

## Yanbu, Saudi Arabia:

### Cultivating Employment Growth in a New Middle East City

In 2013, the Royal Commission for Yanbu, Saudi Arabia completed the first economic plan for the new city of Yanbu, the initial component of an ambitious 2-year comprehensive planning process to identify areas of opportunity and develop a strategy that will take Yanbu into the future.

**The purpose of the Yanbu Economic Plan was to develop visionary strategies that motivate others to work cooperatively with Yanbu in the pursuit of shared goals, and to do so by building on assets and overcoming constraints.**

Established in 1975 as an autonomous Saudi Arabian government agency, the Royal Commission for Yanbu (RCY) with a population of approximate 120,000, has achieved success in realizing its founding objectives.<sup>1</sup> At the national and international levels, the city is a respected and leading choice for investors in petrochemical and energy-intensive industries. RCY is fulfilling its vision of being a significant contributor to the Kingdom of Saudi Arabia's economic growth.<sup>1</sup>

The city today is home to 32 major hydrocarbon, petrochemical, and mineral industry sectors as well as a range of light manufacturing and contributes approximately 3% to national GDP.<sup>2 3</sup>

Yanbu's economy is linked inextricably to feedstock provided by three pipelines from Eastern Saudi Arabia originally built as a security measure (to provide a port outside the Persian Gulf from which to export the Kingdom of Saudi Arabia's oil) pipelines carrying crude oil, sales gas, and natural gas liquid (NGL). Much of the crude oil is exported directly or after refining through the city's Red Sea port, though some of it is used for power generation.

Yanbu is governed by highly professional staff at the Royal Commission, and it has significant location-based advantages, such as open land for development and immediate access to regional markets via a major shipping artery. Though some of these assets are a function of geography, some are the result of many years of hard work.

The competitiveness of Yanbu's industry and businesses can be enhanced with stronger technology institutions, industry support services, and networks among companies.

The future development of the industrial city, especially its ability to take advantage of its location, will depend on expanding and improving its port and other transportation connections and logistics assets.

Unlike other industrial cities in the Kingdom of Saudi Arabia or elsewhere in the world, RCY has the opportunity to distinguish Yanbu by providing comprehensive services and a business-friendly environment, leveraging its administrative autonomy to act swiftly and efficiently.

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<sup>1</sup> RCJY's vision is: The best choice for investors in petrochemical and energy-intensive industries and the leading contributor to the Kingdom of Saudi Arabia's growth.

<sup>2</sup> RCJY (2011) *Investors Guide: The Future is Here*, Strategic Planning and Investment Development Division, Royal Commission at Yanbu.

<sup>3</sup> RCJY Royal Commission at Yanbu (2012) *Yanbu Industrial City Economic Review*, 4th Q. 2011, Report #6, Strategic Planning and Investment Division Economic Planning Department, 29 February.

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#### **National Context Affecting Yanbu**

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The Kingdom of Saudi Arabia's economy and society is very different now than it was 35 years ago when Yanbu was established. These changes are associated with significant new challenges.

The Kingdom of Saudi Arabia's population has grown significantly over the last 30 years and is expected to peak at about 45 million in 2060. In order to prepare this young population for the workforce needed by its growing economy, the Kingdom of Saudi Arabia has made large investments in higher education, increasing the participation rate of the college-age population from just over 5% in 1990 to more than 35% in 2010, according to the Ministry of Higher Education. At the same time, the economy has made progress in diversifying away from its dependence on oil exports and petroleum products.

In spite of overall economic growth and higher levels of educational attainment, and even though manufacturing and some services have grown as a share of GDP, unemployment remains very high (especially among women). The following chart depicts official employment rates in Saudi Arabia.

With fast population and economic growth, the Kingdom of Saudi Arabia also faces rising demand for electricity from both commercial and residential sectors.

**Employment and energy are two major challenges facing the Kingdom of Saudi Arabia and Yanbu's Economic Plan addresses solutions.**

#### **Defining a New Vision and New Future for Yanbu**

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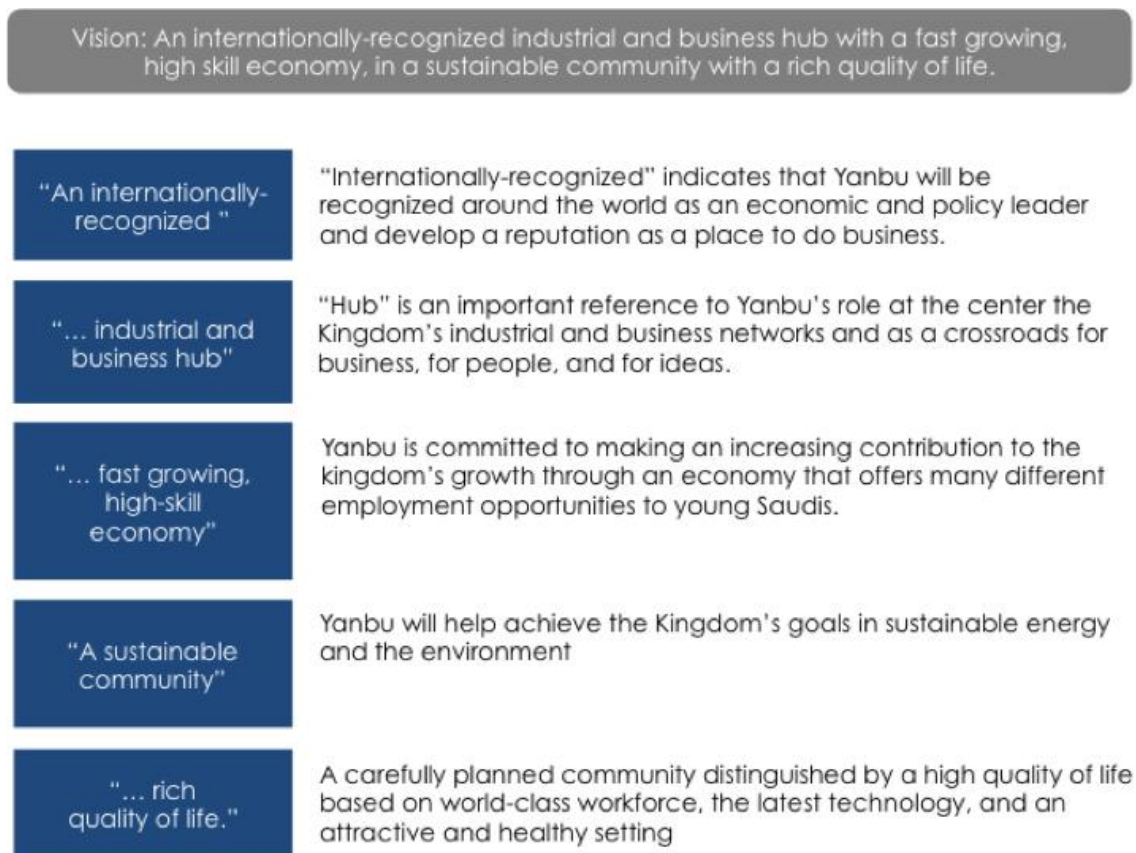
Yanbu's economic plan is guided by a new vision of the city. This vision seeks to establish Yanbu as a leader, capable of meeting the principal challenges facing the Kingdom of Saudi Arabia, building on its strengths and opportunities, while mitigating the weaknesses and threats that represent obstacles to a better future.

This vision presents a future for Yanbu as a unique business and industry hub and as a desirable community. It describes a city that will be one of the economic jewels of the Red Sea, a principal gateway to the Kingdom of Saudi Arabia, distinguished from rival locations by virtue of its high value, competitive industries and its attractive environment to business, residents and visitors.

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Figure 4. A New Vision for Yanbu



This new vision for Yanbu is grounded in a clear understanding of the city's past and current conditions and its future economic possibilities. It will modify Yanbu's growth trajectory to shift the city away from a resource-based economy focused on primary industry growth. Over the next two decades, this new trajectory will emphasize downstream, diversified industries to maximize the value created by businesses in Yanbu. As a result, the city's economy will be much more diversified, resilient and competitive.

### Framework for the Economic Plan

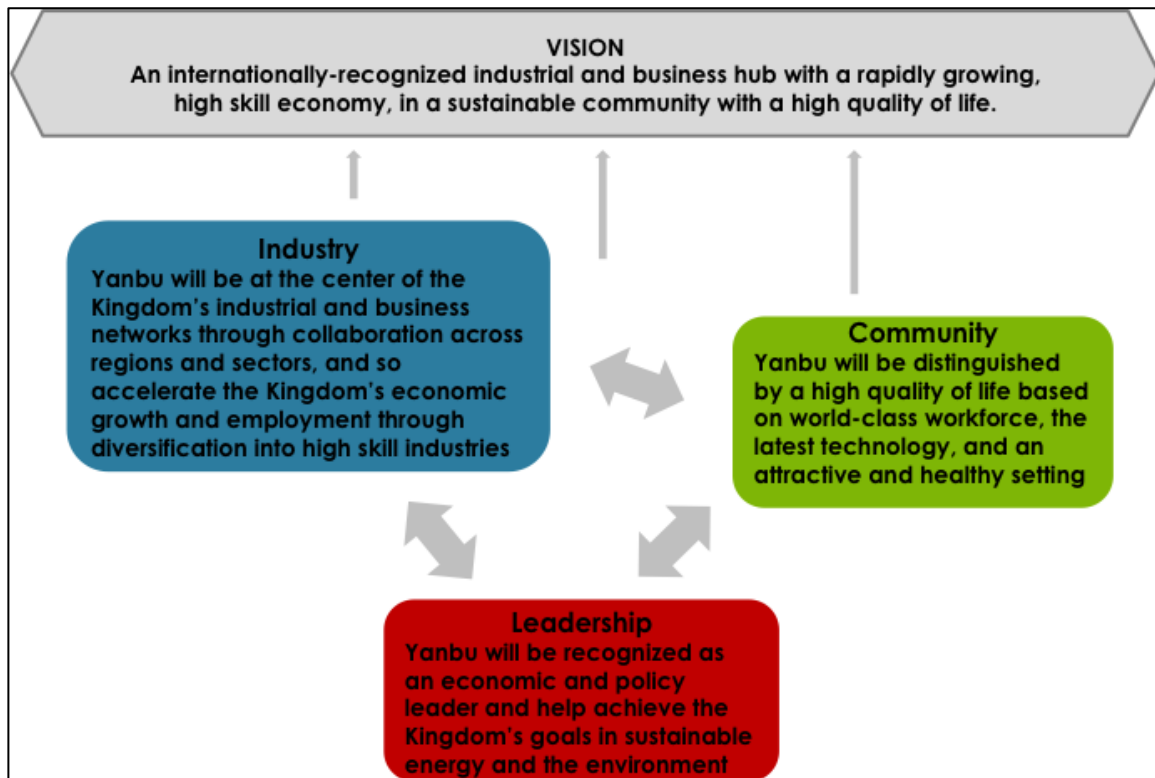
The Economic Plan is crafted to realize Yanbu's new vision and achieve the growth path illustrated in Figure 5, incorporating elements of that vision as its principal building blocks. These elements are streamed into three plan components, consistent with the vision and the SWOT analysis, and aimed at ensuring that Yanbu achieve the employment growth objectives.

The most important component of the plan relates directly to **industry**. The second component is **community**. This component also supports the vision by serving as a complement to industry—improving Yanbu as a location attractive to investors. Finally the **leadership** component reflects Yanbu's unique capacity to play a leading role in critical initiatives through the broad administrative control enjoyed by RCY.

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Figure 6. Framework for Achieving Yanbu's New Vision



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## **Industry Strategy**

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Future growth of the city will rely on a robust industrial sector combined with increasing diversification into non-industrial sectors. The industry strategy for Yanbu will build on its strong primary industry base and emerging secondary and light industrial sectors and create high-value jobs for the city's residents.

### **Industry Vision for Yanbu:**

To be the Kingdom's prime destination for high-value industrial investments, offering global connection, smooth movement of goods, world-class infrastructure, and high-skill labor.

Yanbu most prominent primary industries are petrochemicals and refining. These industries currently serve as the job engine driving Yanbu's economy. Future growth will leverage these industries but also rely on Yanbu's other important industrial strengths, most notably its robust industrial infrastructure and leading workforce institutions including Yanbu Technical Institute.

Of particular importance are underlying demographic and economic trends that will drive growth in the region for the foreseeable future. Saudi Arabia has experienced several decades of robust economic development, resulting in a strong local and regional consumer market for manufactured goods and a well-established primary industry base that can provide inputs for downstream industries. More specifically, Yanbu is well-positioned to access minerals in the Arabian Shield, and leverage the job-creating potential of SMEs.

## **Community Strategy**

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Since Yanbu was established in 1975, international commerce and industry has changed dramatically. Advances in logistics and communications have made geographically-dispersed operations and production sites possible, creating mobility in many industries to move across borders and regions in order to seek the best investment return. In today's competitive investment environment, investors seek not only strong industrial attributes in a location, but also an attractive environment that can supply and retain skilled workers and their families.

### **Community Vision for Yanbu:**

To be distinguished among global industrial cities by technology support, workforce opportunities, and a healthy, attractive environment.

Responding to these changes, industrial cities around the world have provided financial and technical support to institutions that support core industries while

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broadening the mix of skilled people, and designed specific activities to improve the community's quality of life. A competitor analysis of Yanbu was conducted as part of the analytical foundation for developing the Economic Plan compared the city to the eight international industrial cities examined as case studies.<sup>4</sup>

### **Leadership Strategy**

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In 1975, Yanbu was a pioneer in Saudi Arabia's industrialization. Though the city continues to play an important role in Saudi Arabia's economic development, Yanbu now operates in a much more competitive environment, not only within the nation but also globally. Through its economic plan, Yanbu has adopted new mechanisms to demonstrate its leadership and thereby serve as a model for effective, innovative operational practices that contribute to its founding mission.

#### **Leadership Vision for Yanbu:**

To be a global leader in tenant services and innovation management practices, including participation in global networks and regional leadership in green energy practices.

Review of practices in use in competitor cities (such as the eight cities examined as international case studies) is one avenue for identifying effective, innovative practices that might be adopted by Yanbu. Yanbu's existing strengths are also an important consideration for assessing the relevance of management or operational practices for RCY. A key strength that supports the incorporation of new practices is the RCY's autonomy and wide sphere of responsibility (which are characteristics that provide Yanbu advantages that are not necessarily present in other industrial cities in Saudi Arabia or elsewhere in the world). The initiatives in the Leadership component are crafted to build on Yanbu's strengths and capitalize on opportunities to establish itself as a leader in new or emerging areas of importance to the Kingdom. **With the Economic Plan in place, the city is expected to add more than 90,000 jobs by the year 2030.**

### **Economic Plan Adoption and Monitoring**

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The Royal Commission at Yanbu formally adopted the Economic Plan effective January 1, 2014. Fifteen of the 43 specific projects recommended in the initial phase of the Economic Plan are being implemented by the city. These projects represent will result in more than 30,000 new jobs in the next 5 to 7 years.

A regular monitoring system has been set up to provide bi-annual reports to city leadership and the Royal Commission. A record amount of new investment projects have applied to the city for land allocation in the city's industrial zone and are seeking construction permits. Yanbu City officials are energized about the accelerating employment growth anticipated to occur.

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Prior his assignment in Saudi Arabia, Caplan served for 12 years in city management positions in two new cities: as Assistant City Manager for Simi Valley, California and as Town Manager for Vail, Colorado. He also served as acting city manager in 6 Midwestern cities and is the principal of RICHARD CAPLAN & ASSOCIATES, consultant to cities and non-profit organizations focusing on economic development, municipal finance and related public policy analysis issues throughout the west and Midwest. He can be reached at richaplan@aol.com.