

# KFCRIS Report on the Regional and International Impacts of Coronavirus

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# Overview Current Situation

As reported recently in Britain's *New Statesmen*, pandemics of respiratory diseases tend to come in waves, and the 1918 flu pandemic is often cited as an example (Spanish flu: see Issue 5). After a relatively mild first wave, in the Northern Hemisphere spring of that year,

the illness gradually receded before returning with renewed force from the latter part of August (the date depended on where you were in the world). This was the far more deadly *second wave*, which accounted for most of the estimated 50 million deaths in that pandemic. There was a third wave, in the early months of 1919, that was intermediate in severity between the other two.

Currently, as lockdowns are eased in many countries, could this scenario be repeated with the coronavirus that causes COVID-19? Already, experts such as Professor David Hunter, a specialist of epidemiology and medicine at the University of Oxford, are warning

that reopening national economies by allowing large numbers of people to socialize in groups, and/or return to work, risks a second wave, especially if the scope of the virus increases due to 'super-spreader' events.

A good example of a potential 'super-spreader' events are football matches. For instance, Professor John Ashton from Liverpool UK, a former regional director of public health, was one of a number of voices questioning the decision to allow 3,000 Atletico Madrid fans to travel to Liverpool for a Champions League match on March

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## Latest Coronavirus Statistics as of: 17 May 2020

### SAUDI ARABIA

On 12 May the Interior Ministry announced that a full lockdown will be re-imposed around the Kingdom from May 23-27. The period coincides with Eid Al Fitr that marks the end of the holy month of Ramadan when in normal times family groups would meet to celebrate. According to the Kingdom's Ministry of Health, the full lockdown comes amidst reports of four families becoming infected with coronavirus after holding a group iftar during the early days of Ramadan.

Confirmed cases: **54752**

Deaths: **312**

Recovered: **25722**

### Individual Countries

Up-to-date statistics on confirmed cases, deaths and recovered in specific countries can be found here:

<https://coronavirus.jhu.edu/map.html>  
[www.worldometers.info/coronavirus/](http://www.worldometers.info/coronavirus/)

If you are interested in contributing to future reports, please email **Dr. Mark C. Thompson** with a short outline of your proposed topic:  
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11—at the same time that an acute outbreak of coronavirus was happening in Madrid. Professor Ashton believes that a subsequent surge in COVID-19 deaths in Liverpool was linked to the controversial football match. Another example: In Germany, it was announced that the Bundesliga and Bundesliga 2 were due to restart on Saturday, 16 May; the first European leagues to restart following the coronavirus shutdown. The German Football Association (DFB) said the season would resume under strict health protocols that ban fans from the stadium and require players to have coronavirus testing. But after two players tested positive for the virus, Dynamo Dresden, who play in the second

tier of German football, were forced to put their entire squad and coaching staff into two-week isolation. The issue is that even without fans attending matches, about 300 people, including players, staff, and officials, are in or around the stadiums during match days. This amounts to a significant group of people who if infected with coronavirus could become a catalyst for a second wave of infections.

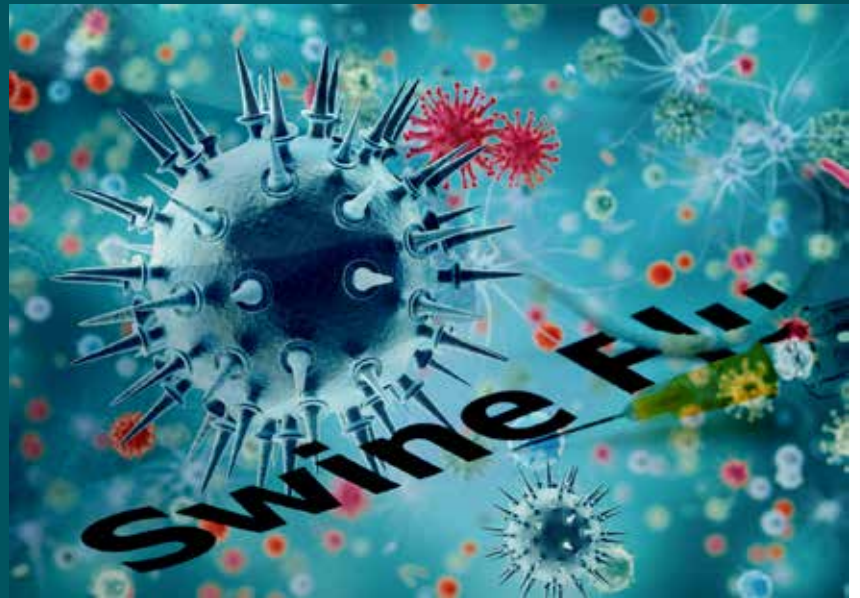
Even in countries such as South Korea that succeeded in taming their initial coronavirus outbreaks through a 'test, trace, isolate' system, officials have been rushing to contain a new outbreak of coronavirus after a cluster of more than 100 cases was linked to one man

who visited several nightclubs in Seoul. Since 9 May, all nightly entertainment facilities across the South Korean capital Seoul have been closed, after the sudden outbreak raised fears of a second wave.

In sum, Dr. Robert Redfield, Director of the Centers for Disease Control and Prevention, USA, stresses that there is a big risk to opening up national economies too soon as it could spark a second wave of coronavirus infections. Indeed, Dr. Redfield believes this second wave could be even more dangerous as there is a possibility that "the assault of the virus" next winter will be exponentially more difficult than the one the world has experienced because it will happen during the normal flu season.

## What was the 'swine flu' pandemic?

'Swine flu' (H1N1) was the popular name for the virus which was responsible for a global flu outbreak in 2009 to 2010. The virus was first identified in Mexico in April 2009. It became known as swine flu because it is similar to flu viruses that affect pigs. After early outbreaks in North America in April 2009 the new influenza virus spread rapidly around the world. By the time the World Health Organization (WHO) declared a pandemic in June 2009, a total of 74 countries and territories had reported laboratory confirmed infections. Unlike typical seasonal flu patterns, the new virus caused high levels of summer infections in the northern hemisphere, and then even higher levels of activity during cooler months in this part of the world. The new virus also led to patterns of death and illness not normally seen in influenza infections. Most of the deaths caused by the pandemic influenza occurred among younger people, including those who were otherwise healthy. Like COVID-19, many of the severe cases were due to viral pneumonia, which is harder to treat than bacterial pneumonias usually associated with seasonal influenza. On 10 August 2010, WHO declared the pandemic officially over.



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**Sources: The World Health Organization (WHO); The National Health Service (NHS)**

# Commentary & Analysis

The KFCRIS weekly report on the regional and international impacts of coronavirus (COVID-19) comes at a critical time as the virus continues to impact on national economies and the lifestyles of millions of people. Hence, this weekly report aims to interview a diverse range of individuals including policy makers, academics, and thinkers to seek their opinions on the impact of this pandemic as it relates to their area of interest. In this KFCRIS weekly report on the regional and international impacts of coronavirus (COVID-19) Jean-Francois Seznec, Non-Resident Senior Fellow, Center for Global Energy at the Atlantic Council, USA, considers Saudi development priorities post COVID-19 and post price war. Sumayah Fatani social science researcher, Saudi Arabia, discusses coronavirus and Daesh by comparing nationalist rhetoric, and economist Pietro Schumann, Special Advisor for a Saudi high-net-worth individual (HNWI), formerly at the European Commission, Directorate-General for Trade, reflects on Saudi Arabia's VAT increase as related to the socioeconomic implications of rationalizing public finances.

## Saudi development priorities post COVID-19 and post price war

### Jean-Francois Seznec

In the first quarter of 2020, the Gulf oil and gas producers were caught in a perfect storm of negative events. The coronavirus pandemic, linked to a vast oversupply of the oil markets and aggravated by the oil price war, caused the destruction in demand for hydrocarbons, which hit the Gulf countries extremely hard. The budget deficits, already expected to be exceptionally large pre-crisis, will now balloon to many tens perhaps even hundreds of billions of US dollars. To meet their commitments and fiscal needs the Gulf states are faced with some exceedingly difficult decisions. They must dip deeply in their cash reserves, cancel large projects, increase taxes, and/or borrow extensively.

Saudi Arabia is better equipped than any other oil producing country in that it has over \$470 billion in near-cash reserves. However, the expected budget deficits, the ambitious requirements of Saudi Vision 2030 and recurring military expenses will drain those reserves very rapidly. The Kingdom has already



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announced substantial VAT increases, cuts in subsidies and expenditures on some projects. It also announced it will take down \$30 billion from its reserves as well as borrow substantial amounts from the world markets. Altogether it now seems unavoidable that Saudi Arabia will have to review its development priorities with the view of only focusing on proven and safe investments, as well as projects with reliable cash flows. It may have to revise plans to develop areas and industries, which may no longer make sense in the new post-coronavirus era.

In order to decide which project deserves to obtain the funds needed, decision makers may have to submit existing plans to critical examinations and stress tests on which projects can benefit the Kingdom today, and put on the back burner those that fail this review. Focusing on industries and projects where there is a natural advantage will give the Kingdom an advantage in the coming very harsh world economic environment.

Saudi Arabia has important and obvious advantages. It has the lowest cost carbon molecules in the world, a young entrepreneurial population, and to this day substantial sources of capital. Another natural advantage is the Kingdom's access and management of the largest pilgrimage sites of the world.

For the past forty years, the Kingdom has developed its chemical industries based on its access to the lowest cost carbon molecules. It has seen SABIC become a major world scale company. Saudi Aramco is also expanding away from the mere production of crude oil. Saudi chemical and fertilizer production and research are reputed worldwide. It has seen several private firms compete successfully in the world market in advanced chemicals and services related to them. Thus, all firms directly and indirectly linked to advanced chemicals, fertilizer, and metals, which already have a strong base in the Kingdom, can become a major source of growth. Saudi Arabia has an excellent base of engineers, research centers, capital, and experience to actively boost its presence in world markets.

In a somewhat counter intuitive turn of events, the present difficulties of the oil markets and the destruction of demand of the country's main export are forcing Saudi Arabia to drop or substantially delay many projects which were seen by many as 'diversification'. However, in reality, diversification will more likely succeed if it is based on the downstream from oil. Successful and parsimonious development will have to avoid non-religious tourism, entertainment, or military manufacturing, which will eat up the cash reserves of the country and only transfer money to the non-Saudi providers of these services and technologies. On the other hand, true diversification will happen by putting on steroids all advanced R&D linked to the downstream of hydrocarbon productions as well as related industries and services.

The new economy could be based on using renewable energy, which can power the transformation of carbon molecules into advanced chemicals, mining, and metal production. This would maximize revenues away from the mere production of crude oil to high value-added productions.

Ultimately, the present crisis may indeed have a silver lining and force a revision of the vision for the future. The new vision may be less flashy, but more likely to guarantee that the Kingdom will evolve into a kind of Germany of the Middle East.





# Coronavirus and Daesh: Comparing nationalist rhetoric

## Sumayah Fatani

Across the world, governments responded to the coronavirus outbreak (COVID-19) in its first three months; some adopted extreme isolation measures, while others took more relaxed approaches. However, since its categorization as a global pandemic by the World Health Organization (WHO), we have observed a similar global trend in societal reactions. Many national campaigns underscore the responsibilities of individual citizens as a duty towards their own societies and countries.

In Eastern Asian countries, the wearing of masks in public is considered a symbol of solidarity and civic duty, with the principle that everyone has a role in 'cutting the chain of infection'. Mask-wearing also has cultural and historic considerations. For example, in China mask-wearing began over a century ago as a way to combat the 1910 pneumonic plague. As reported in the New York Times, mask-wearing serves as a marker of medical modernity and pride in the product.

There is also an emerging discourse emanating from war veterans who compare the current pandemic to national campaigns in wartime. Coronavirus is perceived as an 'invisible army' and parallels have been drawn between the current crisis and previous conflicts. For instance, how coronavirus affects frontline medical practitioners both physically and mentally, as this is similar to the physical and mental ramifications of conflict on soldiers involved in the wars of the 20<sup>th</sup> century.

This is amplified through narratives of 'heroizing' frontline medical practitioners. In the UK (and elsewhere in Europe) grassroots campaigns have emerged encouraging people to show their support for 'front line' staff collectively by going outside their homes every Thursday at 8 pm to 'clap for carers' in the National Health Service (NHS). This has created a seemingly apolitical aura around healthcare during the pandemic. In Saudi Arabia, a similar campaign emerged which encourages people to sing the national anthem on rooftops, showcasing solidarity with doctors and healthcare workers who are perceived as 'national heroes' in the state's battle against the virus.

That said this is a different perspective from those of Islamic State (Daesh) militants. On April 9<sup>th</sup> in Alhawl camp in Syria—a camp that holds a number of Daesh detainees—a reporter asked a female 'Daeshi' about coronavirus. Her response [in Arabic] was: "This disease does not come to us, because we fear God, we pray and we fast. Those affected from it have been unjust to the world; they



**Sumayah Fatani**

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were unjust to prisoners, and to our brothers. No Muslim died from the virus; it has only affected the infidel.” When the reporter informed her that Muslim individuals have died from the virus, she responded: “Those are oppressive Muslims, I’m not saying that all Muslims are fair people...” Another detained woman added: “Those you are referring to are not Muslims, those who died from the virus are infidels. This virus is God’s soldier to help us.”

While states perceive the coronavirus an ‘enemy’ to the wellbeing of their societies and economies, Daesh perceives it as a device for their “long-awaited victory.” Indeed, Daesh ideology relies heavily on sentiments of a holy war against the West, extending this idea of ‘enemy’ to Muslim countries who “cooperate” with the West and are part of the “globalization project.”

Since its territorial defeat, Daesh’s physical activism has been in abeyance, although there have been attempts by its propagandists to regain momentum. The current global pandemic is seen by many Daesh militants as an opportunity to not only gain attention, but also to exploit fears triggered by the current situation to launch attacks. Daesh’s *Al-Naba’* newsletter initially issued an infographic advising its followers on how to deal with the pandemic. Although most of this concentrated on personal hygiene such as covering the face when sneezing (supported by religious scripture), the infographic also advised against travel to Europe, describing it as the “land of the epidemic,” a week after WHO declared Europe the epicenter of the pandemic. This was coupled with a message to Daesh followers already living in the West, encouraging them to “launch attacks while they are there.”

The coronavirus pandemic has provided Daesh and its followers with an opportunity to advance their agenda, whether by ideological outreach or by planning physical attacks, thus reinforcing its conception of Daesh followers as victors to Islam, and coronavirus as a ‘soldier of God.’ As an example, the Guardian newspaper reported that on April 15<sup>th</sup>, German police arrested suspected Daesh members accused of planning to bomb US Military facilities.

Nevertheless, it is noteworthy that this does not apply to all Islamist armed groups and is Daesh-specific. Al-Qaeda, for example, holds a different view of the pandemic to that of Daesh. In a six-page commentary issued by Al-Qaeda to its followers, a message asserted that the pandemic is a result of sins and moral corruption.

Clearly, Daesh hopes to profit from the pandemic by regaining international attention as the group attempts a revival following its territorial losses. Hence, there are numerous policy implications for the world to consider, especially as they pertain to global security during and after the current pandemic.

# Saudi Arabia triples VAT to 15%: Socioeconomic implications of rationalizing public finances

## Pietro Schumann

On 11th May 2020, Saudi Arabia's Minister of Finance, Mohammed Al-Jadaan, announced a VAT increase of 5% to 15% effective 1st July 2020. It is a measure intended to tackle the financial hit caused by both the economic effects of the global coronavirus pandemic and low oil prices.

Saudi Arabia's oil sector accounts for approximately 87% of its annual government budget revenues, and approximately 42% of its GDP. In Q1/2020, Brent Crude Oil traded between USD 19 - 69 per barrel (pb), an average of USD 38 pb, which is far below the required fiscal breakeven price of at least USD 80 - 83 pb. Oil revenues fell to USD 34 bn, pulling down total budget revenues by 22%. In April, Brent Crude dipped as low as USD 18 pb, the lowest price in 18 years. Currently, it is trading at around USD 30 pb; that is still USD 50 pb below the required breakeven threshold of USD 80 pb. In addition, due to lockdown, suspensions, travel restrictions and a decline in overall economic activity, non-oil revenues such as income from taxation or, for example, inbound tourism, including the profitable religious pilgrimage declined; and are expected to decline further, at least until end of the year. Both Hajj and Umrah have been a main source of fiscal income, contributing currently approximately USD 12 bn in revenues, or 7% of the GDP. By Q1/2020, things are already different: Umrah is suspended, Hajj is on hold. Even if inbound tourism, that is both regular and religious tourism, resumes later on this year, an overall uncertainty paired with travel restrictions as well as strict precautions and preventive measures will result in a significant decrease in visitor numbers, and, thus, lower fiscal revenue. On the other hand, spending had risen due to unplanned expenses in the healthcare sector and government initiatives taken to support the local economy. In March, Saudi Arabia dipped into its foreign exchange reserves and withdrew USD 23 bn, the largest withdrawal from the reserve in the history of the country. For Q1/2020, Saudi Arabia posted a budget deficit of SAR 34.107 bn, equivalent to USD 9.07 bn.

### Rationalizing Public Finances

Saudi Arabia's Minister of Finance, Mohammed Al-Jadaan, said that "all these challenges have cut state revenues [and] pressured public finances to a level that



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is hard to deal with". In order to tackle the financial hit and to protect the overall economy, it not only requires "spending cuts" but also "very tough and strong [long-term] measures".

The International Monetary Fund (IMF) recommended that Saudi Arabia doubles its VAT from 5% to 10%. Eventually, Saudi Arabia tripled its VAT from 5% to 15% effective 1st July 2020. Increasing VAT to 15% could generate extra annual non-oil revenue amounting to approximately USD 24 - 26.5 bn (Tellimer), or 5% of GDP (Moody's). Some analysts believe such unilateral moves might make the country marginally less competitive to its neighbors. The Emirates ruled out to increase its VAT. Bahrain said it is unlikely to soon raise its VAT. Kuwait, Oman and Qatar have yet to implement the VAT. It is, nonetheless, a "painful, but [...] necessary" measure, said the Saudi Finance Minister.

To help to alleviate the severity of the country's budget deficit, various other "painful" measures will be taken. The cost-of-living-allowances for state workers amounting to 1000 SAR per month will be suspended effective 1st of June 2020. Some agencies have been asked to submit proposals for cuts of at least 20% to their budgets. Aiming at shoring up revenue valued at about USD 26.6 bn, some project allocations as well as some operating and capital expenditures for certain government agencies will be cancelled, decreased, or put on hold. Some of the megaprojects, including the Red-Sea-Project and Al-Qiddiya-Project will have their timelines extended. A committee has been formed to study and make recommendations on all financial benefits paid to public sector employees.

Further measures are expected to be taken to ensure sufficient long-term fiscal stability by non-oil revenues. Some of these measures could be: increased fees for Hajj and Umrah; increased fees for tourist visas; increased expat levies; introduction of new or increase of existing taxes; decreased mandatory value added tax registration threshold; decreased social-welfare transfers; lower public sector wage for new hires; cutting bonuses, overtime payments and other benefits of public sector employees; improved revenue collection protocols. We are likely to see further privatization across the country. Saudi Arabia could also be looking into optimizing its government apparatus, bringing it closer to international standards, by making it less bureaucratic, but leaner and more resilient.





### Socio Economic Implications

In the short-term: Consumer prices will likely increase as it is probable that most businesses will not absorb the additional tax burden but rather pass it on to their customers. The increased value added tax is unlikely to help this year's budget. Instead, tripling the tax at this time could even add to the negative economic impact caused by both the economic effects of the global coronavirus pandemic and low oil prices. Shortly before the tax hike was announced the government ordered a payment of SAR 1.85 bn to be distributed to its citizens: SAR 1,000 per family plus SAR 500 per dependent. In addition, it announced it was slashing domestic gasoline prices for May: Fuel 91 dropping from SAR 1.31 to SAR 0.67 per litre and Fuel 95 dropping from SAR 1.46 to SAR 0.82 per litre.

In the medium-term: Consumer prices will likely increase further. Citizens will likely experience further cuts to social welfare benefits. The female work force will increase; not only because this is on the government's agenda, but also, as citizens will see the benefit of having a second household income. There will be a shift from public sector employment to private sector employment. The local work force must invest in skills to stay competitive. Additionally, the government will likely achieve greater fiscal stability as, on the one hand, tax revenues increase and on the other hand, some unnecessary expenses decrease. Overall, the economy will probably become more competitive as unnecessary distortions are removed.

In sum, it is important to rationalize public finances to achieve long-term economic stability. It is, however, equally important that citizens adapt to the new measures to achieve long-term social prosperity.