

# Catching the Second Industrial Development Wave: Saudi Arabia's National Industrial Development and Logistic Program

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## Introduction

The focus of this article is on the “National Industrial Development and Logistics Program” (the “NIDLP”), one of the Kingdom of Saudi Arabia’s (the “Kingdom”) programs that aims to make Saudi Vision 2030 a reality. The NIDLP has four target sectors, being industry, mining, energy and logistics, however, in this article we will concentrate on the industry and logistics sectors as developments within these sectors linked to the realisation of Saudi Vision 2030 are likely to be of particular interest to our current and prospective clients.

## Background

In June 2016,<sup>1</sup> we wrote about how the National Transformation Program 2020 (the “NTP”) was developed to help fulfill Saudi Vision 2030 by establishing strategic objectives and identifying the initiatives necessary for achieving specific interim targets in 2020. Saudi Vision 2030 continues to be a wide-ranging and ambitious privatisation and economic reform program that aims to reposition the Kingdom’s economy away from its dependence on oil export revenues and government expenditure to drive economic growth. Some of the more ambitious targets cited in Saudi Vision 2030 included cutting the Kingdom’s dependence on the sale of hydrocarbons by 2020 through the development of non-oil sectors, increasing the Kingdom’s overall non-oil revenues from SR163 billion (\$43.5 billion) to SR600 billion by 2020, increasing it further to SR1 trillion by 2030, increasing the private sector’s contribution from 40% to 65% of

<sup>1</sup> “Transforming Saudi Arabia: National Transformation Program 2020 Approved,” 14 June 2016 (see here: [https://www.shearman.com/~/\\_/media/Files/NewsInsights/Publications/2016/06/Transforming-Saudi-Arabia-National-Transformation-Program-2020-Approved-PDF-061016.pdf](https://www.shearman.com/~/_/media/Files/NewsInsights/Publications/2016/06/Transforming-Saudi-Arabia-National-Transformation-Program-2020-Approved-PDF-061016.pdf)).

GDP and raising the Kingdom's share of non-oil exports in non-oil GDP from the current 16% to 50%.

As a follow-up to the launch of Saudi Vision 2030 and the NTP in 2016, the Council of Economic and Development Affairs developed 12 "vision delivery programs" with the objective of translating Saudi Vision 2030 into measurable delivery plans. As noted above, this article covers the NIDLP, which is one of these vision delivery programs.<sup>2</sup> The NIDLP was created to aid the development of 11 industries in the Kingdom and transform it into a global industrial and logistics platform to connect the continents of Asia, Europe and Africa. This transformation would be on the back of more than 300 planned initiatives aided by a series of "key enablers" (discussed further below).

On a macroeconomic level, the implementation of the NIDLP aims to increase the Kingdom's share of non-oil exports to 50% of all exports from the Kingdom, create 1.6 million new jobs and attract SAR 1.6 trillion in new investments by 2030. As we will discuss below, there are 13 direct objectives of Saudi Vision 2030 which the NIDLP intends to achieve.

We are living in challenging times and there are two immediate challenges to the ongoing implementation of the NIDLP: COVID-19 and low oil prices. As seen around the world, there has been an impact on economic activity in the Kingdom due to COVID-19. Investors will be hopeful that COVID-19 brings about a relatively short period of economic "hibernation," as opposed to a long-term economic downturn. A possible silver lining of COVID-19 is that the disruption it has caused to the movement of people and goods across international borders highlights the importance of countries becoming more self-sufficient and relying less upon foreign nationals and foreign goods and equipment that are critical to the lives and livelihoods of the Kingdom's people. Of course, it is difficult to identify the specific economic impact of COVID-19 when we are also living in a time of historically low oil prices. Given the Kingdom's dependence on hydrocarbon revenues, a sustained period of low oil prices will inevitably impact its budget, resulting in government spending cuts and the possible stalling of progress on some of the NIDLP's initiatives. However, positives can be drawn from the current oil price situation: it should reinforce the importance of private sector participation in the Kingdom's economy (which would lessen the financial burden on the public sector) and it should also reinforce the importance of reducing the Kingdom's economic dependence on hydrocarbon revenues, bringing the Kingdom's industrial development into sharper focus.

<sup>2</sup> The other vision delivery programs can be found here: <https://vision2030.gov.sa/en/programs>.

## Understanding the NIDLP

### ***Aspirations of the NIDLP***

The NIDLP has four main aspirations:

- transform the Kingdom into a leading industries powerhouse in promising growth sectors (with a focus on “Industry 4.0”<sup>3</sup> and a global logistics hub;<sup>4</sup>
- generate major job opportunities for Saudi nationals;
- improve the Kingdom’s trade balances (i.e. reduce dependence upon imports and increase exports); and
- maximise local content in the four key sectors (see below).<sup>5</sup>

***“The National Industrial Development and Logistics Program is one of the most important programs for achieving Vision 2030, as it moves the Kingdom into a new era of sustainable development, prosperity and economic diversification.”***

***His Excellency Khalid Al Falih at the launch of the NIDLP***

### ***Creating a Second Industrial Development Wave***

The NIDLP refers to the “first industrial development wave” in the Kingdom, which began in the mid-1990s. This first wave was attributed to three key factors: the government’s focus on competitive advantages in hydrocarbons, intensive government support of development (e.g. favourable energy pricing, intensive government-funded infrastructure development and heavy use of “national champions” to drive industrial investment<sup>6</sup>) and use of a foreign workforce to enable growth. The Kingdom has now recognised that these three key factors will no longer sustain its continued industrial development and a “second industrial

<sup>3</sup> “Industry 4.0” is a reference to a fourth industrial revolution, which is characterized by a range of new technologies that are able to connect the physical, digital and biological worlds, impacting all disciplines, economies and industries. The potential to connect billions of people to digital networks could result in dramatic improvements in the efficiency of organizations and the operation and management of assets (see here: <https://www.weforum.org/pages/the-fourth-industrial-revolution-by-klaus-schwab>).

<sup>4</sup> This directly links to the creation of new logistics hubs and improving the performance of existing hubs, as well improving the interconnectivity of trade and transport networks, which is a Saudi Vision 2030 objective.

<sup>5</sup> This directly links to the localisation of promising manufacturing industries, the military industry and non-oil and gas industries generally, which is a Saudi Vision 2030 objective.

<sup>6</sup> The most well-known of these national champions is Saudi Aramco. Shearman & Sterling LLP has worked on a number of transactions involving Saudi Aramco over the last 20 years, but the most relevant example in this context was the \$25 billion Sadara Integrated Chemicals Project, on which we acted for The Dow Chemical Company on its joint venture with Saudi Aramco to develop the project.

development wave” will only be possible through the development of other drivers for growth; primarily investment in research, development and innovation (“RDI”), high productivity, sophisticated multi-modal logistics networks and clear and established policies and regulations. These are the most important “enablers” of the NIDLP.

### **Identifying Strategic Pillars of the NIDLP**

The NIDLP identifies four “strategic pillars” for enabling the second industrial development wave. Two of these pillars focus on improving the Kingdom’s competitiveness, being:

- **acceleration of technological innovation** and the spread of Industry 4.0 to improve productivity; and
- **implementing systems** to enable regional and international competitiveness.

The two other pillars focus on identifying and developing specific industries in the Kingdom, being:

- **maximisation of natural resources** with the highest “socio-economic revenues” (i.e. GDP and job contribution), including in the following sectors: logistics, oil and gas related industries, renewable energy and manufacturing industries, mining and aquaculture; and
- **support through strategic competitive sectors** (i.e. industries that create localisation opportunities and are in high demand within the Kingdom) to establish and sustain a competitive advantage, including pharmaceuticals, medical supplies, machinery and equipment, desalination, automotive, food processing and military equipment.

### **Key Enablers of the NIDLP**

The NIDLP aims to implement a business and regulatory environment, which encourages competitiveness of Saudi companies on a global scale.

The “key enablers” to create this environment are as follows:<sup>7</sup>

<b>Key Enabler</b>	<b>Objective</b>	<b>Selected Initiatives</b>	<b>Responsible Saudi government entities</b>
Financial enablement	To secure suitable financial products for sectors targeted by the NIDLP	<ul style="list-style-type: none"> <li>● Transform Saudi Industrial Development Fund (“SIDF”) into the industry sector’s key financial enabler</li> <li>● Establish the “Industrial Clusters” development fund</li> </ul>	<ul style="list-style-type: none"> <li>● SIDF</li> <li>● National Industrial Clusters Development Program (“Industrial Clusters”)</li> <li>● SME General Authority</li> </ul>

<sup>7</sup> For more information on the enablers, refer to Section 6 of the NIDLP document.

Key Enabler	Objective	Selected Initiatives	Responsible Saudi government entities
		<ul style="list-style-type: none"> <li>Industrial support and financial incentives</li> <li>Improve access to working capital for SMEs and develop procedures therefor</li> </ul>	
RDI	To develop a consistent ecosystem for RDI that will boost the competitive capabilities of the sectors targeted by the NIDL	<ul style="list-style-type: none"> <li>Stimulate spending on RDI ecosystem</li> <li>Train human resources to support RDI</li> <li>Strengthen RDI capacities in target industry sectors</li> <li>Localisation and technology transfer in target industry sectors</li> </ul>	<ul style="list-style-type: none"> <li>National Committee for RDI</li> <li>King Abdulaziz City for Science &amp; Technology (“KACST”)</li> </ul>
Industry 4.0	To increase the competitive advantage in target industry sectors in the Kingdom, expand existing value chains and develop new ones, mitigate the impact of reforms in the energy field and the labour system, develop the ecosystem for Industry 4.0 technologies and create new high-skill jobs to attract Saudi nationals	<ul style="list-style-type: none"> <li>Initiative of the Environmental System of Industry 4.0— Support for RDI</li> <li>Initiative of the Environmental System of Industry 4.0— Equity financing</li> <li>Establish Centres of Industrial Capacities of Industry 4.0</li> <li>Financial incentives initiative for Industry 4.0</li> <li>Initiative of Legal Frameworks for Industry 4.0</li> <li>Initiative of Industry 4.0 Infrastructure</li> <li>Manpower Development Initiative for Industry 4.0</li> <li>Establish national productivity programs</li> </ul>	<ul style="list-style-type: none"> <li>KACST</li> <li>Ministry of Industry &amp; Mineral Resources</li> <li>Ministry of Energy</li> <li>Ministry of Education</li> <li>Ministry of Communications and IT</li> <li>Industrial Clusters</li> <li>Modon</li> <li>SIDF</li> </ul>
Export enablement	To address the five key export challenges, being:	<ul style="list-style-type: none"> <li>Establishment of Saudi export bank</li> </ul>	<ul style="list-style-type: none"> <li>Saudi Exports Development Authority</li> </ul>

Key Enabler	Objective	Selected Initiatives	Responsible Saudi government entities
	<ul style="list-style-type: none"> <li>• Insufficient potential and capabilities of exporting goods, services and re-exported products;</li> <li>• Export environment that inhibits increase in exports, services and re-exports;</li> <li>• Uncompetitive access to international markets in terms of exported goods and services;</li> <li>• Insufficient promotional activities; and</li> <li>• Substandard enabling environment</li> </ul>	<ul style="list-style-type: none"> <li>• Anti-dumping and trade protection</li> <li>• Commercial manufacturing policy</li> <li>• Strategic partnerships for industry</li> <li>• Improve environmental efficiency of exports</li> <li>• Develop export capacities for Saudi establishments</li> <li>• Promote exporters and their products</li> </ul> <p><i>Note that these initiatives are in addition to initiatives under the NTP to facilitate the growth of non-oil exports</i></p>	<ul style="list-style-type: none"> <li>• Ministry of Commerce</li> <li>• Ministry of Industry &amp; Mineral Resources</li> <li>• Ministry of Energy</li> </ul>
Human capital development	To develop human capital in the Kingdom to support the sectors targeted by the NIDLP	<ul style="list-style-type: none"> <li>• Establish SIDF academy</li> <li>• Establish Human Capital Development Program for Industrial Clusters</li> <li>• Establish National Industrial Leadership Development Program</li> <li>• Establish industrial apprenticeships</li> </ul>	<ul style="list-style-type: none"> <li>• SIDF</li> <li>• Industrial Clusters</li> <li>• Human Resources Development Fund</li> <li>• Ministry of Industry &amp; Mineral Resources</li> <li>• Ministry of Energy</li> </ul>
Policies, regulations and measures	To establish national quality and standards infrastructure to support the growth of manufacturing industries in the Kingdom	<ul style="list-style-type: none"> <li>• Develop and implement standards for industrial clusters</li> <li>• Build awareness of industrial standards</li> </ul>	<ul style="list-style-type: none"> <li>• Industrial Clusters</li> <li>• Saudi Standards, Metrology and Quality Organisation</li> </ul>
Special Economic Zones ("SEZs")	To utilise special economic zones as a means of facilitating growth for sectors	<ul style="list-style-type: none"> <li>• Develop a free zone to attract export-oriented industries</li> </ul>	<ul style="list-style-type: none"> <li>• Ministry of Economy and Planning</li> <li>• Modon</li> <li>• RCJY</li> </ul>

Key Enabler	Objective	Selected Initiatives	Responsible Saudi government entities
	targeted by the NIDL <sup>8</sup>	<ul style="list-style-type: none"> <li>• Develop a number of new industrial cities</li> <li>• Update infrastructure at selected, existing industrial cities</li> <li>• Digital transformation of selected industrial cities</li> <li>• Develop logistics hub at Jubail Industrial City</li> <li>• Develop Yanbu Smart Industrial City</li> <li>• Develop economic cities regulations</li> </ul>	<ul style="list-style-type: none"> <li>• Economic Cities Authority</li> </ul>
Supporting development of “Industrial Clusters” and SMEs	To provide development support by enhancing demand for locally-manufactured projects, improving the ease of doing business, improving the availability of funding, providing necessary business support and promotion of technology and innovation	<ul style="list-style-type: none"> <li>• Alignment with the Large National Industrial Companies Support Program</li> <li>• Specialised infrastructure for industrial clusters</li> <li>• Develop supply chain for industrial clusters</li> </ul>	<ul style="list-style-type: none"> <li>• Ministry of Industry &amp; Mineral Resources</li> <li>• Ministry of Energy</li> <li>• Industrial Clusters</li> </ul>
Governance	To develop governance frameworks to support the target industry sectors	<ul style="list-style-type: none"> <li>• National Centre for Industrial Information</li> <li>• Cluster Development Council</li> </ul>	<ul style="list-style-type: none"> <li>• Ministry of Industry &amp; Mineral Resources</li> <li>• Ministry of Energy</li> <li>• Industrial Clusters</li> </ul>

### **Measurement of Success**

The success of the NIDL will be measured against a series of metrics varying between the relevant industry sectors. These will include the

<sup>8</sup> The NIDL mentions the potential for development of “Logistics Bonded Zones,” “Manufacturing Free Trade Zones,” “Service Free Trade Zones” and “Single Purpose Zones” in various locations in the Kingdom. In particular, the NIDL identifies King Fahad International Airport as a potential advanced logistics SEZ, King Abdullah Economic City as a potential advanced manufacturing SEZ, “Auto-City” as a potential automotive SEZ, Petro Rabigh as a potential specialty chemicals SEZ, “International Maritime” as a potential SEZ for development of maritime industries, KAUST as a potential advanced education and scientific research SEZ and KACST as a potential SEZ supporting knowledge-based activities focusing on SMEs.

creation of private sector jobs, increases in the Kingdom’s exports (and non-hydrocarbon-related exports, in particular), increases in private sector and foreign investment, increases in the contribution to GDP and increased local content (as opposed to imported content).

## Sector Focus—Industry

### Scope of the NIDLP

As we have already noted, the industry sector is one of the four key sectors of focus of the NIDLP. The NIDLP divides the industry sector into industries that fall within the “National Industry Strategy” of the Kingdom (the “NIS”) in addition to the aquaculture and military industries.

### National Industry Strategy

The NIS focuses on the following “promising” industry sectors as further analysed below.

Industry Sector	Strategy	Selected Initiatives	Responsible Saudi government entities
Equipment & Machinery	To grow this industry sector through leveraging its significant and concentrated buying power, local content policies that favour domestic production and cost competitiveness	<ul style="list-style-type: none"> <li>Establish and acquire 3D printing technology</li> <li>Cooperate in machinery and equipment manufacturer procurement</li> <li>Future battery technologies main project</li> <li>Local content policy for this industry sector</li> </ul>	<ul style="list-style-type: none"> <li>Local Content and Private Sector Development Unit (“Namac”)</li> <li>Industrial Clusters</li> <li>Ministry of Industry &amp; Mineral Resources</li> <li>Ministry of Energy</li> </ul>
Renewable energy supplies	To grow this industry sector by serving local and regional demand, through leveraging transport cost advantage and existing value chains	<ul style="list-style-type: none"> <li>Renewable Energy Auction Optimisation</li> <li>Renewables Cluster Local Content</li> <li>Renewables Industrial Champions Program</li> </ul>	<ul style="list-style-type: none"> <li>Industrial Clusters</li> <li>Ministry of Industry &amp; Mineral Resources</li> <li>Ministry of Energy</li> </ul>
Pharmaceutical manufacturing	To grow this industry sector by serving local and regional demand, through leveraging the existing ecosystem and proximity to MENA markets	<ul style="list-style-type: none"> <li>Vaccine “Bio-Park”</li> <li>Clinical trials and lab development</li> <li>Generics procurement and production support</li> <li>Pharma local content policy</li> </ul>	<ul style="list-style-type: none"> <li>Ministry of Health</li> <li>PIF</li> <li>National Guard Health Affairs</li> <li>Industrial Clusters</li> <li>Namac</li> </ul>



Industry Sector	Strategy	Selected Initiatives	Responsible Saudi government entities
		<ul style="list-style-type: none"> <li>Plasma fractionation PPP</li> </ul>	
Medical supplies	To grow this industry sector by serving local and regional demand, through leveraging the existing ecosystem and proximity to MENA markets	<ul style="list-style-type: none"> <li>Clinical trials and lab development</li> <li>Medical supplies local content policy</li> <li>Medical supplies standards enforcement</li> <li>Raw material custom exemption portal</li> </ul>	<ul style="list-style-type: none"> <li>Saudi Food and Drug Authority</li> <li>Saudi Health Council</li> <li>Namaa</li> </ul>
Automotive	To grow this industry sector by developing capabilities in both ICE and EV technologies	<ul style="list-style-type: none"> <li>Automotive Development Program</li> </ul>	<ul style="list-style-type: none"> <li>Industrial Clusters</li> </ul>
Oil & gas adjacent industries	<ul style="list-style-type: none"> <li>To grow the “Basic and Intermediate Chemicals” (e.g. bulk petrochemicals) segment through increasing localisation, improving operations and capabilities and growing the output and investment portfolio of basic and intermediate chemicals</li> <li>To grow the “Specialty Chemicals” (e.g. catalysts, adhesives and lubricants) segment through leveraging current players to diversify specialties and attract global players</li> <li>To grow the “Conversion Products” (e.g. plastic and rubber products used in construction, packaging etc) segment</li> </ul>	<ul style="list-style-type: none"> <li>Local Content Program for Chemicals</li> <li>Optimal allocation of raw materials</li> <li>Program of the National Liquid Oil Strategy and Investment Program</li> <li>Cooperation of companies working in the plastics industries</li> <li>For Conversion Products (Plastics): develop semi-finished (i.e. films, sheets and fibres) export hub, localise plastic pipe imports and become a regional exporter and develop a local player for automotive plastic parts</li> <li>For Conversion Products (Rubbers): develop tire industry for local and regional markets, develop mining and</li> </ul>	<ul style="list-style-type: none"> <li>Industrial Clusters</li> <li>RCJY</li> <li>Ministry of Industry &amp; Mineral Resources</li> <li>Ministry of Energy</li> </ul>

Industry Sector	Strategy	Selected Initiatives	Responsible Saudi government entities
		cement industry plates and conveyor belts and develop rubber hoses for automotive industry	
Food processing	To grow this industry sector in segments where the Kingdom has competitive advantages and to establish a regional, export capable food hub by becoming a global leader in the selected food segments <sup>9</sup>	<ul style="list-style-type: none"> <li>• Increase awareness of food quality standards</li> <li>• Improve mechanisms for enforcing food quality standards</li> <li>• Build food parks to connect all participants in the food production and processing chain</li> <li>• Develop cold chain logistics through enabling the private sector</li> <li>• Establish a specialised industrial cluster offering food technology testing services</li> <li>• Enact strategic trade partnership policies</li> <li>• Launch a media campaign to encourage people to buy Saudi food products</li> <li>• Expand food processing training centres</li> </ul>	<ul style="list-style-type: none"> <li>• Modon</li> <li>• Saudi Food &amp; Drug Authority</li> </ul>
Aviation	To grow this industry sector by advancing RDI, localisation of the production of aerospace-grade	<ul style="list-style-type: none"> <li>• N/A</li> </ul>	<ul style="list-style-type: none"> <li>• Industrial Clusters</li> </ul>

<sup>9</sup> In relation to specific food segments, we highlight the following. The dairy segment will need to build on current competitive advantages and mitigate against the effect of energy reforms. The date segment will need to focus on higher value-add date products and improve labeling standards, as well as focus on low-value high-volume exports to other Islamic countries. The meat segment will require increased investment in advanced processing machinery and cold chains and promotion of halal meat, to help the Kingdom grow as an exporting hub. The confectionary segment requires partnering with major exporters to secure raw materials at competitive prices and increase export potential to Asian markets.

Industry Sector	Strategy	Selected Initiatives	Responsible Saudi government entities
	materials and development of an aerospace supply chain		

### ***Key Organisations in the Industry Sector—Industrial Clusters***

Industrial Clusters is a government organisation charged with driving the industrialisation ambitions of Saudi Vision 2030. It has been allocated overall responsibility for implementation of the NIS even though, as can be seen from the above, there are several other Saudi government entities that are leading initiatives within each industry sector. This means that instead of focusing on the four original industrial clusters (being “Minerals & Metal Processing,” “Automotive,” “Plastics & Packaging” and “Pharma & Biotech”), Industrial Clusters will now also focus on the industry sectors identified within the NIS.<sup>10</sup>

Given its mandate, Industrial Clusters is an essential contact point in the Kingdom for any potential investor in industries covered by the NIS or otherwise falling within the scope of Industrial Clusters.

### ***Aquaculture***

The NIDLDP aims to develop the aquaculture sector into a globally competitive industry sector through using the Kingdom’s abundant natural resources combined with high quality production that will increase the sector’s contribution to GDP and substitute imports with local production. The strategy for developing the Kingdom’s aquaculture sector has four key components, being:

- Increasing the efficiency and productivity of feeds through using the latest technological developments in this field, which will reduce the cost of feed;
- Focusing on six species, which are best suited to the Kingdom’s natural conditions and which have lower feed requirements and a high local demand;
- Educating the local market about the high quality and health benefits of the Kingdom’s products compared to imports from low-cost countries; and

<sup>10</sup> We note that in the “Industrial Clusters: Developing and Empowering Industries” brochure (see: [www.ic.gov.sa/en/brochure](http://www.ic.gov.sa/en/brochure)), the “targeted industries,” for which there are planned industrial clusters, are Aerospace, Automotive, Building Materials, Chemicals, Food Processing, Machinery & Equipment, Medical Devices, Minerals & Metals, Pharmaceutical & Biotech and Renewables. This is slightly inconsistent with the list of industries in the NIS.

- Using three farming models: inland fish circulation farming, coastal shrimp farming and marine finfish cage farming.

The initiatives to realise the aquaculture sector's strategy are led by the Ministry of Environment, Water & Agriculture (the "MEWA"). These initiatives include marketing campaigns to promote the quality and nutritional benefits of local produce, development of the infrastructure to support maritime clusters and promotion of the use of technology (including R&D) in the aquaculture sector, to improve efficiency of production. The MEWA is also focused on attracting private sector investment to the aquaculture sector and this initiative is supported by the aforementioned initiatives, as well as the enactment of "anti-dumping" measures to protect the local industry against low quality, cheap imports.

### ***Military***

One of the visions of Saudi Vision 2030 was the localisation of 50% of the Kingdom's military and security expenditure. Given that the Kingdom is the world's third highest spending country on defence and security, yet only 5% of this expenditure is localised, the vision makes a great deal of sense as it will result in greater contributions to the Kingdom's GDP, create employment opportunities within the Kingdom and support the growth of many of the industries referenced in the NIS, as these industries will be required to supply the local military industry.

There are two local bodies that are key to the development of the Kingdom's military industry: The General Authority for Military Industries ("GAMI") and Saudi Arabian Military Industries ("SAMI"). GAMI serves as the regulator, enabler and licensor of the Kingdom's military industry. SAMI, a wholly-owned subsidiary of PIF, acts as the champion of the private sector, entering into joint ventures with local and foreign industry players (or making strategic acquisitions) with the ultimate vision of localising a greater proportion of the Kingdom's military and security expenditure. SAMI's areas of focus are aeronautics, defence electronics, weapons and missiles and land systems.<sup>11</sup> SAMI has recently entered into

<sup>11</sup> In aeronautics, SAMI aims to create a sustainable aeronautics industrial ecosystem with localised capabilities in R&D, manufacture, supports, operations and upgrades (see here: <https://www.sami.com.sa/en/aeronautics>). In defence electronics, SAMI aims to enhance the Kingdom's defence electronics capabilities to help localise 50% of the Kingdom's military expenditure (see here: <https://www.sami.com.sa/en/defense-electronics>). In weapons and missiles, SAMI aims to establish the capability to produce premium quality defensive munitions and weapon systems in the Kingdom for internal and external customers (see here: <https://www.sami.com.sa/en/weapons>). In land systems, SAMI aims to build local capabilities to research, manufacture, produce, assemble, test and maintain advanced land systems (see here: <https://www.sami.com.sa/en/land-system>).

joint ventures with Thales, CMI Defense and Aéro Figeac, which all focus on high localisation of content and creation of employment opportunities for Saudi nationals.<sup>12</sup>

### Sector Focus—Logistics

The Kingdom enjoys a unique geographic position, with access to the Red Sea and the markets of Europe and Africa, as well as access to the Arabian Gulf and the markets of Asia. It is therefore no surprise that one of the key pillars of Saudi Vision 2030 is the transformation of the Kingdom into the region's go-to logistics hub that is able to link trade across three continents. The NIDL P identifies three key components that will turn the Kingdom into a logistics hub, being:

- creation of an export platform;
- creation of a regional distribution platform; and
- creation of an effective internal distribution system to enable industrial and service supply chains.

The NIDL P notes that to develop these three components, more developed infrastructure that helps to remove bottlenecks, more effective logistics and border procedures to reduce freight time and cost and improvements in service quality, through improved sector governance and the promotion of private sector participation, will all be required. When the key enablers of the NIDL P are examined in the context of these, it is clear that SEZs (as they can help to promote greater efficiency and attract foreign investors) and Industry 4.0 (as it can improve the efficiency of infrastructure and the complex procedures that are inevitable in the field of logistics<sup>13</sup>) have a critical role to play.

The Ministry of Transport appears to be taking the overall lead on the NIDL P's initiatives for the logistics sector, however, there are several other

<sup>12</sup> The agreement with Thales relates to the development of local manufacturing facilities at a localisation ratio of 70% and the creation of approximately 2,000 direct and indirect jobs for Saudi nationals. The agreement with CMI Defense includes delivery of military equipment and related services, as well as providing in-country research and development and prototyping, design and systems engineering, supplier and material management, manufacturing, assembly and test, fielding and support, and upgrades, and integration of other OEM products and services. The joint venture aims to achieve a localisation ratio of 60% and create more than 700 direct and indirect jobs for Saudi nationals. The joint venture with Aéro Figeac will focus on Figeac's parts provision for aircraft and supporting ongoing efforts that SAMI is involved in via other JVs.

<sup>13</sup> As examples, the NIDL P refers to the use of smart containers, smart transit flow management, ports with technical assistance and customs digitisation.

Saudi government entities which are overseeing specific initiatives, including Saudi Ports Authority (Mawani), Saudi Customs<sup>14</sup>, General Authority of Civil Aviation, Saudi Railways Organisation and The Saudi Railways Company.

Given the importance of increasing private sector participation in the logistics sector, PIF, in keeping with its role of kick-starting private sector investment in strategic sectors of the Kingdom's economy, has recently established a local joint venture with PSA International (resulting in Saudi Global Ports Company) that will develop the second container terminal at the King Abdulaziz Port in Dammam on a BOT basis.<sup>15</sup> This is an important illustration of the role that PIF plays (and will continue to play) in the implementation of the NIDLP and it also highlights to prospective foreign investors that PIF is a key contact point if they are considering investing in strategic sectors of the Kingdom's economy.<sup>16</sup>

### Opportunities Within the Four Sectors Identified in the NIDLP

Identifying opportunities for foreign investors in connection with the implementation of the NIDLP may be challenging at times, as the information regarding such opportunities takes time to disseminate. However, in the context of the industry sector, prospective investors can help educate themselves by periodically reviewing the "Investment Opportunities" section of the Industrial Clusters website<sup>17</sup> as well as the investment opportunities document prepared by the NIDLP in 2019.<sup>18</sup> Establishing and retaining contact with the NIDLP itself, as well as Industrial Clusters and the various other Saudi government bodies that are leading initiatives within the NIDLP will be critical to receiving the most up-to-date information on opportunities.

### Conclusion

There is little doubt that great progress has been made over the past two years to implement the NIDLP: there have already been significant

<sup>14</sup> The primary initiative of Saudi Customs is the improvement of import/export procedures in the Kingdom.

<sup>15</sup> See here: <https://www.globalpsa.com/wp-content/uploads/nr200413-2.pdf>.

<sup>16</sup> Prospective investors should also review PIF's own Saudi Vision 2030 delivery program (see here: <https://vision2030.gov.sa/en/programs/PIF>), which outlines seven program initiatives in Part Three of the program.

<sup>17</sup> See here: [www.ic.gov.sa/en/investment-opportunities](http://www.ic.gov.sa/en/investment-opportunities).

<sup>18</sup> See here: <https://tools-solutions.com/saudi-arabia-launches-national-industrial-development-and-logistics-program/>.

reductions in “import dwell times,” clearance times and numbers of documents required at Saudi ports, SIDF has taken major steps to enable industrialisation in the Kingdom and a centre for Industry 4.0 has been established at KACST.<sup>19</sup> We expect that in the march towards 2030, opportunities will continue to present themselves to motivated private sector investors especially as the economic disruption of COVID-19 and low oil prices highlights to the Kingdom how essential growth and development of non-oil sectors will be to the Kingdom’s future prosperity.

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<sup>19</sup> For updates on progress of the implementation of the vision delivery programs, see here: <https://vision2030.gov.sa/en/vision-progress>.