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Rising Hajj Fees and Investment Opportunities in Saudi Arabia: The Impact on ASEAN Countries

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Worshippers perform the farewell tawaf (circumambulation) in the holy Saudi city of Mecca on 11 July 2022, marking the end of this year's hajj. AFP.

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EXECUTIVE SUMMARY

- The hajj ritual (pilgrimage to Mecca) is mandatory for Muslims who are physically and financially able. But the number of hajj pilgrims is capped at about 2.5 million yearly, and Muslims worldwide thus have to wait their turn to perform Islam's fifth pillar.
- The Saudi Arabia government is committed through Saudi Vision 2030 to transforming the organisation of the hajj and improving the quality of hajj services. However, this ongoing transformation has significantly increased the cost of the pilgrimage; this was obvious in 2022, and further increases are likely.
- However, on a positive note, the transformation drive to expand and upgrade hajj facilities and services presents a promising investment opportunity as the Saudi Arabia government has opened the sector to global strategic investors. Muslims residing in ASEAN countries can therefore gain from investing in hajj-related infrastructure development in Saudi Arabia. The area of focus for investments includes the Masyair, which comprises the sacred sites of Arafah, Mudhzalifah and Mina in Mecca. Other investment opportunities involve accommodation building (such as hotels), fast food restaurants, transportation and logistics, provision of non-cash services and Muslim tours.
- The relevant Islamic authorities and institutions in ASEAN countries have to grapple with the short-term challenges of helping their respective constituencies understand and cope with the rising costs and long waiting times for the hajj. At the same time, they will also need to organise themselves to take advantage of the investment opportunities arising from the Saudi transformation programme. They will have to convince their respective Muslim communities about the prudence and sound management of these investments, and the long-term dividends which can be passed on to future cohorts of pilgrims.

INTRODUCTION

Pilgrimage to Islam's holiest city of Mecca in Saudi Arabia is the dream of all Muslims. This hajj ritual is the fifth pillar of Islam. However, the demand for places to perform the hajj every year exceeds the supply. With quotas imposed by the Saudi Arabia government on the number of pilgrims it can accommodate, Muslims have to wait their turn to perform the pilgrimage. Consequently, Muslims, including those from Southeast Asia, are increasingly making multiple umrah trips (minor hajj). On average, a hajj trip takes approximately 30 to 40 days, and can only be performed during the hajj season (the month of Dzulhijah, or the twelfth and final month of the Islamic calendar). Conversely, umrah trips are shorter—lasting approximately between one week and 15 days—but these can be carried out any time of the year.

At present, because there are long queues or restrictions due to the hajj quotas imposed on all Muslim states and nations worldwide, many Muslims cannot carry out the pilgrimage during their preferred timing even though they are physically and financially able to do so. For example, the average waiting time for pilgrims in Malaysia is 100 years, and in Indonesia, it is 20 years.¹ The long waiting time explains why the umrah market is booming since pilgrims are allowed to make that trip to Mecca at any time on tourist or umrah visas.

Moreover, for many who feel they may not be able to perform the hajj during their lifetime, umrah trips serve as the best opportunity to visit these sacred places. Hajj and umrah pilgrimages are principally private trips, but do not replace each other. Performing the umrah, however, does not mean that the Muslim's obligation to perform the hajj is ceded.

The countries that currently send the largest number of hajj pilgrims are Indonesia, Pakistan, India, Turkey, Egypt, Bangladesh and Nigeria. Indonesia and Pakistan are also the largest sources of umrah pilgrims. Among ASEAN countries, many hajj and umrah pilgrims come from Malaysia, Brunei, Singapore, Thailand and the Philippines. Currently, the number of pilgrims in the world is 2.5 million,² and more than 5 million umrah pilgrims visit the two holy cities, Mecca and Medina annually.³

Ultimately, the costs of performing the hajj have increased multiple times, increasing the burden for ordinary pilgrims. The Saudi Arabian government is however calling for investments to upgrade facilities in the holy land, which will enable them to host more pilgrims at any one time in future. Southeast Asian countries can take advantage of these investment opportunities, though the challenge lies in how benefits reaped from these projects can trickle down to benefit ordinary pilgrims who are waiting their turn to perform the hajj, and are facing an exponential rise in expenses.

THE COSTS REMAIN HIGH

A large portion of pilgrims hajj expenses consists of round-trip airfare and accommodation in Saudi Arabia. Other expenses include inbound transportation costs, payments for guides to

perform key rituals (*tawaf*, *saii*, and *wuquf*), and food. Costs are also incurred for pilgrims entering the Masyair worship areas (Arafah, Muzdhalifa and Mina), renting tents, buying ready-to-eat food, and patronising the shuttle buses at the height of the hajj season.

The Muslim world is entering an era of high hajj costs. In 2022, the average regular pilgrimage fee in Indonesia increased from Rp. 75 million or US\$5,357 to almost Rp. 100 million or US\$7,142 per pilgrim. This increase was not due to the Covid-19 pandemic, or even the modernisation efforts recently announced by the Saudi Arabian government. The increase in costs was announced long before the Saudi Arabian government introduced the Saudi Vision 2030.⁴

In 2020 and 2021, the hajj pilgrimage for those living outside Saudi Arabia was halted due to the Covid-19 pandemic. In 2022, the Saudi Arabia government announced that the hajj would resume, and at the pre-pandemic level; the news was greeted with joy by Muslims all over the world. A few days after the announcement, the Saudi Arabian government invited the Ministers of Hajj from a large number of countries to the country to discuss the new hajj policy. Two major decisions were presented: the 2022 hajj season would welcome pilgrims from outside Saudi Arabia, but the numbers were still limited to 50% of the normal 2.5 million quota; and the Saudi Muasassah hajj guidance group would be privatised, making it more professional and accountable when serving the hajj pilgrims.

However, the promise to improve hajj services came with the shocking news that hajj costs would triple.⁵ Although in the end the costs were reduced, pilgrims still had to pay a 30% increase in fees on average. Pilgrims around the world protested, and the governments of Indonesia, Pakistan, Turkey, Nigeria and other countries submitted their objections to Saudi Arabia. The answer from Saudi Arabia was that the outcome was non-negotiable; all countries sending pilgrims including private haj travel agents finally relented.

ASEAN countries utilise various strategies to overcome the unprecedented sharp increase in hajj expenses for pilgrims. Indonesia and Malaysia sent pilgrims by providing subsidies covered by investment returns from hajj funding schemes. The two countries considered the opportunity costs of not sending pilgrims would mean the waiting time for other pilgrims to be even longer. Other ASEAN countries dispatched their pilgrims in accordance with the 50% quota. Last year, pilgrims also had to pay additional costs due to the implementation of the Covid-19 health protocol. To make matters worse, they also had to absorb the exchange rate depreciation against the US dollar.

INVESTMENT OPPORTUNITY

Despite this price increase, the Saudi Arabian government is providing lucrative investment opportunities for Indonesia, Malaysia, Brunei, Singapore and the other ASEAN countries. In January 2023, at the World Hajj and Umrah Forum held in Jeddah,⁶ the Saudi Arabian government announced strategic investment opportunities related to hajj and umrah projects to global investors. All regulations, institutions, human resources, patterns of cooperation and investment objects in Saudi Arabia have been prepared, and the Saudi Arabia government has

also carried out detailed approaches, showcases and campaigns by inviting its strategic investor partners.

Expectedly, Muslim-majority countries such as Indonesia, Malaysia, Brunei, Pakistan, Nigeria and Turkey have already begun assessing this invitation. Non-Muslim majority countries are also enthusiastic about this development, including the United States, Germany, Brazil and China. These have already submitted proposals based on their respective investment focus. The Saudi Arabian government does not seem to give any privileges to certain investors, and the criteria for selecting investors are solely based on competition, competence, and the ability to complete projects quickly.

With Vision 2030 in place, Saudi Arabia is expected to house waves of hajj and umrah pilgrims and tourists, with the government targeting 100 million visitors per year or 10 times the current numbers.⁷ Tourism is a very lucrative business for Saudi Arabia, and tourism is not only related to holy sites in Mecca and Medina, but also to their neighbouring cities such as Jeddah, where an international airport is located. The city of Jeddah is also being transformed into a modern Muslim tourist destination on a par with Dubai in United Arab Emirates (UAE). The capital of Saudi Arabia, Riyadh, is designated as a world financial centre on par with Abu Dhabi, the capital of UAE. Airports are also scheduled to be built outside Jeddah, Medina and Riyadh. This means that a pilgrimage trip can be condensed into shorter periods, and pilgrims can explore Saudi Arabia beyond Mecca and Medina. Moreover, buildings in traditional holy sites in Mecca, such as Arafah and Mina, will be upgraded, and the Grand Mosque (Masjidil Haram” and the Prophet’s Mosque (Masjid Nabawi) will continue to be expanded.

The scale of development means that investment opportunities will multiply exponentially. Already, world-class giant travel agents, Agoda and Airbnb have collaborated with Saudi Arabia, and are expected to dominate online bookings for hajj and umrah. They also helped build and develop the GDS (Global Distribution Systems) online system, Saudi Arabia’s global travel network.

How can these strategic investment opportunities benefit Southeast Asian countries? What is urgent is expanding the Masyair area—specifically the space used during the peak hajj season—with multi-storey buildings. The upgrading projects include repairing permanent tents, developing accommodation in the vicinity, catering ready-to-eat food and providing Masyair buses. The upgrading of factories that provide catering services for pilgrims is no less important. Other possibilities include improving transportation and logistics services through inter-city buses, and developing hotels in Mecca and Medina, hospital services and others. The service sector is no less important, namely the financial services for hajj and umrah pilgrims, including provision of non-cash financial services, hajj insurance and other financial services. Likewise, with tourism services actually including the construction of historical Muslim tourist attractions, from those carried out by tourism services in the Taif mountains to the ancient heritage site of Al Ula and others, Southeast Asian investors are encouraged to play a role.

The Saudi Arabia government plans to form dozens of subsidiary companies through the institutional transformation of *muasasasah*, which will then be offered to strategic investors. At the exhibition, strategic investors signed an investment assessment in these fields. Investors from Indonesia, Malaysia, Brunei, Singapore, Thailand and the Philippines are also exploring

this opening. To be sure, proposals will be accompanied by feasibility studies and legal due diligence, and these have to be carried out by credible and world-class consulting firms.

ASEAN STRATEGIC INVESTOR READINESS

The commercialisation of hajj and umrah services will increase the cost of hajj further. Since 2022, Masyair's service fees have increased by three times, resulting in an increase in the cost of hajj for pilgrims to 30%. In 2023, this cost is expected to remain high. This increase is indeed burdensome especially given the conditions of global inflation and the domestic exchange rate depreciating against the US dollar and the Saudi Riyal.

If Indonesia, Malaysia and other Islamic countries who send pilgrims can take advantage of these investment opportunities, then the benefits can be returned to the pilgrims. This also means strengthening, developing and tapping into existing institutions and schemes that manage the hajj pilgrims. For example, Malaysia has a strong and established Sharia hajj investment institution, the Tabung Haji (TH), which it can draw on, while Indonesia has the Hajj Financial Management Agency (BPKH). Both are potential strategic hajj fund investors. In 2022, TH's total assets amounted to around US\$ 20 billion and BPKH's to around US\$11 billion. Brunei has Taib (Tabungan Amanah Islam Brunei), while Singapore has SWF (Sovereign Wealth Funds) such as GIC (Government Investment Corporation). Interestingly, Taib and GIC have an investment unit that addresses sharia needs.

Hajj funds managed by Malaysia and Indonesia can appropriately be invested in these hajj-related projects because they are deposited for the long term to suit the long waiting time for hajj pilgrims. With a long-term tenor, Malaysia and Indonesia haj funds can be invested in hajj projects in Saudi Arabia which also have a long-term duration. Even though these projects carry risks, these can be mitigated by the hajj and umrah pilgrims who continue to increase and thus help maintain a low to medium risk profile.

The rate of return on hajj investment funds is relatively high, estimated at a minimum of 200 to 300 basis points above the yield on corporate sukuk. With such a high rate of return and low to moderate risk, the hajj funds will attract the interest of prospective pilgrims, umrah and even other people's funds. ASEAN countries with institutional funds, such as Brunei from the provision of surplus oil products, and Singapore from insurance and pension funds, also have long-term financing funds that can be invested in Saudi Arabia. The Philippines is also interested to invest because of the high management of remittance funds from Filipino citizens in Saudi Arabia. Banks in the Philippines are also experienced in offshore financing, and some even have branches in Saudi Arabia. Likewise in Thailand, several banks have branches in Saudi Arabia and can immediately explore project financing in Saudi Arabia. It is conceivable that each investment institution in the ASEAN region can become a strategic partner for Saudi Arabia.⁸

So, even though the cost of hajj increases, this can be compensated for by increasing investment returns in various sectors offered by state-owned investment institutions. If investment opportunities can be implemented optimally and the benefits returned to the pilgrims, then you

have a profitable long-term investment strategy. The investment proceeds will also circulate in the respective countries. The question now turns to how countries can manage the expectations of pilgrims in the short-term.

CONCLUSION

Undeniably, hajj's strategies, policies and financing have undergone significant changes with the introduction of Saudi Vision 2030. The Saudi Arabia government, which has the mandate to manage hajj and umrah, has provided clear directions that in the future, hajj investment will play a key role in improving hajj and umrah services. The hajj capacity will be increased three times in the next ten years, to serve more than 10 million hajj pilgrims per year. This means the services and infrastructure need massive upgrading and improvements.

The service upgrade financing must thus come from investments from within Saudi Arabia and from global strategic investors. The strategic investment for hajj and umrah is expected to obtain returns that can later benefit pilgrims. Ultimately, investors and pilgrims expect transparency in investment management, a subsequent increase in the hajj quota and a reduction in waiting time for pilgrims.

In 2023, the quota for pilgrims has returned to pre-Covid-19 levels, and is to be gradually increased in the next few years. This year, umrah pilgrims from outside Saudi Arabia have exceeded the number before the Covid-19 period by around seven million. The number of hajj and umrah pilgrims will be increased since the area for performing hajj and umrah is now also significantly expanded. The increase in the quotas is encouraging news for Muslims worldwide, especially pilgrims who have waited for an average of more than 20 years in Indonesia,⁹ and 100 years in Malaysia.¹⁰

If Indonesia and Malaysia succeed in becoming strategic partners for investment in Saudi Arabia, pilgrims can get optimal financial benefits from their hajj funds deposits. Besides benefiting from the value of the investment, the results of managing the investment funds can return to their respective countries. Meanwhile, ASEAN countries such as Singapore and Brunei, which also have significant institutional investment funds, can also become Saudi Arabia's strategic partners. For example, Singapore investors can be an important part of the digital transformation for hajj and umrah pilgrims with cashless transactions for living costs, transactions for consumption needs and purchases of tourism needs. With 10 million umrah pilgrims coming from outside Saudi Arabia, and if each of them spends at least US\$1,000 per person during their stay in Saudi Arabia, the number of transaction fees that can be obtained is lucrative. Umrah pilgrims also benefit from cashless facilities and digital transactions that make them practical and safe when spending money for their daily needs or shopping. ASEAN banks that have also been operating in Saudi Arabia, such as those based in Thailand and the Philippines, can also serve various financing needs for hajj and umrah projects—independently or jointly with Saudi Arabian banks.

Brunei can join Indonesia and Thailand in investing in supplying “ready-to-eat” food products; or building hotels with Malaysia and Saudi Arabia via joint venture companies. Investments

can also be made in the form of financing or buying shares in companies owned by Saudi Arabian investors. Thailand has expertise and know-how in halal ready-to-eat food, while Malaysia has experience managing long-term rental hotels in Mecca and Medina.

The cost of traveling and carrying out the pilgrimage is no longer low, but with the investment of hajj funds in Saudi Arabia already having permanent buyers or off-takers and is quite secure, the development of Islamic finance in the world will increase significantly. Islamic finance has the characteristics of non-*ribawi*—lawful, fair, non-speculative and inclusive.¹¹

Nevertheless, while these investment opportunities can benefit Southeast Asia in the long run, the challenge now is for the governments in Southeast Asia to communicate these opportunities to their domestic audience, and explain why the increasing hajj costs are happening. They still have to manage pilgrims' expectations of long waiting times and address the concerns of sub-standard services. Moreover, ASEAN countries need to explain that by carrying out a joint investment strategy with Saudi Arabian investors, pilgrims can hope that the capacity of hajj and umrah quotas will increase, and the waiting time for hajj pilgrims, especially from ASEAN countries, reduced.

The 2023 hajj season will be from May and peak at the end of June or early July. Each country has now begun preparing prospective pilgrims physically, religiously and financially. Intensive communication with the pilgrims regarding the current conditions must be carried out concurrently.

ENDNOTES

¹ Nuradzimmah Daim, and Nor Ain Mohamed Radhi, "116-year waiting period for TH depositors to perform haj under review," *New Straits Times*, 16 July 2019, <https://www.nst.com.my/news/nation/2019/07/504708/116-year-waiting-period-th-depositors-perform-haj-under-review>

² The total number of pilgrims from various countries has fluctuated since 2010-2019. Under normal conditions, in 2019, the number of pilgrims was recorded at 2,489,406 people. <https://databoks.katadata.co.id/datapublish/2021/06/04/total-jemaah-haji-hampir-25-juta-orang-pada-2019>

³ Under normal conditions before Covid, the number of Umrah pilgrims reached 19.15 million, of which pilgrims from internal Saudi Arabia reached 11.7 million and Umrah pilgrims from abroad reached 7.45 million pilgrims (<https://www.bareksa.com/news/umroh/2022-07-15/application-visa-open-this-data-number-umroh-congregation-during-pandemic>)

⁴ Vision 2030 Draws on the nation's Intrinsic Strengths. Saudi Arabia is the land of the Two Holy Mosques which positions the Kingdom at the heart of the Arab and Islamic worlds; Saudi Arabia is using its investment power to create a more diverse and sustainable economy; and it is using its strategic location to build its role as an integral driver of international trade, and to connect three continents: Africa, Asia and Europe (<https://www.vision2030.gov.sa/v2030/overview/>)

⁵ Saudi Arabia's policy is to increase Masyair's budget at the end of May 2022 to SAR5,656.87 from SAR1,531.02 per pilgrm. (<https://www.kemenag.go.id/read/kilas-balik-2022-saudi-naikkan-anggaran-masyair>)

⁶ Hajj and Umrah Exhibition 9-12 January 2023 "The Ministry of Hajj and Umrah aims, through holding the annual conferences and exhibitions, to gather and attract prominent thought leaders and

changemakers, including researchers, innovators and entrepreneurs. It also targets to highlight the latest projects and initiatives launched by the Kingdom of Saudi Arabia with the goal of improving and sustaining the services provided to the pilgrims, enhancing competitiveness, enriching the experience by overcoming challenges and foreseeing future directions in the system of Hajj and Umrah services, guided by the Kingdom's vision 2030.” (<https://www.hajjumrahforum.com/>)

⁷ Vision 2030: 100mn Tourists Annually; WTTC Commits Over USD 10bn Investments to Saudi Arabia at Global Summit (<https://travelbizmonitor.com/vision-2030-100mn-tourists-annually-wttc-commits-over-usd-10bn-investments-to-saudi-arabia-at-global-summit/>)

⁸ An institutional investor is a non-bank person or organisation that trades securities in a sizable number of shares or dollar amounts to qualify for preferential treatment and lower commissions. (<https://www.principal.co.id/en/institutional>)

⁹ Because currently the annual hajj applicants reach 5.5 million. If divided by the normal quota of 221 thousand, the average waiting period for Hajj is 25 years nationally. (<https://haji.kemenag.go.id/v4/kemenag-sebut-antrian-kuota-haji-masa-pandemi-55-year-ini-cause>)

¹⁰ "In Malaysia there is a 141-year waiting period. If the quota is 50 percent (like this year) the waiting period can be almost 300 years," said Dato' Sri Syed Saleh Syed Abdul Rahman, Head of the Malaysian Hajj Delegation (Tabung Haji), Thursday (21/ 7/2022). <https://www.detik.com/edu/detikpedia/d-6192920/antrean-haji-malaysia- Sampai-141-tahun-kok-bisa>).

¹¹ Hajj Financial Management uses Sharia principles, prudence and provides benefits <https://jateng.kemenag.go.id/2018/07/pengelolaan-keuangan-haji-harus-transparan-dan-akuntabel/> for activities that contain elements of Riba, speculation, obscurity and exclusivity

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