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Research Briefing | Middle East

GCC: Competing for a larger slice of the tourism pie

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- **The tourism sector is set to be an important driver of non-oil growth across the Gulf Cooperation Council (GCC) region in the coming years as these countries try to diversify away from oil. However, our analysis shows the sector will remain a relatively small part of the total GCC economy (at 3.8% of GDP in 2027, up from 3.7% today) despite posting projected annual growth of 7% over the next decade.**
- **We find tourism will have wider indirect benefits for the economy, with the total contribution from the sector rising to over 10% of GDP in 2027, from 9.4% currently, as higher consumption boosts the role of services in the economy.**

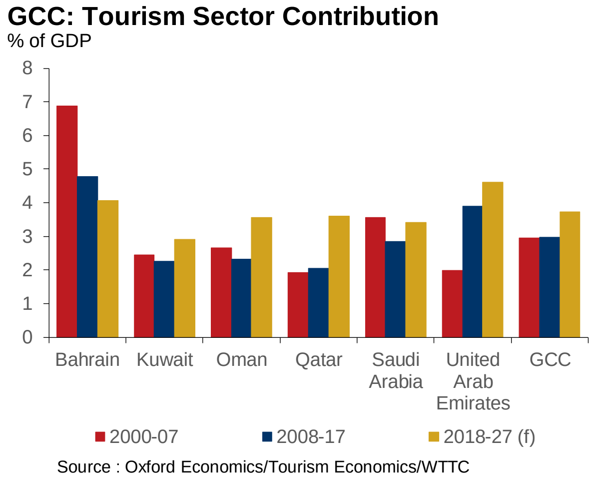
GCC beyond Dubai...

Dubai aside, the GCC is not a top holiday destination. But the countries in the region are taking steps to change that by investing heavily in hospitality-related infrastructure and tapping into key global tourist sources, particularly China, to boost the contribution from tourism as they attempt to diversify away from oil dependency.

Our forecasts, which combine global tourism trends with macro forecasts, show the sector growing by 7% a year over the next decade, to US$109 billion in 2027 from US$54 billion in 2017. Notwithstanding this rapid growth, the direct contribution from tourism to GDP will increase only modestly, to 3.8% over the same period from 3.7% today.

Importantly though, tourism spending is set to drive consumption, helping to shift the regional economies away from capital-intensive mining and towards services. Measuring the indirect impact of tourism on the economy, our forecasts show the contribution increasing to 10.1% of GDP in 2027 from 9.4% at present.

Chart 1: Direct contribution from tourism set to rise to 3.8% of GDP by 2027



Qatar and Oman will see the largest increases in the contribution from tourism to GDP. Bahrain is seen as the only one posting a decline in the sector's share in the economy as it suffers from a decline in Saudi visitors.

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Dubai's 2020 Expo and Qatar's 2022 World Cup to drive tourism expansion

Getting the most out of tourism in oil-lighter future

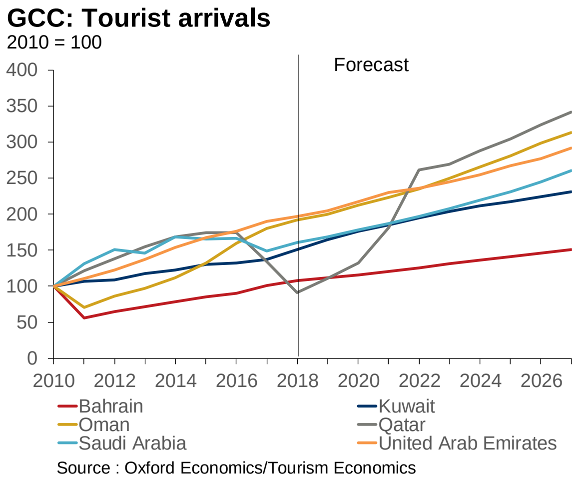
Tourism is a key sector in the region's ambition to diversify away from oil. The GCC countries are striving to exploit their advantageous geographical location (between Asia, Africa and Europe), already high quality of physical infrastructure (the UAE and Qatar rank 5th and 13th globally on this score according to the WEF competitiveness report) and a unique set of natural (including UNESCO) and man-made sites. Dubai, whose attractions and connectivity (via Emirates airline expansion) have already put it firmly on the world traveller's map is leading the way, but each country is trying to pursue its own path; Oman is blending resort tourism with wildlife experiences, Dubai and Qatar are investing heavily in construction projects as they prepare to host the 2020 Expo and 2022 World Cup respectively, and Saudi Arabia is opening up to non-religious tourism.

The efforts to boost the sector are already translating into higher tourist arrivals - last year, the region attracted almost 53 million international tourists, 4% of the world total. In 2013-17, the aggregate number of visitors grew by an average of 5.3% annually, according to our estimates, a pace we expect to be maintained over the next decade.

Our findings imply that Qatar will lead the region's growth in arrivals, assuming it can recover from the recent change of fortunes. Qatar's tourism industry has been hit by political developments in the region and the Saudi-led blockade that was imposed on Qatar in June 2017. The embargo has led to a huge drop in the number of visitors from GCC economies – in Q1 2018, for instance, there were only 54,330, down from 394,560 a year earlier. This was the key driver in the overall 38% fall in inbound tourism over the same period (Saudi Arabia had been the largest source market). Higher air fares, reinforced by the rerouting necessitated by the blockade, have also weighed on the number of inbound tourists.

With the blockade expected to remain in place, Qatar is looking to capitalise on its well-developed route network to replace the lost flows from the GCC region. If visitor numbers remain below envisaged targets, there is a clear risk of substantial over-capacity when facilities developed for the 2022 World Cup are completed.

Chart 2: Inbound tourist numbers remain on the rise



Key policy changes and efforts to diversify source markets will continue to support the near-term visitor arrival outlook for the region.

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Hassle-free travel drives competitive advantage...

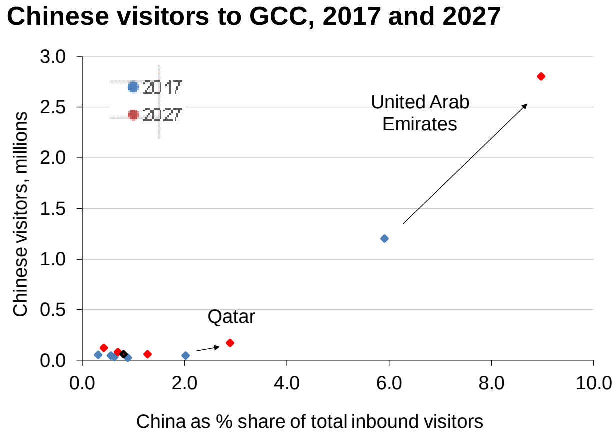
Our data show the pace of increase in tourism spending has accelerated even faster than the rise in the number of visitors, averaging over 10% per annum during the same five-year period (2013-17).

Visa costs and procedures are a key area via which regional governments are attempting to not only boost tourism numbers but also attract higher-spending tourists. Qatar has gained a competitive advantage over its GCC rivals in this regard, waiving visa requirements for nationals of more than 80 countries, including all of Europe, the US, China, India and Japan. The UAE is also offering visa-free travel for nationals of 44 countries, with citizens of further 21 countries able to obtain visas on arrival. Meanwhile, Bahrain and Oman have also eased entry requirements. Finally, Saudi Arabia is beginning to issue tourist visas to reach the 30 million annual tourist target by 2030 (almost double the arrivals in 2017). Somewhat counterintuitively, but with the aim of raising non-oil income amid budgetary pressures, it raised visa charges for pilgrims and other types of tourists in 2016-17, leading to an overall decline in arrivals in 2017.

The progress made on the visa front and also targeted marketing outreach in countries like China, India and Russia (by opening representative offices) and incorporating digital advances (including plugging into the sharing economy) bodes well for the prospect of attracting a greater share of the higher-spending tourists who vacation abroad every year. Growing Chinese outbound tourism presents a key opportunity for the GCC region. Chinese tourists accounted for a fifth of the world's overall spending on tourism in 2017, at US$258 billion. The GCC attracted less than 1% of this amount, with the bulk being spent in the UAE. We forecast total spending in the GCC by Chinese visitors to reach $8.3 billion by 2027, 9% of total inbound visitor spending in the region.

The positive trend for both arrivals and spending is set to drive consumption, which overall we forecast will grow by some 2.8% a year (in constant prices) over the next decade. Tourism-related activity will also support efforts undertaken in other sectors, like construction, and help to shift the regional economies away from capital-intensive mining and towards services.

Chart 3: Chinese visitors present a huge opportunity for expansion of the sector



Source : Oxford Economics/Tourism Economics

The UAE will remain the regional leader in attracting Chinese tourists, followed by Qatar.

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Challenges that will shape the outlook include intense competition, rising costs and a shift in visitors' preferences.

The outlook is not without challenges. The region faces a competitive landscape, not only within the six-country group, but especially from the wider MENA region, with countries like Egypt and Turkey (new Istanbul airport is set to improve connectivity) working hard to resurrect their tourism industries after a few years plagued by political and security concerns. This is particularly true as digital purchases gain ground, particularly from younger consumers.

Rising costs are also presenting a challenge to tourism, including the 5% VAT, implemented by Saudi Arabia and the UAE earlier this year and expected to be rolled out by other countries in the region in the near future. The tax will not be hitting UAE-bound tourists as much as feared given the VAT refund directive but it will put upward pressure on the cost of utilities and services offered. That said, UAE hotels and restaurants are currently benefitting from a reduced tourist tax (cut to 7% from 10% in July) to help them compete on price.

The longer-term trend for inbound tourism is harder to predict but the countries may need to reconsider their approach of high-end leisure and business travel and tailor the offering to a wider audience to attract visitors. This includes a build-out of public transportation systems, which are either underdeveloped or non-existent, and taking steps aimed at promoting environmental sustainability and responsible tourism through greater oversight of energy and water demand, waste and pollution, an area in which the region has traditionally underperformed.

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