2010; Auty, 1993; Mobarak and Karshenasan, 2012). Additionally, economic diversification contributes to creating jobs because more than one sector is active and contributing to the country's economic activities (Devaux, 2013; Kayed and Hassan, 2011). In Saudi Arabia, for example, the oil sector is the major contributor to the country's GDP, making up 48.3% of economic contributions, yet the sector employed only 4.8% of the Saudi workforce in 2013 (Saudi Arabian Monetary Agency, 2014).

Balanced development between urban and rural areas is recognized as one benefit of economic diversification. As many studies have shown, in less diversified economies, development and job creation tend to be concentrated in urban areas or near oil fields or mines and mineral processing plants (Auty, 1993; Haber and Menaldo, 2011; Hertog, 2013). In a study on the Saudi Arabian oil-based economy, Alhowais and Al-shihri (2010) found that

given all the efforts of Saudi governments at all levels to spatially diversify the economic activities through improving the distribution of economic activities across urban places, the majority of Saudi urban places did not change their relative economic structure or their level of diversity (p. 216).

Similarly, Hammond (2011), studying Angola's economy, which also depends on the oil and gas sectors, found that most of the development occurs in the capital city of Luanda and other big cities away from rural areas.

Economic diversification not only affects economic growth but also positively influences political stability, social development, and institutional quality (Busse and Gröning, 2011; Bjorvatn et al., 2012). Conversely, many countries that draw a high percentage of their national income from a natural resource fall into what is known as the "resource curse," where the country relies almost exclusively on that resource and does not make sufficient effort to diversify its income resources, which has a negative influence on its economic development (Haber and Menaldo, 2011; Radetzki, 2012; Tsui, 2010). Jensen and Johnston (2011) tested models that connect political risk to resource curse theory across selected countries and found not only a high connection between political risk and a country's reliance on a natural resource but also a high risk to business affiliates involved in the natural resource sector (e.g., oil, gas) in less diversified economies. According to Jensen and Johnston (2011),

This relationship between natural resources and political risk is not limited to reneging on contracts or nationalizing firms in the natural resource extraction industries. Leaders will have weaker incentives to uphold contracts with all types of firms. Thus investors in manufacturing and services are exposed to higher political risks due to the lack of incentives for the government to maintain a good reputation (p. 2).

Corruption and inequality in income distribution have been linked to a low level of economic diversification in an economy, which is a negative outcome in natural resource curse theory (Serra, 2006; Treisman, 2000). Busse and Gröning (2011), in a study on the influence of natural resources on governance indicators in developing and developed countries from 1984 to 2007, found that "the within country variation is sufficient enough to establish a negative impact of natural resource exports on corruption" (p. 1) in less diversified economies.

Natural resource curse theory

According to natural resource curse theory, "not only may resource-rich countries fail to benefit from a favourable endowment, they may actually perform worse than less well-endowed countries" (Tsui, 2010, p. 1). However, natural resources can be considered a curse or a blessing depending on many factors, including institutional and financial system quality and good governance practices by governments (Haber and Menaldo, 2011; Radetzki, 2012). Van der Ploeg (2010) studied the influence of natural resources on countries' levels of institutional quality by using a cross-sectional method over the period of 1970 through 2002. The author found that "resource-rich countries with good institutions, trade openness and high investments in exploration technology seem to enjoy the fruits of their natural resource wealth" (Van der Ploeg, 2010, p. 44).

Consequently, Alexeev and Conrad (2009) argued that discussion of the negative impact of countries' natural resources on economic growth and institutional quality, especially in developing countries, has been built on studies that used inaccurate variables and methodologies. Indeed, many studies have found no evidence of a strong relationship between countries' dependence on a natural resource and low economic growth (Alexeev and Conrad, 2009; Ross, 1999). Sovacool (2010) stated that "the [resource curse] theory may be too simplistic and deterministic to fully explain why some countries appear to be 'cursed' with resources while others are 'blessed'" (p. 225).

In this paper, economic diversification and the resource curse theory are not used interchangeably; however, we argue that there is a connection between the two. Economic diversification emphasizes the importance of having a diversified economy where more than one sector plays an important role in economic development; similarly, natural resource curse theory identifies the negative impact on economic development of having a single national income source as the main engine driving the economy.

The economy of Saudi Arabia

For decades, the Saudi Arabian economy has been based on oil revenues as the main source of national income; thus, economic booms in Saudi Arabia historically have been the result of high oil prices. Therefore, one can argue that the price of oil directs growth in the Saudi economy (Albassam, 2011; Aldukheil, 2013; Ramady and Sae, 2007). Accordingly, one main objective in all 10 development plans from 1970 to 2019 is to become less dependent on oil as the main source of income (i.e., economic diversification). The purpose of this objective is to encourage sustainable economic development that is unaffected by changes in the price of oil (Ministry of Economy and Planning, 2014).

Fig. 1 makes clear the strong relationship between oil price and economic growth, as measured by GDP per capita: economic growth follows the oil price. However, in the 1981–1985 plan, the direction of GDP per capita is negative even though the average price of oil goes up. This is the case for several reasons. First, the country's national debt rises and reaches more than 90% of its GDP in 1999 (Saudi Arabian Monetary Agency, 2014); hence, a large part of the income from oil was needed to pay the national debt. Additionally, the Iran–Iraq war (first Gulf War, 1980–1988) influenced the Saudi government's plans in terms of spending; specifically, most of the oil income went to war spending rather than to economic development (Albassam, 2011; Bulloch and Morris, 1989). Conversely, in the most recent development plan, 2011–2013, there has been an increased tendency for the government to direct some of the oil income toward investments in

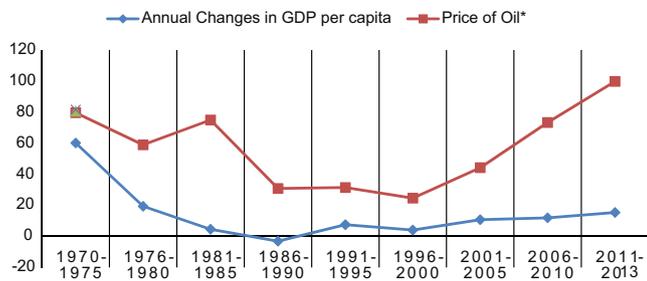


Fig. 1. Change in GDP per capita and oil price for each development plan (averages). Note: At current price; *Real oil price, OPEC basket. Sources: Annual Statistics, Saudi Arabian Monetary Agency (2014); Annual Report, Central Department of Statistics and Information (2014).

Table 1

Non-oil sector share of GDP (averages).

Sources: Annual Statistics, Saudi Arabian Monetary Agency (2014); Annual Report, Central Department of Statistics and Information (2014).

	Non-oil sector (private and government) as percentage of GDP	Government sector as percentage of GDP	Private sector as percentage of GDP
1970–1975	41.06	13.36	27.70
1976–1980	42.91	8.71	34.2
1981–1985	50.96	12.90	38.06
1986–1990	73.36	23.70	49.65
1991–1995	62.34	22.21	40.13
1996–2000	64.16	22.91	41.25
2001–2005	59.21	20.29	38.92
2006–2010	50.09	15.62	34.48
2011–2013	51.04	15.43	35.61

international foreign assets; this amount reached \$703,181 million in 2012 (Saudi Arabian Monetary Agency, 2014).

The private sector in Saudi Arabia

The private sector in most developed and developing countries plays a major role in economic diversification and economic growth (Luciani, 2006; Radetzki, 2012); however, this is not the case in Saudi Arabia. Hertog (2013) concluded that private sector contributions to economic growth and job creation in Gulf Cooperation Council (GCC) countries (Saudi Arabia is a member of GCC) are less than these countries planned and much lower than those of other countries with similar economic structures, such as Norway, Chile, and Indonesia. According to Hertog (2013),

While the Gulf private sector has made huge strides since the first oil boom, most of its activities still amount to more sophisticated rent recycling rather than autonomous diversification. Its interests are in stark opposition to those of the citizenry at large, as it provides no taxes, little employment and few investment opportunities for GCC nationals (p. 1).

In the case of the Saudi economy, the government fully owns big companies like the Saudi Arabian Oil Company (ARAMCO) and is also the majority shareholder of other companies like the Saudi Basic Industries Corporation (SABIC) and Saudi Electricity Company (SEC). Additionally, more than 70% of the shares of most banks and companies traded in the Saudi stock market is owned by government agencies, including the Public Pension Agency, General Organization for Social Insurance, and the Public Investment Fund (PIF), a fund managed and supervised by the government through the Ministry of Finance (Saudi Stock Exchange, 2014). According to the Saudi Stock Exchange's annual report, the Public Investment Fund, General Organization for Social Insurance, and Public Pension Agency controlled 35%, 11%, and 3.5%, respectively, of the total market value of shares traded in the Saudi exchange market in 2013 (Saudi Stock Exchange, 2014).

Additionally, the non-oil sector's share of GDP is not consistent over the development plans, as presented in Table 1. The non-oil sector's share of GDP reached its peak in 1986–1990 with 73.36%, decreasing to 51% in the most recent development plan (2010–2013). Additionally, there is a direct connection between government and private shares of GDP.

Fig. 1 and Table 1 show that the private sector growth is connected directly to changes in the price of oil and to government sector growth; that is, the private sector depends on government spending, especially government projects (Aissaoui, 2013; Luciani, 2006). Accordingly, Kayed and Hassan (2011) stated that “the proportion of the Saudi private sector to the overall economic base is relatively small” (p. 68). Therefore, long dependence on oil revenues hinders economic development and growth in the non-oil sector, thus weakening the

role of the private sector as a contributor to the process of diversifying the economy (Aldukheil, 2013; Devaux, 2013; Hertog, 2010).

Research question and methodology

The main goal of this paper is to examine the Saudi government's efforts to diversify the economy. Since 1970, the Saudi government has adopted development plans that call for “diversifying sources of national income and reducing dependence on oil through increasing the share of other productive sectors in gross domestic product” (Ministry of Economy and Planning, 2014, p. 23). Thus, this paper tries to answer the following question: Has the Saudi economy been diversified since the first development plan in 1970?

Data from the Saudi Arabian Monetary Agency (SAMA) and Central Department of Statistics and Information (CDSI) are used to answer the research question. The current paper uses changes in four variables—(1) oil as a percentage of GDP, (2) private sector as a percentage of GDP, (3) oil as a percentage of the country's exports, and (4) oil revenues as a percentage of total government revenues—over nine development plans (1970–2013), with the exception of the last year of the ninth development plan (2014) since data are not yet available for that year. The starting and ending years of each development plan presented here follow the government structure without intervention from the author. By looking at the structure of the Saudi oil-based economy and by examining similar economies, the mentioned four variables are used to help examine the extent to which the Saudi economy has been diversified since the first development plan in 1970 (Haber and Menaldo, 2011; Hertog, 2010; Luciani, 2006).

Many methods have been used to measure the diversification of an economy, such as the Ogive Index, the Entropy Index, the Gini-Index, and the Herfindahl Index (Jackson, 1984; Malizia and Ke, 1993; Siegel et al., 1995); however, there is no consensus among economists and scholars on the best method for measuring economic diversification. Each method measures only one aspect of economic diversification; the Ogive Index, for example, puts more weight on the industrial sector's contribution as the main factor in measuring economic diversification (Palan, 2010), whereas the Herfindahl Index measures the concentration of an industry or sector compared to other industries and sectors in an economy (Alhowsais and Al-shihri, 2010; Liston-Hayes and Pilkington, 2004).

Economic diversification and development plans

The Saudi government has adopted economic policies and strategies toward economic diversification. For example, from 1970 to 1995, supporting the agriculture sector was one of the

main tools in diversifying the Saudi economy. The government adopted policies that included providing loans and subsidies to farmers and offered to buy agricultural crops at a competitive price to support the agriculture sector. However, even though these policies succeeded in attracting investors to the industry, the effort failed in building a strong and independent sector that contributes to economic growth in the long term. In addition, the plan target was an annual growth of 4.6% in the agriculture sector to reach 27% of GDP; however, by the end of 1975 the sector had achieved only 3.6% growth. Also, in 1995, the government realized a huge loss of irrigation water, which affected the reserve water levels and led the government to cut support for the agriculture industry to reduce water consumption in this desert country, where few water sources exist (Ministry of Economy and Planning, 2014).

By the end of the first development plan (1970–1975), the annual growth of the non-oil sector was 11.4% even though the target was 14%. Thus, the service sector was considered a tool for diversifying the Saudi economy during the second development plan (1975–1979). Although the target was set for the service sector to have a 13% share of total GDP during the second development plan, by the end of the plan (1980), the service sector had only reached 8% of GDP (Saudi Arabian Monetary Agency, 2014). The lack of regulations organizing the service sector and the private sector's dependence on the government sector's projects and spending meant that the government's plans to utilize the sector as a tool for diversifying the economy was not successful.

Economists consider the fourth development plan (1985–1989) a model of success in the Saudi government's efforts to diversify the economy. Many reasons have been put forward to explain the fourth development plan's success (1985–1989), where all measures of economic diversification improved; compared to the previous plan (1980–1984), oil's share of GDP declined 23.24%, the private sector's share of GDP increased 11.56%, oil exports as a percentage of the country's exports declined 17.51%, and oil revenues as a percentage of total revenues declined 10.48% in the fourth plan. First, oil prices have tended to decline since 1985, which has affected oil's contribution to GDP and enhanced the private sector's. Also, in 1975, Jubail and Yanbu were established, both of which are industrial cities created by the Saudi government in a promise to employ the comparative advantage of the Saudi economy, which is oil, and to help in providing jobs for citizens. Accordingly, many businesses and factories began operating in these cities during the fourth plan, which resulted in increasing the private sector's contribution to GDP. Consequently, creation of these cities has absorbed a lot of Saudi job seekers and contributed to reduced unemployment. Overall, the fourth development plan is considered the most successful plan in achieving the government's goals; subsequent plans have seen a decline in the level of economic diversification.

Conversely, in the sixth development plan (1995–1999) and beyond, the Saudi economy faced different challenges such as unemployment rising among youths accompanied by population growth, which led to high demand on health care, education, and jobs. In 1999, the unemployment rate was 8.1% and it has climbed since then. Thus, in recent years, the Saudi government has issued many initiatives to achieve diversification of income sources, control and reduce the unemployment rate for citizens, and transfer advanced technologies to the Saudi economy; one of these initiatives involves attracting foreign investors to the Saudi market.

Establishing the General Authority for Investment to attract foreign investment in 2000 and supporting non-oil sectors such as tourism and service sectors to absorb unemployment among citizens are examples of Saudi government policies to achieve economic diversification. However, these policies have not succeeded in creating jobs or diversifying the economy. According to the Ministry of Economy and Planning, unemployment among Saudis reached

12.1% in 2012; also, 0.8% (481,600) of the non-Saudi workers, who usually do types of work that Saudis will not do, is unemployed (seventh and eighth development plans, 2000–2010). The lack of success in utilizing the tourism and service sectors was a result low-quality education and training system outcomes and the need to improve regulations that organize these sectors (e.g., tourism, investment). Alkhathlan (2011) said of the Saudi economy that “by training the local work force and upgrading the technical and managerial skills, it [foreign direct investment] helps in raising the efficiency and productivity of the factors and hence competitive strength in the international market” (p. 137). To conclude, after analyzing economic diversification processes and policies, we argue that the Saudi government is less committed to economic diversification when the price of oil is high, and the opposite occurs when the price drops.

Economic diversification in Saudi Arabia

The following section examines the Saudi government's efforts to diversify the economy. Four variables are presented and discussed regarding economic diversification in Saudi Arabia: the oil sector's share of GDP, the private sector's share of GDP, oil exports as a percentage of the country's exports, and oil revenues as a percentage of total revenues.

Table 2 shows the average of each economic diversification variable for each development plan. Presenting averages rather than years provides more realistic and meaningful data for examining each development plan. Diversifying an economy is a process that might take decades; thus, using averages for each development plan helps to evaluate this effort (Hertog, 2013; Kaye and Hassan, 2011; Standard and Poor (S&P), 2014).

Oil sector as a percentage of GDP

The oil sector's share of GDP reflects how the sector influences the economic growth in any country (Aissaoui, 2013; Serra, 2006). In the Saudi Arabian economy, there is no stability in the oil sector's share of GDP over time. From Tables 1 and 2, we can see that this share is influenced by the price of oil in the global market. For example, when the price of oil went down in 1985–2005, the oil sector's share of the GDP was negatively affected, and economic growth (GDP) also went down, whereas the opposite occurred in the development plans of 2005–2013. Therefore, when we consider the oil sector's share as a percentage of GDP, we can conclude that the price of oil directs economic growth; this situation is interpreted as one of low economic diversification.

Oil revenues

Diversified national income is considered an important factor in economic diversification and economic development. Profoundly relying on one source of income means the economy is held hostage to the fluctuations of that commodity's price in the global market (Gallarotti, 2013; Mahran, 2012). As Table 2 shows, not only does the Saudi national income depend almost entirely on oil, but oil revenues constituted an even higher percentage of total revenues (91.05%) during the most recent plan (2010–2013) than during the first plan (1970–1975) (90.56%). Thus, oil revenues still form the driving engine of the Saudi economy despite all the development plans.

Oil as a percentage of the country's exports

A country's export of goods and commodities is used by economists to measure its economy's structure and productivity. Economies with a broad range of exports of goods and services are healthier and more productive than economies that depend on only a few commodities as their main exports (Herb, 2005; Treisman,

Table 2

Saudi economic diversification variables (averages).

Sources: Annual Statistics, Saudi Arabian Monetary Agency (2014); Annual Report, Central Department of Statistics and Information (2014).

	Oil sector as a percentage of GDP ^a	Oil revenues as a percentage of total revenues ^a	Oil as a percentage of the country's exports ^a	Private sector as a percentage of GDP
1970–1975	58.02	90.56	99.49	27.70
1976–1980	56.59	88.80	99.65	34.2
1981–1985	48.38	79.53	98.43	38.06
1986–1990	25.14	62.02	87.95	49.65
1991–1995	36.00	73.78	90.95	40.13
1996–2000	34.28	70.66	87.30	41.25
2001–2005	39.72	80.93	87.04	38.92
2006–2010	49.12	88.22	88.13	34.48
2011–2013	48.22	91.05	86.92	35.61

^a Crude and refined oil.

2000). Furthermore, Busse and Gröning (2011) found that when a natural resource becomes the dominant export good or commodity for a country, the situation leads to an increase in corruption and negatively affects institutional quality in that economy.

Oil in Saudi Arabia accounted for more than 86% of the country's total exports in the 2010–2013 development plan period. While only a small decline compared to the previous development plan (2005–2009), this percentage has remained fairly constant since the 1985–1989 development plan. Thus, the government's efforts to reduce dependence on oil have not succeeded if we take the amount of oil exported as a percentage of the country's total exports as our measure.

Role of the private sector in the economy

Table 2 shows that the private sector accounted for 35% of the GDP in 2010–2013, which is not different from its share in earlier development plan periods. In fact, in the development plan of 1985–1989, this percentage was higher, reaching almost 49%. These figures show the instability of the private sector's share of GDP in Saudi Arabia across the development plans. Mahran (2012) stated that in the Saudi economy “the high dependence of the economy on oil, together with the dominant role of the public sector in the economy, leaves little room for the private sector to play a significant role in the economy” (p. 638).

Comparison with similar economies

To better understand economic diversification in Saudi Arabia, a comparison with similarly structured economies is presented using selected economic indicators. GCC countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (UAE)) share similar political, cultural, and economic structures. Additionally, while oil and gas are the natural resources that drive the economies of most GCC countries, all these countries have an economic diversification plan (Aissaoui, 2013; Devaux, 2013; Hertog, 2010, 2013). Therefore, the rest of the GCC countries will be compared to Saudi Arabia to examine the Saudi government's level of success in diversifying the economy.

As Fig. 2 reveals, the UAE economy has the lowest record in all economic indicators, which is interpreted as a high level of economic diversification. On the opposite side, Saudi Arabia and Kuwait show the highest dependence on oil among the GCC countries, which is interpreted as a low level of economic diversification in both countries.

To conclude, as shown in Tables 1 and 2, while the private sector's share of GDP is small and unstable, the other three variables used in this paper to examine economic diversification in Saudi Arabia—the oil sector's share of GDP, oil exports as a percentage of

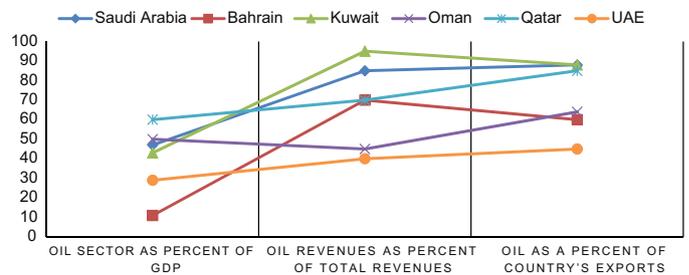


Fig. 2. Economic diversification in GCC countries (2013), selected indicators. Note: ^aCrude and refined oil.

Sources: Kuwait National Bank, 2014; Central Bank of Oman, 2014; Qatar Central Bank, 2014; Saudi Arabian Monetary Agency, 2014; Central Bank of the United Arab Emirates, 2014; Central Bank of Bahrain, 2014.

the country's exports, and oil revenues as a percentage of total revenues—showed high dependence on the oil sector as the main engine of the Saudi economy. Thus, economic diversification efforts by the Saudi government have shown little success in changing the picture since the first development plan in 1970.

Discussion

In answering the research question of whether the Saudi economy has been diversified since the first development plan published in 1970, the analysis in this study has concluded that there is a long road ahead before the Saudi economy can be considered a diversified economy, even in comparison to similar economies. As Tables 1 and 2 show, the oil sector is the dominant sector in almost all categories. The country's major exports and more than 90% of its income come from oil. Additionally, the private sector's dependence on government spending negatively affects the role that the private sector should play in diversifying the economy. Thus, economic diversification efforts by the Saudi government have shown little success in meeting the development plans' objectives.

In answering why diversification is needed in GCC countries, Devaux (2013) mentioned “uncertainty over future prospects for oil income” and the “need to create jobs” (pp. 20–21). Auty (1993), in his study of GCC countries' economies, argued that there is a “lack of commitment to competitive economic diversification” (p. 44) prior to external shocks, such as drops in oil prices, among countries that depend on natural resources. Therefore, we conclude that the government must have an appropriate and measurable plan to achieve better results in its efforts to diversify the Saudi economy. These plans must be explicit and include specific goals because economic diversification in the previous and current development plans was mentioned as a goal without clear steps for how to reach it.

Additionally, having a strong and independent private sector that is not reliant on government spending and projects is a step toward economic diversification (Aissaoui, 2013; Hertog, 2013). Accordingly, non-oil sectors, such as the agriculture and service sectors, must be supported and regulated by the government to enhance economic diversification. Also, learning from the experiences of similar countries—like Norway (oil), Botswana (diamonds), Chile (copper), and UAE (oil)—whose national wealth benefited from diversifying their economies is one way to develop an appropriate and measurable economic diversification plan (Van der Ploeg, 2010; Coutinho, 2011).

Conclusion

The Saudi government has issued 10 development plans since 1970, each covering a period of five years; economic diversification

has been a main objective of all these plans. This paper has examined changes in four variables—the oil sector's share of GDP, the private sector's share of GDP, oil exports as a percentage of the country's exports, and oil revenues as a percentage of total revenues—from 1970 through 2013 to study whether or not the government has succeeded in achieving economic diversification after more than 40 years of aiming to do so. The analysis concludes that, despite all the development plans being aimed at diversifying the Saudi economy, oil is still the main engine that drives the economy.

Having an appropriate and measurable development plan that supports the non-oil sectors' contributions to economic development, developing—through regulations and financial support—a strong and independent private sector that does not rely on government spending and projects, and learning from the experiences of similar economies whose national wealth benefitted from diversifying their economies are some of the steps needed to build a diversified economy. Importantly, since the influence of economic diversification goes beyond sustainable economic growth by also fighting corruption, creating jobs, and improving institutional quality, the Saudi government should fully consider economic diversification as a tool for better governance. Finally, future research can examine the role of the non-oil sectors (e.g., agriculture, service) that have a competitive advantage in the Saudi economy in the process of diversifying the economy and creating job opportunities for citizens.

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