

KSA

COUNTRY
REPORT:
HIGH HOPES UPENDED
BY PANDEMIC

As the coronavirus pandemic continues to bring the economies of the world to their knees, Saudi Arabia is trying to find ways to stay afloat. **Nada Alameddine**, partner at Hodema consulting services, discusses the role of tourism in the kingdom's future and its Vision 2030 targets.

The drop in oil demand has hit the oil-rich nation of Saudi Arabia hard, which had started moving toward more diverse industries in recent months. Figures released at the end of September by the General Authority for Statistics show that the country's economy shrank 7 percent year-on-year (y-o-y) in Q2 2020, with the private sector showing a negative growth rate of 10.1 percent, and the public sector declining by 3.5 percent. Unemployment hit its highest level on record, reaching 15.4 percent from April to June. The oil sector contracted an annual 5.3 percent, with its refining activities dropping 14 percent y-o-y and thus its revenue plummeting. Indeed, the pandemic strongly affected demand for oil. The national flagship Aramco reported a 44.6 percent drop in Q3 net profit, and a 73.4 percent y-o-y plunge. Nevertheless the company announced it would distribute dividends for the rest of the year, which traditionally provides a major boost to limit the country's fiscal deficit.

But the short-term future may look a little bit rosier; the ease of Covid-19 restrictions in the Q3 has brought consumer spending back to a relatively normal level. The increase in VAT from 5 to 15 percent — an increase implemented in July — is also a convenient way to bail out public accounts. But the watchword is caution. The pre-budget 2021 released by the Ministry of Finance in September plans to reduce spending by 7.5 percent from SR 1.07 trillion to SR 990 billion (USD 263.9 billion) to reduce the deficit.

As well as tightening its belt, Saudi Arabia has decided to ease foreign workers'

contractual restrictions and increase their mobility, such as the freedom to change jobs or apply for exit visas without their employers' consent. The "Labour Relation Initiative," which comes into effect next March, can potentially impact 10 million foreign workers, who account for a third of the population. The idea is to make the labor market more competitive and attract foreign skills and investment.

This fresh move could be beneficial for the hospitality industry, a key sector Crown Prince Mohamed Ben Salman is

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focused on, and pillar of the Vision 2030 plan to diversify the economy. It is hoped that the sector could grow to reach 10 percent of the GDP in the next decade, up from its current level of 3 percent. Many announcements and changes have already been made in recent months, such as the new simplified visa protocol for foreigners and the millions invested in large hotel and F&B projects across the country: the Red Sea Project, for example. Although global tourism is on pause and the future looks uncertain, Saudi authorities remain hopeful of reaching their 2030 target of welcoming 100 million tourists annually. This seems overly ambitious though. France, the top destination globally, only recorded 90 million tourists in 2018. For KSA it would

mean a six-fold increase in arrivals, as the country registered 17 million visitors in 2019.

At Riyadh's Future Hospitality Summit, held in October, Minister of Tourism Ahmed Al-Khateeb announced the completion of an additional 500,000 hotel rooms, the creation of 1 million jobs and the training of 12,000 new tour guides — a massive increase from the 900 that are currently registered. He also insisted that foreign and local investors will be given equal opportunities, seen by many as a call for help to reach the challenging target. Religious tourism will remain the main focus of the plan. Around 8 million pilgrims flocked to the country in 2019 for Umrah, and authorities believe this could increase to 30 million people. The Hajj, however, doesn't have a lot of room for expansion — with about 2.4 million visitors a year — as the number is limited because of space, hospitality and safety measures.

Back in June, the government announced a USD 4 billion tourism development fund to be launched when recovery from Covid-19 starts. The fund is partnering with two local banks to inject USD 43 billion in upcoming tourism projects. Meanwhile, the World Tourism Organization (UNWTO) has announced it will open a regional office in the kingdom next year.

Although Saudi Arabia's Vision 2030 has not fallen victim to the pandemic and the oil war just yet, its future looks uncertain. The country's strategy to develop tourism is fairly recent, so only time will tell if it can survive the global crisis.