

Saudi Arabia On Its Way To Becoming An Automotive Giant

Saudi Arabia has approximately 8.5 million vehicles on the road, with the Middle East and Africa seeing in the region of 2.3 million cars sold annually, most of which are imported.

In January, the Saudi Government launched its National Industrial Development and Logistics Programme (NIDLP), whereby nearly 40 agreements worth an estimated \$53 billion have already been signed. Although none of these deals are directly in automotive products, the future for spare parts manufacturing is very bright.

The Kingdom already has a significant automotive spare parts industry, which imports parts worth around \$5 billion annually. This includes all forms of imports—dealers importing from vehicle OEMs to direct importers importing multiple brands in one consignment.

With such substantial automotive demand and strong growth plans for the future, there is an opportunity to localise manufacturing in the kingdom. Large global players such as Isuzu, Mercedes, Volvo and MAN have already established commercial vehicles assembly bases in the country, with a cumulative production volume of about 12,000 units per year, slated to rise to 39,000 units per year in 2022.

Supply of upstream materials, including carbon black and synthetic rubber, and automotive steel and aluminium sheets, is also available through government entities like SABIC, MA'ADEN, TASNEE, and ARAMCO. For example, SABIC has worked with BMW to produce lightweight instrument panel carriers for its 2017 Mini Countryman vehicles.

In addition, a number of Tier 2 and Tier 3 suppliers already exist in the Kingdom. These manufacturing units not only help increase the skill level of the local population, but also decrease the dependency of the country on hydrocarbons.

There are a number of spare parts categories, ranging from brake pads to fuel pumps that could be manufactured in-house, based on various factors including market demand, barriers of entry, technological requirements and capex requirements. These assembly plants would have the capability to supply to the local and regional aftermarket demand. The total employment generated through these units could be in the range of 3,000 skilled jobs, with around 47% of them manned from the local Saudi workforce.

The most important requirements for any spare parts factory are land, energy and skilled manpower. Saudi Arabia offers lucrative incentives on the first two and has launched extensive skill development and vocational training institutes, by partnering with global training institutes in the country. Currently, there are in the region of 10 such institutes producing around 9,000 graduates per year, who can operate and manage parts assembly plants with ease.

The large automotive market, long distance driving habits and extreme weather conditions produce the appropriate mix of factors for creating a successful auto spare parts industry.

The latent demand of the country, coupled with the regional requirements and the absence of large global brands in establishing manufacturing sites in the region make it a perfect situation, of which a first mover could take advantage.

With the launch of the NIDLP project, the country has taken significant strides towards becoming a regional manufacturing hub. The government is providing lucrative incentives, setting up required infrastructure and coming up with all possible support to enable the country to achieve its dream.

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