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ROOTS

Introduction

Transition

Bruce Feiler's *Life Is in the Transitions: Mastering Change at Any Age* demonstrates that however disruptive of traditional habits, transitions can also open new doors and opportunities.

While the pandemic arrived as an equal opportunity destroyer of hopes and dreams, the storm created for the Kingdom arguably ranks among the most perfect, given an overwhelming dependence on oil coinciding with rapid transition from a rentier state to a free market economy.

Recycling Commercial Waste: Institutional Stress Tests.

While business activity has been rising significantly as offices and stores come back to life and workforces return to worksites, and foreign investors continue to bet on a bigger and better future, we continue to observe labor stresses arising from a reduction in activity and insolvency.

To deal with such down cycles, global other countries have developed mechanisms to accommodate the disruptive side effects of technological and entrepreneurial innovation, including a robust bankruptcy regime; the U.S. in particular has been widely praised for its success in recycling "commercial waste."

Inspired by this model (see Daron Acemoglu's "Red Queen" thesis in The Narrow Corridor), the Kingdom's new Bankruptcy Law, modeled on best practices in other countries, coupled with a cutting edge Saudi Center for Commercial Arbitration adopting UNCITRAL procedural rules, could not have been better timed to help address the likely crisis fallout; both now face an early stress test by fire, as the wave of likely insolvencies rises.

Education vs. Training.

The Kingdom's success in retooling its economy from rentier to free market models will depend not only on new institutional, economic, financial, regulatory and technological infrastructure, but also on matching human capital to new realities. Hundreds of thousands have participated in the King Abdullah Scholarship Program, and the Technical and Vocational Training Corporation / Centers for Excellence offer training in aircraft maintenance, hospitality services and much more.

Arguably underappreciated in these timely programs are the soft skills that underlie workplace productivity, i.e. work ethic, a servant spirit and willingness to sacrifice short term personal interest for the greater good. Studies of civil service productivity throughout the region reveal a relatively low level of workforce productivity, so crucial to the success Vision 2030.

While Saudiization is critical to mobilizing the local citizenry, education by itself falls short of preparing a workforce for productive engagement, best achieved on the job under world class entrepreneurs and leaders. Many of the most capable Saudi financial professionals today honed their skills under the guidance of the best Citibank professionals when Citibank managed SAMBA, such as Bob Bottger, Shaukat Aziz and Bob Eichfeld.

As a model for success in generating economic and technological dynamism, Silicon Valley owes its global dominance in large measure to the welcome mat set for

talented expatriates, as the UAE has also recognized in recruiting leadership at Emirates, Etihad and other national champions, and the PIF in its gigaprojects; such policies could also serve well in the main Saudi economy, and help ensure the success of Vision 2030.

Téléphone Arabe: Where's Waldo?

While demonstrating laudable patience in the face of challenges in confronting an unanticipated pandemic, citizens and expats alike are hungry for news and progress on reopening of schools, businesses and restoration of international flights, among many other current issues on which the government has not always openly shared its thinking.

An [announcement](#) of seven weeks of distance learning for Saudi schools may reflect an attitude of caution and risk avoidance, and a broader policy of prioritizing health over other priorities; otherwise, news on government thinking and plans has consisted for the most part of late of denials of rumors of restoration of international commercial flights.

The public will continue to be patient and confident of the government's good intentions as has been the custom generally, all the more if it were to step forward more directly, and share its thinking more clearly and address public questions and concerns more regularly.

In the absence of official guidance, rumors abound; how can an empowered and capable executive best serve an aware and educated citizenry, informed and enabled by inquisitive and hard-hitting social media? Amidst current social and economic stresses, how best to marry effective government response with engaged social participation, to advance along Daron Acemoglu's "narrow corridor" of economic and social progress?

Gigaprojects / Deep Dive.

Last week we noted continuing commitment and support for Saudi gigaprojects, a major fiscal stimulus for otherwise recessionary times (for a deeper dive, see [Financial Times](#)).

COVID-19 Status, Restrictions, and Enforcement

- **Status:** Saudi Arabia [reports](#) as of August 17, 2020:
 - 1,372 new cases daily, led by Hufuf, Hail, and Tobuk;
 - 299,914 cumulative cases, 28,093 active;
 - 1,432 recoveries daily, 268,385 cumulative;
 - 28 deaths daily, 3,436 cumulative;
 - 55,613 daily tests, 4,317,705 cumulative.

- **Pandemic:** While precautionary measures and protocols have been effective in flattening the curve, the pandemic will persist until confined or a vaccine [distributed](#).

Government Aid

- *No significant recent developments.*

Corporate / Employment

- **Flexible Contracts:** The Ministry of Human Resources and Social Development has launched a [platform](#) to facilitate flexible work contracts between employees and employers, located at [mrm.sa](#).

Legal

- **Real Estate Direct Leasing:** The Ministry of Municipal and Rural Affairs has reformed the municipal investment system to allow the direct lease of real estate for up to three months, with lease terms for rental of municipal lands of up to 50 years. Rent exemptions during construction works will be granted for up to 10% of the project [term](#).
- **Anti-Corruption:** The Control and Anti-Corruption Authority launched 218 criminal cases over the recent period. These include cases involving bribery and abuse of [influence](#).
- **Medical Malpractice:** Saudi Arabia's public prosecution body announced that medical malpractice warrants a penalty of up to six months imprisonment and a fine of [SR100,000](#).
- **E-Commerce:** The Ministry of Commerce has charged 44 online stores for violating new [e-commerce laws](#).

Visas, Travel, and Repatriation

- **Illegals:** The Ministry of Labour and Social Development arrested 19 expatriate small business owners for violating work and residency rules, all subject to [deportation](#).

Economy

- **Inflation:** Saudi Arabia's consumer price index rose 6.1% in July in a trend attributed to the recently implemented [VAT](#).
- **Finance and Sovereign Wealth:**
 - **PIF Investment Shifts:** The PIF, Saudi Arabia's chief sovereign wealth fund, shifted \$4.7 billion in holdings from blue chip companies like Boeing, Marriott, Citigroup, Bank of America, Royal Dutch Shell, Disney, and Facebook to ETFs in the utilities, real estate, and materials [sectors](#).
- **Defense:**
 - **American Arms Sales:** The State Department's inspector general determined that a 2019 emergency declaration by the Trump administration that facilitated \$8 billion in weapon sales to Saudi Arabia and the UAE was [legal](#).
- **Projects:**
 - **Bechtel Hired for NEOM:** Bechtel has been selected to design, build, and project-manage the construction of NEOM's transport, power and water [infrastructure](#).
- **Tourism and Entertainment:**
 - **Tourism Fund:** As part of Vision 2030, the Kingdom aims to significantly develop its tourism section. To this end the Kingdom has

launched a \$3.9 billion tourism fund which will develop 38 sites across seven destinations by [2022](#).

- **Education:**

- **Distance Learning:** The Ministry of Education approved a plan to resume the new school year via distance learning for seven weeks in public schools, [beginning August 30](#).
- **E-Learning Standards:** The Ministry of Education approved e-learning standards for general and higher [education](#).

- **Healthcare:**

- **Vaccine Test:** Russia has allegedly partnered with a Saudi pharmaceutical company to test its coronavirus vaccine in the [Kingdom](#).

- **Technology:**

- **Artificial Intelligence Strategy:** Saudi Arabia has approved a national artificial (AI) intelligence strategy. The Kingdom aims to expand the value of its AI sector from SR15-20 billion today to SR500 billion by 2030, facilitated by the Saudi Data and Artificial Intelligence Authority ([SDAIA](#)).
- **Tech Event:** The Ministry of Communications and Information Technology will host the “LEAP” conference of major tech companies from February 1-3, 2021. As part of Vision 2030, Saudi Arabia aims to significantly bolster its tech [sector](#).

- **Agriculture:**

- *No significant recent developments.*
- **Transportation and Infrastructure:**
 - **Port Efficiency:** In a mark of its efficiency, King Abdullah Port has been selected by leading international shipping companies like Maersk and MSC as logistics hubs in their Red Sea [routes](#).
- **Natural Resources and Mining:**
 - **Dams:** The Ministry of Environment, Water, and Agriculture plans to build roughly 1,000 dams in an effort to enhance the Kingdom's hydrological [network](#).
- **Oil and Energy:** *Oil prices [stand](#) on August 17 at \$45.24 pbb for Saudi oil (Arab Light) and \$42.43 pbb for West Texas Intermediate.*
 - **OPEC Deal Reaffirmation:** The oil ministers of Saudi Arabia, the United Arab Emirates, Kuwait, Bahrain, Oman, and Iraq reaffirmed their commitments to the OPEC deal designed to rebalance the oil [market](#).
 - **Aramco:** Aramco aims to slash capital expenditure to \$25 billion or less in 2021 in order to help fund a \$75 billion dividend this [year](#).
 - **Electricity MoU with Jordan:** Saudi Arabia has signed an MoU with Jordan to enhance interconnections between the energy grids of the two countries. The Kingdom has already linked its energy grid with [Iraq](#).

Geopolitical

- **STC Withdrawal from Aden:** Saudi Arabia is facilitating the withdrawal of separatist Southern Transitional Council (STC) forces from the port city of [Aden](#).
- **Pakistan Tensions:** Tensions have been growing between Saudi Arabia and Pakistan due to Pakistan's conflicts with India over [Kashmir](#).

GCC

- **Normalization with Israel:** In a region-shifting move, the UAE has normalized relations with [Israel](#). Other Gulf countries, including Bahrain and Oman (but likely not [Kuwait](#)), will potentially follow suit. Saudi Arabia's position on the [matter](#) is [opaque](#).
- **Arms Embargo Extension:** The GCC has called on the UN Security Council to extend the arms embargo on [Iran](#).
- **UAE:**
 - **Residency Grace Period:** The Federal Authority for Identity and Citizenship (ICA) announced a three-month extension of a grace period and fine exemptions for residency [violators](#).
- **Qatar:**
 - **Tesla Energy Storage:** Qatar has contracted Tesla to help construct power storage systems as part of the country's move to diversify and enhance its energy [grid](#).
- **Kuwait:**

- **American Hospital Bill Controversy:** A group of 45 US hospitals are asserting that Kuwait owes them nearly \$700 million in unpaid bills for care provided to Kuwaiti [nationals](#).
- **Debt:** The Parliament of Kuwait rejected a debt plan designed to raise up to \$65 billion via domestic and international [loans](#).
- **Bahrain:**
 - **Downgrade:** Adding to its economic woes, Bahrain's credit has been downgraded by Fitch from BB- to B+ with a "stable" [outlook](#).
- **Oman:**
 - **Loans:** Oman has allegedly signed a one-year \$2 billion bridge loan with several international and regional banks. Funds will be raised via international bond [issuance](#).

Other

- **Miscellaneous:** For earlier developments, see [here](#).
- **Religious Appointments for Women:** The General Presidency for the Affairs of the Two Holy Mosques has appointed 10 women to senior leadership positions in several [departments](#).

Resources

- [Previous Newsletters](#)

- [Ministry of Health Dashboard](#)
- [Ministry of Health Coronavirus Guidance](#)
- [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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