



Strategic Gears
Management Consultancy

Saudi Arabia's

National Strategy for Industry

Evolving Ecosystem &
Future Opportunities

February 2023



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Summary

In October 2022, Saudi Arabia launched its new National Strategy for Industry. This is part of efforts to create an industrial economy that supports Vision 2030's goals for economic diversification, investor attraction, and growth of the Kingdom's non-oil exports.

As part of the new National Strategy for Industry, the government is preparing to expand 12 key industrial sub-sectors that have been recognized as having growth potential and increasing regional and international competitiveness.

The industrial sector has long been a priority for the Kingdom, as seen by the establishment of the Saudi Industrial Development Fund and the National Industrial Development Logistics Program, both of which were designed to provide the industrial sector with multifaceted support.

Saudi Arabia's industrialisation was traditionally driven by oil, basic manufacturing, and petrochemicals. Looking ahead, the National Strategy for Industry seeks to write a new chapter of sustainable growth and development

for the sector in Saudi Arabia, which is also geared towards a future high-tech value-added manufacturing phase, putting the Kingdom and its industries on the global map.

This report provides an overview of the new National Strategy for Industry, its main objectives, those involved in the ecosystem and industrial strategies across the GCC. It also highlights what the industrial sector means for Saudi Arabia, especially in terms of GDP contribution and export diversification and growth, as well as the enablers that exist in the Kingdom today that can drive expansion in the sector.

The report concludes with a forward-looking view of the trends that could transform the future of the Saudi industrial sector, including those that create opportunities, but also those that will pose challenges to overcome. The report also provides Strategic Gears' experts' recommendations on considerations in turning challenges into opportunities for stakeholders to benefit from maximum value/impact.

Introduction

About the New Saudi National Strategy for Industry

As part of realising its objective of "building an agile and competitive sustainable private sector-led industrial economy", the new National Industrial Strategy serves as a comprehensive roadmap that helps accelerate and diversify industrial growth in the Kingdom, and a catalyst for Vision 2030's objective of economic diversification.

Key Features of the National Strategy for Industry¹

12

priority industrial sub-sectors



Tracks performance using a set of key performance indicators for decision-making



Benefits from a governance model for the industrial sector based on global best practices

136

initiatives including policies & regulations



Recognises the role of the private sector in driving successful implementation & growth



Acknowledges the impact/role of technological adoption, climate change and sustainability

Targets/KPIs of the National Strategy for Industry¹



Increase manufacturing GDP to²

SAR
895B
by 2030



Increase the total additional investments in the sector to

SAR
1.3T



Raise high-tech exports by

6-fold



Increase non-oil exports to²

SAR
557B
by 2030



Increase the number of factories to³

36,000
by 2035

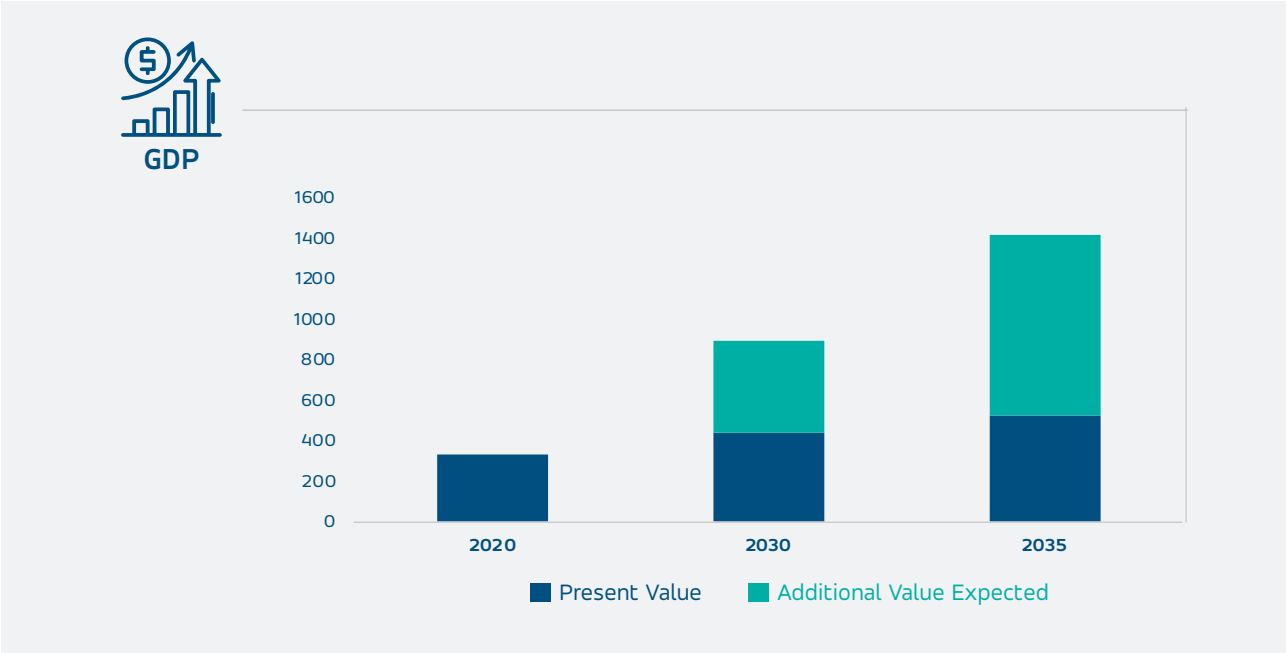
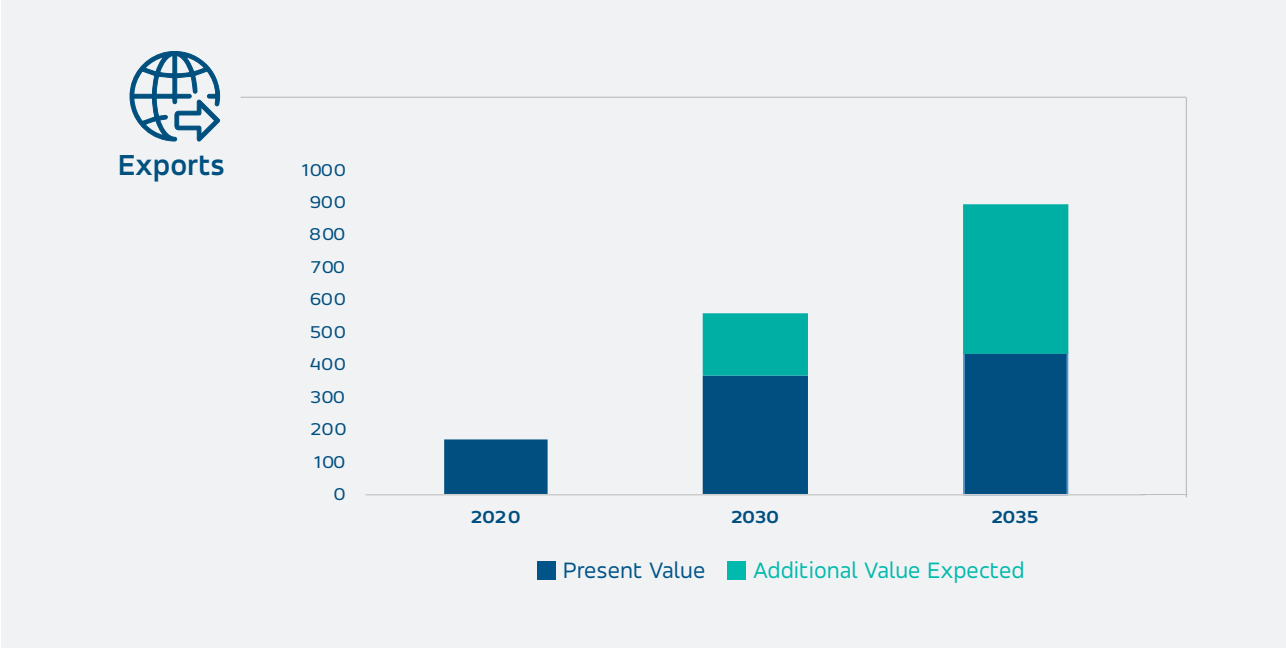


Create direct and indirect industrial jobs

2.1 million

About the New Saudi National Strategy for Industry

Projected Additional Value on Exports & GDP with National Strategy for Industry (SAR, B)⁴



Key Ecosystem Stakeholders & Their Roles⁵

Stakeholder Role & Entity

Role:
Main government entity responsible for the industry and mineral resources operations in the Kingdom.



Role:
Planning, promoting, developing and managing petrochemicals and energy intensive industrial cities.



Role:
Developing and managing industrial cities and integrated infrastructure.



Saudi Entities

Role:
Project financing, export & SME financing.



Regional Banks



Role:
Industrial localization and transfer technologies.



Key Ecosystem Stakeholders & Their Roles⁵

Stakeholder Role & Entity

Role:

Financing support, developing infrastructure, industrial land and special economic zones, as well as investing in digitization and human capacity building.



National Industrial Development and Logistics Program

Role:

Facilitating & boosting the export of Saudi products in international markets.



SEDA

هيئة تنمية الصادرات السعودية
Saudi Export Development Authority

Role:

Identifying & attracting industrial investment opportunities.



المركز الصناعي
Industrial Center

Role:

Knowledge & information hub for the industry.



المركز الوطني للمعلومات الصناعية

Role:

Research & innovation.



شركة وادي الرياض
Riyadh Valley Co



شركة وادي الظهر للتكنولوجيا
Dhahran Techno Valley Company



badir



جامعة الملك عبد الله للعلوم والتقنية
King Abdullah University of Science and Technology

Role:

Regulatory, licensing & setup, standardisation.

هيئة الزكاة والضريبة والجمارك
Zakat, Tax and Customs Authority



وزارة الاستثمار
Ministry of Investment

وزارة التجارة
Ministry of Commerce



الهيئة العامة للغذاء والدواء
Saudi Food & Drug Authority



المواصفات السعودية
Saudi Standards



اتحاد الغرف السعودية
Federation of Saudi Chambers

Role:

Talent development, empowerment & training.



وزارة التعليم
Ministry of Education









صندوق تنمية الموارد البشرية
Human Resources Development Fund



المؤسسة العامة للتدريب التقني والمهني
Technical and Vocational Training Corporation

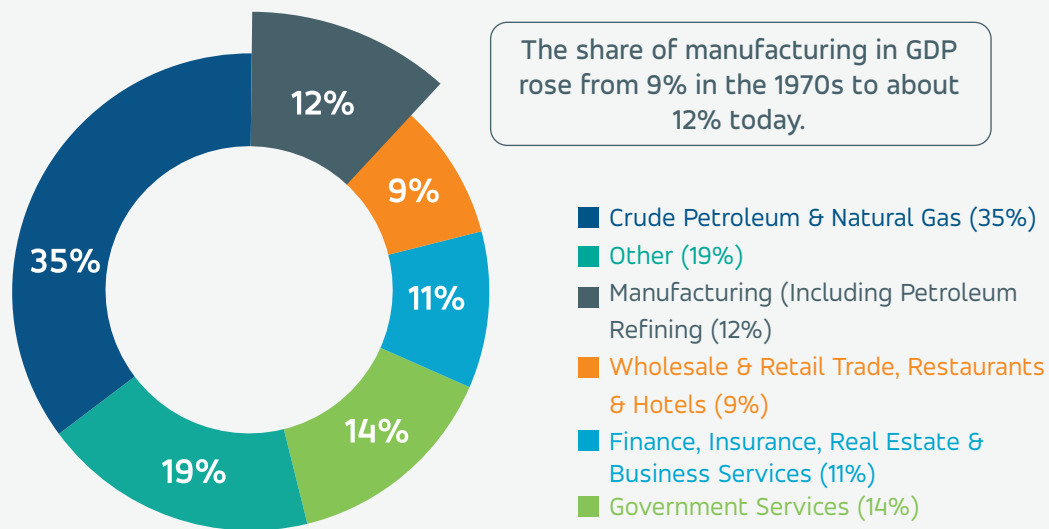
Overview of Industrial Strategies Across the GCC⁶

	Responsible Govt Entity	Sectors	Target Years	Key KPIs	
				GDP	Exports
 KSA	Ministry of Industry & Mineral Resources	12 sub-sectors	2030	Increase manufacturing GDP from SAR 331B in 2020 to SAR 895B by 2030.	Increase non-oil exports from SAR 169B in 2020 to SAR 557B by 2030.
 UAE	The Ministry of Industry and Advanced Technology	11 sub-sectors	2031	Contributing AED 300B to GDP, double its current contribution.	Non-oil exports to grow by 148% to AED 178B.
 Qatar	Ministry of Commerce and Industry	13 sub-sectors	2030	The manufacturing sector's GDP is to reach QAR 93.1B by 2030 from QAR 47B in 2016.	-
 Oman	Ministry of Commerce and Industry	30 sub-sectors	2040	A target of OMR 20.2B of manufacturing value added by 2040 (15% of GDP) from OMR 3.2B in 2015.	Industrial exports to reach OMR 13.4B (USD 34.8B), or 28% of total exports, up from 16% in 2015.
 Bahrain	Ministry of Industry, Commerce and Tourism	6 sub-sectors	2026	Industrial sector's contribution to GDP is targeted for growth of 14.5% to reach BD 2.5B by 2026.	Improve the sector's share of exports to 80.1%, by 2026.
 Kuwait	Ministry of Commerce and Industry/ Public Authority for Industry	-	2035	Increase the value added of the manufacturing sector from KWD 1.8B to about KWD 2.4B by 2035.	Increase industrial exports from KWD 1.6B to over KWD 4B.

The Industrial Sector in Saudi Arabia

What does the Industry Mean for Saudi Arabia?

Manufacturing Share of GDP
(Saudi GDP Composition by Economic Activity, 2021)⁷

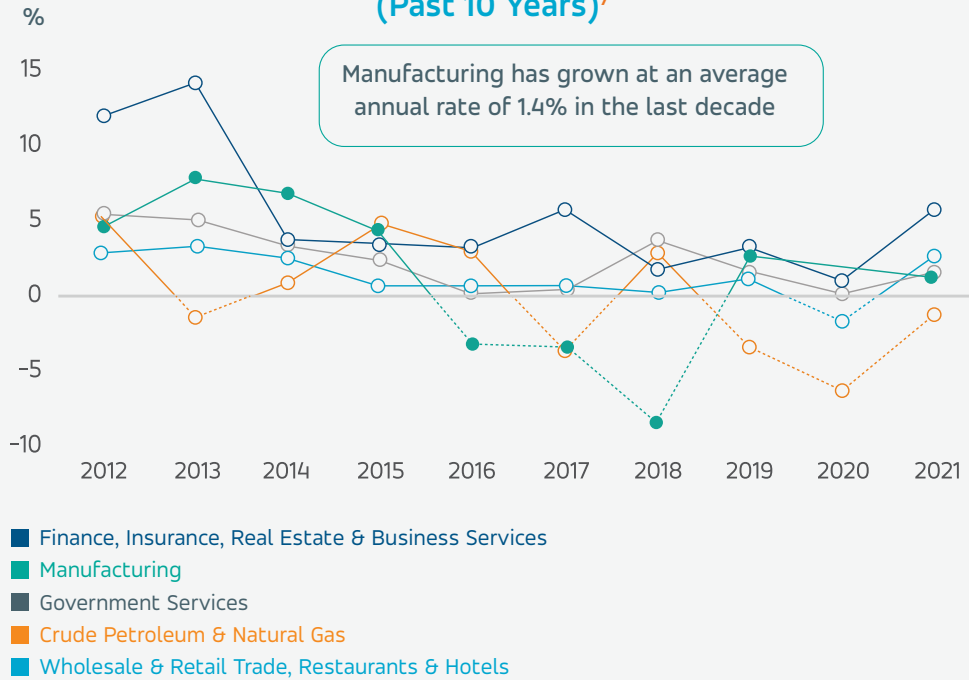


Share of Non-Oil Manufacturing in Total Contribution in Manufacturing Industries⁷



What does the Industry Mean for Saudi Arabia?

Manufacturing Industry Annual Growth % (Past 10 Years)⁷



Non-Oil Manufacturing Annual Growth % (Past 10 Years)⁷



The **non-oil manufacturing industry component**, which excludes petroleum refining, has grown **at an average annual rate of 2.5%** over the last decade.



The **petroleum refining component** of manufacturing grew **at an average of 2.6%** over the same period.

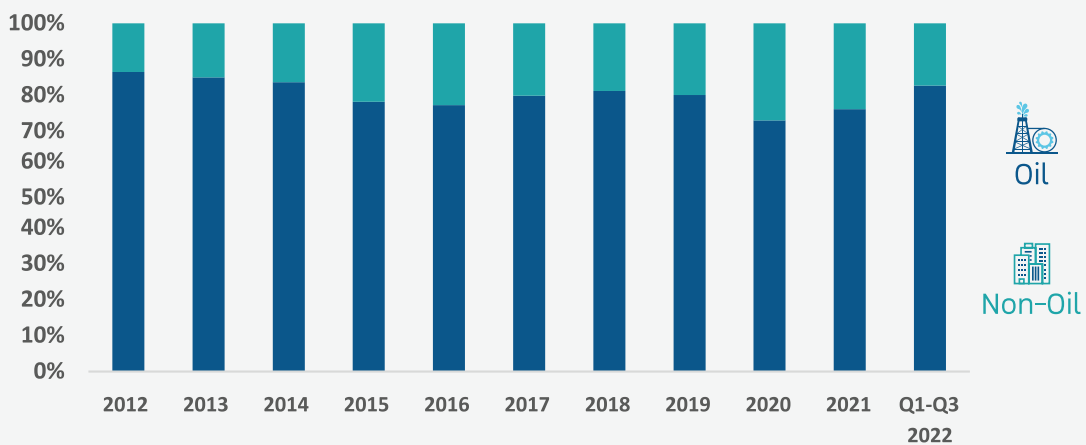
What does the Industry Mean for Saudi Arabia?

Industrial Trade

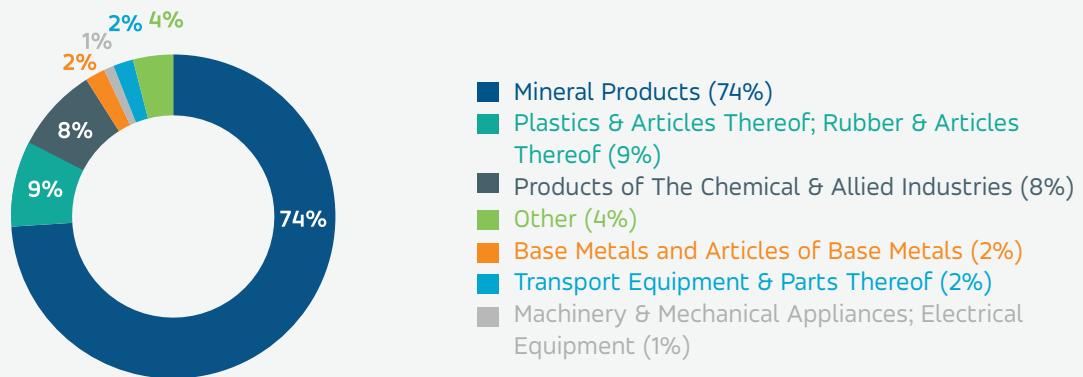
Good indicators of industrial health are non-oil exports value, the share of total exports and the diversified nature of the non-oil export basket. Total non-oil exports in 2021 were valued at SAR 231B (23% of total exports), compared with SAR 190B in 2012 (13% of total exports), representing a new high for non-oil exports in the Kingdom.

The share of non-oil exports has also increased considerably, a reflection of successful diversification efforts and reforms to enhance competitiveness. Looking at the composition of Saudi exports over the last decade, it is clear that the country's exports have expanded beyond oil to include a diversified basket of non-oil commodities.

Oil & Non-Oil Share of Saudi National Exports⁸



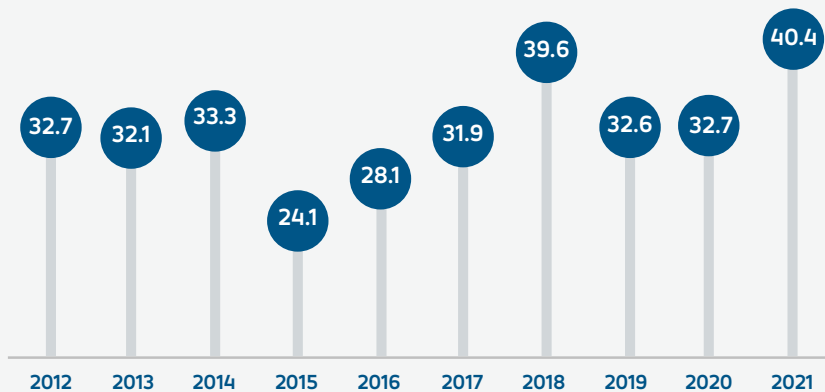
Top Exported Products (% of Total Exports, 2021)⁸



What does the Industry Mean for Saudi Arabia?

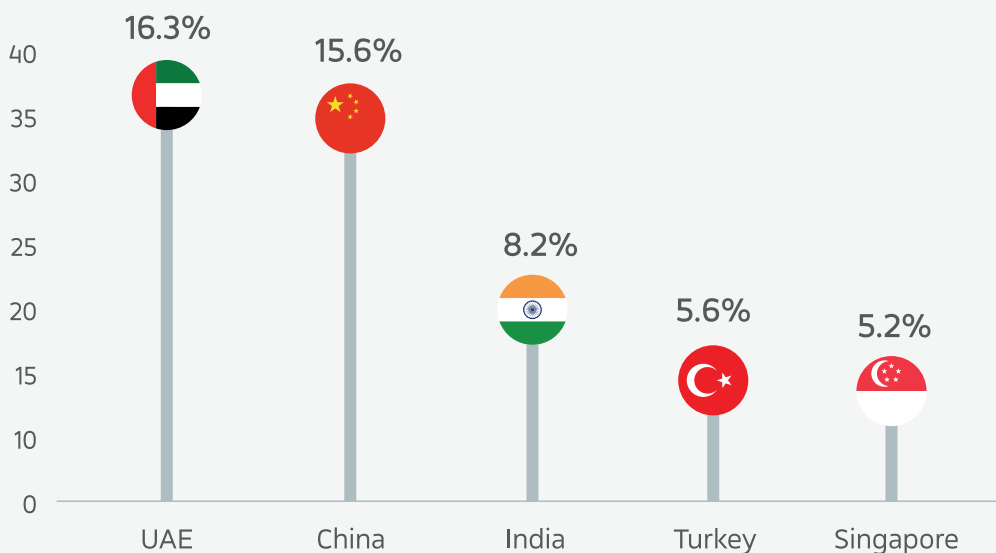
The Ratio of Non-Oil Exports to Imports (%)⁸

Saudi Arabia's ratio of non-oil exports (excluding re-exports) to imports has also increased to a high of 40.4% in 2021 compared with 32.7% in 2012 and a 10-year low of 24.1% in 2015.

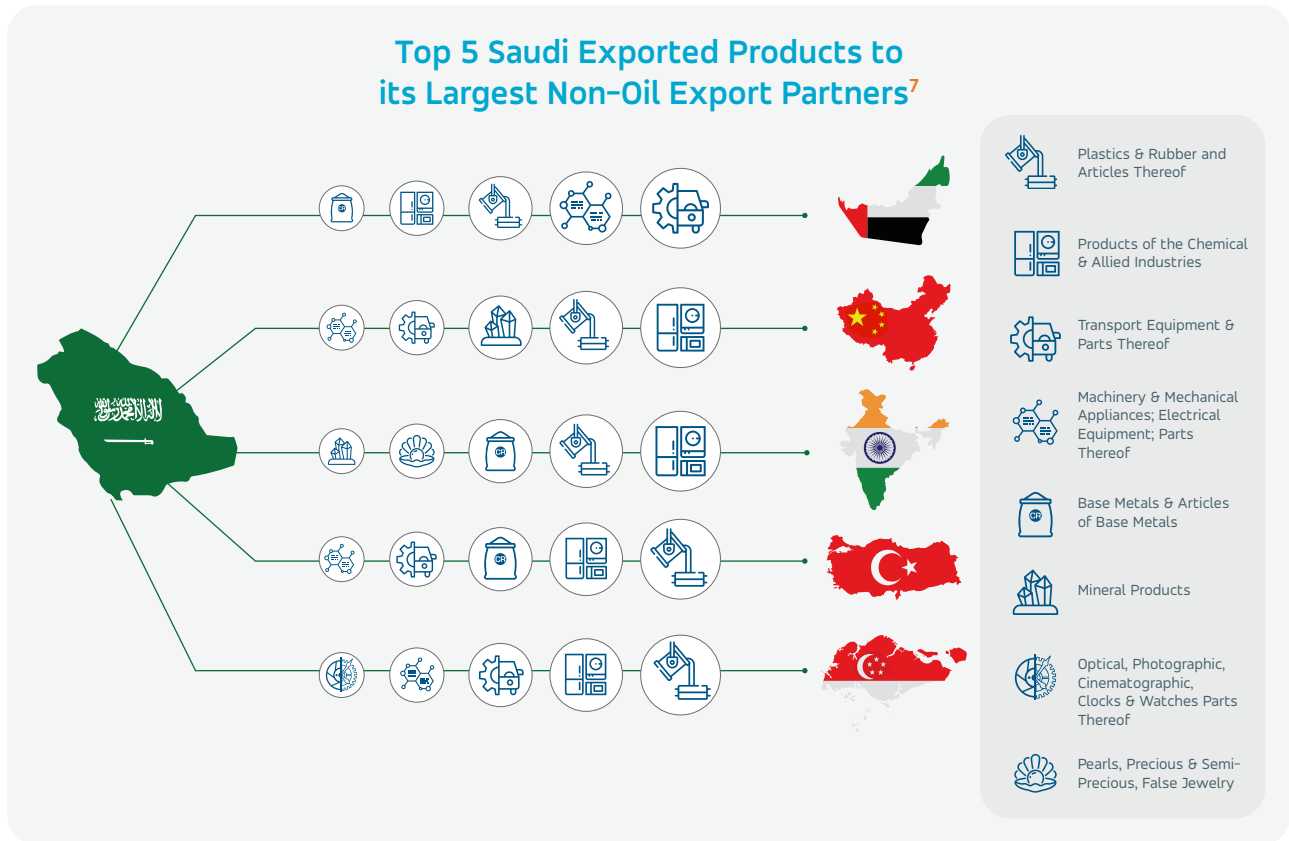


The top 5 non-oil export partners of Saudi Arabia are the UAE, China, India, Turkey and Singapore. Together, they accounted for 51% of Saudi non-oil exports in 2021.

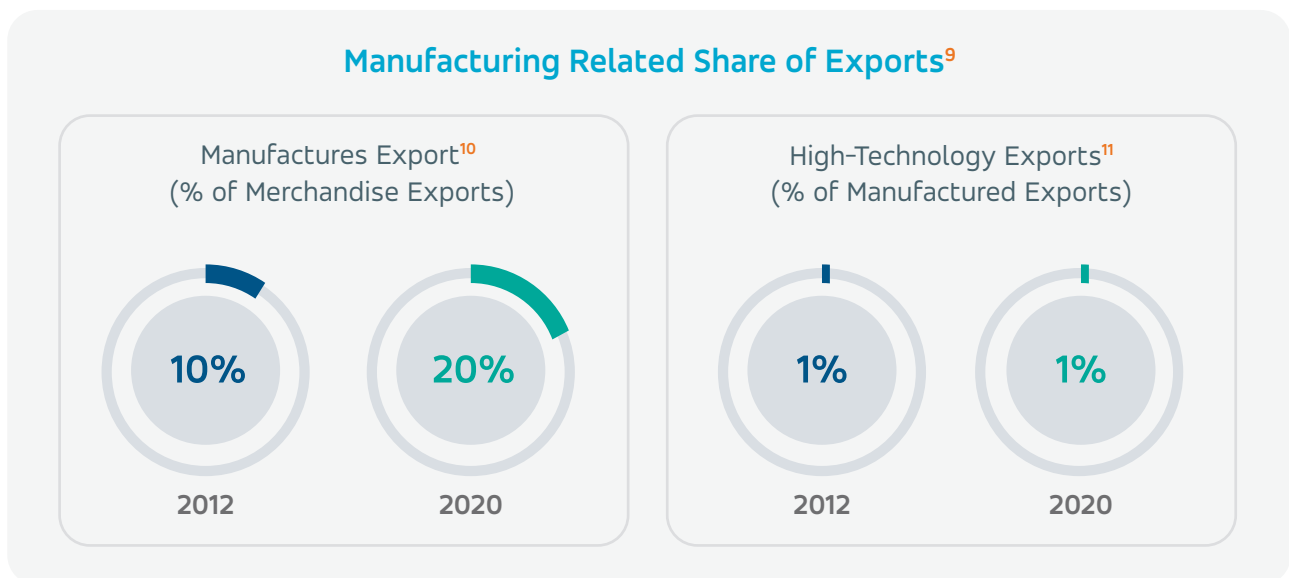
Saudi's Top 5 Non-Oil Export Partners (SAR B; % of Total Saudi Non-Oil Exports)⁷



What does the Industry Mean for Saudi Arabia?



Looking ahead, there is significant room for total non-oil manufacturing export growth. Manufactures exports' share of total merchandise exports makes up about 20%, and high-technology exports make up only about 1% of manufactured exports.



Existing Enablers



Policies and Regulations

- Improving regulations regarding international arbitration, intellectual property protection and bureaucracy.
- Facilitating priority visas to attract needed talent.
- Improved procurement processes.
- Customs duties exemption on imported machinery, equipment, raw materials and spare parts if they are for industrial use.
- 100% property ownership for foreign industrial investors.



Financing

- Government support (leading initiatives, financing, etc).
- Growth in FDI inflows (According to Invest Saudi, FDI inflows to Saudi Arabia stood at SAR 72.3B in 2021 from SAR 20.2B in 2020).
- Private sector involvement including financing from PIF and other leading national companies. Enhanced SME participation.
- Export credit, financing, guarantees and insurance through the Saudi Export Program.



Partnerships

- Strategic agreements with trade partners.
- Economic integration with GCC neighbours.



Infrastructure

- Special economic zones/ industrial clusters offering several incentives including low-cost land leasing.
- Innovation & research centres.



Strong Economic Environment

- Strong growth prospects
- Leveraging domestic & regional demand.
- Pegged currency to USD.



Looking Ahead – Trends Reshaping the Future of the Industrial Sector in Saudi Arabia¹²

Opportunities



Technology

The internet of things, artificial intelligence, 3D printing, the metaverse, 5G & edge computing, digital twin technology, virtual reality, robotics, blockchain & NFTs, are among the key technologies that will play a key role in transforming the industry. Adoption of these technologies will promote automation, digitalization of the supply chain, predictive maintenance, data collection & processing, simulations, improved product design, better production planning, augmentation of human abilities on assembly lines, and more immersive training, in addition to safety and efficiency, waste reduction, scale economies, and transaction automation, among other benefits.



Backed by the Global Supply Chain Resilience Initiative (GSCRI)

Also launched in October 2022, this initiative aims to establish the Kingdom as a top location for supply chain investors. In its first two years, it aims to attract more than USD 10B in industrial and service investments into the Kingdom. The initiative also aims to provide USD 2.6B in financial and non-financial incentives for investors.



Leveraging Future Global Trade Growth

Saudi Arabia is well-positioned to leverage future global trade growth as its manufacturing capacity expands. Standard Chartered, for instance, projects that global exports will almost double from USD 17.4T today to USD 29.7T by 2030, with 13 markets including Saudi Arabia (USD 345B in exports forecast) driving much of this growth¹³.



Government Support & Public + Private Sector Financing

The industrial sector is highly prioritised as part of Vision 2030 and backed by government financing and increasing private sector participation and funding. The industry is being promoted as a significant engine of future development in the Kingdom.

Looking Ahead – Trends Reshaping the Future of the Industrial Sector in Saudi Arabia¹²

Challenges



Talent Availability

In recent years, the Saudi labour market landscape has been rapidly changing. Talent availability remains a significant constraint for most sectors in the Kingdom, which is also driving up labour costs (read our annual 2023 [Saudi Arabia Economic Outlook](#) for more insights on the Saudi labour market).



Global Supply Chain Disruptions

Disruptions in the global supply chain negatively impact global trade and industrial production, requiring players to navigate such risks while balancing costs, efficiency, and resilience.



Optimising the Full Potential of New Technologies

The manufacturing sector is undergoing several technology-driven changes. These changes range from artificial intelligence to 3D printing, virtual reality, and data analytics. However, in dealing with these changes and optimising the full potential of new technologies, organisations need to prepare for and manage such a change with the practices such as change management.



Increased Focus on ESG & Sustainability

Interest and focus on developing a more sustainable economy are growing globally, including in Saudi Arabia, from rising consumer demands for more sustainable products to requirements such as reporting social, governance and environmental impact which are affecting all sectors, including manufacturing.

Conclusion



The National Strategy for Industry aims to significantly promote the Kingdom and its industries on a global scale and drive sustainable growth and development in the sector and wider economy in Saudi Arabia.

The industrial sector's contribution to GDP and exports has risen in recent years, with significant growth potential. Non-oil exports are steadily rising and will eventually account for a larger proportion of Saudi Arabia's total exports. Additionally, there is room for growth, including of manufactures exports' share of total merchandise exports and high-technology exports. The Kingdom's new industrial strategy also stresses a focus on a new high-tech value-added manufacturing phase. There are several enablers in the form of funding, infrastructure, policies and regulations, partnerships, and the general economic climate that can promote expansion in the

industry and attract both domestic and foreign investments. The sector also has the diverse support and engagement of many stakeholders within the ecosystem. Key future trends that will serve to create additional support and opportunities for the industrial sector in Saudi Arabia include technological advancement and adoption, strong backing from both government and the private sector, new initiatives such as the GSCRI and future global trade growth.

On the other hand, certain challenges need to be tackled related to the availability of talent, readiness for and optimising the full potential of new technologies, the increased focus on sustainability and ESG, and global supply chain disruptions.

Nevertheless, turning challenges into opportunities will be key for stakeholders to stay ahead of the curve. Key considerations in doing so include:

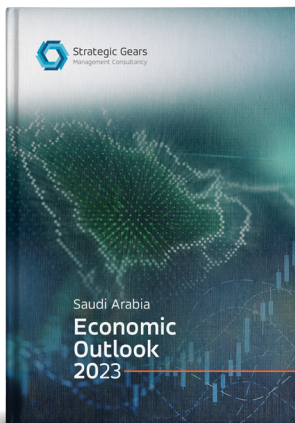
- Ensuring that strategies and operating models can adapt to the future of work, supply chain shifts, and digital transformation.
- Embracing change management and agile processes.
- Developing appropriate governance structures and policies.
- Adopting sustainability and risk management approaches to maintain momentum and competitiveness.

References

1. Ministry of Industry & Mineral Resources “National Industrial Strategy (NIS)” document.
2. NIS target year is 2030 from the 2020 baseline according to the strategy. 2017 was also used for comparison (year Vision 2030 reforms kicked off in earnest).
3. NIS target year is 2035 from the 2021 baseline according to the strategy. 2017 was also used for comparison (year Vision 2030 reforms kicked off in earnest).
4. NIS Document. Projected additional value with industrial strategy & present value with natural growth.
5. Ministry of Industry & Mineral Resources “National Industrial Strategy (NIS)” document; respective entity websites & strategy documents.
6. Respective GCC government ministries’ strategy documents.
7. General Authority for Statistics (GASTAT), Saudi Arabia.
8. GASTAT; Excludes re-exports.
9. World Bank staff estimates through the WITS platform from the Comtrade database maintained by the United Nations Statistics Division.
10. Manufactures comprise commodities in SITC sections 5 (chemicals), 6 (basic manufactures), 7 (machinery and transport equipment), and 8 (miscellaneous manufactured goods), excluding division 68 (non-ferrous metals).
11. High-technology exports are products with high R&D intensity, such as aerospace, computers, pharmaceuticals, scientific instruments, and electrical machinery.
12. Strategic Gears.
13. Standard Chartered “Future of Trade 2030”.

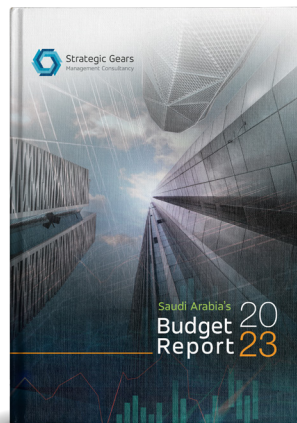
Other Publications

Strategic Gears prides itself in its ability to be a knowledge hub for the Saudi market. We release a range of reports on the current state of the Kingdom's economy as well as hot topics in both the public and private sectors. Below is a sample of our latest publications.

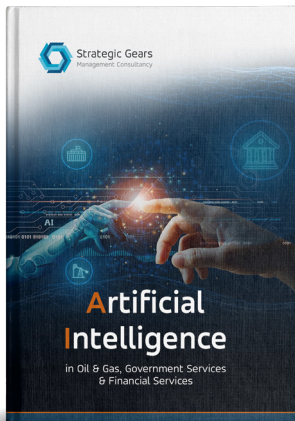


Saudi Arabia Economic Outlook 2023*

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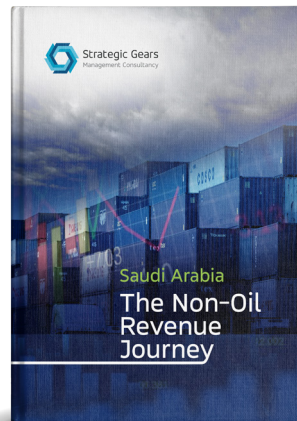


Saudi Arabia Budget Report 2023



Artificial Intelligence

In Oil & Gas, Government Services & Financial Services



Saudi Arabia: The Non-Oil Revenue Journey



Strategic Gears
Management Consultancy

About Strategic Gears

Strategic Gears is a leading Management Consultancy based in Saudi Arabia, serving clients across the country. Strategic Gears' clients include the largest public and private sector organizations, including a number of ministries, authorities, financial institutions, and companies. The company utilizes its top notch local consultants, and global network of experts to offer strategic solutions in the fields of Strategy, Operations & Organizational Excellence, Marketing & Digital, and have a proven track record with multiple clients in each.

www.strategicgears.com | info@strategicgears.com

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