



Eastern Province Chamber of Commerce

Short Term Pain, Long Term Opportunity

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Confessions of a Long-Term Expat.

I'm humbled to address the theme of short term pain, as we're currently facing, and long term opportunity, before business people who grew up here and know so much more than myself about this economy, culture and society.

If I have anything to contribute it may be what I have observed from the perspective of a Western expatriate, including the expectations and priorities of investors from abroad in considering Saudi Arabia as an investment destination.

This perspective draws on my recent service as Chairman of the Riyadh American Chamber of Commerce, of the Middle East Council of American Chambers of Commerce, of KKR Saudi, a private equity firm with portfolio companies either already present or considering entering the market, and as managing attorney of a 15-lawyer multinational firm based in Riyadh.

But first, my own Saudi and international roots.

I first arrived in Jeddah in 1978, and have lived in Saudi Arabia for 20 of the past 40 years.

I've also lived in Germany, South Africa, Morocco and Canada, as a foreign service child.

My first confession is that, unlike some nationalists in the U.S. and elsewhere, I've learned through long experience that all business and social cultures have much to learn from the examples of others.

As a case in point, the U.S. is currently focused on achieving racial justice in our economic, criminal and social systems, a movement labelled by some as our own “American Spring,” which in invoking the 2011 Arab Spring suggests a comparative outlook that stimulates thinking if not always clarity or understanding.

Regarding racial justice, one thing I like about living in Saudi Arabia is the multicultural business and social environment, featuring 10 million expatriates from everywhere.

Our own legal team of 15 represents eight countries in the Middle East, Africa, South and Central Asia, China and South America. We experience real cultural and professional diversity, our great strength in advising our equally diverse clients. We are daily challenged to chart paths forward amidst complex and often conflicting shari’a, common law and civil law perspectives that may cohabit a single relationship or contract. On the principle that the role of a lawyer is to reduce the complex to simplicity, we find our talents and creativity richly engaged.

Pain vs. Opportunity.

Shifting now to my theme, short term pain, long term opportunity, my choice of this theme reflects a fundamental belief, based on 40 years advising multinational companies, that

- however challenging the circumstances, there are always new ways to create and capture value for the well-prepared and curious; and that
- times of crisis always reveal unserved needs to those prepared by temperament, knowledge, and creativity to exploit them.

I will describe what makes this crisis unique and potentially transformative, specific business and policy opportunities, and conclude with favorite aphorisms that illustrate the critical need for optimism and prudent risk-taking in times like these.

Short Term Pain

Saudi Arabia has been disproportionately impacted by current crises not only in health, but also in oil, with global demand falling 20%.

These dual challenges are no respecters of persons or borders, as our contagion curve only begins to flatten, and new economic realities remain opaque.

On the plus side,

- the Kingdom holds \$320 billion in sovereign wealth, and
- \$470 billion in central bank reserves; and
- debt at \$193 billion remains modest, 25% of GDP.

The crisis has accelerated economic and social reforms in Vision 2030, which seeks to diversify, deregulate and privatize an oil-driven rent-seeking economy, while modernizing society.

Vision 2030 aims to build

- a *vibrant society*,
- a *thriving economy*, and
- an *ambitious nation*.

If I were called to draft a vision for what is needed to address the current dual crises, I'd be hard-pressed to improve on this.

Business Impact

Unlike in Silicon Valley where technology has provided new solutions for a changing reality, no major industry here has truly benefited so far; the business world has to greater or lesser extent been turned upside down, with experience ranging from neutral to deeply negative.

Transportation, hospitality, entertainment and media have suffered most; food and consumer goods have fared best; while energy and healthcare have been moderately impacted.

Healthcare.

Given the nature of Covid-19, healthcare has come under particular scrutiny. Many had thought that advances in distance medicine, digitizing and sharing of information between labs and policymakers, monitoring and diagnosis, and a shift in focus from service to prevention would position healthcare for every contingency, though healthcare has in many ways lagged the occasion, revealing a critical need to take these reforms to a higher level.

Isolation.

While working from home has in many ways and places become all the fashion, this is as I have observed personally less true here than elsewhere.

Here the coin of the realm is trust, emphasizing relationships over transactions, and prospering best through face-to-face engagement.

Productivity during the closedown at least for our firm took a serious hit, and we are grateful that the critical importance for business to truly regain its stride has been recognized in the recent reopening of offices.

Policy Response.

As elsewhere, the biggest challenge has been to balance health and economic concerns.

Public health is of course paramount, though economic well-being is also a health issue, impacting as it does both public confidence and morale.

Business Relief.

The authorities have implemented an effective package of business loans, salary subsidies, and relaxation of labor rules allowing salary and payroll cutbacks in appropriate cases, visa extensions, tax deferrals and waiver of fees.

While a 'new normal' has yet to emerge, the leadership has effectively balanced the healthcare and safety imperatives with its mandate to foster a thriving economy, and for instilling confidence and laying a solid foundation to support positive outcomes.

The crisis has also forced a newfound public/private collaboration, in the face of a common enemy; while business will be challenged to absorb a tripling of VAT to 15%, an announced increase in customs has been modified, in accommodation of business concerns.

Foreign Investment.

Vision 2030's 'Invest Saudi' initiative included conversion of the investment authority from a licensing 'gate-keeper' to champion for foreign investors, and most recently an upgrading to Ministry status, committed to helping investors develop a winning business case and resolve regulatory impediments.

The choice of Khaled Al-Falih as Minister illustrates the pivotal role contemplated for foreign investment in energizing the economy into a high tech privatized powerhouse.

Long Term Opportunities.

Shifting to longer term macro, the IMF predicts emerging markets to outperform in their rebound vs. longer term weakness in developed markets, citing strong public balance sheets, improving governance and promising opportunities, all evident here.

We were shocked when West Texas oil prices fell into negative figures in April, though Brent has doubled since then; at \$42+ currently, it remains down 40% for the year.

JPMorgan predicts a 5 million bpd drop in supply, in the wake of closures and cancellations of expensive non-OPEC projects, a gap that Saudi oil as low cost source could most naturally fill.

At a time when OPEC+ cutbacks have limited its market share, the Kingdom faces a choice whether to abandon its role as the global oil market's central bank, to focus as in the 1980s on market share and profits. While this could marginalize OPEC at least temporarily, it could maximize Saudi revenues required to assure a smooth transition to

greener economic pastures. Saudi Arabia is uniquely positioned to claim global oil dominance, its oil being

- **abundant**, with 267 billion barrels representing 24% of the global total, 90 years' production at current rates;
- **available**, with capacity of 12.5 million bbd;
- **cheap** to produce and transport, well under \$10 per barrel; and
- positioned for expanded production and market share as economies recover.

Global Trends, Saudi Options.

Trade Free or Die.

As a committed free trader, I was blindsided by the resurgence of nationalism and protectionism, most surprisingly in my own home country.

Saudi Arabia faces similar choices between globalization and protectionism in its trade, investment, localization, labor and immigration policies.

While the Kingdom's response has yet to be clearly articulated, a likely scenario will be to double down on Vision 2030, with a focus on open markets and a central role for foreign investment.

Beauties of Competitive Advantage.

In joining the WTO in 2006, the Kingdom embraced free trade, national treatment and a privatized and deregulated economy.

It had good reason to do so, given its heavy dependence on access to foreign markets for oil and petrochemical exports, on imports of food and other critical items, and generally an unusually high ratio of foreign trade to GNP.

Vision 2030 and Invest Saudi policies take WTO principles a step further, pivoting from rent-seeking to free market privatization, deregulation, entrepreneurship and diversification.

The plan borrows from Silicon Valley, where entrepreneurial geniuses from around the world together build a digitized, high tech future.

In this spirit, and in addition to building its own human capital, the Kingdom is issuing generous Entrepreneurship Licenses for foreign investors.

Protectionism as Anachronism.

As many now recognize, China's approach to global trade has been unbalanced, expecting as it does the benefits of access to free and open foreign markets, while

applying protectionist policies at home, including compulsory local partnerships and forced technology transfers.

Since the Kingdom gains much more than it loses from the liberal free trade regime, arguably more so than China, forced localization, set-asides for local business and compulsory technology transfers would not only interfere with business's freedom of choice, but also discourage foreign investors with many options available to choose Saudi Arabia.

While such policies remain legal and arguably make sense in strategic areas such as defense, food security and healthcare, this does not necessarily make them wise, and carrying them too far could compromise the "thriving economy" promised in Vision 2030.

While I understand the importance of creating opportunities for Saudis where this is realistic and makes sense, at senior level of innovation and leadership the best way to compete with Silicon Valley is to unabashedly welcome and recruit expats at senior innovation, technological and professional levels, as Minister Al-Falih at MISA to his great credit is currently doing.

Business and Strategic Partnerships.

There is no reason for example why travel between Europe, North America and Asia should flow through the UAE; Saudi Arabia is just as well positioned to compete for this business, with all the spillover benefits that this generates for the economy more broadly.

Conversion of the General Sport Authority into the Sports Ministry and of the Commission for Tourism and National Heritage into the Tourism Ministry demonstrates seriousness of intent to diversify beyond oil.

Social Model.

The crisis coincided with major social advances, including cinemas, gender desegregation, and curtailing of religious police.

Regional trends similarly look away from the sectarian and confrontational spirit of 1979 to a more progressive spirit of 2011 emphasizing economic opportunity, social modernization and geopolitical peace and prosperity, for example in Sudan and Algeria.

These advances have been followed breathlessly by the Western press, which has an unlimited appetite for information about the fast-changing Saudi political, economic and social scenes.

On the business and geopolitical levels, recent social reforms have provided the Kingdom's friends in the U.S. ammunition to promote a strong and deepening bilateral partnership, in the face of opposition in Congress whether principled or partisan.

They also improve the Western expatriate's sense of familiarity and ease of life, arts which Dubai has long since mastered. By taking notes from Emirati successes, the

Kingdom finally seems poised to reclaim its rightful place as regional hub for business based on demographic size, economic importance and central location.

Concluding Aphorisms.

Many imponderables remain: when will we find a vaccine, how will the crisis resolve, will old habits return, have things changed permanently?

In this context, quoting Mark Twain,

“It’s dangerous to make forecasts, **especially about the future.**”

The Kingdom could come out a big winner in oil, expanding market share and maximizing revenues while diversifying, modernizing and globalizing its economy; the choice will not be easy, and anyone who gambles too heavily on outcomes assumes big risks.

Among the underprepared, many businesses will fail; how timely to have a new bankruptcy law to help recycle the wreckage. Quoting Warren Buffett, an authority on expecting the unexpected and preparing accordingly,

“It’s only when the tide goes out that you can see **who’s wearing a bathing suit.**”

Quoting the investment whiz kid of his day, Baron Victor Rothschild, on crisis-driven opportunities,

“The time to buy is when there’s **blood in the street**, even if it’s **your own.**”

While there is no crystal ball, the race for new models and revenue sources will offer rich investment opportunities to the swift. Given its hunger for modernization and the abundance of new global technologies, opportunities for industrial, commercial and technological arbitrage are huge.

Finally, quoting that great disruptive lateral thinker Louis Pasteur on discerning opportunity amidst uncertainty,

“Luck favors the **prepared mind.**”

Thank you all for bearing with me; I hope I’ve inspired some questions and discussion.

COVID-19

- **Status:** Saudi Arabia [reports](#) as of June 29
 - ~4,000 new cases daily, led by Hofuf, Riyadh, Dammam, and Makkah.
 - 186,436 cases, 57,719 active (population 34 million);
 - 127,118 recoveries;

- 1,599 deaths;
- 1,578,321 tests.
- **Training:** The Saudi Patient Safety Center is training healthcare [workers](#).
- **Food Security:** Saudi covid [measures](#) have achieved high food security and sustainability.

Restrictions and Enforcement

- **Curfew:** Saudi Arabia continues to implement its three-stage coronavirus reopen program (see [prior newsletter](#)).
- **Office Safety:** New safety guidelines for offices include requiring high-risk employees to work from home, mandating face masks in public areas, required handwashing with soap and water for 40+ seconds, not sharing personal items, using workspace partitions where possible and disinfecting [equipment](#).
- **Banks:** Eid Al-Adha holiday will be July 28 - August 4 for banks and July 29 - August 2 for [SARIE](#).
- **Public Sector Enforcement:** The Ministry of Health and Human Resources has released administrative violations of coronavirus precautionary measures for public sector [employees](#).

Government Aid

- **Aid Requests:** The Ministry of Finance has received roughly 95,000 requests for financial assistance totalling SR47 billion, an average of SR522 billion [per day](#).

Corporate and Employment

- **Summary:** For earlier reports, see [here](#).
- **STC bills:** Saudi Telecom Company (STC) announced a 50% discount on old [bills](#).
- **Cybersecurity:** Saudi Arabia ranks second in continuous corporate cybersecurity improvement according to a 2020 international competitiveness annual [report](#).

Visas and Repatriation

- **Summary:** For earlier developments, see [here](#).
- **Expatriate return:** The General Directorate of Saudi Passports (Jawazat) has announced that expatriates who leave the Kingdom will not be able to return until the end of the [pandemic](#).
- **Identity card renewal:** The Jawazat announced that failure of expatriates to update their Muqem IDs will result in a fine of SR500 for the first violation and SR1,000 for the [second](#). To check the validity of an ID, see [Absher Platform](#).

- **Philippines:** The Government of the Philippines is reportedly running out of funds to repatriate citizens abroad, with 88,000 Filipino workers currently stranded in [Saudi Arabia](#).

Law

- **New rules for International Law Firms:** The Ministry of Justice is considering amending the legal system to organize foreign law [firms](#).
- **Property:** “*Mwathiq*” (“private notary”) service offers property conveyance (see <https://mwathiq.sa/>).

Economy

- **IMF forecast:** The IMF predicts that Saudi Arabia’s economy will shrink 6.8% this year due to coronavirus and the oil price crisis, vs. a 2.8% contraction forecast in [April](#).
- **Export reciprocity:** The General Authority for Foreign Trade stated that the Kingdom will impose reciprocal trade controls based on how its exports are treated in other [countries](#).
- **Bank Merger:** The National Commercial Bank offered \$15.6 billion to buy [Samba Financial Group](#).
- **Qatar IP Dispute:** Following the WTO’s decision in favor of Qatar in an IP dispute with Saudi Arabia over alleged copyright piracy, the Saudi Authority for Intellectual Property issued a statement denying any violations and noting the Kingdom’s IP [protections](#).
- **Gold:** Gold sales are surging in light of the upcoming 15% VAT [increase](#).
- **Gaming:** A recent study indicates the Saudi Arabia is well-placed to lead the region in online gaming, an industry worth \$129 billion [worldwide](#).
- **Tourism:**
 - **Investments:** The Council of Minister announced a \$4 billion investment in the tourism [industry](#), targeting 100 million annual visitors by [2030](#).
 - **Saudi Summer:** The Saudi Tourism Authority launched its “Saudi Summer” campaign aimed at encouraging domestic [tourism](#).
 - **Amaala Airport:** The design of the Amaala Airport on the Red Sea has been released, with one million travellers per year targeted by [2023](#).
- **Renewable Energy:** Saudi Arabia aims to supply 50% of its energy needs by renewable sources by [2030](#).
- **Oil:** Prices [stand](#) on June 29 at \$40.64 pbb for Saudi oil (Arab Light) and \$38.74 pbb for West Texas Intermediate.
 - **Oil Revenues:** The Kingdom lost \$12 billion in April as oil exports dropped [65.4%](#).

GCC

- **UAE:**

- **Etihad:** Etihad will resume flights to 29 destinations on July 1, including 13 European [cities](#).
- **Emirates Airline:** Emirates has expanded flights from 41 to 48 [destinations](#).
- **Qatar:**
 - **Fitch rating:** Fitch Ratings has affirmed Qatar's Long-Term Foreign-Currency Issuer Default Rating (IDR) as 'AA-' with an outlook of "[stable](#)".
- **Kuwait:**
 - **Eurofighter investigation:** Kuwait's parliament is investigating misappropriation of funds in its Eurofighter purchase [deal](#).
- **Bahrain:**
 - **Tourism:** Bahrain has launched a new tourism [campaign](#).
- **Oman:**
 - **Moody's downgrade:** Moody's has downgraded Oman's sovereign rating for a second time in 2020 due to lower oil [prices](#).

Geopolitical

- **Anti-terrorism:**
 - **UN meeting:** Saudi Arabia chaired a recent meeting of the UN Counter-Terrorism Centre (UNCCT) advisory [board](#).
 - **US praise:** The US State Department has praised Saudi Arabia's anti-terrorism efforts and 2030 [initiatives](#).
- **Yemen**
 - **Missile attacks:** Saudi Arabia intercepted several missiles over its cities that were launched from [Yemen](#).
- **Iran:** Border guards intercepted three Iranian vessels in Saudi [waters](#).
- **Human Trafficking:** The US removed Saudi Arabia from its list of worst human traffickers, praising the Kingdom's reforms last [year](#).
- **Space:** Saudi Arabia and the UAE have expanded their space ambitions in recent years, with both countries undertaking various [initiatives](#).

Other

- **Miscellaneous:** For earlier developments, see [here](#).
- **Hajj:** The Minister of Health announced safety protocols for the upcoming Hajj that restrict visits to 10,000 pilgrims, all of whom must be tested and be under 65. No pilgrims from outside the Kingdom will [attend](#).
- **Trucking:** The Ministry of Interior announced the resumption of pre-opening time restrictions on trucks entering [cities](#).
- **Jeddah Airport:** Jeddah's King Abdul Aziz International Airport (KAIA) has closed its South Terminal and shifted all operations to [Terminal 1](#). The new terminal includes the Kingdom's first internal automated people mover (APM) for international arriving and departing [passengers](#).

Resources

- [Previous newsletters](#)
- [Force Majeure](#)
- [Ministry of Health dashboard](#)
- [Chamber of Commerce Global Policy Dashboard](#)
- [Ministry of Investment Guide to Business Continuity](#)
- [US Embassy in Saudi Arabia](#)
- [US State Department travel information](#)

We will be happy to provide more specific advice in the context of particular circumstances, concerns, and priorities; please let us know.

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Disclaimer: While the above information was gathered from sources believed to be accurate at the time, we cannot be responsible for errors due to human or technical error.

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