Tourism Development Effects on the Saudi Economic Diversification

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Outlines

1) Why enhancing the tourism sector is an important strategy for driving the Saudi economy towards more economic diversification?

2) Opportunities and challenges of investment in the tourism sector for Saudi Arabia.

3) Direct & indirect economic effects of expanding the Saudi tourism sector.

4) Using Leontief' input-output method to calculate employment, output, and added value multiplier.

5) Conclusion .

Goals and Strategies (Saudi Vision 2030)

General Goal:

To have a diversified economy and stable & sustainable economic growth.

Key Goals for the tourism sector:

1) Increasing the number of Umrah visitors from 8 million to 30 million every year,

2) Increasing the number of Saudi heritage sites registered with UNESCO,

3) Increasing household spending on tourism activities inside the Kingdom,
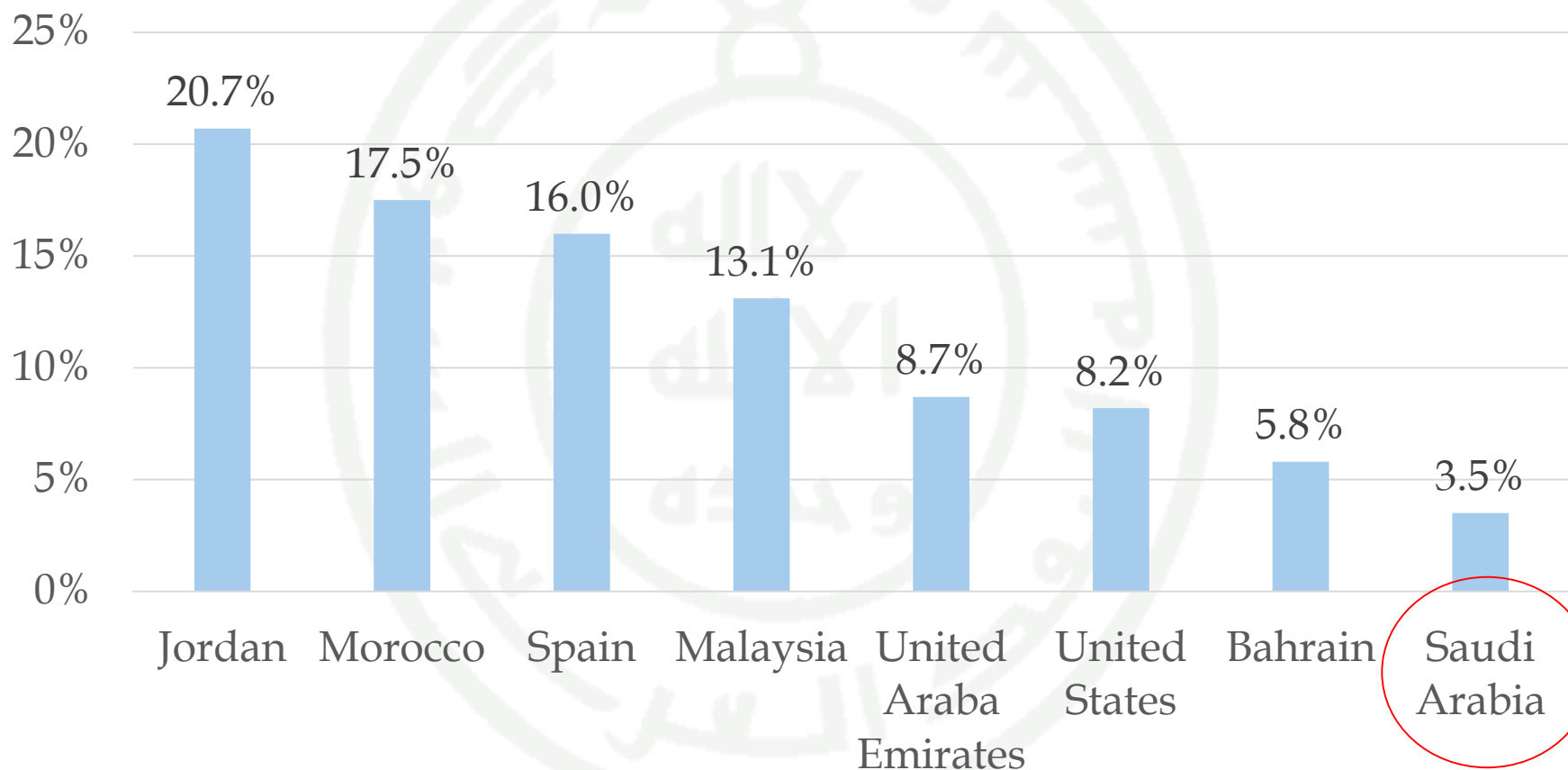
Diversification

❖ Diversification is an important aspect for the Saudi economy for three main reasons:

1) Boosting the economic resilience to withstand economic shocks (e.g. oil shocks).

2) Increasing flexibility of Saudi labor mobility.

3) Building human capital, as well as learning-by-doing.
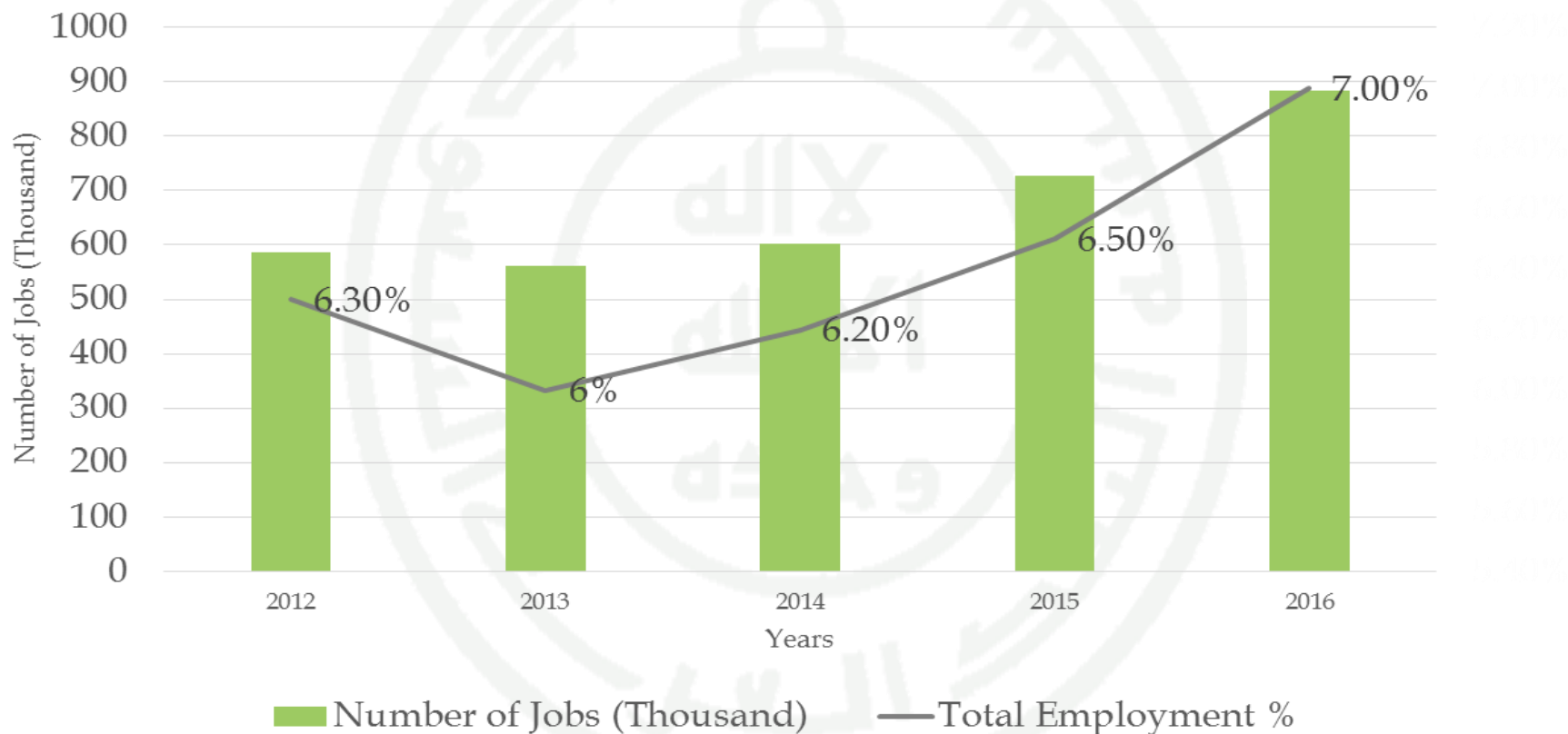
Tourism Contribution to GDP

Source: World Tourism organization

Employment

Tourism Contribution to the Saudi Labor Market

Source: Tourism Information and Research Center (MAS)

The Current Situation of the Saudi Tourism Sector

Tourism Contribution

- Value added of the tourism sector is more than SAR 80 billion.
- It is estimated that there are more than 800 thousand direct jobs in the tourism sector, 28% of which are for Saudis.

Tourism Demand

- Domestic tourism expenditure is SAR 48 billion.
- Outbound tourism expenditure is SAR 84 billion.

Tourists Activity in the Kingdom

- The number of domestic tourism trips is about 46 million.
- The number of outbound tourism trips is about 21 million.

Source: Tourism Information and Research Center (MAS)

Opportunities and Challenges for the Saudi Tourism Sector

Opportunities:

- Training.
- More Job opportunities for women.
- Taking advantage of Holy lands
- Taking advantage of existing infrastructure (roads, airports and other services.)
- Crowd management.
- The initial cost is very low.

Challenges:

- Social and Cultural issues.
- Improving infrastructure.
- Seasonal fluctuations.
- Inadequate investment.
- know-how.

Direct and Indirect Tourism Activities

Direct Activities (Tier 1):
Transportation, travel agents, hotels

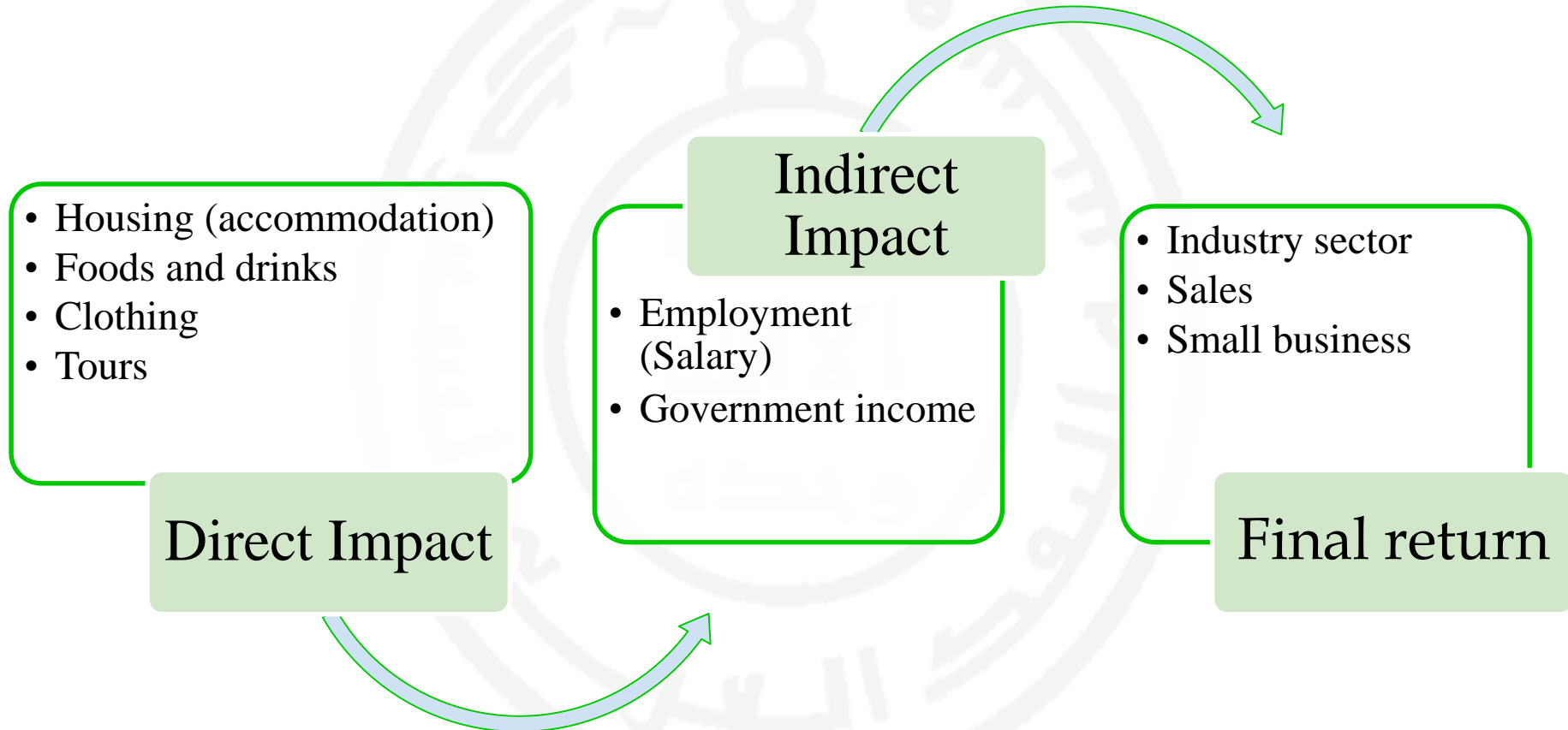## *Tourism Sector Activities*

Indirect Activities (Tier 2):
Retail, construction, manufacturing and telecommunications

Induced Activities (Tier 3):
Local small businesses, such as grocery stores, hospitals and schools

Direct and Indirect Influence of Tourist Spending

Direct Impact
- Housing (accommodation)
- Foods and drinks
- Clothing
- Tours

Indirect Impact
- Employment (Salary)
- Government income

Final return
- Industry sector
- Sales
- Small business

Literature Review

Papers	Methodology and Data	Findings
Albqami (2004)	Input-Output / 1997 data for Saudi Arabia	• the direct and indirect impact from tourists' expenditure on income was about SAR 8,690 million. • the service sector captured the most benefit by almost 33%.
Abdel-Rahman (2001)	Time series method	• a significant relationship between tourism development and economic growth
Sherbini et al. (2016)	Descriptive study	• Investment in tourism sector has a significant effect on income, output and employment.

Methodology

➢ The input-output was founded by Leontief for the American economy in 1941.

➔ The I-O is based on aggregate identities that the total output of any sectors of the economy is assumed to be entirely consumed by other sectors of production and the final demand; internally as input to the production sectors and directly by the final demand such as household consumption, investment, government expenditure and export.

The Leontief input–output model could be emphasized in these four equations:

$$(1)\ X_i = a_{i1}X_1 + a_{i2}X_2 + \ldots + a_{ij}X_j + FD_i$$

$$(2)\ X = AX + FD$$

$$(3)\ (I - A)X = FD$$

$$(4)\ X = (I - A)^{-1}FD$$

A Simple Input-Output Model

Inputs
- Raw materials
- Labor
- Information, data
- Finance

Process
- Material processes
- Information processes
- Social processes
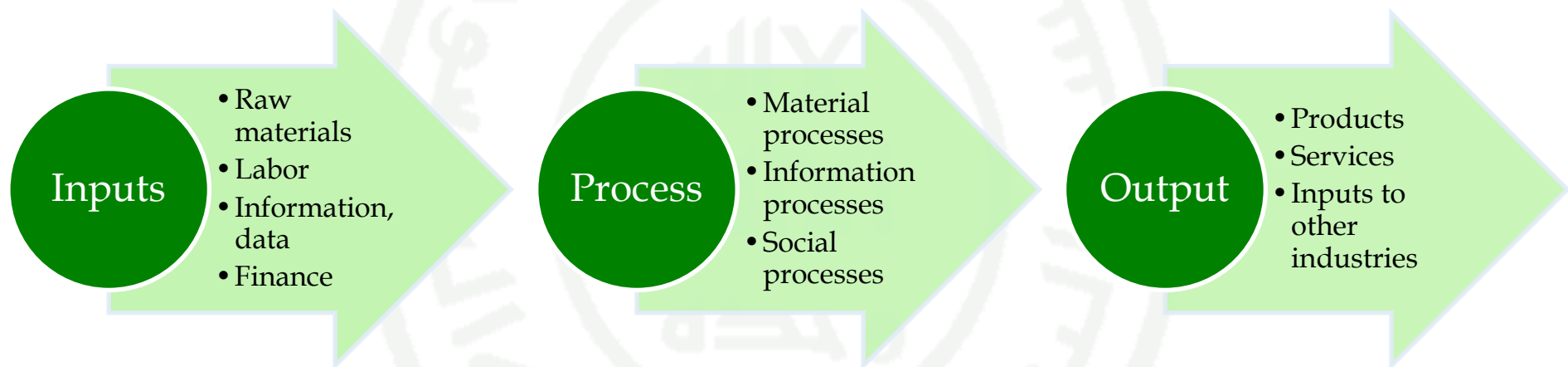
Output
- Products
- Services
- Inputs to other industries

Output

On average SAR 1.5

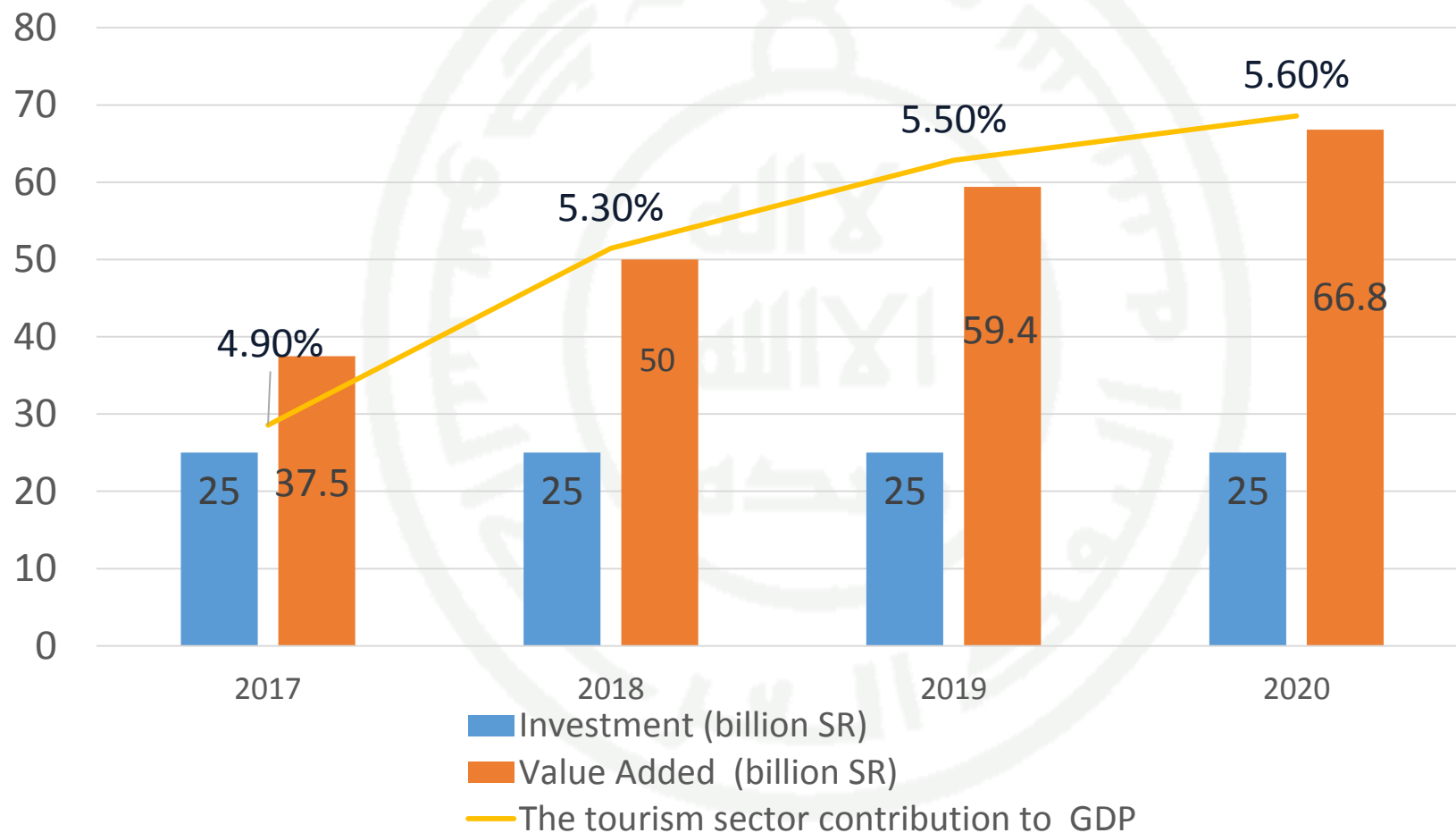**Value Added**

On average SAR 1.4

Labor Multiplier

On average 1.4 job per SAR 1 million

Each riyal spent on the tourism sector would generate 1) direct effect, 2) indirect effect, 3) induce effect on the total output, value added, and employment

Scenario (1): Investment (SAR 100 billion) in Four years

Chart legend:
- Investment (billion SR)
- Value Added (billion SR)
- The tourism sector contribution to GDP

Data:
- 2017: Investment 25, Value Added 37.5, 4.90%
- 2018: Investment 25, Value Added 50, 5.30%
- 2019: Investment 25, Value Added 59.4, 5.50%
- 2020: Investment 25, Value Added 66.8, 5.60%

Scenario (2): Investment (SAR 150 billion) in Four years

Legend:
- Investment (billion SR)
- Value Added (billion SR)
- The tourism sector contribution to GDP
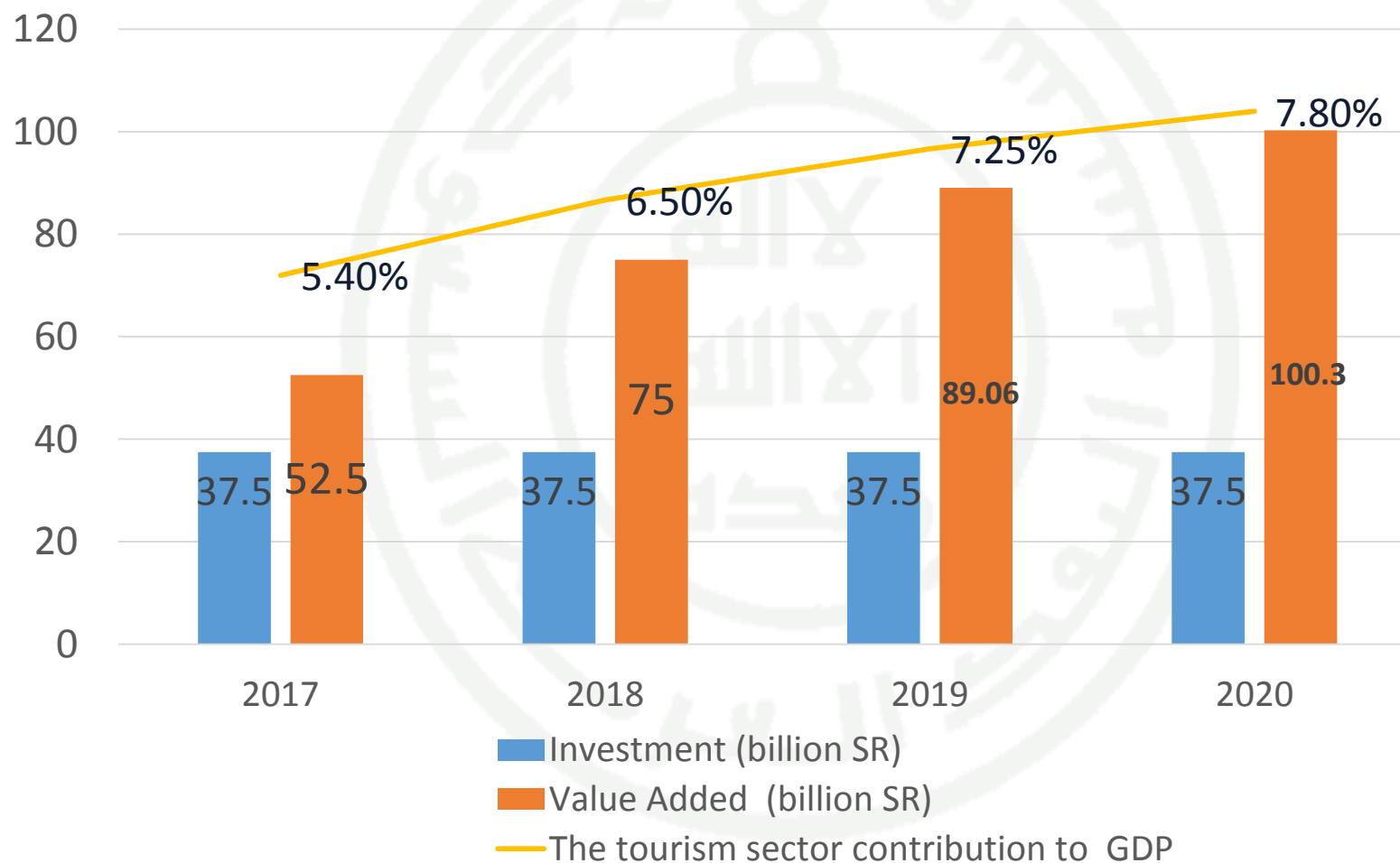
Scenario (3): Investment (SAR 200 billion) in Four years

Chart data:

Year	Investment (billion SR)	Value Added (billion SR)	The tourism sector contribution to GDP
2017	50	70	6.10%
2018	50	100	7.50%
2019	50	118.75	8.50%
2020	50	133.75	9.30%

- Investment (billion SR)
- Value Added (billion SR)
- The tourism sector contribution to GDP
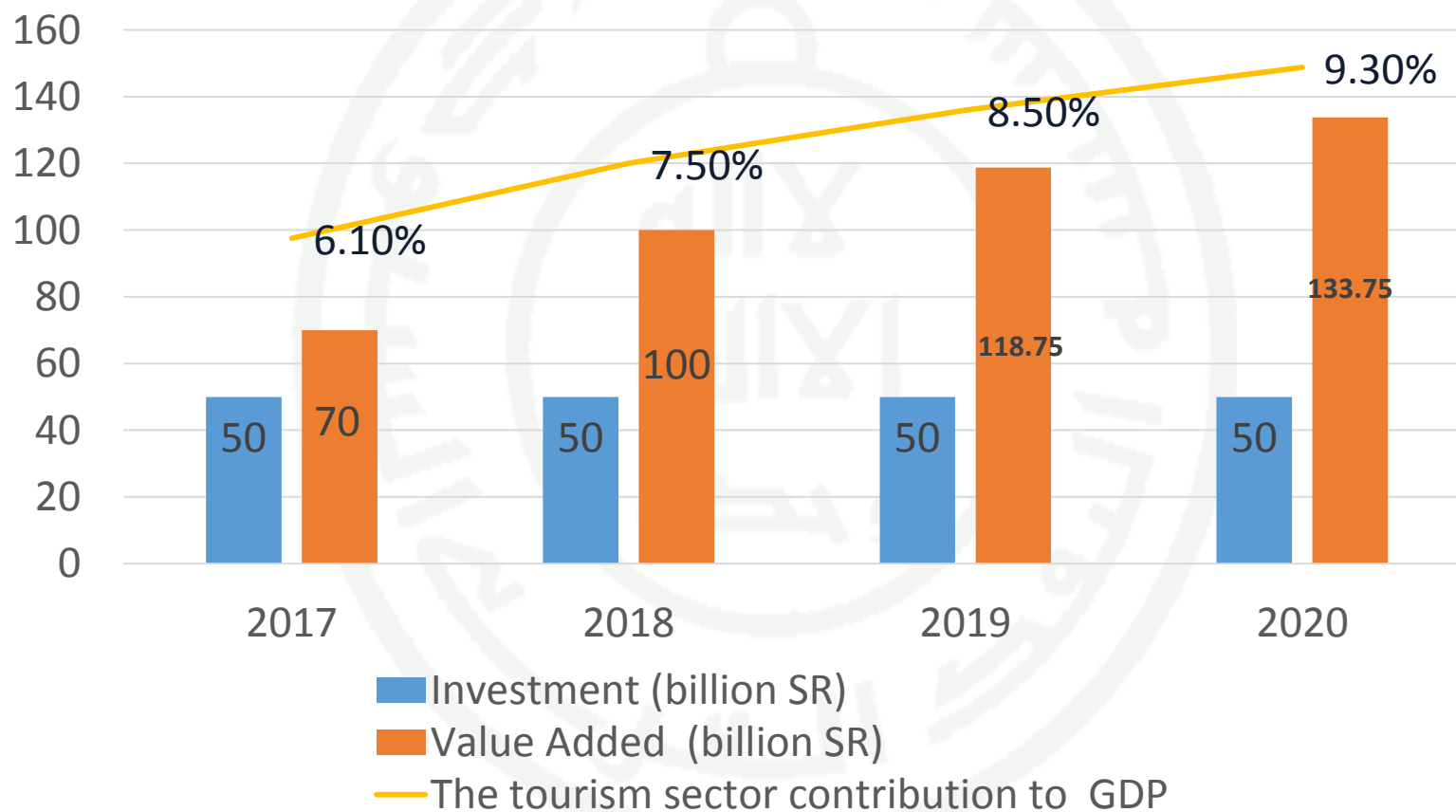
National Transformation Plan(NTP 2020)

Key Performance Indicators	2020 Target (SAR bn)	My Empirical Results		
		Scen. (1)	Scen. (2) (SAR bn)	Scen. (3)
Total New Tourism Investment	171.5	100	150	200
Value Added	118.8	67	100	134
% Contribution to GDP	3.1%	5.6%	7.8%	9.3%
Number of new Jobs	206 (thousand jobs)	140 (thousand jobs)	210 (thousand jobs)	280 (thousand jobs)

The number of new jobs in SAR 1 million based on my calculation is 1.4 and 1.2 based on the NTP.

Recommendations

1. Increasing the share of Saudis' participation in the tourism sector, especially in the service activities, such as aviation customer service agents, tourist guides and tourism information assistants.

2. Designing professional websites that provide updated and detailed information about the tourism activities in Saudi Arabia.

3. Encouraging research centers to focus on the tourism sector.

4. Providing funds to facilitate the tourism projects.

5. Boosting the development in the Saudi tourism sector by building a public-private partnership (PPP) such as Saudi Hospitality Heritage Company.

THANK YOU........

DO YOU HAVE ANY QUESTIONS ?