Section 6. Economic security

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The road towards globalization and stability in the Saudi Arabia's economy

Abstract: In the late 1990s, the Kingdom of Saudi Arabia has concentrated in economic reforms. The reason behind this trend is to keep up with the changes and developments in the global economy. Specifically, the Kingdom is looking to achieve sustainable economic growth, continue jobs creation, and enhance the level of welfare of citizens. An important step in this process is to lay the proper foundation, which is a market economy based on private ownership. A necessary corollary to a market economy is a structure that can support diversity; unfortunately, the Kingdom's political structure is still geared toward a twentieth century model and about 90% of the country's revenue is from petroleum. But, the government has made a firm commitment to updating its laws and diversifying the economy. This article explores how intentional change can make a positive difference to Saudi Arabia and its people.

Keywords: Saudi Arabia, economy, privatization, diversification, foreign investment, laws.

I. Introduction [1]

Change is very rarely easy, and economic reform is no exception to this rule. It may seem incongruous for an economy that relies on effective central planning [2, 21] to seek privatization, diversification and other open-market reforms, but that is exactly what needs to happen. Another maxim is that taking calculated risks is one of the best ways to grow, and the Saudi economic authorities must be willing to try what has been untried before.

The Kingdom of Saudi Arabia has focused on economic reforms, especially in the past two decades, in order to keep up with the changes and developments in the global economy. Specifically, the Kingdom is looking to achieve sustainable economic growth, continue jobs creation, and enhance the level of welfare of citizens [3, 42]. Acting alone, the state cannot hope to meet this goal. Thus far, reform has concentrated in four main areas.

II. The Move Towards Privatization

In the past decade, the government of Saudi Arabia has made a considerable effort to convert enter-

prises, projects, services and institutions in the public sector to the ownership and management of the private sector. The Kingdom has used privatization as a useful mechanism to both expand the participation of the private sector in the economic development and amplify competition and efficiency [3, 42]. As far back as 1997, The Council of Ministers placed the country on this path with Resolution No. 60, [4] which defends the objectives of the strategy and policy of privatization in the Kingdom.

The Resolution did not endorse privatization simply for the sake of reform, but rather ascribed eight objectives for the overall strategy. First and foremost, it was expected that privatization would enhance the efficiency and competitiveness of the national economy by making state-run industries more responsive to rapidly-changing national and international market conditions. Alongside this goal, the Resolution sought to encourage private investment from both domestic and foreign investors. A sense of ownership almost always increases the willingness to invest. This sense of ownership

should extend to the people as well, and not just to corporate leadership. Additionally, citizens should see more and better job opportunities and, consequently, higher incomes [5, 58].

The Resolution also placed a priority on affordable and timely services for both citizens and investors, which should reduce the public expenditure in these areas and alleviate pressure on the state budget. In fact, the state should see additional funds from privatization as these industries become more efficient and more profitable. Moreover, there is an additional revenue stream from concessions granted to private groups wishing to start or expand a business [5, 58].

As a follow-up, the Council of Ministers issued Resolution No. 257 in 2001 [6]. That resolution allowed the Supreme Economic Council to undertake the responsibility of supervising the privatization program and monitoring its implementation in coordination with the appropriate government agencies [7]. The Supreme Economic Council is responsible for identifying the target activities that would be issued by a resolution of the Council of Ministers, while the Economic Council would develop the privatization strategy and specify a schedule for its implementation [5, 58]. Essentially, the state sought to retain some control over these privatized industries so that there could still be independent oversight of their activities. In other words, the Kingdom took steps to avoid the dark side of privatization: unregulated industries whose only motive is to make money.

It is still fairly early in the program, but the results so far have been encouraging, as they have largely been in line with the goals of Resolution 60. Privatization has progressed nicely in several sectors such as electricity, communications, mineral resources, air transportation, and insurance. The overall participation of the private sector has increased through sale of shares of ownership, operate-manage contracts, leasing assets, and build-operate transfer contracts [5, 58]. To date, Saudi Telecom Company, Saudi Arabian Airlines, Saudi Ports Services, Saudi Electricity Company, Saudi Railways Organization, and Saudi Postal Corporation either have been privatized or are scheduled for privatization in the near future [8, 396]. The

news is not all good. So far, foreign participation has been limited: foreign entities can contribute only as a partner and own shares in a Saudi limited liability company [9, 32]. Otherwise, foreign entities cannot buy shares directly in state-owned enterprises that are subject to privatization [9, 32].

The privatization movement by the government was an essential first step towards efficient and stable economic reform in the Kingdom. While it is undoubtedly true that the government will have less control over projects, enterprises, services and institutions, this loss is more than made up for by the economic, social, and fiscal benefits of privatization for both the Saudi government and its citizens. Simply put, competition in the private sector should increase the growth of the Saudi economy. Just as significantly, privatization attracts foreign investors to the Kingdom. The laws may need to be reviewed to help promote the flow of foreign capital that is needed to fuel the other reforms in the Saudi economy. Also, the Supreme Economic Council needs to be vigilant and ensure that the privatization programs are followed as intended, and it needs to monitor its implementation closely with other agencies without being lulled into inactivity by the extra money in the economy.

Just as the ownership model needs to change, the way the people do business should change as well, if Saudi Arabia is serious about becoming a player in the global economy. There is no room for one-trick ponies in today's economy.

III. Economic Diversification: Weaning the Kingdom Off a Strict Petroleum Diet

A fundamental rule of business is to never allow one client or customer to dominate the activities, because a loss or even a slowdown has a devastating effect on the bottom line. Countries should operate by the same principle. Any nation that heavily relies on only one source of income for its economy is at-risk for economic collapse [53]. The situation is hardly unique to Saudi Arabia. Because there is little money available to invest in the economy, and because the start-up countries need vast quantities of capital, many developing countries produce and export only one or two commodities. This overreliance may be somewhat understandable, at least in the short term, but it makes their economies vulnerable to shocks

that inevitably occur in the prices or the productions of these commodities [10, 486]. Moreover, the domestic economies of these developing countries depend on the global effects and variables on these commodities [10, 486]. The economies of these developing countries continually stare economic disaster in the face. They live with the fear that the oil, rubber or tin market will collapse without warning. Because of this fear, they generally have unsustainable and unstable economies.

Fortunately for all concerned, the Kingdom of Saudi Arabia has recognized the issue of depending too heavily on oil. Oil is not a renewable resource, and there will come a day when exports will begin to decline and eventually cease altogether. In a planned capacity, assuming an annual output and production level of 12.5 MBPD in Saudi Arabia [11], the Kingdom may deplete its underground petroleum reserves and cease to export oil by 2075 or 2085, assuming that global consumption continues to grow on a linear path [12, 15].

The government is not content to count the days until the oil runs out, and it is being very proactive in promoting economic diversification. The private sector has been the tip of the spear in terms of the development efforts by the government of Saudi Arabia, in order to diversify the Kingdom's economy and to reduce the dependency on oil revenues [3, 42]. The Ninth Devolvement Plan [13] included several policies intended to promote non-petroleum economic sectors, such as developing an attractive environment for national and foreign private investments, activating public and private initiatives that are related to small and medium enterprise development, and promoting the incentive packages that are granted to national and foreign private investment to enable them raise the technical component in non-oil products and exports [5, 56]. Once again, the early returns are encouraging. The non-oil GDP, at 1999 constant prices, has increased at an average annual rate of 5.4% over the period of 1969 to 2011 [5, 15].

Unfortunately, a look behind the numbers reveals a far different picture. Even though the government of Saudi Arabia has focused on the diversification of its economy through the Five-Year Plans, the reliance on oil revenues and productions is still a significant issue in the Saudi economy, to say the

least. In fact, actual total revenue for fiscal year 2014 was USD 278.9 billion; 89 percent of which was petroleum revenue [14, 1]. Despite years of effort to the contrary, diversification is still nowhere near a reality in Saudi Arabia. Nearly the entire GDP is based on petroleum and its derivatives.

The government must look for other alternatives in productions in order to create a real diversification in the Kingdom's economy that is not based on petroleum or its derivatives, because prior efforts have clearly been ineffective. Diversification is indispensable, if the Kingdom is to have a stable economy that is not affected by global crises or price changes, and is to avoid the fate of other developing nations that have witnessed economic collapse brought on by forces totally outside their control. Moreover, the underground oil reserves are decreasing every day because of consumption. 2075 may seem light years away now, but the time draws closer after every sunset.

More significantly in terms of investment, petroleum is not a growth industry in Saudi Arabia. There is really nowhere to go but down, in the long term. Foreign investors are interested in new industries with potential for growth because shares of such companies can be acquired cheaply. Diversification thus goes hand-in-hand with increased foreign investment.

IV. How Foreign Investment is Permanently Changing the Saudi Economy

Scarcity plagues all economies, from a household checkbook to a multinational corporation. Oil may be plentiful in Saudi Arabia right now, but capital is not. In order to fuel investment for diversification and growth, the money has to come from somewhere else. That "somewhere else" is foreign investment.

Once again, the government became involved right away. Almost fifteen years ago, the Kingdom launched a concerted effort to attract more foreign investment. In 2000, the government enacted the Foreign Investment Law [15] with high hopes to grow the Saudi economy, to provide the opportunity for the private sector to develop and improve the national economy, and finally, to create a suitable environment for foreign investors to participate in the national economy [8, 391]. The Law was enacted in

a bid to align itself with the prevailing international investment trends [16, 61]. In a closely related move, the Kingdom established the Saudi Arabian General Investment Authority (SAGIA) in 2000 [17]. SAGIA has the exclusive responsibility for developing, facilitating, and monitoring foreign investments [8, 388–89].

The Foreign Investment Law provides a number of key advantages for foreign investors. SAGIA must approve or deny an investment application within thirty days, thus avoiding the long bureaucratic delays that are common in many government agencies, both in Saudi Arabia and elsewhere. To further expedite the process, that license may include more than one license to invest in various activities. Furthermore, an approved private enterprise has all the benefits, incentives and guarantees that are given to a national enterprise. To enhance transparency and create a willingness to invest, SAGIA must provide all interested investors with required information, clarifications and statistics, as well as all services and procedures needed to facilitate and complete all investment transactions [15, Arts. 4, 6, 10].

Both the Foreign Investment Law and SAGIA were essential starting points for attracting foreign investors. Plainly, the government of Saudi Arabia is trying to secure another source of revenue whilst encouraging the private sector to grow and develop, through foreign investment [18, 13]. In just a few years, the Kingdom has already become the eighth largest recipient of foreign direct investment in the world [19, 8]. The country's annual inflow of foreign direct investment increased exponentially from USD 1.5 billion per year between 1995–2005 to USD 25 billion annually between 2005–2009 [19, 8]. These achievements came largely as a result of the positive developments in the economy and the improvement of the investment climate in Saudi Arabia. Specifically, the government opened mining, petrochemicals, telecommunications and other key economic activities to foreign investment. The Kingdom also designated four cities as special economic zones [19, 8–9], a model that has worked quite well in China, Korea and elsewhere. Overall, Saudi Arabia is ranked 22nd out of 185 economies [20] in the World Bank's "Ease of Doing Business" 2013 ranking [21].

However, foreign investment is not without its critics, especially in a traditional society like Saudi Arabia. There is a fear that foreign money would lead to Western influences and the deterioration of the social and religious fabric. So, many activities are excluded from foreign investments such as exploring, excavating and producing petroleum, insurance services, real estate brokerage services, real estate investment in the two holy cities of Mecca and Medina, services of press and publishing, and services related to the field of fishing [15, Art. 18]. Instead of declaring certain sectors to be "off-limits," the government of Saudi Arabia should review its policies and regulations on more of a case-by-case basis regarding the restrictions which foreign investors face in some activities. In particular, the services of insurance, press and publishing, and fishing should be opened to foreign investments in order to create high level of competition in these services in the national market. Consequently, this should expand the private sector and the Saudi national economy as a whole.

Foreign investment is rather like privatization, to the extent that there is a significant pro and con to each one. But, again, the Kingdom must be willing to take risks in order to grow. If the fears of conservatives turn out to be legitimate and there are forces introduced in the country that are deemed to be undesirable, assuming that the negative outweighs the positive, these laws can always be reevaluated at a later date.

The next issue is capacity. Can the Saudi economy, as it is presently constituted, effectively implement these changes, or should the existing economic structure be reviewed in the light of the changes that are happening, and should continue to happen, inside the Saudi economy?

V. Restructuring and Modernizing Regulations and Authorities to Keep Pace with Change

Privatization, diversification and foreign investment are all very new ideas to a Saudi mind that is accustomed to government control, a petroleum-based economy and Saudi Riyals [22]. The institutions first designed and built in the 1930s are inadequate to handle the change. Once there has been a decision to change the economy's direction, as has occurred in the Kingdom, it is essential for any na-

tion to restructure authorities and develop and modernize regulations in the nation, for the benefits of social and economic growth and development.

Through the past decade, Saudi Arabia has done just that. It has established and reorganized many authorities such as the Supreme Economic Council [23], the Supreme Council for Petroleum and Minerals [24; 25], the Saudi Commission for Tourism and Antiquities [26], the Human Resource Development Fund [27], the General Investment Authority [28], the Communications and Technology Commission [29], the Capital Market Authority [30], the Saudi Organization for Industrial Estates and Technology Zones [31], the Electricity and Cogeneration Regulatory Authority [32], and the Centennial Fund [33; 34, 37–38].

The Kingdom of Saudi Arabia has also enacted several fundamentals laws within the past decade, including the Law of Real Estate Ownership and Investment by Non-Saudis [35], the Foreign Investment Law [15], the Telecommunications Act [36], Capital Market Law [37], the Law of Private Health Institutions [38], the Law of Supervision on Cooperative Insurance Companies [39], the Law of Gas Supply and Pricing [40], the Law of Commercial Mortgage [41], the Law of Benefit Exchange Between the Civil and the Military Pension Laws and the Social Insurance Law [42], the Income Tax Law [43], the Labor Law [44], the Civil Aviation Law [45], and the E-Business Regulations [46].

The establishment and enacting of these authorities and laws have contributed significantly to the developments in the Kingdom. None of these regulations and authorities existed before 2000, and that innovation indicates the motive of the government to reform and develop the nation.

During the last decade, Saudi Arabia has raised its economic rating in the world. Standard and Poor's Ratings has rated Saudi Arabia at 'AA-/A-1+' [47] on the long- and short-term foreign and local cur-

rency sovereign credit ratings [48]. In addition, in terms of transfer and convertibility assessment [49], Saudi Arabia is 'AA+' [48]. Then, in 2013, Standard and Poor's Rating Services upgraded the outlook on the long-term sovereign credit rating on the Kingdom from stable to positive [48]. Moreover, Fitch Rating has also rated the Kingdom of Saudi Arabia at 'AA-' on Long-Term foreign and local currency Issuer Default Ratings, and upgraded the outlook from stable to positive [50]. It has also rated Saudi Arabia 'AA' on Country Ceiling [51] and 'F1+' [51] on its Short-Term foreign currency [50].

It is definitely a challenge for a country to anticipate needed reforms and to have the proper institutions in place prior to these reforms actually being passed. So far, Saudi Arabia has been up to the challenge. By creating a new institutional infrastructure, the Kingdom invites change to come in and fill the needed reforms. It is much easier to work this way, as opposed to passing reforms and then trying to create new institutions on an *ad hoc* basis. Saudi Arabia has demonstrated its commitment not only to changing the economy, but also managing that change for the betterment of all the people.

VI. Conclusion

In the last two decades, static state-run industries have been privatized to react more quickly to ever-changing conditions, foreign investors are flocking to the Kingdom at a rate that is unmatched at any time in Saudi history, and the government seems willing to make the structural changes that are needed for sustained economic growth and change. The one dark area so far has been diversification. Encouraging investment in non-petroleum industries should help, along with increased private control in these areas. But, for now, Saudi Arabia's economic reforms remain incomplete. Not all of the Saudi reforms have gone off exactly as hoped, but the movement towards globalization and integration continues, as well it should.

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Economic security as a scientific category

Abstract: Experts in the field of economic security have yet to come to a consensus as to how this security should be understood. Opinions on the matter are numerous and vary greatly. Such a discord prevents the creation of a coherent theory of economic security, which in turn makes it impossible to establish an effective mechanism to ensure the latter. The article features a new concept of economic security formed on a strictly scientific basis, elucidates the essence of the concept and provides a basis for a uniform interpretation of the phenomenon denoted by the term "economic security".

Keywords: security, economic security, interests, protecting the interests, threats to the interests.

For a long time experts in the field of economic security, both in Russia and abroad, can not work out a common approach to the definition of the central concept in their research. Scholars and empiricists alike dispute and question each other's opinions as to the nature of the type of security in question. In the process a large number of definitions has piled up varying drastically both in essence and details. So far the only thing one can be quite certain of is that the research in the field of economic security — with regard to both its' social & purely theoretical aspects — is currently as vibrant in Russia as in any country of the world. One would daresay even that the very concept of "economic security" is being interpreted by Russian scholars in a much broader sense than by their foreign colleagues.

V. L. Tambovtsev for example defines economic security with purely academic terseness: "... by economic security of a system one is to denote a totality of properties relevant to its production subsystem that provides the system as a whole with the ability to achieve its' objectives" [1, 36] A definition given by L. I. Abalkin is on the other hand of more practical kind. According to L. I. Abalkin "economic security is a state of the economic system, which allows it to develop rapidly, efficiently, solve social problems and in which the state has the ability to develop and implement an independent economic policy." [2, 18] V. K. Senchagov gives more detailed definition of economic security, considering it to be "a state of economy and government institutions, which provide guaranteed protection of national interests, socially-oriented development of the