

Coronavirus, a long-term screen blip

Florence Eid-Oakden, Ph.D, Chief Economist
Charlene Rahall, Ghalia Bajali, Analysts

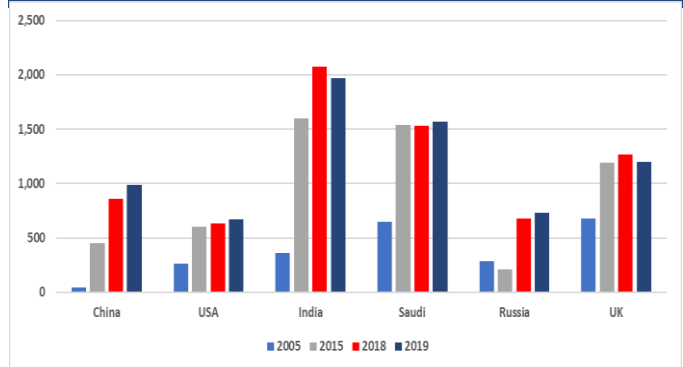
- The coronavirus is a threat to Chinese economic growth. How much of a threat remains uncertain, but should the situation worsen, the first impact on MENA-China relations could be a delay in the region's plans to leverage increasing Chinese tourism.
- China has been playing a leading role in developing tourism with countries that have signed up for its Belt & Road (BRI) strategy.
- Visa relaxation has become a proven method of attracting Chinese tourists, driving other initiatives such as joint marketing and payments services.

Fears over coronavirus's impact

It is too early to assess the economic impact of the coronavirus on MENA given the unknowns over whether it will be contained or turn into a pandemic. Previous viral outbreaks such as SARS, however, suggest tourism will be hit hard.

- The threat comes at a time when MENA countries -- especially the UAE, Morocco and Egypt -- are embarking on major projects to bring in more tourists from China.
- The number of tourists coming from China to MENA is relatively small -- roughly 3.5% of total tourist arrivals to the region as a whole -- but there are huge opportunities for this to scale up.
 - Overall tourism is a vital source of economic growth in MENA, where it already plays a relatively greater role than elsewhere, averaging 8.6% of GDP across the region.
 - For context, tourism accounts for around 4% of GDP across the EU and 2.6% in the US -- both percentages lowered by the relative diversity of those economies.
 - Chinese tourist arrivals to MENA make up roughly 2% of outbound Chinese tourists globally, meaning that -- coronavirus aside -- there is plenty of scope to attract new arrivals.
- The coronavirus first appeared in December 2019 but has already surpassed, in just two months, the total number of infections during the SARS epidemic, albeit with a much lower death toll.
 - Experts on infectious diseases expect it to last for several months with tens of thousands afflicted before it runs its course.
 - SARS, which was first identified in 2003, led to a slower rise in the number of outbound Chinese tourists. This growth was only 22% YoY between 2002 and 2003 versus 36% YoY growth from 2001 and a 42% rise from 2003.
- We note that Chinese tourism has soared since then -- to 134 million in 2019 -- making any virus-related decrease all the more damaging.
 - An even more substantial impact could come indirectly if people globally start to travel less for fear of contagion.

Figure 1 - Dubai Tourist Arrivals by Nationality (000s)¹



- Thailand, for example, has already reduced its 2020 GDP forecast, based on expected revenue losses of as much as USD 1.6B from 2 million fewer Chinese visitors (should travel restrictions continue for a further three months).

Tourism is a key pillar of BRI-led growth

Dubai accounts for the bulk of Chinese tourist arrivals in MENA. Since bringing in a visa-free policy in 2016, the number of Chinese tourists visiting Dubai has doubled, reaching 989,000 last year.

- Latest official data for 2019 from Dubai Tourism ranks China fifth after India, Saudi Arabia, the UK and Oman in terms of the numbers of arrivals.
 - Total 2019 Chinese tourist arrivals were just over half those from India (1,970,000) and relatively close to those from the UK (1,200,000). Both have been mainstays of Dubai tourism.
 - There is an opportunity to scale up in the long-term, given both the potential numbers of Chinese visitors and the low base from which the UAE can build (Figure 1).
 - In the short-term, however, we estimate that the UAE stands to lose about 250,000 Chinese tourists to Dubai over three months if the virus outbreak is not contained.
- The UAE visa relaxation policy also encouraged China to adopt similar measures, helping drive the UAE's attempts at economic diversification by making business travel easier.
 - Since January 2018, UAE nationals holding regular passports have been exempted from pre-entry visas to China, allowing for a stay up to 30 days.

Prior to the outbreak, a number of initiatives were being undertaken by the UAE to encourage Chinese tourism. There is no reason to suggest that they will be stopped, but the economic impact may be delayed.

- Emirates Airlines signed an MOU with Chinese travel service provider Trip.com which should eventually allow the airline to expand into the Chinese market via joint marketing promotions and tailor-made products.
- Abu Dhabi's Yas Island online store has been rolled out in Mandarin on Fliggy, Alibaba's travel service platform.

¹ Arabia Monitor; Dubai Tourism.

- The Ministry of Tourism in Abu Dhabi says Chinese visitors made up 7% of total visitors to Yas Island in the first three quarters of 2019.
- This should, over time, help drive Chinese tourist arrivals to Abu Dhabi beyond the relatively small 2018 total of 410,300.

The UAE integrates WeChat

Seeking to attract more Chinese tourists, the UAE is now offering instant VAT refunds via China's most influential mobile app, WeChat.

- The new initiative launched by WeChat and payments service provider Planet provides a secure way for visitors to instantly claim a tax refund from Dubai's three terminals.
- WeChat Pay is among the most popular methods of mobile payment in China, with about 40% market share, and is growing rapidly in overseas presence.
- The potential is huge given that WeChat has 1B users and given that Chinese tourists spent USD 258B overseas in 2018, up from USD 200B in 2017. This accounted for 20% of global outbound tourist spending, emphasising the potential impact of a virus-related decline.
 - In the UAE, the bulk of Chinese spending is VAT-refundable luxury shopping. Up until the WeChat move, however, overseas visitors have had to retain their receipts to reclaim the 5% VAT later.
 - The new instant VAT-refund initiative is intended to encourage Chinese tourists to both visit and spend.

With tourism growing as a soft power strategy for both countries, the UAE has been promoting the teaching of Mandarin.

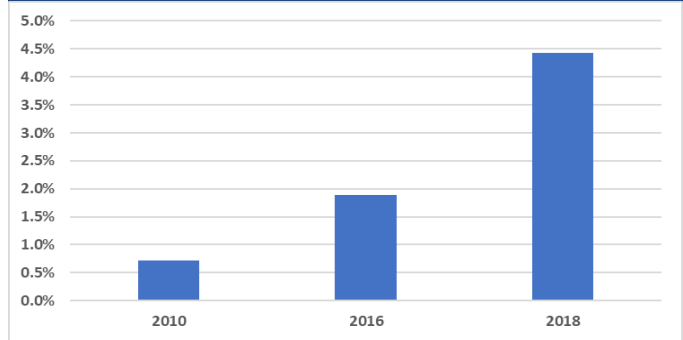
- The initiative, proposed by Abu Dhabi's Crown Prince Mohammed bin Zayed Al Nahyan, aims to set up Chinese classes in 100 UAE schools.
- Since its launch in September 2019, the focus has been put on recruiting Chinese teachers. Around 20 of the 150 required hires have already been made in 11 schools YTD.
- Ongoing efforts to introduce Chinese culture into the UAE will increase the ability of UAE nationals and residents to exploit Chinese trade and investment opportunities.
- There should be no major impact on this from the virus in the near-term beyond, perhaps, slowing hiring.

Morocco visa exemption triggers Chinese tourism boom

Morocco stands to lose from any coronavirus-related decline in tourism, but this should be short-lived. In pursuit of stronger economic ties, Morocco, like the UAE, has exempted Chinese citizens from visa-entry requirements, allowing them to stay for up to 90 days. Following the decision in 2016, Morocco has witnessed an influx of Chinese tourists into the kingdom.

- Arrivals from China hit 43,000 the year the visa was lifted, followed by 127,000 and 200,000 in 2017 and 2018, respectively.

Table 1 - Chinese Tourist Arrivals to Egypt (% of Egypt's Total)²



- By contrast, arrivals from China were just 10,000 in 2015, the year before the visa exemption.
- Tourism is the second largest contributor to Morocco's GDP, accounting for around 11% while also employing 5% of the workforce.
- Despite the increase, Chinese tourists still only made up about 1.5% of international visitors to Morocco in 2018 (versus 17% from France), underscoring significant potential for Morocco to attract more in the long run.
- Morocco aims to attract 500,000 Chinese visitors this year, rising to 1 million by 2030.
 - In light of the virus outbreak, we believe this year's target is now too ambitious, also taking into account that it would need to grow by 150% from 2018 levels.
 - Over 10 years, moreover, the 1 million target would need an annual average growth rate of 40% from 2018 levels versus the annual average growth rate of 25% over 2016-2018 (from a low base).
- An immediate impact on Morocco from the virus outbreak has been the halt of Royal Air Maroc's direct flights to Beijing following their launch on 16 January. This new route is Morocco's first to East Asia and it links Morocco's economic hub, Casablanca, and tourist hotspot Marrakech with Beijing and Shanghai.

Sino-Egypt: High double-digit growth

Egypt, too, is likely to suffer from a coronavirus tourism decline. Tourism, overall, contributes 12% to GDP and employs 10% of the workforce.

- The number of Chinese visitors to Egypt dropped following the 2011 revolution, after peaking at 106,000 per annum in 2010.
 - But despite the post-2011 slump, China has become the fourth-largest source of tourists in Egypt.
 - The number picked up then accelerated rapidly, reaching more than 100,000 in 2016 then topping 500,000 in 2018 (4.4% of Egypt's total).
 - This has been driven by more charter flights and relaxed tourist funding requirements.
- In response to the virus outbreak, all flights to and from China have been cancelled. Egypt could lose up to 125,000 tourists over three months -- only 1.1% of the number of tourists from all countries that visited in the whole of 2018.

² Arabia Monitor; Ministry of Tourism, Egypt.

Disclaimer

© Arabia Monitor 2020

This is a publication of Arabia Monitor Limited (AM Ltd), and is protected by international copyright laws and is for the subscriber's use only. This publication may not be distributed or reproduced in any form without written permission.

The information contained herein does not constitute an offer or solicitation to sell any security or fund to or by anyone in any jurisdictions, nor should it be regarded as a contractual document. Under no circumstances should the information provided on this publication be considered as investment advice, or as a sufficient basis on which to make investment decisions. The information contained herein has been gathered by AM Ltd from sources deemed reliable as of the date of publication, but no warranty of accuracy or completeness is given. AM Ltd is not responsible for and provides no guarantee with respect to any of the information provided herein or through the use of any hypertext link.

Arabia Monitor is an independent research firm specializing in economic and market studies on the Middle East & North African region, which we view as the new emerging market. Our forward looking perspective allows us to place recent developments in the region within a broader context and a long-term view. Our analysis is based on the macroeconomic and financial balance sheet of Arab countries to deliver unique strategy insights and forecasts to businesses across a wide range of sectors.

Arabia Advisors specialises in portfolio strategy and private placements. It works with firms, family offices and government related organisations that are looking to streamline, re-balance or diversify their asset portfolios. Based in the UAE as an off-shore company, Arabia Advisors services a regional and international client base with interest in the Arab countries.

Arabia Monitor

Aston House | Cornwall Avenue | London L3 1LF

Tel +44 203 239 4518

info@arabiamonitor.com

www.arabiamonitor.com