

Saudi Arabia: A new travel hotspot

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- Saudi Arabia is set to receive an economic boost this year as it begins to improve its FDI performance. In 2020, the kingdom, after the UAE attracted the highest rate of inflows to the MENA region.
- The new wave of reforms as part of Vision 2030 confirms the kingdom's commitment to cultivating an attractive investment environment.
- Some of the most visible progress has been seen in the tourism sector. The Public Investment Fund (PIF) is set to play a key role in powering the sector's growth and attracting investment through various projects in the pipeline.

FDI recovery, steady as she goes

Saudi Arabia needs to reverse its lower-than-average FDI performance of the last few years, powered by the Public Investment Fund (PIF). This is a central pillar for Vision 2030, the implementations of which depends on attracting high levels of investment.

- In a sign that Saudi Arabia is growing its appeal as a business and investment hub, 2020 saw the kingdom's rate of inward investment reach USD 5.5B. This represents a 20% YoY increase and the highest level in four years.
- The growth comes despite a 42% decline in global FDI throughout 2020, indicating that new reforms to improve the foreign investment climate are starting to yield results.
 - In 2020, Saudi Arabia accounted for around 31% of the total FDI inflows to the GCC and ranked second after the UAE in attracting the highest rate of inflows.
 - For comparison, inflows to the UAE grew by 11% YoY to reach USD 20B last year, but this was mostly because of significant acquisitions in the energy sector.
 - FDI inflows to the GCC region have grown steadily in recent years, increasing by 26% from 2017 to 2020. The growth has been predominantly driven by the UAE and Saudi Arabia, with Oman recently catching up.
 - Total inflows to the GCC in 2020, however, were still 32% below their peak in 2011. With the GCC starting to view FDI as an essential component of their long-term growth and diversification policies, we expect inflows to grow beyond this rate going forward.
- Saudi Arabia's inward FDI in Q4 2020 registered the highest increase on a QoQ basis, growing by 72% to reach around USD 1.9B. This is the highest quarterly FDI rate since Q4 2016, when the kingdom recorded USD 2B in inflows.
 - FDI inflows were mostly directed towards the digital economy, which proved the most resilient sector in 2020. These inflows include investments in e-commerce, the 'internet of things' and blockchain, as well as augmented and virtual reality.
 - Additionally, the Ministry of Investment issued 466 foreign investor licenses in Q4 2020. This constitutes the highest number recorded in a quarter since 2005, as well as a 52% QoQ increase and a 60% YoY increase compared to the same period in 2019.

Table 1 - Saudi Arabia Macroeconomic Indicators¹

	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	2.4	0.3	-4.1	2.4	4.8
Crude Oil Production (M Bpd)	10.3	9.8	9.3	9.2	9.8
Oil GDP Growth (%)	3.1	-3.6	-6.7	1.6	4.8
Non-oil GDP Growth (%)	2.2	3.3	-2.3	3.9	3.6
CPI Inflation (%)	2.5	-2.1	3.6	2.7	2.0
Fiscal Balance (% of GDP)	-5.9	-4.5	-10.6	-3.8	-2.5
C/A Balance (% of GDP)	9.2	5.9	-2.5	2.8	1.9
Total Gov't. Gross Debt (% of GDP)	19.0	22.8	33.4	31.0	31.7
Total Gross Extn'l Debt (% of GDP)	19.2	23.2	29.9	25.4	25.5
Gross Official Reserves (Mos. of Imports)	28.6	33.2	26.2	25.7	24.7
Nominal GDP (USD B)	786.5	793.0	680.9	804.9	827.1
Population (Millions)	33.7	34.2	34.2	34.8	35.0

- Among the kingdom's targets is to increase FDI to 5.7% of GDP by 2030., from just under below 1% of GDP in 2020. Saudi Arabia missed its USD 10B FDI target by more than 50% in 2019.
 - FDI outflows remain higher than inflows, which amount to 1.7% of GDP. This suggests that Saudi Arabia is still investing more globally than it is getting by way of inflows
 - Going forward, we expect this to change as the kingdom steps up its domestic investment plans, along with the PIF's new five-year plan with which it aims to double its assets by USD 1T and contribute -USD 320B to non-oil GDP by 2025.
 - The improvement in inflows will be anchored by a wave of reforms as Saudi Arabia competes to reposition itself strategically as a regional corporate hub and an attractive destination for investors.
- To encourage FDI, the kingdom has undertaken wide-ranging reforms to enhance market access and transparency.
 - For instance, reforms to four main judicial laws - the Personal Status Law, the Civil Transactions Law, the Penal Code for Discretionary Sanctions and the Law of Evidence - are set to be announced over the course of 2021. They are expected to represent a significant shift from the current legislative system.
 - By adopting international judicial practices, these reforms are expected to clarify lines of accountability and improve the kingdom's legislative transparency and overall business competitiveness, while also expanding the country's investor base.
 - Saudi Arabia had announced earlier in the year that state-backed institutions would no longer award contracts to foreign firms which do not base their regional HQs in Riyadh by 2024.
 - While this decision should not affect firms that wish to do business with the kingdom's private sector, it underscores Riyadh's commitment to transform the Kingdom into a competitive regional economy with global appeal.

Unleashing tourism potential

Six years into Vision 2030, progress across some initiatives has been faster than others, with the most visible change being made in tourism and culture-related sectors.

- Saudi Arabia has over USD 810B worth of tourism projects underway as it aims to attract 100M tourists annually by 2030 (up from 17M recorded in 2019). Even amidst the

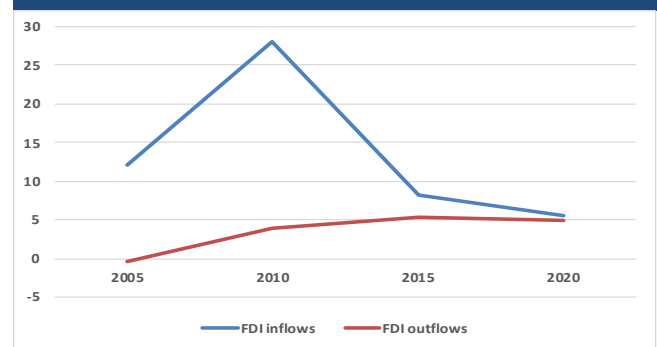
¹ Arabia Monitor; IMF.

- COVID-19 pandemic, we witnessed the rollout of several initiatives aimed at boosting tourism.
- Attracting tourists is a central plank of the country's plan to reduce its reliance on the energy sector, to draw in foreign investment and to increase the level of domestic employment.
 - The direct contribution of tourism to GDP in 2020 stood at 3%. According to the World Travel & Tourism Council, it is estimated that this will rise by 3.8% annually by 2027, amounting to over 11% of GDP.
 - While the pandemic has severely delayed the kingdom's tourism and travel plans, domestic tourism has benefited.
 - Domestic tourism spending was up by 33% YoY to USD 12B in 2020, generating around 60% of the tourism contribution to GDP. The remainder stemmed from foreign visitors.
 - The Saudi Summer campaign, which was established to encourage domestic tourism in ten locations across the kingdom, generated over USD 2.3B throughout the summer of 2020.
 - Meanwhile, foreign tourism spending in 2020 plummeted by 68% YoY from USD 16B registered in 2019. Yet with the global recovery and fresh initiatives underway (including a boost in tourist visas), the number of foreign tourists to the kingdom will recover rapidly, particularly religious tourism.
 - With a contribution of 7% of GDP and an average of USD 12B in yearly revenues, religious tourism is an important pillar of Vision 2030, accounting for 40% of tourists who come to Saudi Arabia.
 - The Saudi Arabia National Transformation Program estimates that the number of foreign Umrah pilgrims (those making non-obligatory pilgrimages at any time of the year) will rise to 30M annually by 2030, up from 15M in 2020.
 - Over the last five years, religious tourism revenue grew by an average of 65% annually. If this rate is sustained, revenue could reach USD 150B by 2022.
 - The Umrah and Hajj pilgrimage restrictions established in 2020 resulted in a loss of around USD 5B, which is expected to put a drag on revenue growth in the coming year.
 - In 2020, 10K pilgrims residing in the kingdom were allowed to perform Hajj. This compares with 2.5M throughout the previous year.
 - The road to reaching the figures posted in 2019 will be slow, but we are already seeing the easing of restrictions, which will almost certainly help the recovery of religious tourism.
 - The launch of the Umrah Visa in 2019, which allows pilgrims to also visit non-religious historical sites across the kingdom, will have a spillover effect on the sector's overall growth.

Initiatives endorsed by the PIF will be critical to boosting tourism as it is a key contributor to several mega projects in the pipeline. The kingdom aims to attract over 2M visitors annually and to create 8K direct and indirect jobs for young Saudis.

- The PIF has plans to construct an estimated 900K houses and hotel rooms by 2030 across twenty projects. At the same time, the government is working to make Saudi Arabia more attractive to visitors. Additionally, the PIF is developing a local cruise industry after establishing the 'Cruise Saudi' company in Jeddah earlier this year.
 - Cruise Saudi will develop ports and terminals in several cities and tourist destinations, with the aim of

Figure 1 - Saudi Arabia FDI Flows (USD, B)



introducing new itineraries that explore the kingdom's heritage.

- Several other initiatives have been launched to drive private sector involvement in developing tourism.
 - In February, the PIF launched a new venture, the Soudah Development Company (SDC), which is set to inject USD 3B in tourism and infrastructure projects in a mountainous area of Asir province.
 - The new venture will partner with the private sector to build 2.7K hotel rooms, 1.3K residential units and 30 commercial and entertainment attractions by 2030.
- Additionally, the Saudi Tourism Authority (STA) has launched a new initiative called 'Tourism Shapers' to support the learning and development of local travel trade partners in the private tourism sector.
 - Beyond growing the sector, the Tourism Shapers initiative aims to encourage subject matter experts to set up businesses within the industry by providing them with the necessary insights and tools.
 - It also aims to create 100k jobs for citizens this year, and a further 1M jobs by the end of 2030.
- Furthermore, Saudi Arabia's Tourism Development Fund (TDF) launched a USD 530M Tourism Partners programme to strengthen partnerships between the government and private sector via the Shareek initiative launched earlier this year by Crown Prince Mohammed bin Salman.
 - Under Tourism Partners, three financing options are available to private sector establishments, valued between USD 27K and USD 26M.
 - This is designed to open the door to a wider base of small and medium private enterprises to assist them in seizing opportunities within the tourism industry.

Interestingly, Saudi Arabia's efforts to boost its tourism sector are rapidly expanding beyond the standard scope as it plans to grow its domestic aviation industry. Such a move is set to serve the tourism sector well.

- The PIF is planning to establish an airline company in partnership with local and international investment bodies.
- Additionally, in a bid to increase the overall number of airport users to 330M by 2030, the General Authority of Civil Aviation (GACA) approved the landing of international flights at Prince Abdul Majeed Bin Abdulaziz Domestic Airport situated in the up-and-coming tourist destination Al-Ula. This is expected to spur tourist inflows and to entice foreign investments going forward.

² Arabia Monitor; UNCTAD.

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