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ROOTS

## Introduction

In the Kingdom as elsewhere Covid-19 has revealed and aggravated economic and other vulnerabilities, including obstacles to implementing Vision 2030 economic reforms; in response, leadership has prioritized defense, mining, healthcare, and food for localization and financial support. The Saudi Industrial Development Fund will finance up to 75% of the cost of projects, waiving its limits in providing \$2.6 billion in support for a smelting project in Ras Al-Khair.

While some quasi-governmental entities have assumed an August 1 reopening of international commercial flights, no official guidance has yet been issued; others predict September 1 as more likely.

As we emerge from Covid-forced isolation (a friend compares working from home with the experience of a dog placed in a kennel) to face a new reality, I am reminded of Rip Van Winkle waking up from a 20-year sleep having missed the American Revolution, challenged to make sense of a newly-independent reality. Will the crisis accelerate economic and social reforms, as it has accelerated latent trends in oil and energy, recalling Rahm Emmanuel's principle of never letting a good crisis go to waste?

A Jordanian friend recalls upon arriving in the Kingdom 30 years ago what he and his family in many ways experienced as a hostile environment, with his wife compelled to cover, genders segregated in all public places, and the religious police riding high

as primary enforcers of law and order. A devout Muslim, he deeply appreciates recent social reforms that assure him and his family modern freedoms enjoyed back home and elsewhere in the region.

Leadership shows no hesitation in implementing ambitions in entertainment or tourism, as the Red Sea, NEOM, Amaala, King Abdullah Financial District, King Abdullah Economic City and Qiddiya projects maintain momentum. While Riyadh Metro progress has slowed, this reflects contagion-related caution rather than doubts over the value of the venture.

Tripling of VAT from 5-15% remains a prime business concern, in this trading economy, at a time when regional competitors are lowering cost of business; will this initiative may be reversed, as its possible effects as a wet blanket on much-needed animal spirits become apparent?

While Covid testing has expanded in recent weeks and free mass testing facilities have been opened on the Airport Road and Malaz with appointments available via Ministry of Health app, hospital and clinic capacities have been strained to accommodate critical cases, most particularly workforce from the major infrastructure projects.

Finally, with the leadership keeping a low profile generally during the Covid-19 crisis, King Salman has been admitted to hospital with gallbladder inflammation caused by cholecystitis, prompting cancellation of a scheduled meeting with the Iraqi Prime Minister.

See Jadwa Investments' [Labor Market Update](#), noting:

- Unemployment among Saudis fell to 11.8% in Q1 2020, down from 12% in Q4 2019.

- While overall female unemployment declined in Q1 to 28.2% from 30.8% in Q4 2019, youth (20-24 years old) unemployment rose.
- While expat numbers rose 243,000 quarter-on-quarter Q1 2020, 1.2 million expats will leave by year end.
- Jobs for Saudis in wholesale & retail, health, and social work rose, while expat increases were concentrated in construction.
- Saudi unemployment rose in Q2, but should fall in Q4 to Q1 2020 levels.

### **COVID-19**

- **Status:** Saudi Arabia [reports](#) as of July 20
  - 2,500 new cases daily, led by Riyadh, Jeddah, Hoffuf, and Makkah.
  - 251,000 cumulative cases, 50,700 active (population 34 million);
  - 198,000 recoveries;
  - 2,500 deaths;
  - 2,671,000 tests.

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

- **Internal Travel:** Permits are now required for visiting the holy sites of Mina, [Muzdalifah](#), and [Arafat](#).
- **Hajj:** Hajj applicants are undergoing a week of mandatory isolation before pilgrims are selected later this [month](#).

### ***Government Aid***

- **Foreign Worker Insurance:** Saudi Arabia's Cabinet has approved an insurance product for non-Saudi workers in the private sector, which the state will [finance](#).
- **Loan Deferral:** The Ministry of Finance has launched a \$178 million initiative to help 192 companies finance loan [installments](#).
- **Cooperative Health Insurance Fund:** The Cooperative Health Insurance Fund Program, which will be implemented by the of the year, will reportedly expand health care coverage for 99.4% of the [private sector](#).

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

- **Summary:** For earlier reports, see [here](#).
- **Real Estate:** The Saudi Real Estate Refinance Co. (SRC), a mortgage-refinancing firm, has bought \$800 million in home loans from the Public Pension Agency, freeing capital for other [loans](#). The SRC is restructuring Murabaha [financing](#).
- **Labor Rights:** The General Organization for Social Insurance (GOSI) approved new fines ranging from \$2,600–13,000 for companies violating labor rights of Saudi [workers](#).

### ***Legal***

- **Customs Duties:** As of June 20, Saudi Customs has increased import customs duties by 5.5% - 15% on food, minerals, electrical, paper, textile,

construction materials, machinery and electrical appliances, auto parts, optical equipment, and [furniture](#).

- **New Corporate Law:** A new corporate law may significantly cut red tape, allowing, among other things, flexible corporate management structures, easy formation of joint-stock companies, and greater flexibility on company [names](#).
- **Courts Go Paperless:** E-litigation is gaining traction, with Saudi administrative courts replacing [paper](#) with digital submissions.
- **Gender:** While the *taghayyub* system required permission from a male [guardian](#) for women to leave their homes, under a new court ruling women may now freely live independently.

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

- **Summary:** For earlier developments, see [here](#).
- **Iqama Extensions:** *Iqamas* will be automatically extended under a royal [decree](#).

### ***Economy***

- **Summary:** The industrial production index fell 15.5% in May, largely due to a downturn in mining. Manufacturing activity fell 25.9%, impeded by [coronavirus](#). Saudi citizens hold over 71% of managerial positions in the private [sector](#). Investments in Saudi startups rose 29% in the H1 2020, with \$95 million spent on 45 [deals](#). Economic growth may return by [Q3 2020](#).
- **VAT Impact:** The US-Saudi Arabian Business Council analyses impact of the [VAT increase](#).

- **Finance:**
  - **Bank Holidays:** Eid Al-Adha arrives July 28 - August 4 for banks, and July 29 - August 2 for [SARIE](#).
  - **Derivatives:** Saudi Stock Exchange (Tadawul) announced exchange-traded derivatives market for [August 30, 2020](#).
  - **Forex Trading:** A body of the Central Bank warned against trading in the unlicensed forex foreign exchange market following several [scams](#).
  
- **Defense:**
  - **Defense Show:** General Authority for Military Industries (GAMI) announced a “World Defense Show”, similar in size and nature to IDEXX, focusing on “possibilities for interoperability . . . across . . . Air, Land, Sea, Security and [Satellite](#).”
  
- **Sovereign Wealth:**
  - **Newcastle United:** Saudi Arabia’s decision to ban Qatar’s BEIN Sports has complicated the Kingdom’s bid to buy [Newcastle United](#).
  
- **Projects:**
  - **Red Sea:** Details of the Red Sea Project, which aims to build 45 hotels over 90 islands, are beginning to take [shape](#).
  
- **Tourism:**
  - **Targets:** The Kingdom retains ambitious tourism goals for 2030, despite [coronavirus](#).

- **Technology:**
  - **Arabic Games:** Saudi Arabia hosted a leading [Middle East](#) gaming industry conference.
- **Agriculture:**
  - **Aquaculture:** New aquaculture projects will expand seafood production to 600,000 metric tons by [2030](#).
- **Transportation:**
  - **Hyperloop:** The Ministry of Transport has teamed with Hyperloop One to link Saudi and UAE cities with a hyperloop [network](#).
- **Oil and Energy:** *Oil prices [stand](#) on July 19 at \$44.42 pbb for Saudi oil (Arab Light) and \$40.50 pbb for West Texas Intermediate.*
  - **Aramco:** Aramco will divide downstream business into Fuels ( Refining, Trading, Retail and Lubes); Chemicals; Power; and Pipelines, Distribution & [Terminals](#). The \$3.5 billion King Salman Energy City is 60% [finished](#).
  - **Oil:** Saudi Arabia and Russia will raise production by 2 million bpd, mostly for use in OPEC+ countries. In August, output cuts will fall from 9.6 million bpd to 7.7 million through [2020](#).

### ***Geopolitical***

- **Turkey F-35 Purchase:** The US removed Turkey from the F-35 joint strike fighter program following its purchase the Russian S-400 missile defense [system](#).

- **Yemen Economic Collapse:** Yemen's economic is facing severe decline due to war and [coronavirus](#).

## GCC

- **IMF Outlook:** The IMF has lowered its economic forecast for the Middle East, predicting a contraction of 7.1% for the GCC (6.8% for Saudi Arabia) and up to 13% for the wider [region](#). Oil producers will lose \$270 billion. Saudi Arabia will grow 3% in [2021](#).
- **Debt:** The S&P predicts GCC countries will have cumulative deficits of \$490 billion by [2023](#).
- **UAE:**
  - **Visit Visas:** Holders of entry permits, visit visas, and tourist visas that expired after March 1 must leave the country by August 10 or face [fines](#).
  - **Spacecraft:** The UAE's Amal spacecraft successfully took off from Japan and has begun its seven-month journey to [Mars](#).
- **Qatar:**
  - **Air Blockade:** The International Court of Justice (ICJ) ruled in favor of Qatar in its dispute with neighbors over an air [blockade](#).
- **Kuwait:**
  - **Debt Plan:** Kuwait plans to issue \$13-16 billion in debt by March 2021 to finance its growing budget [deficit](#).

- **Residents Abroad:** Kuwait residents with expired visas stranded abroad will have to obtain new visas to reenter the [country](#).
- **Bahrain:**
  - **King Fahd Causeway:** The King Fahd Causeway, closed since [March 7](#), will reopen after Eid Al-Adha.
- **Oman:**
  - **Residents Abroad:** Residents of Oman stranded outside the country may now apply for entry permits through the [Ministry of Foreign Affairs](#).

#### **Other**

- **Miscellaneous:** For earlier developments, see [here](#).

#### **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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