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ROOTS

Preparing (Bracing Ourselves?) for a New Normal

Economic Impact: V, U or L?

- While China experienced a steep and deep economic collapse followed by a correspondingly strong and rapid rebound, a combination of rising contagion and falling oil revenues could foretell a slower and shallower Saudi recovery.
- While \$55+ oil would go far to soften the landing, anything below this will require tough adjustments and significant and broadly-shared hardship.
- Economists predict a relatively severe 5% fall in 2020 regional GDP (\$40-50 billion), including a partial rebound in June and modest growth into 2021, i.e. real hardship albeit less than in Europe.
- Despite policy measures to moderate adverse economic fallout, expect more of a U - L than a V-shaped recovery.

Business Climate: Tax Traps

- Increases in VAT, Customs, fees and other taxes, applied unilaterally rather than in concert with GCC partners, impose unusually heavy burdens on business at such an early and deep stage of a falling economic cycle.
- While these policy initiatives appear to target import substitution and revenue diversification, it remains to be seen whether either goal is realistic at this stage of the recovery.

Dual Crises: Sectoral Impact

- In an economic downturn of such unprecedented depth and breadth, no industry benefits; experience in the Kingdom's various sectors ranges from neutral to deeply negative.
- Most severely impacted sectors include transportation, hospitality, entertainment and media; least severe, food and consumer goods; and moderate, energy, and healthcare.

COVID-19

- **Status:** Saudi Arabia reports
 - 127,541 coronavirus [cases](#) as of June 14, 41,849 active (population 34 million);
 - 84,720 recoveries;
 - 972 deaths;
 - 1,107,207 tests; and
 - ~4,200 new cases daily, with the greatest number in Riyadh, followed by Jeddah.
- **Awareness campaigns:** The Ministry of Health and the Ministry of Human Resources and Social Development have both launched coronavirus [awareness campaigns](#).

Restrictions and Enforcement

- **Reopening strategy:** For a detailed overview of Saudi Arabia's plans to reopen after coronavirus, including sector-specific guidelines, see [here](#).
- **Firm shut downs:** 460 establishments have been shut down in Riyadh after failing coronavirus safety [inspections](#).
- **Sports:** The Ministry of Sports announced that all gyms and sports facilities may reopen on [June 21](#).

Government Aid

- **Military:** The General Authority for Military Industries (GAMI) signed two memorandums of cooperation with the Ministry of Industry and Mineral

Resources and the Royal Commission of Jubail and Yanbu (RCJY) to stimulate and localize Saudi Arabia's military industry. The guiding strategy includes building "military-industrial clusters" in industrial cities and encouraging outside investment. The Kingdom aims to localize 50% of the defense sector and expand it SR30 billion (\$8 billion) by [2030](#).

- **SANED:** Over 400,000 Saudis across 80,000 enterprises have benefited from the SANED wage support program. The industries that have benefited most are wholesale and [retail](#).
- **Hadaf:** The Human Resources Development Fund (*Hadaf*) has spent over SR14 million in May on benefits for 4,830 graduates in the Tamheer work placement [scheme](#).

Employment / Corporate

- **Summary:** For earlier reports, see [here](#).
- **VAT:** The General Authority of Zakat and Tax (GAZT) has announced new dates for submitting monthly value-added tax (VAT) returns (see [here](#)).
- **Workers:** 8.44 million were employed in Q4 2019, of which 77% (6.48 million) expatriates and 23% (1.59 million) Saudi, 96.5% (8.14 million) private sector and [3.5% \(298,300\)](#) public (General Authority for Statistics (GaStat)).
- **Expat Attrition:** Some 1.2 million expats will leave this year, based on health insurance data showing 300,000 [year-to-date](#).
- **Remittances:** Expatriate remittances have fallen 20% from SR157 billion in 2015 to SR125.5 in 2019 in the wake of a 2018 rise in expatriate fees, now [SR800 in 2020](#).
- **Saudiization:** Saudiization rose from 18.61% in 2018 to 20.37% in 2020, 66.78% men and 33.22% women (National Labor Observatory). Highest are finance and insurance (83%), international organizations (71%), and [mining at 62%](#).

Visas/Repatriation

- **Summary:** For earlier developments, see [here](#).
- **Americans:** The US embassy continues to coordinate weekly repatriation flights for American citizens (see [here](#)).

Courts

- **E-services:** Online services are available for documentation, training, appointment booking, and conciliation via the Najiz electronic portal (najiz.sa). Court visitors must respect coronavirus precautions, and no one over 65 may [enter](#).
- **E-litigation:** An e-litigation initiative (virtual hearings and electronic exchange of documents) saw 7,200 e-filings, 750 virtual hearings and 550 rulings on its [first day](#).

Economy

- **Sovereign wealth funds:**
 - **Assets:** The Kingdom's investment funds grew 9% to SR174.74 billion in Q1 2020, with 70% growth in foreign and 3% decline in local [assets](#).
 - **Aramco transfer:** Saudi Aramco will pay the [PIF](#) SR259 billion for a 70% stake in Saudi Basic Industries Corporation (SABIC).
- **IPO:** BinDawood Holdings, a Saudi supermarket chain, will launch the first regional IPO since the [coronavirus](#).
- **Contracts:** \$12 billion worth of contracts have been awarded in Q1 2020, a growth of 28% quarter-on-quarter, including \$4 billion in defense, \$3 billion in oil and gas and \$2.2 billion in [petrochemicals](#).
- **SPARK:** NEOM and the Misk Academy have launched the SPARK business skills program to support and encourage entrepreneurship and [SMEs](#).
- **Qiddiya:** Work continues on the Qiddiya entertainment [megaproject](#).
- **Blockchain:** The Saudi Arabian Monetary Authority (SAMA) is implementing blockchain technology for money [transfers](#).
- **Electric cars and chargers:** Saudi Arabia will import electric cars and deploy [chargers](#).
- **Canadian weapons sales:** Canada sold \$2.2 billion in weapons to Saudi Arabia in 2019, double from 2018, despite a moratorium on such [sales](#).

- **Mining:** A new mining law seeks to attract investment in [\\$1.33 trillion](#) in phosphate, gold, copper and uranium resources.
- **Oil:** Prices *stand on June 15 at \$37.79 pbb for Saudi oil (Arab Light) and \$35.59 pbb for West Texas Intermediate.*
 - **Fuel prices:** On June 11 Gasoline 91 prices rose to SR0.90 / liter from SR0.67, and Gasoline 95 to SR1.08 from [SR0.82](#).
 - **Cuts:** OPEC will extend production cuts for another month, in an [elusive](#) effort to sustain prices.

GCC

- **Trade:** Saudi-GCC trade fell to \$5.01 billion in Q1 2020, down 14% quarter-on-quarter, 65% UAE, 14% Bahrain, 11% Oman and [Kuwait 10%](#).
- **UAE:**
 - **Expats:** The UAE could lose 900,000 jobs and 10% of its expatriate [residents](#) (Oxford Economics).
 - **Contraction:** GDP could contract 3.6% [this year](#) (UAE Central Bank).
- **Qatar:**
 - **Pay Cuts:** Government entities have been ordered to cut 30% of spending on expatriate salaries from June 1, either by pay or [job cuts](#).
- **Kuwait:**
 - **Flights:** International flights will be restored in a three-phase [process](#).
- **Bahrain:**
 - **Aid:** Bahrain has committed \$46.1 million in aid for needy families and [businesses](#).
- **Oman:**
 - **Foreign Aid:** Oman may seek aid from other GCC countries and the U.S., in its seventh consecutive year of fiscal [deficits](#).

Geopolitical

- **ISIS:** ISIS attacks in Iraq are surging as the American military presence [declines](#).
- **Military:** Despite \$26.6 billion in spending cuts and a predicted 3.2% decline in GDP, Saudi Arabia is expected to maintain its defense commitments as it expands its domestic defense industry, though some purchases may be [postponed](#).

Other

- **Miscellaneous:** For earlier developments, see [here](#).
- **VAT pushback:** The U.S. Chamber of Commerce has questioned the wisdom of the recent VAT tripling to 15%, proposing 1) delays to allow the economy to 'settle' and companies to adjust, and 2) staggering the rise over time.
- **Hajj:** While some 2.5 million pilgrims typically visit Makkah and Medina during Hajj, generating \$13.32 billion in [revenue](#), the 2020 Hajj may be cancelled or cut back.
- **Dakar Rally:** Saudi Arabia will host the 2021 Dakar Rally, a 12-day offroad race across the [Kingdom](#).
- **Comic-con Arabia:** Saudi Arabia will host a virtual Comic-con (a major event for pop-culture enthusiasts) on [July 3](#).
- **Art:** The Ministry of Culture will invest billions in building 12+ major art institutions showcasing Saudi, Islamic and Western art, including Leonardo da Vinci's Salvator Mundi purchased in [2017](#).

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.

Christopher H. Johnson, Managing Attorney

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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