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MENA NEWSLETTER: REGIONAL UPDATES

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REGIONAL ECONOMIC AND BUSINESS DEVELOPMENTS

The Saudi anti-corruption campaign enters a new phase. Saudi authorities have seized more than 400 billion Saudi riyals ($107 billion) worth of assets in their ongoing anti-corruption probe. In a statement on January 30, Saudi Attorney General Saud Al Mojeb said that the Supreme Anti-Corruption Committee had summoned 381 people, a figure which included those called to testify or provide evidence. Of those ultimately detained (many at the Ritz), some unspecified number were released without charge. However, many others agreed to settlements, which involved handing over assets like cash, securities, real estate, and equity. Those released included the high-profile Prince Alwaleed bin Talal and several former ministers. Upon his release, former Minister of Finance Ibrahim al-Assaf actually led the Saudi delegation to the World Economic Forum in Davos, resumed his duties as Minister of State, and began attending cabinet meetings. Fifty-six of those detained refused to settle, and their cases were transferred to the public prosecutor's office.

While few details have been made public, the Saudi government has said that the funds collected would be returned to the treasury to support government spending. Senior Saudi officials have continued to reassure investors that the anti-corruption campaign will benefit the Kingdom and that the country is open for business. According to some reports, the Crown Prince and other senior Saudi officials have told businessmen that the crackdown is mostly over and that another wave of arrests is not expected.

Fees for foreign workers go into effect in Saudi Arabia. As part of its goal reduce the unemployment rate among Saudi nationals and create 450,000 private sector jobs by 2020, the Saudi government is introducing new elements to its Saudization (*Nitaqat*) program. Established in 2011 (and updated in 2017) to increase the ratio of employed Saudis to expat workers in the private sector, the program classifies companies into categories based on their sector and size, as well as factors related to the percentage of Saudi nationals employed and Saudis' wages. Each company's status determines how easily it can hire foreign workers. Better classifications qualify companies for Block Visa approval (i.e. approval for multiple visa applicants on one document), while companies with lower classifications can only hire expats already working legally in Saudi Arabia.

Last month, the Kingdom instituted its new expat tax on dependents and companies, which is slated to increase every year through 2020. There are two fees: one paid by companies to employ foreign nationals and one paid by foreign nationals to sponsor dependents. It is estimated that the new expat tax will generate more than 133 billion Saudi riyals ($35.5 billion) for the government by the end of 2020.

- The tax paid by companies depends on the ratio of foreign workers to Saudi citizens. Companies employing more foreign workers than Saudi citizens will pay a monthly fee of 400 riyals ($107) per worker in 2018; the fee will increase to 600 riyals ($160) in 2019 and 800 riyals ($213) in 2020. Companies employing fewer foreign workers than Saudi citizens pay a lower rate of 300 riyals ($80) per month in 2018—rising to 500 riyals ($133) in 2019, and 700 riyals ($187) in 2020.
- The monthly fee paid by foreign nationals for each dependent they sponsor is 200 riyals ($53) in 2018, rising to 300 riyals ($80) in 2019 and 400 riyals ($107) in 2020.

Owners of small and medium-sized enterprises (SMEs) have suggested that the new fees would have an especially harmful impact on their businesses. Currently only firms with five or fewer employees are exempt. Officials from the Council of Saudi Chambers have met with the Minister of Labor discuss potential changes, including extending the timeline of payment increases and exempting SMEs in the first several years. The Saudi government also announced that it would restrict jobs in 12 sectors (mostly retail and sales) to Saudi nationals beginning in September 2018. These restrictions, along with the expat fees, will raise the cost of labor for employers, but they will also encourage the hiring of Saudi workers and boost government revenue.

Unemployment and labor issues challenge officials in other Gulf states. As in Saudi Arabia, expatriates continue to dominate the labor market—and especially the private sector—throughout the rest of the Gulf. This issue has grabbed local headlines in the new year. Over several weeks in January, hundreds of Omanis protested high unemployment rates in front of the Ministry of Manpower in Muscat and throughout the country. In response, the government pledged to launch a job creation program that would expand the number of jobs for nationals by 25,000 in the next six months. The Omani Ministry of Manpower also issued a six-month ban on hiring foreign workers in 87 jobs in a wide variety of sectors. The official unemployment in Oman stood at 17.5 percent in 2016.

While Kuwait is also under pressure to increase the number of jobs for nationals, in late January the parliament's legislative committee rejected a proposal to tax foreign workers remittances, which amount to approximately $18 billion per year. The tax was also opposed by the central bank, which claimed the tax would harm the economy. Kuwait is also now managing increasingly tense relations with the Philippines after the body of Filipino worker was found in a freezer in an abandoned apartment. Philippine President Rodrigo Duterte offered a free flight home to the roughly 10,000 Filipinos who have overstayed their visas (who are among the nearly 300,000 Filipinos workers in the country).

Iraq needs foreign investment but remains an inhospitable environment. On February 12-14, Kuwait hosted a conference to raise money for the reconstruction of Iraq in the aftermath of the war against the Islamic State. Donors pledged approximately $30 billion in aid, investment, and loan guarantees. Turkey pledged $5 billion in credit. Saudi Arabia offered $1 billion through its Saudi Fund for Development and $500 million in export credit. And the United States offered a $3 billion credit line but has not provided any direct government assistance. World Bank experts have estimated that $88 billion is needed to repair damage, to upgrade infrastructure, and to cover other expenses. Iraqi representatives highlighted more than 150 specific projects for investment. Large companies like Boeing, General Electric, and Honeywell are already doing business in Iraq while others are finalizing or implementing new investment projects. However, despite opportunities to invest in Iraq's reconstruction, many foreign companies would like to see reform instituted more quickly. Iraq ranks 168 out of 190 in the World Bank's 2018 Ease of Doing Business ranking and 166 out of 176 in Transparency International's 2016 Corruption Perceptions Index.

ASG's MENA Practice, operating out of Washington, D.C. and Dubai, has extensive experience helping clients navigate markets across the Middle East. Please contact Nate Hodson with questions or to arrange a follow-up conversation.
