

# Assessing globalization in saudi arabia



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Globalization is defined as a process in which people, companies, and governments of different countries interact and integrate among each other. This process has been found to be driven by international trade and is also significantly aided by information technology. Since we are more interested in its effect on the economic condition of Saudi Arabia, hence the term that is of greater importance for us is the term economic globalization that refers to the integration of national economies to form an international economy. When talking of economic globalization, we are more interested in knowing the foreign direct investments, migration, capital flows, and the spread of technology for a country.

The process of globalization affects the environment, culture, economic developments, prosperity, and the physical well-being of humans. As people going to different places and performing business at different places have an effect on the people of that place, and thus we can say that globalization has resulted in widening of cultural boundaries around the world.

Although globalization is thought of as a relatively new process, but if we go in depth history, we find that globalization has been affecting the people around the world for years. If we go into the history, we find signs of globalization since the time when China and Europe were connected to each other through the famous Silk Road in the Middle Ages. If we compare the features of the current wave of globalization with the time just before the First World War in 1914, we find that there are many similarities.

Although there have been instances of globalization since ancient times, but the speed at which the world globalized was never the same as it is in the

current era. The main reason for this have been technological advancements and the policies implemented by the countries in the past few decades. Going into the details of figures we find that the volume of world trade has become 20 times of its volume in the year 1950. The pace of globalization can also be observed by observing the foreign investments taking place around the world. Observing this factor our statement gets even more support as flows of foreign investments were observed to be doubled in a span of just two years in the period from 1997 to 1999 when they increased from \$468 billion to \$827 billion. Thus observing these figures we can say that the globalization today is taking place at a much faster rate than it has ever been in the past.

Observing the increase in the pace of globalization it is important to observe the factors behind this rapid increase in the rate of globalization around the world. The policies adopted by the governments of various countries around the world have served as an accelerator for globalization. The policies of governments around the world since the second world have led to opening up of economies around the world. The countries have adopted free market economic systems around the world. These steps have led to numerous opportunities for international trade and investments. It has also been observed that various restrictions on foreign trades and investments have been relaxed over the past few years especially the last two decades. Thus these policies have helped in the achieving the aim of international, industrial and financial business structure.

Since the Second World War the politicians have been planning to break down borders that hampered trades in the process they have found several

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international institutions intended to see that this process could be easily facilitated. Institutions like World Bank and International Monetary fund (IMF) were setup in the process. There were many agreements on opening up of trades after the Second World War which led to the formation of General Agreement on Tariffs and Trade (GATT). Since then World Trade Organization (WTO), which was found as result of agreements signed under GATT has been working with an aim of promoting Global trades freely.

As mentioned above technology has served as one of the key drivers for globalization. Information Technology in particular has played a dramatic role in transforming economic life around the world and has played a key role in promoting globalization it has brought consumers, investors, business together by means of internet and e-commerce. It has brought all the information from around the world available to each person who wishes to get access to the information. It has resulted in faster and more detailed analysis of economic trends, has made the transfer of assets easier and has also made communication between distant people much easier.

### **History of Saudi Arabia:**

Saudi Arabia, the homeland of Arabs is also considered to be the place of origination of the second largest religion- Islam. The holy cities of Mecca and Medina are situated in Saudi Arabia which attracts a large number of pilgrims each year to the country.

Ibn Saud who ruled from 1882-1953 is considered to be the main creator of the kingdom of Saudi Arabia. Ibn Saud was a descendant of Wahhabi leaders and emerged out as a leader of the Arab nationalist movement.

The discovery of oil in 1936 served as a milestone for Saudi Arabia as Saudi Arabia is a major producer of oil and has huge reserves of oil since ancient times. With the beginning of commercial production of oil during the World War II huge revenues started flowing into the country thus leading to a large amount of wealth for the country. As a result free health care and education were provided to the residents of Saudi Arabia without any collection of taxes. Saudi Arabia was permitted to become to be the charter member of United Nations even though it was neutral during the World War II. The country became a member of the Arab league in 1945 and played an important role in the 1948-49 war against Israel and still does not recognize Israel as a country. The year 1953 marked the death of the king that is considered as the creator of the kingdom of Saudi Arabia. With the death of Ibn Saud 11 year long reign of his son Saud began. Saud's reign was marked by increasing hostility of Egypt's Gamal Abdel Nasser towards radical Arabism. In 1964 Saud was dethroned and replaced by the Prime Minister. Crown Prince Faisal was appointed as the prime minister of Saudi Arabia. Faisal did not give any military support to Egypt during the 1967 Arab - Israel war but gave only vocal support.

Faisal was assassinated in 1975 by a degraded kinsman. This assassination shook the Middle East but Faisal's kingdom remained unperturbed and he was succeeded by his brother Prince Khalid. Prince Khalid's support Egypt during negotiations on withdrawal of Israel from Sinai desert was quite influential. King Khalid died due to a heart attack in 1982. King Khalid's half brother, Prince Fahd Bin Abdulaziz became the successor of Prince Khalid but he chose his half brother Abdullah as the crown prince.

With the fear of becoming Ayatollah Ruhollah Khomeini's next target if Iraq was conquered by Iran Saudi Arabia along with smaller oil rich states of the Arab on the Persian Gulf made huge financial contributions in the 1980s towards Iraqi war effort. Due to conserved efforts of oil consuming nations and Saudi Arabia being cheated by other members of Organization of Petroleum Exporting Countries (OPEC) led to a reduction in oil prices. The revenues coming from oil into Saudi Arabia reduced from \$120 billion to \$25 billion within a span of 5 years from 1980 to 1985.

After suffering an incapacitating stroke, King Fahd passed his authorities to Crown Prince Abdullah. In 1998 Saudi Arabia entered its first recession in six years when its oil income fell by 40% due to a worldwide decrease in oil prices.

### **An overview of Saudi Arabia's economy and the state of their economic progress:**

During the last fifty years the economy of Saudi Arabia has developed at a swift pace as the Saudi state has been established and expanded. The country is economically very diverse but the income coming from oil revenues has played a significant role in the development of the state by the help of modern institutions of bureaucracy.

It would have been quite difficult to think of a separate state of before the discovery of oil. Before 1930s the region which later came under the state of Saudi was composed of several regions with different regions depending on different products for their income. The Hijaz which was a western province, for example was dependent chiefly on subsistence agriculture, long distance

trades and pilgrims coming to visit the holy places of Mecca and Medina as a source of revenue for the state. Since there many deserts in Saudi Arabia and the living conditions were quite hostile due to its harsh climate and lack of water there was a huge geographical separation between people of the country as most of the population concentrated at places where water was available. The influence from the outside world was quite negligible as it was not only difficult to travel within the country but also the country lacked natural resources that could attract people from outside.

There three main events that have led to the current structure of the Saudi Arabian economy. These events were the discovery of oil just six years after the establishment of Saudi Arabia, the rebuilding of Europe after the World War II which was greatly based on industrialization and the increasing demand of oil. All these events worked as a catalyst in increasing the growth rate of Saudi Arabia and led to enhancement in its position.

With the discovery of oil there was a huge increase in revenues flowing into Saudi Arabia and the country witnessed a huge increase in the treasury during the rule of Abd Al Aziz Al in Abd also known as Rahman Saud from 1932 to 1953. This inflow of funds helped him to exert greater economic and political control over the territories under his control. This control helped him to implement all his ideas effectively and efficiently and during his reign the state saw a significant economic change with a shift from the traditional economy to an economy which depended primarily on state's outlay.

The huge reserves of oil in Saudi Arabia have not only driven huge revenues for the country but have also added to the importance of Saudi Arabia to the

world. Initially with industrialization Europe was dependent on Saudi Arabia but today the flow of oil has become very essential to the economic stability of the world. Saudi Arabia being the only major oil producing country that has significant excess capacity of crude oil has made the oil production and investment policies of Saudi Arabia an issue of international importance as the country has a strong influence on prices and supplies of oil internationally. Despite the attempts of authorities to diversify the economy and develop a non oil based sector in the country but practical implementation of these plans have proved to be more difficult than was expected by the authorities as Saudi is still under the influence of its traditional customs and although huge revenues have been flowing into the country since the invention of oil but the average standard of living of an average citizen of Saudi Arabia has increased as would be expected. Hence the real income source for Saudi Arabia is still the revenues coming from export and trading of oil.

In the 1990s Saudi Arabia set out to meet the challenges of increasing oil production with the increasing demand and lower supplies from the former Soviet Union countries. As a result the authorities applied expansion plans for oil industry. In the process firstly the national oil company, Saudi Aramco planned to increase the domestic crude oil production from 8.4 million barrels per day in 1992 to between 10.5 million and 11 million barrels per day in the year 1995. In the process increased the share of production of lighter grades of crude oil. As a result of pollution and global warming becoming important aspects for all countries and with the demand of oil increasing Saudi Arabian Marketing and Refining Company (SAMAREC)



decided to upgrade its refineries in order to meet high environmental standards followed in the western world. This step could also be seen as a step to increase production and keeping the demand of oil for Saudi Arabia constant without being affected by the lack of demand due to higher standards of oil required by the western countries. Thirdly the country acquired refineries in other countries and also planned to purchase refineries in places closer to their key consuming markets in order to reduce the cost of transportation incurred by the company and also led to an increase in the market share of Saudi Arabia in the world market.

There was a sharp increase in the oil prices during 1970s and early 1980s which led to a huge increase in revenues for Saudi Arabia. This increase helped Saudi Arabia to get out of the chronic financial constraints that Saudi Arabia had been facing during the last few years. Since Saudi Arabia's economy was not one of the best at time so its absorption capacity was also limited which resulted in delays in using the funds which led to creation of a large amount of funds for both government and private sectors of the Dubai economy and a large part of these surpluses were in international financial institutions and in securities of western government.

In 1982 the emphasis of the government changed from managing surpluses to dealing with growing budgetary and concentrated on balancing payments shortfall. During the same time the world saw a decrement in the oil prices which resulted in a decrease in revenues for the country. This led the government into a problem as they were largely committed to big projects and the government had to make a large budget which resulted in a drawdown of foreign assets of the country. The country was also hit by the

devaluation of dollar in the international market as the oil payments are made in dollars so the country had to face a double blow due to a reduction in oil prices and the weakening of dollar.

### **The impact of rapid economic change or growth on employment and the workforce of the country:**

There have been many rapid economic changes in the world today. Most of these have affected almost all the countries across the world. Economic changes around the world have taken place since ancient times but with the opening up of economies around the world their effect is felt by almost all companies around the world. As today most of the countries are engaged in cross border businesses and trades. The effects of globalization have affected almost all the countries. Even though Saudi Arabia still has a relatively much close economy but it too has been affected by the rapid changes taking place around the world. Saudi Arabia is a major exporter of oil and its products which has become a necessity for any country around the world hence the economy of Saudi Arabia is bound to be affected by any economic changes taking place globally. As oil payments are made in dollars a change in dollar prices affects Saudi Arabia. Any recession hitting the world also affects Saudi Arabia as the demand for oil reduces during even a hint of recession.

Out of the many rapid changes, globalization has been a change that has affected the world greatly and there have been positive as well as negative responses of globalization. With globalization economies have opened up and restrictions on trades have been reduced greatly. Restrictions on imports

and exports have been relaxed greatly in all parts of the world. The world today has become a global village.

As a result of globalization which has been one of the most significant economic changes over the last few years the quality of oil produced within the country has been increased. The workforce of the country although still comprises mostly of the residents of Saudi Arabia only as the economy has not opened up as much as other countries have opened up. Also the education system and the traditional ways of working are still followed in Saudi Arabia. The employment has increased with the recent changes and the world turning up to industrialization more and more oil refineries have been setup in order to meet the increasing demand of oil around the world.

### **Challenges and opportunities for Saudi Arabia:**

The opening up of the world and the closed structure of Saudi Arabia's economy has also created some challenges for the country. It has been internationally recognized that the standard of living in Saudi Arabia is not as good as other parts of country. The mindset of the people living is still more influenced by the Arabic and Islamic cultures and the people are not quite open to accept views of others even if they might be better than what they might have thought. The country today also has a challenge of improving the education standard of the people living in the country. As the education standard of people living in Saudi Arabia is far below standards. Also the technological advancement is far slower than other parts of the world. The major challenge for the economy of Saudi Arabia is to develop other sectors of the market also and reduce its dependency on oil as oil being a non -

renewable source will be exhausted one day and it is important to have other sources of income also.

Although the country also has many opportunities and also has the inflow of income required to help them achieve their goals. The income coming in from their oil reserves can be implemented in order to develop other sectors of market. The people of the country need an exposure to the outside world which may be possible if the economy opens up. The standard of education is currently a big concern which needs to be tackled properly. The current up comings have revealed that the government of Saudi Arabia has understood the importance of English and has started laying stress on promoting English amongst the people of the country. If the country is able to develop technically and the standard of education could be increased then there are probabilities that the outcome for the country would be quite good and self explanatory and will have a fortifying effect in its position among other countries of the world.

### **Interesting Facts about Saudi Arabia:**

Some of the interesting facts about the country are listed below:

Kingdom of Saudi Arabia is the official name of Saudi Arabia.

The system of absolute monarchy s followed in Saudi Arabia.

In terms of area it is the largest country in the Middle East.

Saudi Arabia is also known as ‘ the land of two holy mosques’ as it houses Mecca and Medina the two holiest places in Islam.

Oil accounts for more than 75% of the government's revenues and forms part of more than 90% exports from Saudi Arabia.

The largest oil producing company ARAMCO is situated in Saudi Arabia.

The first university in Saudi Arabia was founded in 1957.

## **Conclusion:**

From the study made to prepare this paper it is quite clear that the economy of Saudi Arabia is based on revenues coming from oil. The study has also revealed the closed structure of the economy of Saudi Arabia and has exposed the lower standards of living and education standards in this country which is the largest producer of oil in the world. The country has a good impact on the world as it is the largest producer of oil in the world and oil is essential for any country in today's era of industrialization. All to compete with the world in a more profound manner it is important for them to improve their base in technological sectors and also improve the education standards of the country. The emphasis on English also has to be increased in order to promote talks internationally and remove third party intervention in international talks. Lastly I would like to say that the country has a large inflow of income due to its richness in oil reserves and if the funds coming in from the oil production are applied in the right direction and with emphasis on technology and education Saudi Arabia can develop into a country which can compete with any world class country.