

Seminar On The Future Vision For The Saudi Economy

The King Faisal Hall Riyadh Inter-Continental Hotel 19 October 2002.

I feel greatly honoured that I should be asked to speak at this symposium. However I feel quite unqualified to do justice to the subject which is the "Future Vision for the Saudi Economy".

2. I really do not know much about the economy of Saudi Arabia apart from the fact that it is a huge producer and exporter of oil. It is very different from Malaysia's economy, an economy that is totally dependent on trade. Malaysia's trade is two times the size of its Gross National Product. Even for Japan, a well known nation for its huge exports, trade amounts to less than 30 percent of its GNP. Malaysia's economy is therefore a function of its trade, its exports of electronic, electrical and other manufactured goods which make up 80 percent of the total, together with its exports of oil and other raw materials which make up the balance of 20 percent

3. On the other hand, and here I stand to be corrected, Saudi's economy is dependent largely on the production and export of petroleum. I believe that Saudi exports 10 million barrels of oil a day. I am boggled by this figure as Malaysia produces only 650,000 barrels a day and now export only 100,000 barrels, the rest is consumed locally.

4. At say 20 U.S. dollars a barrel, 10 million barrels would earn 200 million dollars a day and in a year the earning would be 73 billion dollars. Of course we have to deduct the cost of production, which is low by comparison to Malaysia's off shore production. The balance would still be huge and would be pure Government revenue for a country with a much smaller population than Malaysia's 24 million.

5. We are told that at the present rate of production the known reserves will last 200 years. If this is true then the future of Saudi economy would still be fuelled by oil.

6. The possibility that alternative fuel would displace oil in the foreseeable future is still remote. There will be some progress in making power generation for electricity and motor driven vehicles more efficient, but not such that it will not be offset by the growing demand for more power.

7. So, much of the future of Saudi economy would still be based on the production and sale of oil to the world. But Malaysia is very conversant with the danger posed by

dependence on raw commodities, especially one single commodity.

8. We used to produce only rubber and tin. The bottom fell out of the rubber market when synthetics were invented. And as for tin, the main use for it is in tin cans. When new packaging materials like aluminum, paper, glass, and plastics were introduced, the demand for tin dropped very quickly. If we had continued to depend on these commodities, Malaysia's economy would be one-twentieth our present size.

9. As we all know the oil price can drop. A one U.S. Dollar drop in price per barrel can make a huge loss in income for countries producing huge quantities of oil. For Malaysia which produces 650,000 barrels a day and exports only 100,000 barrels, it means a loss of 100,000 U.S. Dollars a day or 36.5 million U.S. Dollars per year. Our total export is approximately 100 billion U.S. Dollars per year. Oil export is therefore not significant. For Saudi Arabia it would make a big dent in your revenue. And the drop can be much more than one U.S. Dollar.

10. For Malaysia the loss in the demand for tin and rubber forced us to turn to manufacturing. We had no expertise in this area, nor did we have the capital. On the other hand if we want to export and earn foreign exchange we had to achieve world standards for our products. We took a short cut. We invited foreign investors and provided attractive incentives. Today, of the nearly 100 billion U.S. Dollars of Malaysia's exports, 80 percent is made up of manufactured goods.

11. Malaysians quickly learnt from the foreign owned industries the skills in manufacturing and today many of the manufactured exports are from Malaysian owned manufacturing plants managed by Malaysians.

12. Malaysia had an abundance of labour who were highly trainable. So we opted for labour intensive industries. Our population is relatively small and we cannot afford to exclude women, including Muslim women, from our labour force. Actually women are highly skilled and in the electronic industry their manual skill and ability to concentrate on their jobs proved most productive.

13. Malaysia's Muslim population make up only 56 percent of the total. If we exclude the women, Muslim human resource would be reduced to 28 percent. We are competing with non-Muslims in our country and non-Muslims elsewhere and we cannot afford to reduce our competitive edge by half.

14. Today despite all our efforts we are short of labour. We have now to go for hitech, capital intensive industries in order to grow the economy and give our people and the nation better earnings.

15. Is Malaysia's experience relevant to the vision of Saudi future? To a certain extent, yes. Where Malaysia's assets lie in its highly skilled and trainable labour force, Saudi assets lie obviously in its oil or more correctly energy resources. Also you have abundant land i.e. space and you have shown that you can grow plants even on the most arid area. I am sure you have phosphates and other minerals that are valuable in themselves or as fertiliser.

16. Saudi's abundance of oil is due to the peninsular being a great swamp in prehistoric time. It is quite possible for the desert to be reafforested if proper irrigation is carried out utilising the aquifers which must be plentiful if the zam-zam well is any indication. I don't think the whole desert should be forested but some parts of it can. I believe that with reforestation, rain will come and cultivation of all kinds of crops will be possible. It will not take a year or a decade but over time watering using modern scientific methods can achieve this. You have already grown wheat with artificial irrigation. It is costly in the short term but over the long term it can prove beneficial -- not the growing of wheat but reforestation.

17. But your greatest asset is still oil or energy. You now export crude oil largely. But obviously you can convert oil into other products. The greatest product is power. If instead of selling oil, you generate and sell electrical power, the income would be steady. Power prices do not fluctuate as much as oil prices. It follows that power exports can cushion the vagaries of oil prices.

18. Oil can be piped for long distances. It can also be shipped to any part of the world. Using the leverage of your low price oil, even below market, Saudi Arabia can build and own power plants all over the world. At least it can go into joint-venture with the countries it supplies power to. The attraction would be the constant supply of low-priced oil to the power plants.

19. The great retailers of oil products in the world do not have oil resources at home any more. When they exhausted their domestic sources they went out to look for oil all over the world. Today they dominate the world's oil supply even though they have to depend on foreign sources.

20. Most national oil companies seem happy to collect royalties from the production and export of their oil by the majors. The Malaysian national oil company, Petronas, has ventured abroad. Today it operates in 32 different countries, prospecting, producing, piping, refining, and marketing oil. It retails oil in Southeast Asia and in Southern Africa. Kuwait is another country which retails petroleum products at the pumps outside of Kuwait.

21. There is no reason why Saudi oil cannot be retailed very much like the retailing activities of Shell, Mobil etc. You have the advantage of enormous supply. Retail prices do not always go down when crude prices fall. Retailing petroleum products can again cushion the uncertainties of crude oil prices.

22. Desalination is now very costly. But by investing in research, it may be possible to lower the cost of desalination. There are countries in the region in need of water. Saudi desalinated water can be a money earner for the country

23. Then there are other industries which are energy intensive. Aluminum smelting is just one. There must be numerous industries which are dependent on cheap energy. The value added would compensate for the lower priced fuel.

24. Perhaps the question would be asked as to why Saudi oil should not always be sold at world market price. We can also ask why a country like Malaysia should sell its labour at lower price than the developed countries. Or why should labour cost much less in China and in many other developing countries? Aren't we selling our assets cheap?

25. The answer is that it is not cheap. The lower wages are compensated by a lower cost of living. At present one U.S. Dollar is equal to 3.8. Malaysian Ringgit. But one Ringgit buys goods and services in Malaysia as much as one U.S. Dollar buys in the United States. So our people have a fairly good life despite low wages. And consequently with low wages for our labour we are competitive.

26. Now we know that petroleum product prices in Saudi is much lower than product prices in most other countries. So selling the oil cheaply to your own industries should not be unusual. When your products e.g. power are sold to other countries based on your lower oil prices, you may seem to be subsidising other countries. But by the same token cheap Chinese goods may be considered as the workers in China subsidising consumers in other countries. China would not become an economic giant in such a short time if Chinese labour demands world prices.

27. Wages and incomes cannot be standardised worldwide. In any case Saudi Arabia will bear hardly any transportation costs when using its own oil. This alone will ensure that Saudi's domestic oil prices will be cheaper for all consumers, including industries. Accordingly the price of exported Saudi energy and energy intensive products would be competitive indeed.

28. Malaysia's strategy for industrialisation can be used by Saudi Arabia by taking advantage of fuel cost rather than labour cost. Of course if the high wages paid to Saudi workers and managers can be made lower, Saudi products can be made even more competitive. As far as technology is concerned, this can be bought or foreign partners invited to participate. It is of course necessary for investment by foreigners to be made attractive and bureaucratic procedures minimized. Political stability is essential also.

29. We are now in the Information age. ICT is the driving force for economic progress. Here there is no need for a big workforce. But there is certainly a need for workers highly educated in science and mathematics. These are subjects which the Arabs excelled in the past. I will not name the great Arab scientists, mathematicians and medical doctors. They pioneered modern science. Unfortunately at a certain stage the Muslims turn their backs on science and mathematics. Since then their civilisation has declined and until today they are among the least educated and least advanced people in the world. I venture to say that in neglecting these essential subjects they have actually disregarded the injunctions of Islam to seek knowledge and to be prepared with the necessary strength to protect themselves and their religion.

30. Be that as it may, the fact is that today we Muslims cannot neglect science and mathematics if we want to avoid being weak and oppressed. The total human resources of the Muslim countries must be fully educated in science and mathematics. We cannot of course exclude our women if we want to maximise our productive potential.

31. The future of Saudi Arabia is no exception. Your magnificent surgeons have proven to the world their skills. I am sure in the field of I.T. Saudi Arabia can excel in the future if it sets about producing the required human resources.

32. I have visualised a Saudi Arabia that is fully developed in the true sense. Per Capita income and high standard of living do not mean being developed. To be developed means to be master in some of the important fields of industrial

production, finance, technology and in particular leading edge technology.

33. There are Muslims who believe that being modern and advanced mean being unIslamic. We forget the modernising effect of Islam on the Jahililliah Arabs. It was Islam's modernising effect, in the context of Arab society of those days, that helped the spread of the religion and built the Muslim Empire. And Islam would have continued to modernise the Muslim world and cause it to be always a world power if at a particular stage Muslim had not turned away from modernisation in favour of recreating the world of the first years of Hijrah. Some Muslims believe even now that Islam can only thrive in the world of the early years of Islam. These people believe that Islam is not for all times. And as a result they neglect the modernising role of Islam and they have become backward.

34. Modernisation need not lead to atheism, to Godlessness, as is happening in the West. Indeed Islamic modernisation can achieve a balance between this world and the hereafter as we always appeal in our prayers to Allah s.w.t.

35. Our holy places will remain our holy places even if Saudi Arabia becomes a great industrial and financial power based on its oil and its many other God-given resources. Allah knows that the Muslim ummah is in dire need of a Muslim country which is a world power. Saudi Arabia is well positioned to become one if it chooses to do so and is helped by the ummah worldwide.

36. This desire to have a Muslim country as a world power is not because we want to embark on a world conquest. It is simply to ensure that Muslims and their countries are not oppressed as they are today.

37. If we adhere strictly to the teachings of Islam, we can be economically and politically strong without losing our identity and our faith

38. I have tried to outline a future vision of the Saudi economy. What I have said is entirely possible, subject of course to there being the will to do what is needed. The choice is yours. Islam is not in the way. In fact Islam enjoins us to do all that I have said can be done.