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## Introduction

### Introduction

*Learning to Live with Covid-19.*

When Covid-19 restrictions were applied in mid-March, most expected normal business to resume by summer; as we prepare for Friday's arrival of Eid Al-Adha, a "new normal" based on social distancing, videoconferencing, frequent, and rigorous hand-washing and other protective measures remains our day-to-day reality.

In contrast with a short term negative economic impact, Covid-19 has served as a catalyst for many positive changes, including acceleration of digitization and expansion of work options. Face-to-face meetings have fallen victim to social distancing and video conferencing, which now claims pride of electronic place over voice-only telephone communication.

The "new normal" unfortunately includes international travel restrictions, an onerous burden on business and individuals alike. Consulting and infrastructure projects rely heavily on subject matter experts, currently largely barred from access to the Kingdom.

### *Economic Challenges and Strategies.*

Oil revenues in the Middle East and North Africa, the leading oil producing region, fell from over \$1 trillion in 2012 to \$575 billion in 2019. Projected 2020 revenues of \$300 billion will fail to suffice for balancing budgets, triggering very substantial spending cuts, new taxes and debt, while eroding reserves previously earmarked for reform.

Many have questioned the thinking behind the tripling of VAT to 15%, and its likely economic impact. Coupled with very substantial tariff increases, this has deeply troubled local businesses, dependent as it is on discretionary consumer spending, which has also been negatively impacted by coronavirus related restrictions. It may also place an additional damper on foreign investment, a critical element for Vision 2030, given the competitive disadvantage vis-à-vis Dubai with its 5% VAT rate, rumored to fall to 3%.

In seeking alternative revenue sources the authorities demonstrate concern to maintain reserves as required to protect the dollar peg, though these concerns must be balanced against a likely fall in business activity, which may limit the hoped-for VAT revenues. By draining lifeblood from an already imperiled private sector, will the host be weakened beyond its ability to support the parasite?

To help address a severe budget deficit, the government plans to [sell sovereign assets](#), which (unlike new business or personal taxes) will neither impede economic growth nor conflict with Vision 2030's foundational principles of privatization and deregulation, all in the interest of replacing a rentier model based on oil sales with a vibrant free-market economy.

### *Regional Reconciliation.*

In 1979 the region fell victim to a spirit of Islamic populism and recidivism, a torch that Iran continues to carry; followed in 2011 by a new wave of modern

progressiveness, promoting individual rights, economic, social, and political empowerment and checks and balances on state authority.

The Spirit of 2011 subsequently fragmented into modernizing and Islamicizing models, most visibly in Egypt where the revolution of 2011 reverted briefly to the Spirit of 1979 under the Muslim Brotherhood, before the authoritarian modernizing model restored the prior status quo to the great relief of modernizers elsewhere.

Echos of these competing models appear in the internal GCC standoff between the Kingdom and the UAE on one side, supporting the current Egyptian authoritarian/modernizing model, and Qatar on the other, leaning along with Turkey and Iran towards the Spirit of 1979.

Given the damage to regional solidarity and a much more consequential threat from Iran, the U.S. has wisely sought to harmonize and reconcile these differences, supported by Kuwaiti ruler Sabah Al-Ahmed Al-Jaber Al-Sabah, currently in the U.S. recovering from surgery.

Given his commitment to nurturing regional conciliation, Sheikh Sabah deserves prayers for a speedy and complete recovery, along with King Salman bin Abdul-Aziz in recovering from gallbladder surgery.

### *Expatriate Exodus?*

10.5 of the Kingdom's 35 million population are expatriates, despite an aggressive Saudiization policy. 323,000 expatriates have left the Kingdom so far this year with another 178,000 applying for exit visas from April through June, bringing the projected 2020 expatriate exodus to 1.2 million.

## **COVID-19**

- **Status:** Saudi Arabia [reports](#) as of July 27
  - 1,993 new cases daily, led by Hofuf, Ta'if, and Riyadh;
  - 268,934 cumulative cases, 43,238 active;
  - 2,613 recoveries daily, 220,323 cumulative;
  - 27 deaths daily, 2,760 cumulative;
  - 53,793 tests daily, 3,057,000 cumulative.

## **COVID-19 Restrictions and Enforcement**

- **Eid Al-Adha:** The Ministry of Human Resources and Social Development has fixed *Eid* holiday for July 23 to August 8 for the government, and July 30 to August 4 for the private [sector](#).
- **Hajj:** Saudi Arabia will apply strict health precautions for *Hajj*, which begins July 29, limiting access to 10,000 pilgrims (mostly Saudi resident expatriate first-time pilgrims aged 20-50). Health precautions will include restrictions against touching the *Kaaba*, 5' individual distancing, mandatory face masks, and frequent [temperature checks](#).
  - **Fines:** Unauthorized visits to holy sites risk a [SR10,000 fine](#).

## **Government Aid**

- **Housing:** The King Salman Charity Housing Association, the Ministry of Housing, and the Mohammed Ibrahim Al-Subaie Waqf signed a tripartite MoU

to help Saudis finance house [purchases](#).

### ***Corporate / Employment***

- **Summary:** For earlier reports, see [here](#).
- **Sponsor Transfer:** The Ministry of Human Resources and Social Development will allow privately sponsored expatriate workers to transfer sponsorship of their dependents to private sector entities online via the Absher platform, without visiting the Ministry in [person](#).
- **Turkey Boycott:** Saudi Arabia has reportedly applied an informal boycott against Turkey, pressuring local businesses not to [trade](#).
- **VAT Filing:** The General Authority of Zakat and Tax (GAZAT) announced a July 31 deadline to file Q1 and Q2 VAT tax returns, subject to fines of 5-25% of unpaid tax [value](#).

### ***Legal***

- **New Companies Law Penalties:** The new Companies Law will impose fines of up to SR5 million and up to five years imprisonment for the [following](#):
  - officers or auditors who falsify financial documents;
  - officers who misuse authority or company funds for personal gain.
- **Car Insurance:** On July 22, the General Department of Traffic began issuing traffic violations for vehicle owners lacking valid [insurance](#).
- **Saber:** On July 25, the General Authority of Customs for Trade Facilitation will ban entry of unregistered consignments into the *Saber* [platform](#).

- **Lease of Government Property:** The Saudi State Properties General Authority (SPGA) requires all government agencies to obtain formal approval to lease property valued over SR200,000, and to limit leasing to cases of urgent [need](#).
- **Anti-Corruption:** The Control and Anti-Corruption Authority is pursuing financial and administrative corruption cases involving judicial bribery, money laundering and Education Department embezzlement, and [Ministry of Housing](#) money laundering and bribery.
- **SAIP:** The Saudi Authority for Intellectual Property is identifying agricultural, food, handicrafts and national industrial products eligible for registration as geographical indication (a “sign used on products that have a specific geographical origin and possess qualities or a reputation that are due to that origin”) to enhance these [products](#)’ marketing and competitiveness.
- **Construction Contract Forms:** The Saudi Contractors Authority (SCA) has finalized 25 new forms for a range of contracting activities, that include clear mechanisms for dispute settlement and payments to [contractors](#).

### ***Visas, Travel, and Repatriation***

- **Summary:** For earlier developments, see [here](#).
- **International Flights:** The General Civil Aviation Authority (GACA) has denied that any date has been set to resume international [flights](#).
- **GCC Returns:** Saudi citizens, immediate family, and servants require prior [permission](#) to enter the Kingdom by land through Bahrain, Kuwait, the UAE, and Jordan.

- **Jordan Reopening:** Jordan will reopen its airport to international flights from 22 “low risk” countries on [August 5](#).

## ***Economy***

- **Asset Sale, Income Tax:** To raise revenues, the Ministry of Finance may privatize Saudi assets to generate around SR50 billion (\$13.3 billion) over the 4-5 years, including in healthcare, education, and [water](#). Rumors of an income tax have been [refuted](#).
- **Finance:**
  - **Bonds:** Saudi Arabia sold an additional \$2.7 billion in bonds in [June](#), raising the total to \$12 billion for the [year](#).
- **Defense:**
  - **New Warship:** The Royal Navy has launched the first of five Spanish Avante 2200 corvettes for a combined cost of \$2.1 billion, with advanced surveillance [capabilities](#).
- **Sovereign Wealth:**
  - **PIF:** The Ministry of Finance stated that the Public Investment Fund, the Kingdom’s main sovereign wealth fund, has adequate [liquidity](#). The PIF reportedly acquired a majority stake in electric vehicle company Lucid Motors through a \$1.3 billion [investment](#).

- **Projects:**

- **Qiddiya:** The *Qiddiya* entertainment city megaproject has signed a 3-year [infrastructure](#) contract with Shihb Al Jazira Contracting Company.

- **Tourism:**

- **Airports:** Saudi Arabia has maintained domestic flights since May 31, boosting domestic [tourism](#).

- **Education:**

- **MISK Competition:** The Mohammed bin Salman Foundation (MISK) will launch its second Entrepreneurship World Cup (EWC) to help build entrepreneurial knowledge and [skills](#).

- **Healthcare:**

- **Pharmacy Localization:** 3,000 (50%) of all pharmacists will be Saudi by [2022](#).

- **Technology:**

- **Data Center:** Oracle has selected Saudi Arabia for its MENA regional [data center](#).

- **Agriculture:**

- **Yanbu Grain Terminal:** The Saudi Ports Authority (Mawani) and the Saudi Agricultural and Livestock Investment Co. (SALIC) have agreed to build the region's first grain terminal, located in Yanbu and handling 5 million tons of produce per [year](#).



- **Transportation:**
  - **Riyadh-Dammam Rail Link:** The Saudi Railways Organization (SRO) will build a double-line freight link between Dammam and Riyadh, increasing passenger capacity by [60%](#).
- **Oil and Energy:** *Oil prices [stand](#) on July 27 at \$44.54 pbb for Saudi oil (Arab Light) and \$41.19 pbb for West Texas Intermediate.*
  - **China Exports:** China was Saudi Arabia's largest oil customer in [June](#).

### ***Geopolitical***

- **Libya:** Libya is emerging as a proxy conflict between Egypt and Turkey. Egypt appears to be planning to intervene on behalf of Khalid Haftar's Libya National Army, which Turkey, backing the Tripoli-based Government of National Accord, strongly [opposes](#).

### **GCC**

- **UAE:**
  - **Airlines:** The president of Emirates denied rumors of a Emirates-Etihad [merger](#).
- **Qatar:**
  - **Lawsuit:** Qatar Airways seeks \$5 billion against boycotting Arab countries (Bahrain, Saudi Arabia, the UAE, and Bahrain) through international [arbitration](#).

- **Kuwait:**
  - **Emir:** The Emir of Kuwait has travelled to the US for medical treatment following surgery, and is reportedly in good [condition](#).
- **Bahrain:**
  - **Prior Entry:** The government of Bahrain will exempt holders of valid visas from any further permission to enter the country, extending valid and expired visit visas automatically from July 21 to [October 21](#).
- **Oman:**
  - **Lockdown:** On July 23 the Omani Supreme Committee reimposed lockdowns in a number of governates due to rising coronavirus cases. Residents wishing to return to Oman must receive special permission from the Ministry of Foreign Affairs, and undergo a two-week [quarantine](#).

#### ***Other***

- **Miscellaneous:** For earlier developments, see [here](#).
- **King Salman:** King Salman is reportedly in stable condition after undergoing laparoscopic [surgery](#).

## **Resources**

- [Previous Newsletters](#)
- [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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