

# KSA: TRANSFORMATION ON AN UNPRECEDENTED SCALE



Saudi Arabia's far-reaching vision to diversify its economy and boost the non-oil sector is delivering extraordinary results, ensuring that the Kingdom remains firmly in the headlines and on investors' radars. **Nada Alameddine**, managing partner at Hodema Consulting Services, charts the latest developments in KSA's fascinating growth story, which range from giga-project pipelines and an ever-expanding private sector to record tourism revenues.

The seismic changes that Saudi Arabia has implemented in recent years, economically, socially and culturally, through its Vision 2030 plan, all form part of a broader goal, which is to diversify and future-proof the Kingdom's oil-based economy. National GDP reached USD 1.11 trillion last year, marking an increase of 8.7 percent from 2021, on the back of high oil prices. The government had previously set a target date of 2025 to reach the USD 1 trillion milestone, but is already recording its first budget surplus in a decade. This spectacular performance has earned Saudi Arabia pole position among the G20 countries as the fastest-growing member state. In an environment of global price hikes, its inflation rate remains low, thanks to domestic subsidies and price caps.

## An investment powerhouse

Construction, transport, wholesale, retail trade and tourism are the main drivers of non-oil growth in KSA. According to the Federation of Saudi Chambers, exports of goods and services increased by 54.4 percent in 2022. The value of exports of goods and services rose to 171.9 percent of the value of imports of goods and services in 2022, up from 134.5 percent the previous year.

In recent years, the Kingdom has moved away from its traditionally strong public sector economy to make way for private investments. The authorities' efforts to attract foreign and local investors to support their diversification plans look to be paying off; the private sector's contribution

to GDP last year reached 41 percent, marking a rise of 5.3 percent. The number of Saudis joining private businesses is also booming, having increased from 1.91 million in 2021 to 2.19 million in 2022. As a result, the private sector is now the primary employer, providing jobs for 58.2 percent of the workforce. This development also spells good news for the unemployment rate, which dropped to 5.1 percent in the first quarter of 2023, down from 9.9 percent in 2020. According to the IMF, youth unemployment fell to 16 percent in 2022, while female participation in the labor force reached 36 percent, exceeding the 30 percent target set by Vision 2030.

## An emerging tourism hub

The country has been implementing radical changes to the sector since 2019 in its bid to attract visitors to comply with tourism being one of the cornerstones of Vision 2030. The Kingdom aims to attract 100 million inbound and domestic tourists, increase the sector's contribution of GDP to 10 percent and provide nearly 1.6 million jobs to Saudi youths by 2030. There are clear signs that this national drive is already well under way, from global communication campaigns to infrastructure overhauls and visa incentives, and these efforts are already starting to pay dividends. According to the Global Competitiveness Report of the International Center for Management Development (IMD), the Kingdom ranks second globally for international tourist growth rates, while the UNWTO Barometer Report reveals a spectacular 58 percent increase in visitor traffic. Last year Saudi Arabia registered a record 93.5 million visitors, with the sector's direct contribution to GDP reaching 3.2 percent.

The trend remains positive. Incoming tourism revenues reached a record USD 9.8 billion in the first quarter of 2023, according to the Saudi Central Bank, marking a rise of 225 percent on the same period in the previous year. Nearly 8 million foreign holidaymakers visited KSA in Q1, putting it

well on track to meet its goal of attracting 25 million international visitors this year. Domestic tourism is also on the rise, with numbers reaching 77 million last year, marking an increase of 21 percent. KSA is additionally positioning itself as a key player on the international stage. The country was elected Chair of the Executive Council of the UNWTO for 2023 and hosted the World Travel and Tourism Council's Global Summit in Riyadh last year, and recently inaugurated the first regional office of the UNWTO for the Middle East.

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## Relaxing travel procedures

Highly restrictive entry procedures for the country have made way for facilitating measures in a short space of time. Several nationalities can now obtain an instant e-visa or gain authorization upon arrival. A stopover visa has also been launched for passengers traveling on Saudia Airlines and flynas, enabling them to stay in the country for up to 96 hours. New measures have been implemented for pilgrims as well, and religious visas can now also be converted into non-religious tourist options.

These initiatives are providing a boost for air traffic, which recorded a rise of 82 percent in passengers last year, according to the General Authority of Statistics. Jeddah was the busiest airport, recording 32 million travelers, while Riyadh is undergoing a major makeover, with a six-runway mega construction plan. A new airline, Riyadh Air, is also expected to be launched in 2025 by the government's sovereign wealth fund.

## A new hospitality landscape

The hospitality industry is part and parcel of the tourism mega development plan. With several leisure hubs under construction, thousands of hotels are in the works. KSA currently has more than 400,000

accommodations and is planning to add 854,000 new rooms by 2030. Several international chains are part of the expansion scheme. These projects include: Al Hamra Palace Jeddah; Dar Tantara by The Hotel House; DoubleTree by Hilton Jeddah; Al Andalus Mall; ENVI Al Nakheel; Faena Red Sea Resort; Fairmont The Red Sea; and Four Seasons Hotel, among others. According to the Ministry of Tourism, they will provide 435,000 new hotel rooms by 2025. Occupancy rates are robust, reaching 76 percent in March in Riyadh.

The F&B sector is also transforming to welcome a booming clientele, with revenue projected to reach USD 16.03 billion in 2025. Hundreds of new homegrown and international venues are in the works, with the authorities' focus to attract foreign investors to the food industry. Aligned with this expansion, the food manufacturing and processing sector is playing a key supporting role, with continuous growth putting it on course to reach USD 13.3 billion by 2025 and create thousands of jobs.

## Giga-projects in the pipeline

However, the headline news continues to be dominated by KSA's ambitious giga-projects, led by the USD 500 billion futuristic sustainable city Neom. This flag-bearer of Vision 2030 will include a 170-kilometer-long city named The Line, an octagon-shaped port city (Oxagon), a ski resort (Trojena) and an island resort called Sindalah.

Meanwhile, high-end hotels and villas on the coast are taking shape under the extensive Red Sea project, which consists of two separate developments: The Red Sea and Amaala. Many other projects are in the pipeline countrywide, from the construction of homes, schools and mosques to town center revamps and related infrastructure. Architects' very best have been approached to design many of the new developments, including Zaha Hadid, Ricardo Bofill and Jean Nouvel among others.

## A positive outlook

The outlook appears bright in the short term for the Kingdom, although the IMF expects its GDP to slow further from the current projection of 1.9 percent, as cuts to production and lower prices continue to hit oil revenues. However, the non-oil sector should remain strong, with growth of 4.9 percent forecast for this year, bolstered by private investments and ongoing reforms.

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