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Non-oil manufacturing

The localization imperative under Vision 2030

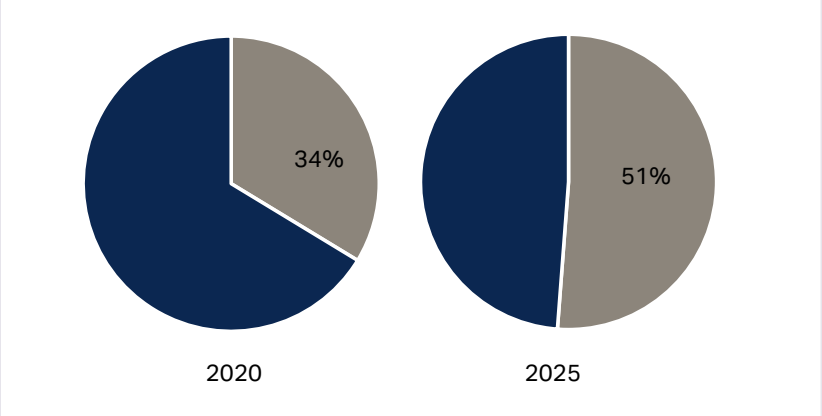
NOVEMBER 2026

The localization imperative under Vision 2030

Summary

- Non-oil manufacturing is a critical pillar of Saudi Arabia's economic diversification strategy. The Kingdom has pursued deliberate localization through structured policy frameworks: local content mandates, sector-specific roadmaps, and sovereign investment designed to drive industrial capacity, reduce import dependency, and build export competitiveness.
- Non-oil manufacturing is transitioning beyond traditional petrochemicals and metals toward advanced production bases in defense, electric vehicles, pharmaceuticals, and food processing, sectors that align with Vision 2030 diversification objectives.
- Driven by population growth and mega projects, a large growing domestic market sustains demand for manufacturing output. However, global export competitiveness requires further industrial depth, stronger technology partnerships, and accelerated R&D investment.
- Vision 2030 establishes the strategic framework through the National Industrial Development and Logistics Program (NIDLP) and the National Industrial Strategy, building an integrated value chain from energy inputs through manufacturing and logistics, supported by targeted incentives and public-private collaboration.
- Early results are measurable: Non-oil manufacturing grew by 5.1% per year on average in 2015-2025 in real terms; local content in government procurement advanced from 33.7% in 2020 to 51.2% in Q3 2025, and employment in the sector has expanded.
- The regional conflict since end-February 2026 has disrupted trade and decelerated non-oil manufacturing growth. However, localization initiatives have partially offset headwinds, with most sectors and factory formation continuing to expand. The conflict presents both a key risk and opportunity for the manufacturing sector.

Chart 1: Growth in the share of local content in government procurement



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Overview

Manufacturing has historically played a central role in supporting economic growth and diversification as economies transit from basic economic activities to more advanced industries. Saudi Arabia has long pursued economic diversification away from oil. Initial efforts date back to the 1970s, when the petrochemical industry expanded rapidly, supported by government initiatives and underpinned by the Kingdom's comparative advantage in feedstock availability.

Today, the ambition has broadened considerably. Vision 2030 objectives now extend beyond traditional manufacturing to encompass advanced technologies, electric mobility, and deeper integration across industrial supply chains. While achieving the goal of diversifying exports and competing globally might take some time to materialize efficiently, early and sustained policy action is critical. In this regard, momentum has already been established through a range of government-led initiatives, policy reforms, and strategic investments.

During the past few years, the manufacturing sector faced headwinds from weaker demand from China for imported petrochemicals, the Kingdom's largest manufacturing sub-sector, reflecting China's expansion of domestic capacity. Despite this, recent data indicate a notable acceleration in non-oil manufacturing output supported by strong domestic demand. Over the past few years, localization efforts and rising domestic consumption have underpinned non-oil manufacturing growth, likely reflecting an import-substitution strategy.

Policy measures to boost local content have played a key role in this trend. According to the Local Content and Government Procurement Authority, the share of local content in government procurement rose from 33.7% in 2020 to 51.2% in Q3 2025 (Chart 1). Strong demand for consumer goods, driven by population growth and rising visitor numbers, alongside a large pipeline of construction projects, has further supported domestic manufacturing. As a result, demand for numerous goods, such as construction-related items and food products, has increased, benefiting local producers in various sectors.

Non-oil manufacturing and GDP

The non-oil manufacturing sector accounted for an average of 10% of overall GDP, and about 20% of real non-oil GDP, between 2015-2025. Over the past decade (2015-2025) the non-oil manufacturing sector has experienced significant growth, with its output rising by about 58%. Between 2015 and 2025, the sector's average growth was 5.1%, in line with overall real non-oil growth for the same period (Chart 2).

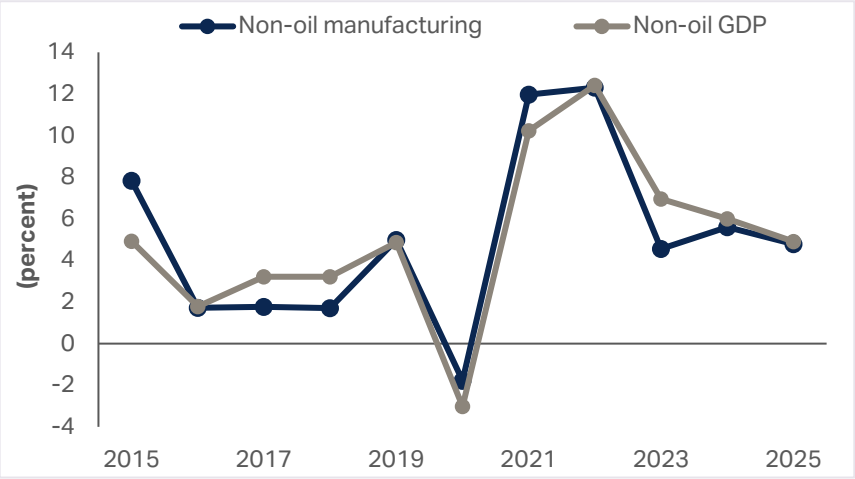
In general, the non-oil manufacturing sector's contribution to GDP stems from both direct and indirect impacts:

- **Direct contribution:** This comes from adding value to non-oil GDP, through generating employment opportunities, particularly in industries such as chemicals, pharmaceuticals, food

processing, and construction materials. The sector also plays a critical role in expanding non-oil exports, attracting FDI, and fostering the adoption of advanced technologies and industrial innovation.

- **Indirect contribution:** This occurs through driving demand for raw materials, logistics, maintenance and business services, thereby strengthening local supply chains and creating opportunities for SMEs. Most importantly, the non-oil manufacturing sector could enhance economic stability by reducing reliance on oil revenues.

Chart 2: Non-oil manufacturing growth
(percent)



Source: Gastat

The NIDLP Vision Realization Program

The National Industrial Development and Logistics Program (NIDLP) is one of the programs developed to reach the targets of Vision 2030. The program aims to transform Saudi Arabia into a leading industrial and logistics powerhouse, focusing on four strategic sectors: industry, mining, energy, and logistics (Chart 3).

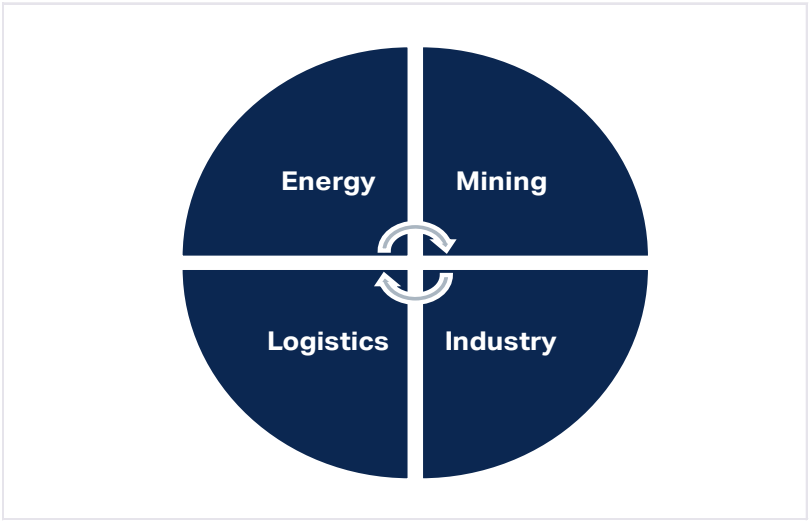
Its primary goals include diversifying the economy, attracting investments, boosting non-oil exports, and creating quality job opportunities. The NIDLP seeks to position Saudi Arabia as a global hub for sustainable industrial development and trade.

NIDLP's key non-oil manufacturing initiatives

- **Localization of high-potential manufacturing industries:** Policy efforts are focused on sectors such as automotive, pharmaceuticals, high-tech machinery and equipment, and food processing, with the aim of reducing import dependency, strengthening domestic value chains, and enhancing export capacity. A notable example is Alat, a Public Investment Fund (PIF) company launched in February 2024 to position the Kingdom as a global hub for sustainable technology manufacturing (Box 1).

- **Localization of the military industry:** the Kingdom continues to expand domestic defense manufacturing to enhance national security and industrial self-sufficiency. The US-Iran conflict reinforces these ambitions, creating investment opportunities in localizing defense. Saudi Arabian Military Industries (SAMI), established by the PIF in 2017, plays a central role in this strategy, with a mandate to support Vision 2030's objective of localizing 50% of government defense spending through domestic production of military equipment and systems (Box 1).

Chart 3: The National Industrial Development and Logistics Program (NIDLP) pillars



Source: NIDLP

Box 1: Progress on main industrial initiatives

According to the National Industrial Strategy, NIDLP, and giga-project activity, progress has been noted in a number of industries:

1. **Defense and military industries:** The Kingdom targets 50% localization of military spending by 2030, compared with 4% in 2018 and 27.3% in 2025, according to the General Authority for Military Industries (GAMI). Between 2016-2025, total factories in the sector reached 347, with accumulative sales jumping from SAR 3.5b in 2019 to SAR 66.4b in 2024.

In February 2026, GAMI and GE Aerospace signed an agreement to enhance F110 repair capabilities and strengthen local skills and provide advanced training.

2. **Automotive and Electric Vehicles (EVs):** the goal is localize 40% of added value chain including parts of EVs and dual combustion cars. Within this, a designated area within the King Abdullah Economic City (KAEC) has been allocated for automotive manufacturing activities, and been named as "King Salman Automotive Cluster". Major participants in this cluster include:

- **Ceer**, Saudi Arabia's first domestic electric vehicle brand, officially unveiled its flagship EVs on 21 September 26, with a capacity of up to 240,000 electric vehicles per year. In Q1 26, Ceer finalized 16 new supplier agreements worth SAR 3.7b to secure critical components needed

to scale assembly lines. This came one year after earlier agreements worth SAR 5.5b for the same purpose, both signed during the 'PIF Private Sector Forum'.

- **Lucid Motors** delivered 15,841 vehicles worldwide in 2025, a 55% increase year on year. At its Advanced Manufacturing Plant in KAEC, final assembly from imported kits has run since September 2023. A full manufacturing plant is due for completion by the end of 2026, with capacity designed to scale to about 150,000 vehicles a year. Lucid aims to export the majority of its production, with 13% of output allocated to other GCC markets. In December 2025, Lucid and King Abdulaziz City for Science and Technology (KACST) opened the Middle East's first electric vehicle innovation center in Riyadh. Lucid is focusing on rolling out new models, optimizing operations, and enhancing services to shift the company into profitability.
- **Hyundai Motor** and the PIF signed a joint venture agreement to establish an advanced manufacturing plant in Saudi Arabia, which is Hyundai's first manufacturing plant in the Middle East, located in KAEC. Hyundai is also seeking to establish a hydrogen mobility ecosystem in the Kingdom.
- **Pirelli** and the PIF announced a joint venture agreement to establish a tire manufacturing plant in KAEC, planning to produce high-quality tires for passenger vehicles under the Pirelli brand, and will also manufacture and market tires under a new local brand targeting the domestic and regional market. In February 2026, SABIC signed an agreement with the PIF-Pirelli JV to supply raw materials including rubber and carbon black, aiming to advance localization efforts and maintain supply chain sustainability.

3. **Pharmaceuticals and medical devices:** the target is to localize 40% of pharmaceuticals market value, and 15% of medical devices.

- **MS Pharma** plant has been launched in Riyadh 3rd Industrial City in May 2025, specializing in end-to-end manufacturing for treatments targeting autoimmune diseases, eye disorders, and osteoporosis. In May 2026, Olayan Financing Company announced a strategic minority equity investment in MS Pharma.
- **The National Unified Procurement Company (NUPCO**), a PIF company which consolidates purchasing across different public healthcare entities into a single centralized buyer. According to NUPCO, the company awarded 86% of its purchases to local suppliers in 2025. Within this, NUPCO combines both pharma and medical device manufacturing and localization initiatives in its strategy.

4. Some initiatives are horizontal, such as **Alat**, which includes multi-sector industrial platform rather than a vertical sector player. Alat's mandate is to build advanced, sustainable manufacturing in Saudi Arabia across four units: AI and digital hardware, building and heavy equipment, electrification, and home and medical equipment. In January 2025, Alat (through the PIF) acquired a strategic stake in Lenovo, which is establishing a manufacturing facility in Riyadh to serve regional and global markets, supporting local production of laptops, servers, and related hardware.

The National Industrial Strategy (NIS)

Launched in October 2022, the NIS outlines a comprehensive roadmap for driving industrial growth and competitiveness across priority sectors, led by the Ministry of Industry and Mineral Resources (MIM). The strategy is anchored around three strategic objectives:

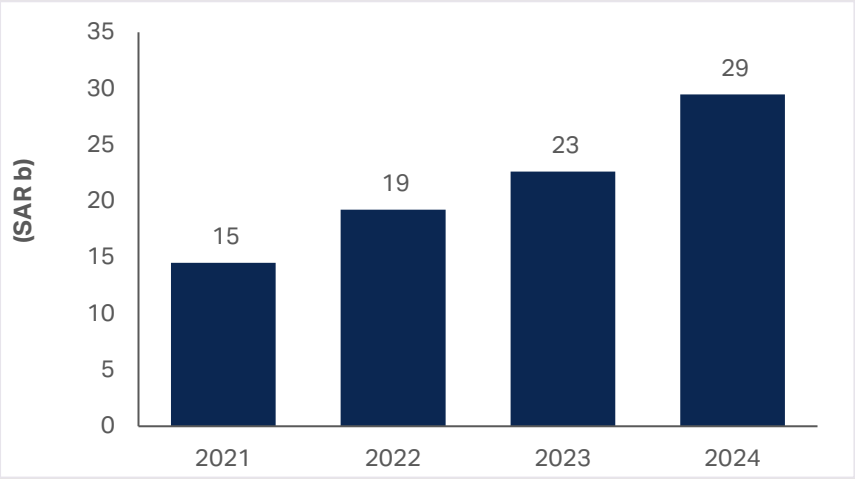
1. **Build industrial national resilience**, by developing critical manufacturing capabilities to strengthen the Kingdom's resilience against global uncertainties and supply chain emergencies.
2. **Become an integrated regional manufacturing hub**, by leveraging local and regional market size to integrate value chains, build competitive capabilities, and establish a regional industrial base.
3. **Expand global leadership in selected segments**, by adopting Fourth Industrial Revolution technologies and strengthening research, development, and innovation (Box 2).

Box 2: Higher spending on research and development

Research and Development (R&D) is a core pillar of industrial upgrading and long-term competitiveness. In the 2025 Global Innovation Index (GII), Switzerland retained its 1st place globally, which was kept for the past 15 years, while among Asian economies, South Korea and Singapore ranked highly at 4th and 5th, respectively.

Saudi Arabia has made progress in innovation performance, with its GII ranking improving from 49th in 2016 to 46th in 2025. R&D spending as a share of nominal GDP increased from 0.39% in 2021 to 0.63% in 2024, indicating both meaningful progress and considerable scope for further improvement. Based on latest World Bank data, G20 nations spend an average of 1.8% of GDP on R&D, with South Korea leading the group at 4.9%.

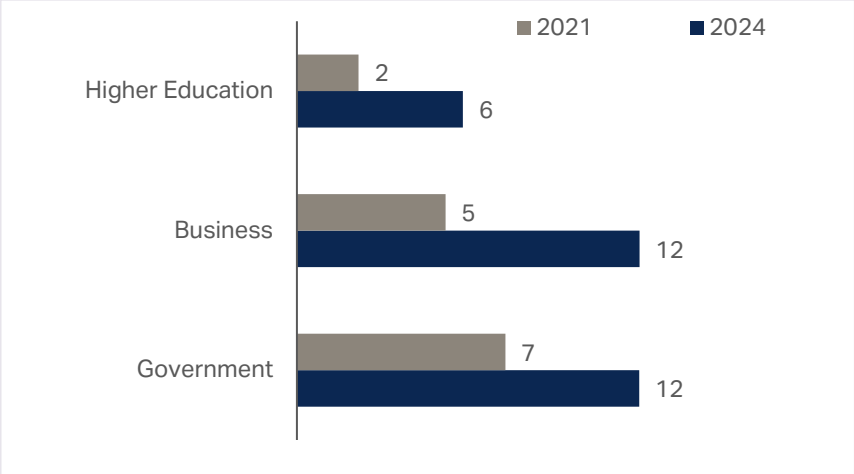
Chart 4: Spending on R&D has notably increased
(SAR b)



Between 2021 and 2024, total R&D expenditure in the Kingdom almost doubled (Chart 4). Growth was strongest in higher education, where spending increased by 169%, although this segment still accounts for the smallest share of total R&D expenditure, at around 20%. Government and business sectors each represent

roughly 40% of total R&D spending, with expenditure rising by 64% and 130% over the same period, respectively, according to Gastat (Chart 5).

Chart 5: R&D spending by category
(SAR b)



International examples highlight the importance of the private sector in R&D as economies mature. In the United States, the business sector performed about 78% of total R&D expenditure in 2022, with investment concentrated in high-technology industries such as semiconductors and software.

South Korea -one of the largest R&D spenders among OECD economies– has built global leadership in semiconductors, ICT infrastructure, and next-generation technologies, supported by a coordinated innovation model linking government, industry, and academia. This approach enabled large firms such as Samsung and LG to evolve from basic industries in the 1970s towards new heavy industries by the 1990s, such as petrochemicals, car manufacturing and ship building. At the same time, R&D spending by these companies continued to grow rapidly.

Looking ahead, Saudi Arabia has strong potential to develop a comprehensive R&D ecosystem. This is supported by favorable demographics, with 63% of Saudi nationals under the age of 30, providing a great chance for easier learning and adapting to new technologies. In addition, public policies have become increasingly targeted, with a focus on strengthening R&D, accelerating technological adoption across both government services and everyday economic activity, and attracting high-value investment.

The Manufacturing sector: current state

Number of factories

According to data from MIM, by end of 2025, the number of factories in the Kingdom (operating and under construction) was 12,946, with 10,394 factories under operation. Total investment in new factories is estimated at a value of SAR 76.1b. In 2025, capital and intermediate goods accounted for 68% of total imports, up from 60% in 2016. This shift in import composition reflects a growing demand for production inputs, such as machinery, components, and raw materials- rather than finished consumer goods. The trend underscores the expansion of domestic

manufacturing activity and rising private sector investment in equipment and infrastructure.

It is worth highlighting that the number of factories has continued to increase so far in 2026 despite the regional conflict, with the number reaching 14,607 by July 2026, up from 12,946 in December 2025.

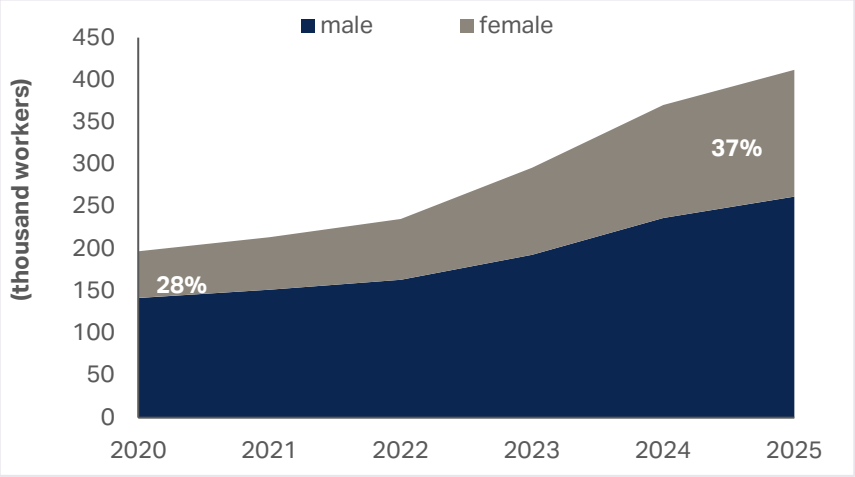
Employment

In terms of employment, total employment in the manufacturing sector was 1.5 million by end of 2025. Overall, the manufacturing sector has witnessed a steady increase in employment in recent years, reflecting growth among both Saudi and expatriate workers. The total number of workers in manufacturing increased by almost 80% over the six-year period between 2019 and 2025. The sector's share of total employment in the labor market also rose, from 9.9% in 2019 to 11% in 2025.

Total number of Saudi nationals registered as employed in manufacturing rose from 195,000 in 2019 to 412,000 in 2025. Saudi nationals' share rose to 26% in 2025 from 23% in 2019, exceeding the labor market Saudization average of 23%. Notably, female employment surged from 54,000 in 2019 (28% of Saudi workforce), to 150,000 in 2025 (37% of Saudi workforce) (Chart 6).

In addition, the sector benefited from a temporary exemption from expatriate levies (annual fees imposed for each expatriate employee) as part of a policy running since 2019 (Box 3).

Chart 6: Saudi employment in non-oil manufacturing
(by gender)



Source: Gastat, Jadwa Investment

Box 3: Lifting expat levies on the manufacturing sector

In December 2025, the Saudi Cabinet approved the revocation of expatriate worker levies for industrial establishment holding industrial licenses. The decision aims to support the industrial sector and enhance its global competitiveness by reducing factories' operating costs.

The expatriate levies were first introduced in 2018 under the Financial Sustainability Program, one of Vision 2030's realization programs. The policy imposed annual fees on expatriate workers employed by firms, with higher charges applied when expatriate employment exceeds that of Saudi nationals. These fees were gradually increased between 2018 and 2020.

In 2019, the Cabinet introduced a temporary exemption under which the government covered expatriate levies for licensed industrial establishments for five years. Since the introduction of the exemption, the manufacturing sector has recorded notable gains, including a rising number of factories and increased job creation for both Saudi nationals and expatriate workers, reflecting the sector's expanding scale and improved cost competitiveness.

FDI

According to Gastat, the manufacturing sector (including petrochemicals) accounted for 27% of Saudi Arabia's total FDI stock by 2025, making it the largest recipient sector, with total investments of SAR285 b (latest stock data by sector). This was followed by Wholesale and retail trade, and Financial institutions (Chart 7).

Chart 7: FDI stock by sector in 2025

(top 10 sectors – share in total)



Source: Gastat, Jadwa Investment

Major recent investments include:

- PIF-Pirelli (2023): A tire manufacturing plant in a joint venture.
- ALUPCO-Asia Aluminum Group (AAG) (2025): Three joint ventures to build a downstream aluminum industrial base.
- LyondellBasell (2024): Acquired a 35% stake in the National Petrochemical Industrial Company (NATPET), a leading Saudi polypropylene producer.
- GE Vernova (2024): Completed the full acquisition of GESAT, a Dammam-based facility specializing in gas turbine component manufacturing.
- Lucid Group (2023): The US-based electric vehicle manufacturer inaugurated its factory in King Abdullah Economic City, marking a milestone in the localization of the EV industry.
- Siemens Energy: Signed multiple contracts and established manufacturing and infrastructure partnerships valued at USD1b, supporting the development of Saudi Arabia's power equipment industry.

Table 1: The index of Industrial Production (IIP) (%)

	Weight (%)	**2025 Growth** (%)	**H1 2026 Growth** (%)
General Index	**100**	**4.0**	**-7.3**
Oil activities	75	3.9	-10.9
Electricity, gas, steam and air conditioning	2.8	5.0	2.7
Water supply, sewerage and water activities	0.7	10.1	4.4
Non-oil manufacturing (NOM-IIP)	21.5	4.0	1.2
Chemicals & chemical products	8.2	9.3	1.1
Other economic activities	4.9	0.9	2.8
Food products	3.3	2.9	-0.8
Non-metallic products	1.5	8.1	0.8
Basic metals	1.0	-7.0	5.9
Paper & paper products	0.8	4.7	0.5
Electrical devices	0.8	-1.0	-3.6
Furniture	0.6	-10.4	0.2
Beverages	0.5	-1.4	1.6

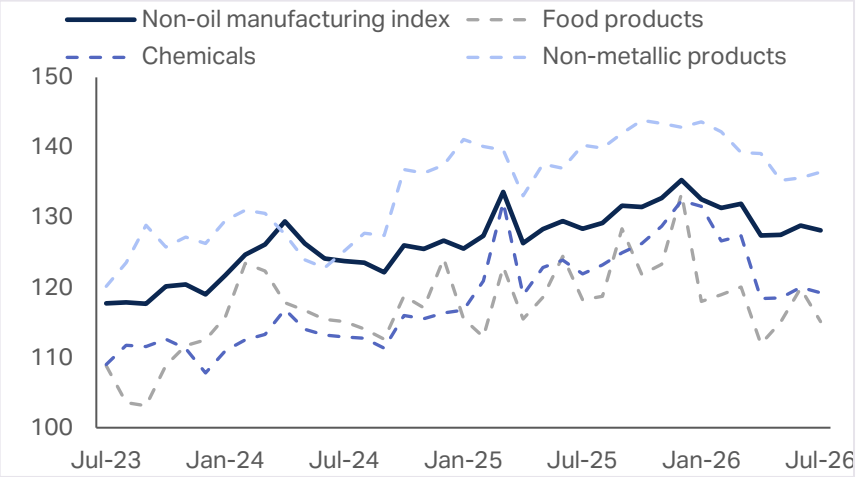
Industrial output

Industrial output is monitored through Gastat's Index of Industrial Production (IIP), which is dominated by oil activities with a 75% weight. Non-oil manufacturing (NOM-IIP) accounts for 21.5% of the index, followed by electricity and gas supply at 2.8%, and water supply at 0.7%. The table above (Table 1) outlines the weight of each manufacturing sector within the index.

The NOM-IIP has shown a sustained upward trend over the past two years, which reflects strengthening industrial activity, supported by rising demand and capacity expansion.

Within the NOM-IIP categories, output growth was concentrated in three main sub-sectors: chemicals, food products, and non-metallic products (Chart 8). Together, the three sub-sectors drove much of the sector's recent momentum, alongside other emerging sectors ("other economic activities") which are not split out in the IIP presentation (see below).

Chart 8: Manufacturing output by sector
(index)



Source: Gastat, Jadwa Investment

Chemicals and Chemical Products (8.2% of the IIP index)

The chemical sector, which includes petrochemicals and plastics, is the largest within the NOM-IIP, and recorded an annual growth of 9.3% in 2025. Exports of petrochemicals, plastic, and rubber experienced a slowdown in the past few years due to weaker Chinese demand. However, this trend began to improve in early 2025, with exports diversifying to new markets, including Africa, South and Southeast Asia, and the regional markets.

However, growth slowed sharply in H1 26, to 1.1%, driven by the US-Iran war and the closure of the Strait of Hormuz. Exports of petrochemicals and plastics dropped by an average of 16% in H1 26, despite many companies rerouting their exports to the Red Sea ports. Not all products

are able to get transported via trucking between the east and west coasts, which has affected total output and exports.

Once trade routes ease, then growth should rebound. In addition, previously announced capacity expansions and new plants are reaching operational readiness, and several major producers have been finalizing expansions in several derivatives such as Polypropylene, Polyethylene and Ethylene Glycol.

Food Products (3.3% of the IIP index)

Food production saw a steady expansion by an average of 5% year on year during 2024-2025, before declining in H1 26 by 0.8%, likely due to lower volumes of inputs and fertilizers caused by the closure of the Strait of Hormuz. The expansion in the sector over the years was driven by rising domestic demand, underpinned by population growth among both Saudi nationals and expatriates, as well as increased spending: food and beverages and restaurants and cafes, grew by 3% in 2025, according to SAMA point of sale data.

In addition, a number of government initiatives promoting agricultural self-sufficiency have supported domestic production of vegetables and fishery products. Self-sufficiency ratios between 2023 and 2024 have increased for many products, for example, fish self-sufficiency rose from 48% to 52%, and tomatoes from 76% to 83%. Total output of key food and agricultural commodities rose from 9 million tons in 2020 to 16 million tons in 2024. Together, these factors support further expansion in food manufacturing. The NIDLP targets the localization of 85% of food processing by 2030, which would require substantial additional domestic production capacity.

Non-metallic Products (1.5% of the IIP index)

Non-metallic products include cement, glass, ceramics, concrete, natural stone, and other building materials. Production in this sector expanded by 8.1% in 2025, supported by strong domestic demand and localization initiatives. Saudi Arabia's construction sector continues to stimulate demand for building materials such as cement, glass, ceramics, and other non-metallic products.

As mentioned earlier, local content in government procurement advanced from 33.7% in 2020 to 51.2% in Q3 2025.

This progress has been supported by the local content policy that includes a compulsory list of products to be sourced domestically every year, with 1,670 products listed in 2025. Within construction, the goal is to localize a total of 349 products, of which 96 new products were listed in 2025. In addition, project-specific requirements have reinforced localization efforts. For example, a minimum local content requirement of 43% was mandated for Phase 2 of the King Salman Park infrastructure project, while a 40% requirement was set for the King Fahd Sports City construction project in Riyadh.

In addition, housing activity has surged in recent years, supported by efforts from the Ministry of Municipalities and Housing (MoMaH) to expand access to affordable housing and increase home ownership. Combined with population growth and labor market expansion, this has reinforced local demand for construction related manufacturing.

Other Economic Activities (4.9% of IIP)

The largest category after chemicals, includes many items unclassified within the main categories, which could be textiles, wearing apparel, printing, basic pharmaceutical products, sports goods, and jewelry.

Production in this sector expanded by only 0.9% in 2025, smaller than the other main sectors, but increased by 2.8% in H1 26, higher than the NOM-IIP growth at 1.2%. As the sector includes varied products, the higher local demand and the varied initiatives supporting economic diversification might be the main drivers for its growth.

Manufacturing and non-oil exports

Over the past decade, exports of chemicals, plastics and rubber increased from SAR 117b to SAR 153b, despite notable fluctuations over the period. The sector peaked in 2022, when export value reached SAR202 b. However, despite the increase in absolute export values, the share of petrochemicals, plastics and rubber in total non-oil exports has declined from 61% in 2015 to 42% in 2025, reflecting the broadening and diversification of Saudi Arabia's non-oil export base and the growth in re-export trade.

Box 4: The impact of the Iran conflict on manufacturing output

Non-oil growth decelerated to 1.8% in H1 26, from 4.8% in H2 25, as the conflict weighed on some economic activity since end-February. Non-oil manufacturing continued to expand but at a slower pace, growing 0.7% year on year in Q1 and 0.9% in Q2, down from 5.6% in H2 25. On a quarterly basis, growth was flat in Q1 and 0.4% in Q2, according to Gastat's seasonally adjusted series.

Non-oil manufacturing is being affected by reduced export capacity and supply-chain disruptions. For example, some petrochemical output based on the east coast has been reduced, either because of problems procuring all the required production inputs or because some products cannot be trucked to the west coast and so production has to slow or stop given the inability to export via the Strait of Hormuz.

Petrochemical exports were down by 37% year-on-year in March and by a smaller decline in Q2 at 25%, as a larger share of exports got successfully diverted to the west coast ports over the quarter. Total non-oil exports declined by 15% in March and 6.6% in Q2, reflecting rerouting through alternative channels during the Strait's closure.

As petrochemicals account for around 30% of non-oil manufacturing, weakness in the segment weighs directly on the sector total. Nonetheless, it seems that non-oil manufacturing output in H1 was boosted by growing localization efforts, supporting production in segments such as basic metals (such as steel, gold, silver and platinum), which rose by 5.6% in Q2. The overall manufacturing

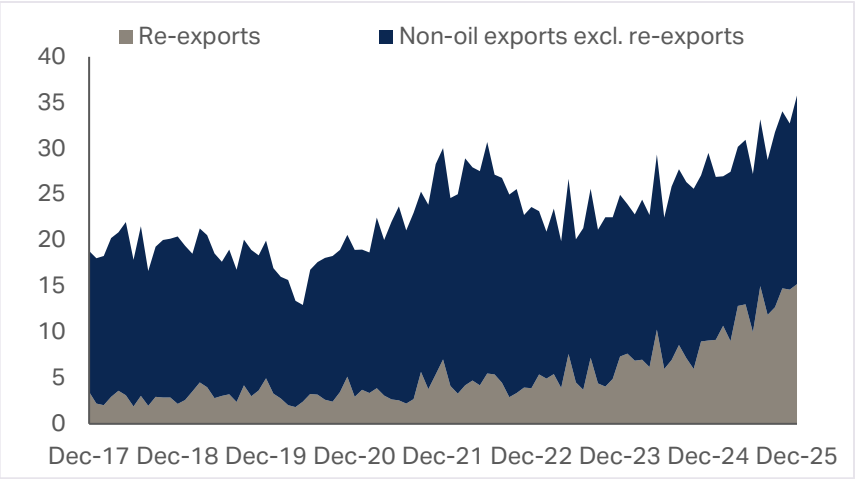
component of the NOM-IIP fell in Q2 26 by just 0.1% year on year, while chemical products declined more steeply by 2.4% year-on-year.

In line with the rising local demand, the sector's resilience and expansion continues with significant investments and job creation. By the end of H1 26, the number of factories operating in the Kingdom increased by 1,282 new factories, with total investments of over SAR 26 b and more than 13,000 work permits.

A key structural shift has been the sharp rise in re-exports in recent years. By the end of 2025, re-exports accounted for 43% of total non-oil exports, up from just 19% in 2017 (Chart 9). Re-exports surged by 64% year-on-year in 2025, driven primarily by machinery and electrical appliances, which surged by 78% and 92% in 2024 and 2025, respectively. The strong momentum continued into 2026, but trade was significantly affected by the regional conflict since end-February 2026.

Chart 9: Re-exports and total non-oil exports

(SAR b)



Source: Gastat, Jadwa Investment

The sharp increase in re-exports pre-conflict reflects targeted investments in logistics infrastructure and free zones. For example, the Special Integrated Logistics Zone Company (SILZ), launched at King Khalid International Airport in Riyadh, aims to position the Kingdom as a world-class logistics hub by attracting global supply chain operators. Major international firms, including Apple and DHL, have signed agreements to establish regional logistics and distribution centers in the zone.

Overall, re-export initiatives primarily support the logistics and transport sector, with positive spillovers into manufacturing through various channels:

- Packaging of imported components before re-export.
- Investments in ports, free zones and warehouse, which lower input-sourcing costs for manufacturers.
- Re-export flows signal which products have regional demand, which could encourage domestic manufacturers to invest in.

Over the long term, the strategic objective is to move beyond redistribution and reassembly toward more complex and higher value-added manufacturing, thereby strengthening export competitiveness, increasing domestic value creation, and supporting more resilient economic diversification.

Manufacturing as a Growth Pillar:

Challenges and Opportunities

While the industrial sector has recorded strong growth in investment, factory formation, and output in recent years, the scale of Saudi Arabia's ambitions, particularly in advanced and high-value manufacturing, remains larger. Looking ahead, there are a number of challenges and opportunities:

- Industrial base depth: The Kingdom's industrial base is largely focused on petrochemicals, metals, and fertilizers. The Kingdom is seeking to address this by enabling investment in upstream and intermediate industries – aluminium extrusion, steel, and float glass, for example– to lower entry barriers for downstream investors and strengthen supply-chain depth.
- Regulatory enablers and incentives: continued improvements in regulations and incentive frameworks will support investment and sector growth. As shown earlier, local content policies are helping stimulate non-oil manufacturing sectors and this will continue.
- Technology transfer: Saudi Arabia aims to move beyond assembly-based manufacturing toward advanced technology production, requiring effective technology transfer, stronger partnerships, and further development of R&D and innovation capabilities.
- Specialized skills: Although overall human capital is available, gaps remain in certain high-technical skills, which the Kingdom is addressing through targeted talent development and training programs.
- Over the longer term, higher focus within R&D, alongside capturing valuable areas in the supply-chain, will be needed for higher international competitiveness.
- As outlined in the report, the Kingdom has earmarked a number of priority sectors with significant opportunities, including: defense,

automotive, pharmaceuticals, high-tech machinery and equipment, and food processing.

- The energy transition also provides an opportunity to develop manufacturing sectors. Large-scale investment in renewable power, energy storage, electric mobility, and green-hydrogen projects can create domestic demand for solar modules, mounting systems, steel structures, cables, selected wind components, electrical equipment, cooling systems, and battery-pack assembly. Success here will depend on expanding intermediate-material capacity, attracting technology partners and strengthening technical skills.

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