

## Open To Visitors

*Saudi Arabia is an enigma to most travelers, but the Kingdom is aiming to change this perception with an ambitious plan to transform itself into a tourist hub.*

Saudi Arabia has not always shown an open door to leisure tourists outside the GCC, but that is about to change. With the Kingdom on the cusp of change and reform, initiated by the young Crown Prince Mohammed bin Salman, tourism is set to get a major economic boost.

In 2016, the direct contribution of travel and tourism to the GDP of Saudi Arabia was SAR 78.8 billion (\$21.0 billion), 3.3% of total GDP, figures from the World Travel and Tourism Council (WTTC) show. This is forecast to rise by 2.9% in 2017, largely supported by burgeoning religious tourism.

“Religious tourism (mostly coming for Hajj and Umrah) is the cornerstone of tourism in Saudi Arabia, given restrictions to enter the country for non-Muslims,” explains Raphaele Auberty, Country Risk Analyst at BMI Research. If recent announcements are anything to go by, the world’s largest oil producer is looking to further increase its share of the market. “As part of Vision 2030 and the National Transformation Program 2020, the government is seeking to increase the yearly number of Hajj pilgrims from 1.5 million to 2.5 million by 2020, and of Umrah pilgrims from 6 million to 15 million and a further increase to 30 million by 2030,” Auberty adds.

As the Kingdom prepares to receive the visitors officials are making the necessary changes to accommodate them. Saudi Arabia has expanded capacity across all its major shrines, and begun development on large scale infrastructure projects such as high-speed trains between Mecca and Medina, a metro in Mecca and luxury resorts, all to facilitate a smooth stay for the tourists.

Auberty believes that the government is moving in the right direction. “Religious tourism is already a key part of the non-oil economy, and that it will become even more important as the government invests in the sector”, she explains.

Religious tourism might be a good place to start, but for the Kingdom to truly reap the benefit of opening up its tourism sector it might have to work across a broader spectrum, experts say.

“If you have additional types of tourists in the Kingdom for meetings and conventions, exhibitions, eco-tourism, cultural tourism, then all of these different segments will create different value propositions for different types of tourists beyond religious tourism,” says Hazem Galal, PwC Middle East Partner and Global Leader for PwC’s Cities and Local Government Sector.

That might be the Kingdom’s plan as it sanctions some grand projects. Last year, the country announced plans to transform a huge part of its Red Sea coastline into a semi-autonomous luxury beach resort. This 200 km stretch of coastline will feature lavish resorts,

hotels, residences and transport hubs and is expected to set new standards in sustainable development, potentially putting Saudi Arabia on the map for international tourism. The development will span over 34,000 sq. kms between the cities of Umluf and Alwajh, including its 50 islands. Developed by Saudi Arabia's sovereign wealth fund, Public Investment Fund (PIF), the first phase of the project—consisting of resorts, luxury residential units and transport facilities—will be ready by 2022.

With projects of such scale underway, international companies are carefully scouring for investment opportunities.

“These projects have created a great deal of interest in the market from investors,” says Kamel Ajami, Hilton Vice President of Operations KSA & Levant. Hilton, which has 10 hotels in the Kingdom and 30 more in the pipeline, is clearly looking for expansion opportunities. “We feel that we have a chance to add a great deal of value to these projects in the planning phase and through to implementation to deliver hospitality. As such Saudi Arabia is now our largest market in the Middle East region in terms of the number of hotels we have open or in development.”

While PIF will fund the initial stages of the project, it eventually plans to partner with leading international companies. As more such partnerships form, BMI estimates that Saudi Arabia's luxury and domestic tourism is set to increase in the medium and long run through the reforms executed from Vision 2030.

Ajami says: “What we are providing the market that it doesn't have is choice. That means hotels in the upscale and mid-market sectors, as well as luxury, which makes traveling to the Kingdom more accessible to a greater number of people.”

## **Opportunities and Risks**

The Red Sea project could have a massive economic impact. According to a report from PIF, the project is expected to contribute SAR 15 billion (\$4 billion) per annum to the Kingdom's GDP, in addition to creating up to 35,000 jobs, once it is operational.

But challenges exist. Saudi Arabia could face strong competition from more mature tourism markets like the U.A.E., which ranks among the top tourist destinations in the world. But the Kingdom is taking some steps to counter its competition. For one, it will begin issuing tourist visas from 2018. Visitors on these visas will be exempted from following the conservative rules on dress code and a ban on alcohol. This, the government expects, would draw in more high spending tourists from Europe and North America to its luxurious resorts.

Galal agrees: “A change in perception will be very effective here. The world needs to think of the Kingdom as a tourism hub and a lot of effort has to go into creating that initial awareness, where tourists start to think of the Kingdom as a luxury destination. “Saudi needs to improve accessibility, increase the number of flights, and improve the airport experience. A combination of such elements will provide a better overall experience.”

As the Kingdom gradually opens up, Galal feels that it is relevant to keep a healthy pace, “It is very important to get the balance right, and not to over-develop. If done in the right way, it could be a game-changer.”

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