

**The Saudi Arabian Economy Policies Achievements and Challenges- Springer
2010-Author rebuttal to Othman Review**

**AUTHOR REBUTTAL TO USAMA UTHMAN BOOK REVIEW (REBUTTAL
IN YELLOW)**

Book Review

**Mohamed A. Ramadv (2010). The Saudi Arabian Economy: Policies,
Achievements, and Challenges, Second Edition. Springer, Pp. xxii — 512. ISBN
978-1-1419-5986-7**

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December 2010

The Saudi economy is one of the most important economies in the Arab and Muslim world. Its importance comes not only from the fact that Saudi Arabia acquires the largest oil reserves in the world, but also from the fact it is the largest Arab- Islamic economy. It is one of the G20 countries, in addition to its spiritual importance as the place for two of three Holy mosques for Muslims. The writing of a book about such economy is thus a worthy and very important exercise of scientific inquiry. Writing about such economy requires at least three distinctive qualities of the person(s) taking up that task. The writer must acquire a good grasp of economic theory, he must be following very closely the developments the Saudi economy has been going through over past years, and he must understand the special characteristics of the Saudi economy that makes it different from other economies. Such an understanding is necessary to explore and explain why and how the Saudi economy might be different from the typical western, textbook case. It is very unfortunate that none of these qualities is reflected in this book. Here are some observations:

A: Agree that the Saudi economy is one of the most important in the world in terms of its impact on global matters. The book highlights this throughout, whether in terms of energy importance (p. xv, p. 217), G20/Basel Committee role (p.43_) and its uniqueness (p. 300, 485). The author is well versed in the practical and theoretical foundations of the Saudi economy, having served as a senior

finance executive in the banking sector in The Kingdom and has followed closely the various evolutionary phases that has shaped the Saudi economy, has also taught the Saudi Economy course over many years, lectured widely on the subject to key public institutions, and meets all the criteria and the “distinctive qualities” needed to be an expert on Saudi Arabia.

1) **The author does not specify his period of study of the Saudi economy.**

*A: The period of study is post 2005 (First Edition) and is specifically spelled out in the **Preface** of the book.*

2) **The author does not explain how different his book is from other books in the same area, i.e what is it that distinguishes his book from other similar books? In addition, why there is a second edition, aside from the fact there are additional data since the publication of the first. In other words, what sort of *qualitative* changes in the Saudi economy might have taken place to warrant another edition? There is a big difference, I believe, between a second edition and a second printing!**

*A: What distinguishes this book from the **First Edition** and other books are several fold:*

The Second Edition incorporates material differences, including in- depth analysis of the key drivers since 2005 in terms of domestic economic, legal and social reforms set in motion by King Abdullah; the accession to the WTO; new globalization challenges and strategic alliances in the Far East; the new chapters on Privatization and FDI, and the analysis of the qualitative changes in the domestic financial and capital markets, especially in regulatory controls. The Second Edition delves more deeply into the challenges of attaining progress in the quest for building a knowledge based economy and examines education reform more fully. The Second Edition highlights the challenges in meeting global

competitiveness benchmarking, and adopting best practices for the private sector. No other published book on Saudi Arabian economy that is currently on the market, and concentrating purely on economic, as opposed to socio-political issues, covers such a wide range of topics as the Second Edition book under review. This is illustrated more fully in the concluding comment on available books on Saudi Arabia. Furthermore unlike any other book published , this edition has a full summary of chapter learning outcomes at the beginning and a summary of the chapter at the end to assist students. The Author has also produced a comprehensive power point summary of each Chapter to assist teachers and students , something that no other existing book has done .

- 3) **The book is replete with excessive, in many cases unnecessary, citations without any discussion on the part of the author. Thus, the book becomes mainly a work of compilations and citations from other sources. There are many, many statements in the book starting with the phrase “According to....” The author rarely discusses what the other sources say: he does not seem to take any position on these respects! Take for example his description of the Saudi economy as “a rentier economy”(Pp19, 45). There are four sources cited on this concept and a total of eight citations on the same page(19)! He could have simply explained that a rentier entity (an economy, a firm, or a person) is one that makes income mainly from ownership, but not from work. It looks like that the author does not feel comfortable enough explaining the concept in his own words, or he is trying to impress the reader with the number of references he can cite! There are many other similar citations in the book: they cannot miss the reader’s observation.**

A: The reviewer’s comments that there are too many citations or these are not properly or adequately explained/expanded upon is selective in criticism. It is common academic courtesy to state “according to “ when referring to other authors, unless there is another style the reviewer uses that has been universally copied

*by other academics .The comment that the issue of a “rentier economy” is not delved into closely is not correct. The concept is repeatedly addressed (pp. 19, 21, 25, 45) and the Author has argued that, in the final analysis, Saudi Arabia is **not** a full rentier economy as per literature, but that, over time, capital accumulation has ensured that the economic base has been diversified to an extent to ensure that Saudi Arabia is not ENTIRELY dependent on a pure resource income.*

- 4 Many tables and figures in the book are not referenced. In addition, even lot those that are referenced, in many cases the year and page number are not mentioned.**

A: All Tables and Figures in the book are referenced, and follow publishers convention, with the exception of those that are the Author’s own compilation or extrapolations. If specific years of publications are not provided, (eg. SAMA), this is because several SAMA or relevant publications have been used, and not for just one publication year.

- 5 In some cases, the “discussion” around some figures and tables is totally unrelated to these figures and tables! In other cases, they reflect poor understanding of basic economic concepts. Here are four examples. (a) Figure 2.2 (p.28) is supposed to show, in the author’s opinion. “major Saudi business cycles”. However, what the figure actually shows is real Saudi income in some spaced years. In basic macroeconomic theory, a cycle is identified by comparing actual real GDP (Gross Domestic Product) to potential real GDP. The figure does not show the latter measure. Furthermore, the discussion is rather very brief about each claimed cycle. Neither there is a reference to an expanded discussion of Saudi business cycles in later chapters.’ (b) Another example is Figure 2.3 (p.30). It is adopted from Cleron 1978. The author claims (Pp29-31) that the figure shows “three important features of the Saudi Arabian economy”. “First .. the crucial role played by the government sector” and “the importance of the oil and non-oil revenues..” The second feature, according to the author is “.. the degree of interdependence with the rest of the world.” “The third striking element is the relatively large portion of GDP that is paid for the use of the foreign —**

owned resources...” Surprisingly, the figure does show any of those features!!! *It does not show anything about the relative importance of any sector in the economy.* What the figure actually shows is the flow of different forces that interact to determine the aggregate demand and aggregate supply in the Saudi economy. (c) In table 3.1(p.45) the author returns again to the idea of “a rentier economy” and how, in his opinion, the Saudi economy moved away from such economy over the years. However, all what the table shows are data about oil output and oil revenues. *It does not indicate anything whatsoever about any structural changes the Saudi economy might have gone through over the past decades!* (d) Figure 3.5(p.55) shows an indexed population, government revenues, and government expenditures growth rates. The author argues, “The figure illustrates the urgent need to diversify Saudi Arabia’s sources of revenues in light of growing population needs.” *However, that need could have been better explained by adding and comparing the above- mentioned three variables to the overall real economic growth rate, and the growth rates of the lion- oil, and non-government sectors. The oil and government sectors are very large in the Saudi economy, but they do not comprise the whole economy.*

*A: The reviewer’s definition of business cycles is correct in terms of actual vs. potential GDP during booms and recessions. **Figure 2.2** which he refers to indicates exactly these swings for different eras of Saudi GDP, and **not** income flows. The different underlying reasons for this volatility are more than adequately explained.*

***Figure. 2.3** does demonstrate the clear inter-relationships of all three factors affecting Saudi Arabian economy (govt. expenditure, oil revenues, and flows into savings/investments, as well as the important element of foreign owned factor resources (remittances) affecting the Saudi economy. The following table illustrates the actual magnitude of such remittance flows, which is also another unique feature of the Saudi economy, in comparison to Saudi population, GDP and other countries with large foreign labor force.*

Concerning Figure 3.5: Reviewer's comments are noted and the point is valid. The recommended suggestions of incorporating comparison with real economic growth, growth of oil and non-oil government sectors will be incorporated in the next edition..

- 6 **Some of the figures that seem to be the authors work are quite bizarre.** For example, Figure 4.4(p.85) is supposed to show “SAMA’s monetary policy framework”, or how SAMA conducts monetary policy. However, the different “blocks” in the figure do not seem to lead one to another. The author should have simply started by indicating the policy instruments, leading to (affecting) the intermediate targets, which in turn affect the ultimate policy goals. Furthermore, while the author argues that the Final Goals of SAMA’s monetary policy are price and financial stability, he does not explain why unemployment and GDP are not among those goals! Furthermore, if this is the case, what is the theoretical motivator for such a policy? Another example is Figure 4.8(p95). The figure is supposed to show the “domestic money creation process.” It shows the different flows of dollars and Saudi riyals that affect the Stock of money supply in the Saudi economy. But the stock that is supposed to be affected by all of these flows is not shown in the figure!! In addition, the figure shows as if the impact of the domestic banking sector on the private sector is motivated by the government’s accounts at SAMA. The question that arises is, suppose the Saudi economy is a closed one with no government intervention in the monetary process, wouldn’t there be any money supply?! The fact to the matter is that there is a direct, independent link between banks and the private sector, in addition to the direct and indirect links to the government!

*A: SAMA’s stated goals are explicitly set out by the institution in their Annual Reports, and as such, the schematic description in **Figure 4.4** is correct. SAMA’s goals are **not** reducing unemployment and GDP management, but these are the goals of the Ministry of Finance as any knowledgeable observer of the Saudi economy should know. Fiscal policy, and influencing GDP/unemployment are the stated goals of the Ministry of Finance and the Reviewer is encouraged to refer more closely to the annual MOF budget statements on these aspects.*

Concerning" domestic money creation process", Figure 4.8 succinctly explains this process, as the Saudi Riyal is a fiat currency that is created only by virtue of dollar/foreign reserve creation, and not through SAMA printing SR notes or the creation of money supply without backing of foreign reserves. It is the Saudi budgetary mechanism (injections) into the system, and the resultant SR equivalent of dollar assets that are created, that is the prime operating mechanism for money creation. Conversely, Saudi Riyals are extinguished out of the system when SR are converted into dollars and transmitted outside the Kingdom. The Saudi economy is **not** a closed one and the Reviewer's argument does not stand here (p.82). Bank's deposits are generated primarily from government expenditures which flow into the accounts of the private sector. Table 4.5 (p.95) expressly highlights the overwhelming importance of the net domestic flows through government spending, as opposed to commercial bank's claims on the private sector in the analysis of factors affecting the changes in broad money Supply M3 in Saudi Arabia.

- 7 When he discusses monetary policy in Saudi Arabia, the author mentions five constraints that face SAMA in its conduct of monetary policy (P.83). He could have added a sixth one; SAMA is *not* an independent central bank. It is under full control of the government. However, in light of these constraints, and especially the "Centrality of SAMA's Exchange Rate Policy"(Pp.87-90), *he should have estimated a money supply rule that reflects the role of the different forces that affect money supply in the Country. Theoretically, under a fixed exchange rate regime (in the Saudi case the rival is fixed to the dollar), and assuming free mobility of capital (which is the*

official declared policy of the Saudi government) the monetary policy of the fixed currency is anchored by the reference currency. The question is: in light of the fact that there are domestic and foreign forces affecting Saudi money supply, how dependent is Saudi monetary policy upon the American one? The author argues, “interest rates play a subsidiary role, as they are predominately affected by US dollar interest rates.” Suppose we grant the author his claim, does that mean that SAMA has been operating upon a money- supply rule (as opposed to an interest -rate rule?) Furthermore, the exchange rate of the Saudi riyal against the dollar has been fixed at SR3.75/\$, ever since 1986! Many things have been changing in and around the Country, but SAMA is insisting on a very rigid exchange rate regime! There are some economists, including those of SAMA and the IMF who claim that policy has served the Saudi economy well. Is that true?! Couldn't a more flexible policy have helped to reduce the twin deficits (the government budget deficit and the current account deficit) in the 1980's-1990's?! Incidentally, the term “twin deficits” is never mentioned in the book! Wasn't the real economic growth rate so low in the face of deteriorating oil income and government expenditures, coupled with a very rigid exchange rate and monetary policies? The centrality of the exchange rate policy invites serious investigation about its usefulness in the past, in the present and for the future.

A: The Author never alluded that SAMA is an independent Central Bank, but that it gradually has evolved certain primary responsibilities for itself), as well as asserting its independence in the use of certain monetary tools, and shared others with the Ministry of Finance (pp.78-79, 83).

SAMA has indeed been operating on money-supply rule (changes in required reserves, deposit to loan ratios, setting repo and reverse-repo rates), as opposed to an interest-rate rule due to its fixed exchange rate policy.

Despite the reviewers explicit bias for a floating exchange rate policy, there are different strands of opinion on the effectiveness of fixed as opposed to floating exchange rates, and these are

explored in the book (Table 4.2, p. 89). Despite some public comments on the need for a more flexible exchange rate, SAMA's official stated policy has been to remain fixed to the US dollar (p. 89) and it has intervened through swap facilities where necessary when speculative pressure on the SR has emerged.

Twin deficits: Twin deficits occur when countries run **both** a current account deficit **and** a budget deficit. As any researcher with basic knowledge of the Saudi economy can assess, Saudi Arabia has not had a current account deficit since 1999 and this is illustrated in the book (**Figure 3.1**, page 46). This can also be verified from any SAMA Annual Report and recent Ministry of Finance Budget releases. As such, the issue of twin deficit, on a recurrent basis, as is the case for the USA, is **not** a characteristic of the Saudi economy, and hence it was not mentioned in the book as the Reviewer wishes. To put the Reviewer's argument to rest, the following updated current account and budget deficits of Saudi Arabia for the period 1999-2010 are set out.

	Current account	budget surplus (deficit)
	SR Billions	
1999	1.542	(36.3)
2000	53.7	+22.7
2001	35.1.....	(26.9)
2002	44.5	(20.5)
2003	87.2	+36.0
2004	184.8	+107.1
2005	337.4	+217.8

2006	371.0	+280.3
2007	349.9	+176.5
2008	668.6	+580.9
2009	294.75	(86.6)
2010	261.0	+108.5

Even over the 12 year period, the Saudi budget deficit was only for 4 years.

- 8 In the chapter on the Saudi Capital Market (Chapter 6), the author goes at length in discussing historical developments, and legal issues. While a briefing on these issues may be useful, such length is not really a matter of economics science. More importantly, the author should have investigated how the change in the regulatory aspects of the market has affected the market performance, especially that he mentions, but does not apply, the different concepts of efficiency in the market. The Saudi stock market has suffered two big blows in the first decade of this century. The first one was in May 2004. It is not mentioned at all in the chapter! The second episode was the Big Stock Market Crash of February 2006. It is only mentioned very faintly twice or there times in the chapter, but no serious discussions are offered! Before and after the Big Crash of 2006, the performance of the Saudi stock market has been the heated talk of both national and international media at the time. It is unfortunate that changes in the regulations of the Capital Market came only after the big crash. It seemed to be too late. Many people lost their shirts forever, as the market never recovered to its pre- crash historical levels. *The author should have investigated why the crash took place, how has it affected (or not affected) the Saudi economy, and how and why it was different from other stock market crashes in other countries.*

A: The evolution of regulatory, oversight, control and independence of any capital market authority is of critical important to understanding how current policies affect capital markets performance. The Saudi stock market and its supervision, as well as any shared responsibilities with other regulators, are important issues for researchers and students of the Saudi economy to

understand its uniqueness, as the Reviewer calls for in the first section of this review, and the book done this concisely.

The change in the regulatory aspects of the Saudi stock market have been extensively highlighted, especially the application of rules, disclosures and listings (pp. 150-152, 154). The observed deficiencies and inherent regulatory biases of the CMA are also explored, but not mentioned by the Reviewer. (pp. 155, 157-158).

Stock market volatility and performance. *The issue of the performance of the Saudi Stock market and the overheating of the market are not mentioned “faintly” as the Reviewer alleges, but in detail (p. 166, 167, 168). The Chapter explores the performance of individual investors vs. institutional/corporate players, as well as the high P/E ratios and asset bubble issue reached in February 2006 prior to the crash (p.163). In fact, the Chapter explains the different theoretical concepts of investor behavior (irrational exuberance and herd mentality) and highlights whether the Saudi market exhibits weak-form efficiency, semi-strong efficiency or strong form efficiency as per economic theory (pp. 165-168). The different ways that Saudi investors behaved are explored in detail to explain the erratic nature of the Saudi stock market (pp. 166, 167). The Reviewer overlooks this.*

- 9** The author does not seem to have captured some of the most important features of the Saudi economy. For example, his discussion of *Zakat* is rather very faint. He actually errs in characterizing what *Zakat* is. He describes it as an “Islamic levy on total assets (emphasis added)” (table 3.8. p.68.) Theoretically, *Zakat* is sort of an inventory tax. The modern proxy for *Zakat* base is the net working capital of the firm, not total assets. Saudi Arabia is one of very few Muslim countries in the world that incorporates *Zakat* into the government official fiscal system. The economics of *Zakat* could have been

an area that the author investigated. *The improvement in the government's Zakat collection can be an important instrument to diversify government finances. A few years ago, the Shura Council (Saudi Parliament) passed a resolution on collecting Zakat on real estate. The volume of trade in real estate in Saudi Arabia is so enormous, that it really deserves an extensive study.*

A: Zakat issue. *The Reviewer should be well aware that the Saudi government **does not** incorporate zakat collection in its budgetary forecasts for revenue and expenditures, and he can refer to the Ministry of Finance budgetary statements to that effect, but that zakat revenues are transferred directly to the Ministry of Social Affairs for charitable payments.*

*The issue of a more efficient zakat collection system is highlighted in the Chapter (**Table 3.8**, p. 68), incidentally as a first item of the Author's recommended proposals to enhance the revenue system for Saudi Arabia.*

The Reviewer should also be aware that different Islamic schools of thought (Hanbali, Shafi) hold differing views on the concept of zakat i.e. whether Islamic obligations precede application or whether application precedes Islamic obligations. As such, and given the differences in theological interpretation and application, the issue is outside the book's main focus . The matter of applying zakat on real estate is an interesting one, but again is marginal to the main thrust of the book, as the application of such a zakat raises interesting dilemmas for the government – should this be applied to privately owned land which is not developed, in which case the concept of total assets will apply, or should it be applied to real estate that is owned by companies where the concept of net working capital can be applied, and even then, is the

zakat applied on all developed properties sold during the zakat period, or part of the year etc.

The issue of real estate, especially the shortage of affordable dwelling for a relatively young population is an interesting one that will be addressed in future editions.

- 10** Another neglected and related issue to the one discussed in point 9 above is **land speculation**. The continued appreciation in the prices of land has been **crippling the Saudi economy**. The author should have investigated the reasons why have that been the case for many years and how it has affected the economy's growth rate and the distribution of income. *The collection of Zakat on real estate in general and land acquisitions in particular can be an important tool to deal with the problem, in addition to improving government finances.*

*A: As above. The debate on land speculation, real estate housing shortage and the impact of Saudi inflation are topics that can be expanded upon in later editions, although the issue of real estate's contribution to Saudi inflation has been highlighted in the book, as well as the social impact of inflation (**Figure 4.10**, pp. 100-101).*

- 11** The treatment of subsidies in several places in the book is another deficiency. The Saudi economy is beset with subsidies, both for consumption and production purposes. Reported subsidies in government documents are most probably the direct ones. Indirect subsidies such as those in the areas of aviation, electricity, water, and petrochemicals are probably much more than the reported ones. The author should have investigated the size of these subsidies and; **how efficient and equitable their use has been.**

*A: **Subsidies**. The Reviewer's comments that more study needs to be done on the Saudi subsidy policy in terms of efficiency vs. equity is accepted and will be incorporated in the next edition.*

The issue of current subsidies is covered in several areas of the book (pp. 59, 102) especially the policy of using subsidies to control inflation as well as the social effect of inflation on certain sections of society.

- 12 While the author declares on the Faculty Bulletin Board that Islamic finance is one of his interest areas, his coverage of the subject is rather shallow! This is another important area that the author could have cultivated to show how it has been affecting the Saudi economy, and how it could be improved. There is demand for Islamic finance in almost every corner of the world, even in non- Muslim countries!**

A: Islamic finance. *The Author has first hand experience of Islamic finance application, having served as a senior banking professional in this field, and the issue of Islamic banking application, its future prospects and challenges are highlighted in the book eg. **Table 4.10**, p. 105 – challenges faced by SAMA, pp. 106-107; pp. 140-141 the development of Islamic Finance in the Kingdom; pp. 456-457 the issuance of Islamic sukuku in the GCC capital market (**Table 14.12**), as well as the problems facing application of new Accounting and Auditing rules for Islamic finance in the region.*

It is agreed that there is a need for enhancement of Islamic finance services in the region, and the wider world, but hopefully the Reviewer should also recognize that this cannot be at the expense of “fit and proper” governance of Islamic financial institutions so as to avoid moral hazard and “fatwa shopping” to ensure so-called Shariah compliances. As such, it is notable that Saudi Arabia has followed the “fit and proper” rule in allowing Islamic

compliant services, while not allowing the term “Islamic” to be used by ANY licensed Saudi financial institution (pp. 107, pp.140) (The most recent decision by Qatar in February 2011, instructing Qatar based Conventional banks to suspend their Islamic finance “units”, is a further indication that regulators in the Gulf are applying the “fit and proper” banking principle, as far as Islamic finance is concerned).

- 13 **Hajj (and Umra) to Mecca is very unique to Saudi Arabia. It is true that there are religious places in other countries around the world. But Mecca is the holiest place for about one quarter of the world population. The Saudi government has been pouring huge capital investments in the Holy places in Mecca and Medina. For all of these reasons, the economics of Hajj deserves a study in its own right, which the author neglects. *Islamic religious occasions follow a lunar calendar. The activities around the religious activities seem to be sort of a built-in stabilizers of the Saudi economy should oil prices deteriorate. In fact, the benefits of such activities may extend well beyond Saudi Arabia as Muslims from other countries pack to travel to the Holy Places.***

A: Hajj and Umrah. It is agreed that these are unique to Saudi Arabia but to claim that the economics of the Hajj deserve a study in its own right is somewhat misleading. Until the late 1960’s, Hajj revenues were an important element of the Saudi State’s revenue , but since the 1970’s the revenue derived from Hajj have been an insignificant source compared to hydrocarbon and other revenues. The Hajj/Umrah benefits are mostly localized in the Western Region and a few cities where religions visitors are allowed to travel. The Saudi government’s expenditures on Hajj facilities far outweigh the benefits **directly accruing to the government, as opposed to the Saudi retail/private sector. Furthermore, such benefits do not trickle out to other regions with the exception of those Saudi companies providing logistics, locally produced food**

and other basic necessities to religious visitors. The Author is not exactly sure how the benefits of such Saudi localized services can benefit Muslims outside Saudi Arabia, except to note that Hajj expenditures constitute negative capital outflows for countries sending Muslims to the Holy Places.

- 14 The author says that he estimated the cost of unemployment in Saudi Arabia for the period 1993-2008 (Pp.389-390). He says that (The Saudi Arabian “natural rate of unemployment” (U*) is based on the author’s own estimation,...). However, he does not explain how he made that estimate. In table 12.15(P.390), in order for the author to calculate the GDP Gap, he subtracts his “estimate” of natural unemployment from what he reports as actual unemployment, and then” multiplying by a factor of 2 *as per Okun’s Law* (emphasis added)” to estimate the GDP Gap!! Arthur Okun (1928-1980) studied the relationship between unemployment, and GDP for the US economy. He found that for every 2.5 percent increase in real GDP above the potential level, unemployment decreased by one percent, below the natural rate of unemployment (originally 3:1). This became known as Okun’s Law. It looks like that the author thinks that the ratio of one to two in Okun’s “Law” is a universal one that applies every time and place!!!!!! He does not seem to realize that Okun’s “law” is an empirical relationship (but not a law in the strict sense of the word), which is subject to change once the underlying conditions that generated this ratio change. If Okun were resurrected from his grave, and he if he were to re- do his study about the American economy, he would probably not find it one to two! The novelty of Okun’s study is not in the ratio he found out, but in studying the relationship between the two most important macroeconomic variables!

A: Cost of Unemployment. *The Reviewer has raised several issues. Concerning the natural rate of unemployment estimation, the Author has used average size of families’ data from the Ministry of Social Affairs as well as population family size censuses to arrive at the rate of natural unemployment, especially for extended family support for those out of work. In KSA families tend to be larger and extended families also provide support, as a formal “signing up” system for unemployment benefits is still not operating as*

government policy like other countries, or it is not socially acceptable to seek such payment handouts. As such, Saudi national rate of unemployment tends to be higher compared with countries that have a formal system of unemployment benefit registration.

(Interestingly , the Reviewer has not commented at all on the Saudi phenomenon of voluntary " educated unemployed " dealt by the Author(pp.382-383), as being unique to resource rich countries such as Saudi Arabia, where educated youth remain voluntarily unemployed upon returning back from international scholarships in the hope of obtaining higher paid Government or resource based jobs, and preferring not to take up available , but less "socially desired " jobs, thus leading to further" natural rate of unemployment " discussed earlier. This is unlike countries such as Lebanon , Jordan etc where youth try to obtain higher education to obtain better jobs ABROAD, leading to a brain drain and a further cycle of more youth emulating their predecessor's success .

It is interesting to note here that the 3 recipients of the 2010 Nobel Prize for Economics (U.S. professors Dale Mortensen and Peter Diamond, as well as UK's Christopher Pissarides) work on search markets helped explain how it was possible so many people could be unemployed at a time when a large number of jobs were on offer. The trio explained how buyers and sellers, or in this case, employers and potential employees, did not always find one another immediately, leading to so-called "frictions." This search process meant there would inevitably be job vacancies and unemployment. According to a classical view of the market, buyers

and sellers find one another immediately, without cost, and have perfect information about the prices of all goods and services. But this is not what happens in the real world, and that, as a consequence, stubborn unemployment will decline slowly. The policy implication of the Nobel Laureates' work is that in societies where unemployment benefits are paid, the State can use reductions in such benefits to force those unemployed back into available jobs. In Saudi Arabia, with no such schemes in place, only moral suasion and the lack of extended family support will drive unemployed educated/non educated youth back into the labor market to seek lower than hoped for available jobs.)

*Concerning using “Okun’s Law” to derive potential GDP losses due to unemployment, it is agreed that Okun’s initial studies relate to the U.S. economy and is an empirical relationship. The Author is not sure however if the reviewer’s criticism for using the concept is based on the premise that it applies **only** to advanced economies such as the U.S.A. who might have different characteristics than developing economies or it should not be applied at all. Despite the objection, the Author’s attempt is to try and estimate the potential GDP losses for the Saudi economy using the same empirical relationship, as well as official government unemployment data (**for males only**) as a starting base and extrapolate forward. It is also interesting to note that other eminent Saudi based economists such as DR John Skafaniakis has recently estimated the level of Saudi unemployment at around the levels forecasted by the Author eg the unemployment levels of Saudi males in the 24-34 age group at around 39 % levels.*

15 In several cases, the author tries to use some very obscure rules of thumb to substitute for formal scientific modeling and rigorous statistical analysis. In addition to above - mentioned examples, his attempt to forecast unemployment in Saudi Arabia is another one. In table 12.11 he offers what he calls a forecast of “employment changes for Saudi males, for the period 2003-2013, based on the model of labor entrants developed in Fig.12.8.” However, the alleged model is nothing more than assuming certain percentages of school drop outs at different levels of schooling. He “forecasts” unemployment at 39.12% in 2008, 45.39% in 2011, and 48.23% in 2013!!! (Pp375—377).Furthermore he mentions that the official statistic for unemployment in 2008 was 9.8 %, justifying the huge discrepancy between his “forecast’ and the official figure by ‘The truth of the matter is that there is no precise way to measure the rate of Saudi unemployment.’” (P.377). Granting him the claim that official data may not be “precise”, does the inaccuracy reach as high as 300 % of a “reliable” forecast? His “forecasting” model is never spelled out formally.

A: There is nothing “obscure” about the methodology used by the Author in trying to estimate the unemployment level for the period 2003-2013, as the building blocks for estimating the size of the labor force (as opposed to those actually in employment) are the ones used by economic statisticians . Starting off from the official government unemployment level (for males only) in 2008 at 9.8%, the Author has used a straightforward labor supply model that takes into account NEW entrants into the labor market at different levels of schooling, who are able and willing to work and seeking jobs, after allowing for dropouts who might enter the labor force prior to graduation at each schooling stage.

This is then the rate of new labor entrants to existing labor supply, with deductions made for those reaching retirement age, and for those who died. Given the relatively young age profile of the Saudi population, the number of new entrants far exceeds those reaching retirement in the period under question. At the same time, the Author has used the official government forecast for PLANNED

*new job generation by the private sector to absorb forecasted new labor supply entrants. The resultant gap between expected new private sector job creation(the Govt. sector has remained static in terms of incremental new job creation as discussed in the book), and labor entrants, is the **forecasted unemployment rate for males only**. The Reviewer should be fully aware of local media reports that sometimes let slip on far higher Saudi unemployment male levels, let alone for females, compared with official levels of unemployment.*

(For those that follow the Saudi Economy in a professional manner, it is interesting to note that the most current publication of the respected economist DR John Skafianiakis of Saudi FRansi Bank estimates the level of Saudi Unemployment in the age group 20-24 at 39 % ... Surely we cannot all be wrong ?)

16 Except for the above- mentioned obscure relations, the author does not try to estimate any relation about the Saudi economy. For example, there is no estimate of a budget deficit rule, a money supply rule, an import demand function, or the relationship between the twin deficits.

A: The Reviewer should have read the book more carefully before using words such “obscure”. Concerning the four issues raised, the following are highlighted in the book:

*a. **Budget deficit “rule”**: There is **no** government budget deficit rule to speak of, and the only benchmark is the **breakeven price for oil** which theoretically translates to a balanced budget. **Figure 3.3**, p. 51 illustrates the budgeted vs. actual oil prices used for Saudi budget forecasts which illustrates the total mismatch between budgeted prices and actual*

prices. Consistently budgeted forecasts have erred on the conservative side. The opposite also seems to be the case of budgeted Saudi expenditures which lag behind actual expenditures for all fiscal years. Real power of expenditures lies in the hand of the Ministry of Finance in the approved State budget outlays, and through Royal orders for **unbudgeted expenditures**. There are no “automatic” stabilizers in the Saudi fiscal systems, which is explored in the book (p. 61-62).

b. **Money supply rule:** As stated earlier, the rate of government expenditure is the key determinant of money supply expansion, and this is illustrated in **Table 4.5** (p. 95). As such, there is no stated or implicit money supply rule for Saudi Arabia.

c. **Import demand function.** The Reviewer has missed out on this, as **Table 3.2** (p. 46) sets out the **marginal propensity to import** out of oil revenues for the period 1973-2008, and which partly accounts for the positive nature of the Saudi current account balance. The same issue is also examined on p. 268.

d. **Relationship between the “twin deficits” (trade and budget deficit).** This issue has been laid to rest as explained earlier (Review Point No. 7), as Saudi Arabia does **not** suffer from a twin deficit situation like the U.S.A.

17 A similar observation can be made about the chapter on “Saudi Arabia and WTO.” For while the author cites at length government sources about sectoral obligations as a result of accessing the WTO, there is no **quantification of costs and benefits** in the aftermath of accession, neither at the microeconomic level nor at the macroeconomic one! For example, how would economic growth rate and unemployment going to be affected by accession to WTO?

A: **WTO**. *Unless the Reviewer is not very familiar with the Saudi post-WTO accession time frame for complying with accession commitments post 2005, the full cost and benefits will only become evident after 2010 for the majority of Saudi goods and services, i.e. after an average of 5 years grace period for most items. **Table 10.4** (pp. 303-309) sets out in great detail the potential impact on a wide sector of Saudi industry and services as to the likelihood of full WTO impact, once accession commitments are fully implemented. Even after 2010, full accession impact might not be felt due to the global financial crisis and the economic downturn felt in many countries competing with Saudi goods and services.*

As far the WTO's impact on Saudi economic growth and unemployment, the Reviewer is invited to look at pp. 316-317 which sets out the post-WTO accession agreement governing the issue of “Saudization” and the concept of “national treatment” labor exemptions that the Kingdom obtained in this regard.

18 In his discussion of the GCC monetary union (464-467), the author does not discuss how the international financial crisis, and especially the Euro Crisis, might affect the prospects of a GCC monetary union. In particular, what lessons are to be learned form the European experiment? The GCC countries are following the European footsteps in terms of the required “convergence criteria” to a monetary union. Are these criteria suitable anymore for the GCC’s? Do they need additional ones? How could have the Dubai financial crisis of 2009 affected the GCC monetary Union had it been there before the crisis, and how might it affect the prospects for a GCC monetary union in the future? Such questions are not taken up by the author.

A: *GCC Monetary Union:* *The implications for a GCC monetary union, following the Euro and global financial crisis are set out as well as the lessons learned from the EU experience, especially in avoiding speculative attacks against a new bloc currency (p.464, 466, 470) . EU convergence criteria and GCC compliance are explored in **Table 14.13** (p. 467), along with recommendations for a GCC wide effort to enhance such convergence and set out on p. 458. The issue of **Dubai** and the fallout from its crisis on the GCC is examined in several areas: (p. 433, impact; p. 445 international contagion). As the Author argues, the prospect for monetary union, **as opposed to currency union**, is more promising for the GCC given the global fallout from the recent financial crisis, the withdrawal of Oman and UAE from the common currency, and the weakened Euro and lack of consensus on whether to tie the unified currency either to the dollar or to a basket of currencies (pp. 458-459, pp. 467-470).*

- 19 The book is replete with journalism: paragraphs after paragraphs that are at best business- like reporting, but has no scientific value, and unnecessarily inflate the size of the book. See for example pp.22-23,25-27,43-49,57-61,75-81,111-123,140-141,145-147, 181-193,200-204, 210-213, 452-457, and many others. *In fact, there is so much of such business journalism, that one could conclude that it is the glaring aspect of the book!* While some of the reported things may have an informational value, it would have been sufficient to advise the reader about the relevant web sites on the internet.

A: *The Reviewer's comments in this seemingly afterthought section* *are the most baffling to understand, on what it is exactly he is objecting to: is it the style of writing that he cannot fathom, or the expressions used in English prose with which he is unfamiliar, or what? On reviewing the pages that he is quoting, (or "inflating" the book as he accuses the Author), one finds that most relate to*

Chapter introductions and settings of the topic to be discussed. How then does one introduce a new Chapter and the main issues for discussion to the reader? The Reviewer does not provide any alternative style, or a sample of his work, but below are his objections pages and the Author's attempts to unravel the basis of the objection:

- pp. 22-23: The history of Saudi planning...*
- pp. 25-27 Ditto, but with rather a baffling inclusion of a summary Table 2.2 of the history of all the plans thrown in for good measure...*
- pp. 43-49 Chapter introduction to Public Finance and oil dependency.*
- pp. 57-61 Income diversification, budget allocations...*
- pp. 75-81 Chapter introduction to SAMA and evolution of SAMA's responsibilities....*
- pp. 111-123 Chapter introduction to the Financial markets and the significant landmarks affecting this sector*
- pp. 140-141 Islamic finance in the kingdom..*
- pp. 145-147 Introduction to the Saudi capital market and its historical development*
- pp. 181-193 Introduction to the Private Sector and globalization challenges facing the private sector.*
- pp. 200-204 The objected pages refer to the section dealing with Saudi women and their participation in the national economy, as well as the obstacles they face for*

fuller economic and social participation, the size of their investments etc. Is the Reviewer objecting to style or to the inclusion of such women issues? Unless the Reviewer is not fully abreast of recent governmental decrees and encouragement from the highest levels of the Government and His Majesty for more female participation in the economic life of the country, the Author is at a loss to understand what the Reviewer wishes to highlight as a “deficiency” in this section.

pp. 210-213 Promotion of private sector – self sustained growth – not sure what the Reviewer is objecting to here?

pp. 452-457 Development of offshore banking, problems associated with it, as well as characteristics and size of the GCC capital market. Again, a rather baffling objection

- 20** A book that is intended to be offered to universities for possible adoption as a textbook lacks several pedagogical aspects. There are no “Extensions, or Applications” in any chapter that shed light on any real — world cases, studies, or news that may be related to chapters’ materials. Also, there are no end-of- chapter discussion questions, and no glossary at the end of the book!!!

A: Pedagogical features: *The book examines the Saudi economy, and not other economies. Comparisons are made in various Chapters (eg. Capital Markets, FDI) to other countries, but the emphasis is on Saudi Arabia. As such, to introduce “world cases” is to dilute the called for uniqueness of Saudi Arabia economy and its setting which the Reviewer so stridently calls for in his introduction paragraph. The Reviewer also seems to have overlooked the **four***

*pages of glossary abbreviations at the front of the book (pp. xix – xxii). The end of Chapter discussion points were removed from the Second Edition, as the publisher felt that **qualified** faculty will be in a better position to pose questions that are topical and relevant under current circumstances, as opposed to discussing static questions applicable to more theoretical based academic textbooks. The Reviewer might not be aware that, **unlike any other** book on the Saudi economy currently on the market, the Author's Second Edition **is the only Saudi Economy book to have a full PowerPoint Chapter summary available for the guidance of adopting institutions faculty and students.** Secondly, the book is **THE ONLY ONE** currently in the market that meets AACSB's requirement by including the following features:*

-Beginning of Chapter LEARNING OUTCOMES

-End of Chapter SUMMARIES.

Conclusion: I have not said in this report all what I could have about this book. Nevertheless, I find the book as an unfortunate, failed attempt to write about a very important subject. There are more citations than there are explanations, more compilations than there are own- contributions of the author's, more journalism than serious scientific analysis. Until a good, recent book is written, those in need are not without much better alternatives to this book. Among them are the annual reports of SAMA, reports by domestic and international banks, studies by the World Bank and the International Monetary Fund (IMF). Many of these studies are available on the Internet, free of charge. Furthermore, such resources are more up-to-date in data and analysis than a book that may be revised once every four or five years

A: Conclusion

The choice of words such as “unfortunate failed attempt” by the Reviewer is rather sad and somewhat demeaning of a professional

academic review, as it would have been more appreciated and appropriate if he had put forward what he considers to be a “good attempt” at a Saudi economy book, whether from himself, or anyone else. For the Reviewers information, the current books on Saudi Arabia, listed below, are easily accessible for verification and for consideration by institutional adopters if they so wish.

The books can be classified under three broad groupings:

(A) **Sensational**: eg. “*The Battle for Saudi Arabia*” Asad Abukhail; “*Sleeping with the Devil*” Robert Baer, “*Wahabi Islam*” Natalia Delong Bas, “*House of Bush, House of Saud*” Craig Unger, “*Saudi Arabia and the Politics of Dissent*” Mamoun Fandy.

(B) **Political/Social**: eg. “*A History of Saudi Arabia*” Madawi Al Rasheed, “*Inside the Kingdom: Kings, Clerics, Modernists and the Struggle for Saudi Arabia*” Robert Lacey, “*Saudi Arabia Enters the 21st Century: The Political, Foreign Policy, Economic and Energy Dimensions*” Anthony Cordesman, “*The Paradoxical Kingdom: Saudi Arabia and Momentum of Reform*”, Deryl Champion, “*Saudi Arabia in the Balance: Political Economy, Society and Foreign Affairs*” Paul Aarts and Gerd Nonneman, “*Saudi Arabia Exposed: Inside a Kingdom in Crisis*” John Bradley, “*The Saudi Enigma: A History*” Pascal Monouret, “*National Security in Saudi Arabia: Threats, Responses, Challenges*” Anthony Cordesman, “*Saudi Arabia: The Coming Storm*” P. Wilson and D. Graham, “*Saudi Arabia: Power Legitimacy and Survival*” Tim Niblock.

(C) **Economic Outlook books and their Date of Publication**:

*“A Guide to the Saudi Arabian Economy (1984) John Presley,
“Saudi Arabia’s Development Potential (1982) Robert Looney,
"Saudi Arabia: A Case Study in Development (1982) Fouad Al
Farsy, “Economic Development in Saudi Arabia (2004)
Rodney Wilson et al., “Saudi Arabia: Energy, Development,
Planning and Industrialization (1982) El Mallakh, R. and D.,
“The Political Economy of Saudi Arabia (2007) Tim Niblock.*

The Reviewer is hoping for a “good, recent book to be written”. So does the Author, as the above list of books on Saudi Arabia vividly illustrates. It is fervently hoped that someone will very soon publish such a book that can become the standard of what an excellent book on the Saudi economy is all about and become a benchmark for all adopting universities and students.

Until then, the Author's Second Edition of the Saudi Arabian economy has been examined extensively and has been approved for adoption by an overwhelming majority of Finance and Economics faculty reviewers at KFUPM. The same case applied to external reviewers of other Saudi universities who teach the Saudi economy course, and who reviewed alternative Saudi Economy books such as those listed above , but opted to adopt the Author’s book eg (Al Yamamah University, Prince Sultan University, Jeddah Business College, Prince Mohammed University), while other Universities such as Princess Noura University, Al Faisal University and even King Saud University are also reviewing for possible adoption.

The Author wishes to thank the Reviewer for taking the time to produce such an exhaustive range of issues and points , some of which are

appreciated, valid and will be taken on board and applied in forthcoming editions , while at the same time the Author is also willing to ignore the negative personal comments made in the review and leave it to the readers judgment on the merit of the book .

*Dr. M. Ramady,
February 2001*