



# USSABC Economic Brief: Saudi Arabia's Tourism Sector Update

## Overview

Tourism is one of the fastest growing economic sectors in the world. Last year marked the eighth consecutive year in which the growth of the travel and tourism sector outpaced the growth of the global economy (3.9 percent vs. 3.1 percent). As part of the Kingdom's diversification drive to focus on non-oil sector growth, regulatory developments such as those in Vision 2030 and the National Transformation Plan place the tourism sector at the forefront of attracting investments and supplying nationals with employment opportunities.

Saudi Arabia's tourism industry is unique in its central role for Islamic tourism as the recipient of the world's Hajj and Umrah pilgrims. Historically, visas have only been granted for religious pilgrims, resident workers, business, and family visitation. Visits for the purpose of recreation or cultural enrichment were not permitted. The launch of the tourism eVisa in September is a landmark step in the development of Saudi Arabia's tourism sector. The visa is expected to stimulate inbound tourism for leisure, business, and family-related travel. Similarly, the relaxation of longstanding social regulations combined with massive investments in hospitality and accommodations, tourism infrastructure, and megaprojects like Neom reinforce Saudi Arabia's push to become a global tourism hub.

## The New eVisa Program

In September 2019, the government introduced the new tourism eVisa, explicitly aimed at attracting foreign visitors for leisure. The visa was made available to citizens of 49 countries including the United States. Its availability was further expanded in October to allow applications from anyone with an E.U. Schengen visa. In contrast to previous protocols, the new eVisa is easily accessible online and turnaround is estimated to take between 24 and 72 hours.

The Kingdom has hastened the development of the tourism sector to accommodate an influx of new visitors. In order to fulfill its goals, the Kingdom established a roadmap that would help facilitate the growth of the sector. In 2016, the National Transformation Plan (NTP) identified five key challenges for the

development of Saudi Arabia's tourism industry:

- ◆ Expand the diversity of tourist destinations and services
- ◆ Increase readiness of tourist infrastructure such as transportation and hotels
- ◆ Reduce disparities in quality of service to meet increasing demand
- ◆ Improve ease of access for international tourists
- ◆ Address inadequate infrastructure at national heritage sites

According to the Saudi Commission for Tourism and National Heritage (SCTH), 77,000 visas were issued in the first month of operation. The visa is valid for one year and allows multiple entries and stays of up to 3 months per entry. The application has no restrictions for unaccompanied women as in the past, no religious restrictions, and Muslims can perform pilgrimage outside of Hajj season. The eVisa is expected to have substantial impact on the various segments of the tourism industry as well as dependent sectors such as accommodations and civil aviation.

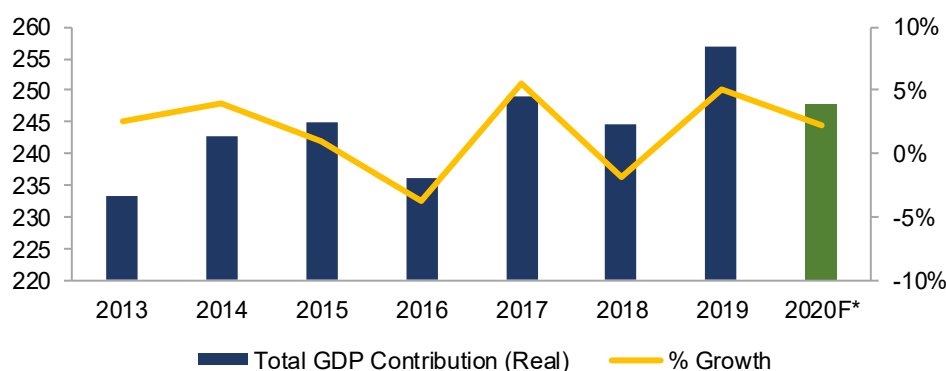
## Market Overview

### Inbound Tourism

The inbound segment of Saudi Arabia's tourism sector remains strong and is poised to increase substantially as the tourism visa draws leisure travelers. The Middle East region remains the single largest source of incoming international tourists and represents just under half of inbound arrivals. Kuwait (13 percent), Pakistan (12 percent), India (9 percent), Egypt (8 percent), and Indonesia (7 percent) are the largest countries of origin. The Asia Pacific region is the second largest source of inbound arrivals.

The World Travel and Tourism Council (WTTC) estimates the direct contribution of travel and tourism to GDP at 3.7 percent. WTTC's estimation of total contribution, which considers indirect effects, is 9.4 percent of GDP. Between 2013 and 2019, the total real contribution of the tourism industry to GDP grew at a compounded annual growth rate (CAGR) of 1.61 percent.

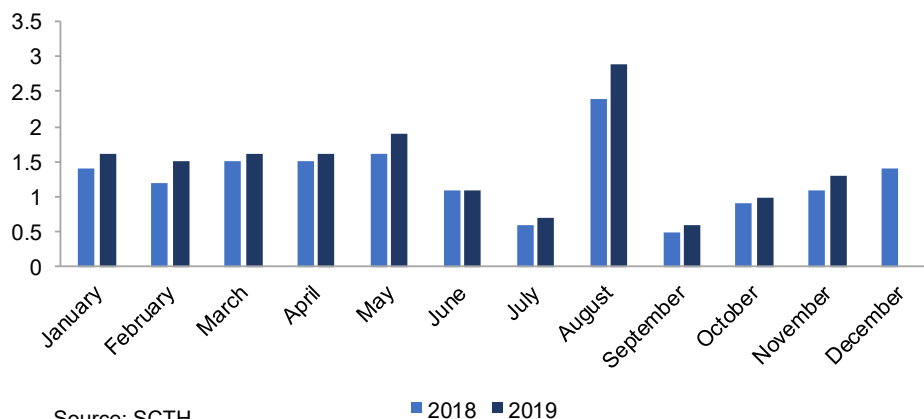
Figure 1 - Tourism Total Contribution to GDP  
(Real SAR Billion)



Source: WTTC, USSABC estimates

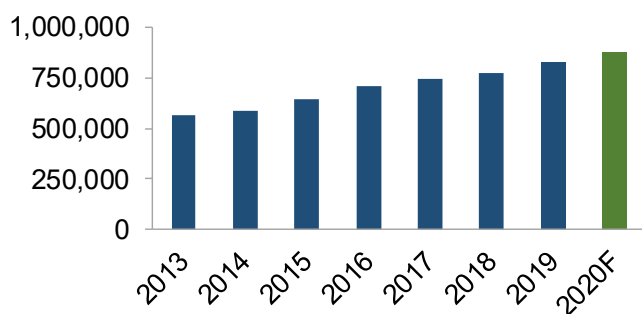
Inbound tourist trips have increased in every month of 2019 thus far compared to 2018. 15.8 million inbound tourist trips were recorded YoY in 2019 compared to 13.7 million in the same period of 2018, a 15.3 percent YoY increase. Similarly, inbound tourist expenditures saw year-on-year growth in every month of 2019 (except July which remained constant) with year-to-date tourist expenditures reaching SAR97.5 billion (\$26 billion) in 2019 compared to SAR84.8 billion (\$22.6 billion) the previous year, a 14.9 percent YoY increase.

Figure 2 - Total Inbound Tourist Trips (million)



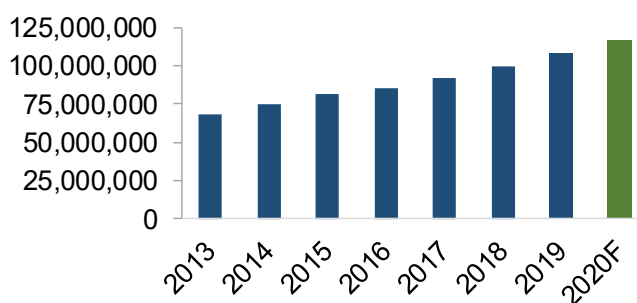
In 2019, four Saudi cities were cited in Euromonitor International’s top 100 most visited cities – Makkah, Madinah, Riyadh, and Dammam. The government has also actively pursued a marketing strategy with the ‘Discover Saudi’ campaign which was later rolled into the ‘Visit Saudi’ campaign ahead of the eVisa launch. Inbound arrivals are expected to grow 5.4 percent YoY in 2020 to 16.9 million. Supporting this view is continued growth in the aviation sector. The number of flights in Saudi Arabia grew at a 6.41 percent CAGR since 2013. The number of passengers grew at a 7.95 percent CAGR since 2013.

Figure 3 - Number of Flights in the Kingdom



Source: GACA, GASat, USSABC estimates

Figure 4 - Number of Passengers in the Kingdom

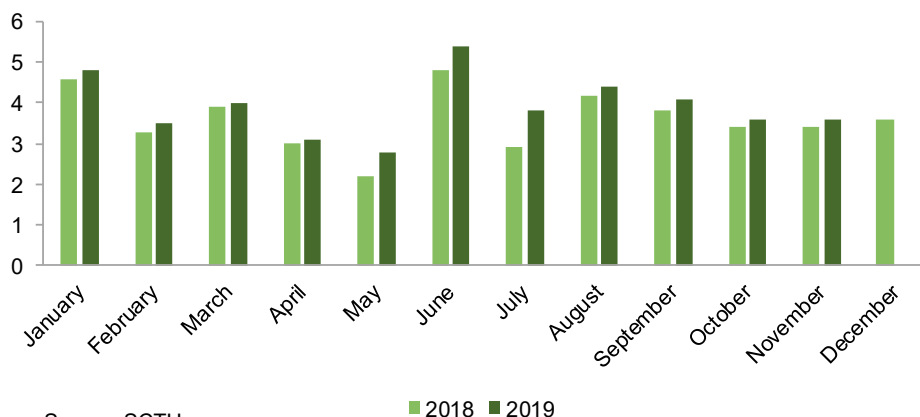


The new visa has stimulated business interest with at least SAR27 billion (\$7.2 billion) worth of tourism investment signed since its launch including a SAR10 billion (\$2.7 billion) deal with U.S.-based Triple 5 for a series of mixed-use tourism, hospitality, and entertainment destinations across the Kingdom, a SAR5 billion (\$1.3 billion deal) with UAE-based Majid Al Futtaim for a mixed-use shopping and entertainment destination including what will be the region’s largest indoor ski slope, and a SAR1.5 billion (\$400 million) deal with Turkey’s FTG Development for hotel, waterpark, and retail development in Qiddiya.

## Domestic Tourism

Domestic tourism encompasses those living within the Kingdom who travel to destinations outside of their area of residence for the purpose of tourism. The total number of domestic tourist trips grew 5.9 percent YoY in November from 3.4 million in 2018 to 3.6 million in 2019. Domestic tourist trips grew 6.1 percent year-to-date in 2019 compared to same period last year. Domestic tourist expenditures also grew a substantial 8.7 percent year-to-date compared to the same period last year from SAR44.8 billion (\$11.9 billion) to SAR48.7 billion (\$13 billion).

Figure 5 - Total Domestic Tourist Trips (million)



According to the General Authority for Statistics' (GASat) official 2018 survey, 42.4 percent of Saudis visited amusement parks, 41.6 percent visited cultural landscapes, and 22.98 percent visited historical museums. The number of private museums increased from 103 to 195 since 2012. The number of archeology, heritage, and history museums increased from 18 to 33 over the same period. The most visited cities for culture and entertainment were Jeddah (37.6 percent), Taif (24.62 percent), and Abha (22.28 percent).

Consumer loans under the 'Tourism & travel' category have risen a substantial SAR411.5 million (\$109.7 million) since 2016 according to SAMA. In 2018, consumer loans for 'Tourism & travel' saw a 49.1 percent YoY increase from SAR324.3 million (\$86.5 million) to SAR483.6 million (\$129 million).

## Labor Market

Amid the government's Nitaqat regulations which offer mandates and incentives for the employment of Saudi nationals, tourism is poised to be a significant source of job creation in the coming years. The direct contribution of the tourism sector to employment grew at a 2.2 percent CAGR between 2013 and 2019. There are 571,000 tourism jobs in Saudi Arabia representing 4.2 percent of total jobs according to the latest 2018 data from the Tourism Information Research Centre (MAS). The number of tourism jobs rose from 535,941 in 2017, a 6.5 percent YoY increase.

The 'Accommodation' sub-sector saw a significant 30 percent increase in jobs from 2017, representing the bulk of employment growth. Jobs in 'Restaurants & cafés' and 'Tourist transportation services' marginally increased around 1 percent during the same period while jobs in 'Travel and tourism agencies'

fell 13.7 percent. Jobs in ‘Entertainment services’ saw a modest 2 percent decline in 2018 though we expect this share of the tourism labor market to pick up in 2019 amid substantial investment across digital media, movie theaters, e-gaming and theme parks. Notably, the Saudization rate in the tourism sector remained unchanged at 28.5 percent.

Table 1 - Direct Jobs in Tourism Sector

Sub-sector	2017	2018
Accommodation	114,957	149,478
Restaurants & cafés	289,491	292,888
Travel and tourism agencies	25,140	21,706
Tourist transportation services	88,275	89,235
Entertainment services	18,078	17,693
<b>Total</b>	<b>535,941</b>	<b>571,000</b>
Saudization	28.5%	28.5%

Source: MAS Center, SCTH

## Financing

The promotion of private investment in the tourism sector has been supported by government-backed finance guarantees under the Kafalah program and land lease extensions. Any small or medium-sized enterprise (SME) operating in the Kingdom under Saudi, joint, or foreign ownership whose annual sales volume do not exceed SAR30 million (\$8 million) is eligible to apply. In 2018, the Kafalah program guaranteed SAR3 billion (\$800 million) to 3,400 SMEs of which 211 were tourism and entertainment enterprises with total financing of SAR315 million (\$84 million).

The Public Investment Fund (PIF) has played a central role in the financing of megaprojects (See Appendix) including the Amaala resort, establishing the Red Sea Development Company and Al-Qiddiya Company as part of a broader plan to meet Vision 2030 goals of economic diversification.

## **Challenges**

Despite stable growth in the inbound and domestic segments of the tourism sector, there are major challenges to address for Saudi Arabia to reach its goal of 100 million visitors and 10 percent direct contribution to GDP by 2030. For example, the NTP listed the World Economic Forum’s Travel and Tourism Competitiveness index ranking as a key performance indicator with a goal of improving its ranking from 63rd in 2017 to 58th by 2021. In the biennial 2019 report, Saudi Arabia’s ranking fell to 69th, underscoring the challenging task of developing the tourism sector.

## Regional Competition

Regional competitors engaged in the tourism industry such as the UAE and Qatar are more firmly established as leisure tourism destinations. While the Middle East region received 63.6 million tourists in 2018 and has seen growth each year since 2016, Saudi Arabia’s share of those regional tourists has declined. We expect the eVisa will make it significantly easier to travel between neighboring countries and tourist hotspots like Dubai, Doha, the Ancient City of Petra, and Cairo.

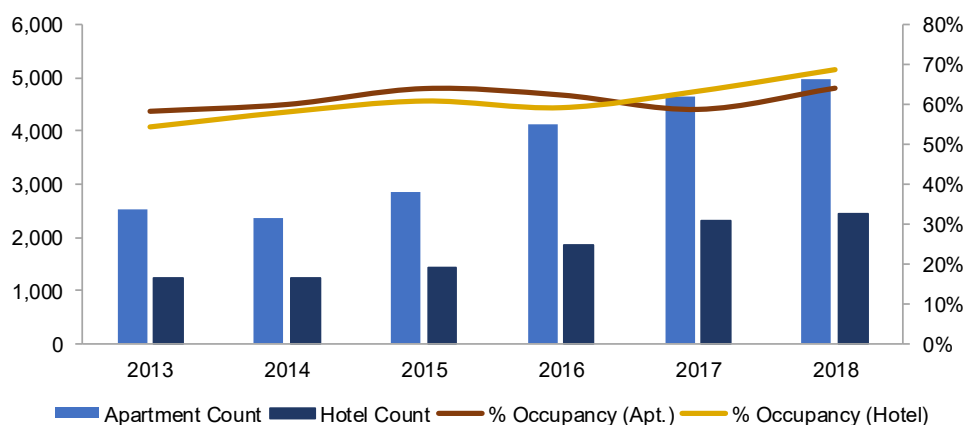
The Kingdom’s competitive advantage remains its religious tourism segment. However, we see significant opportunity to join in the rising popularity of Middle East destinations as the regulatory and investment climate within Saudi Arabia improves. A joint visa between Saudi Arabia and the UAE, which is expected to be finalized in 2020, would help in growing the Kingdom’s brand as a tourist destination.

### Lack of Low-Mid Range Accommodations

Market data indicates there is strong demand for mid-range accommodations amid supply shortages, creating a growing gap in this market. In GStat’s entertainment and tourism survey, 59.6 percent of Saudis cited high prices of accommodations as a reason for not travelling inside the Kingdom. Mid-range accommodations are attractive to domestic travelers looking for extended stays and companies on tight business traveling budgets.

These two categories tend to stay at unbranded hotels or serviced apartments that match their budgetary needs. While demand has been unmet, there have been recent investments into this sector as international companies like Frasers Hospitality, Citadines, and Staybridge have developed mid-range accommodations over the last year. Overall, hotel and furnished apartment construction has shown steady growth since 2013 and is expected to continue.

Figure 6 - Hotel and Furnished Apartments Count and Occupancy



Source: SCTH

## Megaprojects & Entertainment

The government’s prioritization of the development of several megaprojects underscores its commitment to providing a diverse array of tourism destinations to attract domestic and international tourists. The larger megaprojects like Neom and the Red Sea Project have completion dates estimated between 2025 and 2031 and are expected to attract substantial foreign direct investment and create tens of thousands of jobs across the tourism, entertainment, and accommodations sectors.

The past three years have also seen unprecedented public investment across the entertainment sector broadly. The General Entertainment Authority (GEA) pledged SAR240 billion (\$64 billion) over the 2018-2028 period to develop a robust domestic entertainment industry. GEA hosted over 5,000 entertainment

event titles in 2019 including professional soccer matches, e-gaming expos including the first League of Legends tournament in the Middle East, WWE matches, and concerts featuring western artists and performers. In 2017, after lifting a decades-old ban of cinemas, the PIF founded Saudi Entertainment Ventures which has signed a partnership with AMC to have 50 cinemas operational across 15 cities in Saudi Arabia by 2022.

The government has been engaged in an ambitious bidding effort for staging rights of major international sporting events, hosting the Race of Champions motorsport event, a PGA European Tour golf event, and most recently the Clash on the Dunes boxing heavyweight title fight. Next year, Saudi Arabia will host the five-stage cycling Saudi Tour and the inaugural Saudi Cup horse race. These entertainment investments highlight the government's effort to make the Kingdom an attractive destination for both domestic and international travelers.

In conclusion, the transformation of the regulatory landscape and the newly introduced eVisa will directly contribute to the growth of the tourism sector. The steady growth of both domestic and inbound tourism that has been witnessed over the last few years is likely to accelerate with the introduction of the eVisa program. Private investment by SMEs is also playing an increasingly important role in the tourism industry and the Kafalah program offers guarantees to foreign businesses, which will facilitate enhanced business engagement. Furthermore, the pipeline of mega-projects that are currently in the execution phase will bring much needed accommodations to close the supply and demand gap. There has been notable progress in the key goals of the NTP such as improving access for international travelers and increasing the variety of tourist destinations throughout the country, though additional infrastructure investment is needed to match the increase in inbound arrivals and to successfully leverage these attractions.

## Appendix:

### Megaprojects in Development

Project	Value	Details	Province
Neom	SAR500 billion (\$133.3 billion)	<ul style="list-style-type: none"> <li>Smart, 16-borough, 10,000 sq. mile megacity powered entirely by renewable energy sources</li> <li>Intended to serve as a global hub across nine key economic sectors including media production and entertainment, energy and water, and biotechnology and digital sciences</li> </ul>	Tabuk
The Red Sea Project	SAR10 billion (\$2.7 billion)	<ul style="list-style-type: none"> <li>Development of 50 islands off the Red Sea coast including an airport, seaport, 12,000 housing units, luxury resorts, sports, retail, and entertainment centers</li> <li>Marine sanctuary and eco-tourism destination</li> <li>Projected to create 70,000 jobs</li> </ul>	Tabuk
Qiddiya	SAR4 billion (\$1.1 billion)	<ul style="list-style-type: none"> <li>Entertainment city 40 km from Riyadh city center containing amusement parks, sports venues, safari and bike-riding locales</li> <li>Six Flags Qiddiya planned to open in 2023</li> <li>Projected to create 17,000 jobs</li> </ul>	Riyadh
Amaala	SAR1 billion (\$266 million)	<ul style="list-style-type: none"> <li>Branded as “The Riviera of the Middle East”, wellness retreat, wildlife sanctuary, resort</li> <li>Construction of hotels providing 2,500 rooms</li> <li>Construction of new international airport</li> </ul>	Tabuk
Al Ula	SAR20 billion (\$5.3 billion)	<ul style="list-style-type: none"> <li>Restoration of pre-historic Nabatean sites including Mada’in Saleh</li> <li>Projected to create 38,000 jobs and attract two million visitors by 2035</li> </ul>	Madinah
Jeddah Economic City	SAR30 billion (\$8 billion)	<ul style="list-style-type: none"> <li>Construction of world’s tallest building, Jeddah Tower</li> <li>Development of 470,000 sq. meters of commercial area, 800,000 sq. meters of office space, 150,000 sq. meter university campus</li> </ul>	Makkah
Souq Okaz City Project	SAR2 billion (\$533 million)	<ul style="list-style-type: none"> <li>Heritage tourism project including museums, recreational areas, and convention center</li> <li>18 private sector projects, 5 public sector projects</li> <li>New international airport handling five million passengers per year</li> </ul>	Taif
Diriyah Gate	SAR17 billion (\$4.5 billion)	<ul style="list-style-type: none"> <li>New culture and lifestyle destination including eight museums, restoration of historic Wadi Hanifa historical village, 15,000 seat entertainment arena, 20 hotels providing more than 3,100 rooms</li> </ul>	Riyadh



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