

Tourism in MENA: What would it take?

Florence Eid-Oakden, Ph.D, Chief Economist
Ghalia Al Bajali, Michelle Tawil, Bouchra Abaakil, Analysts

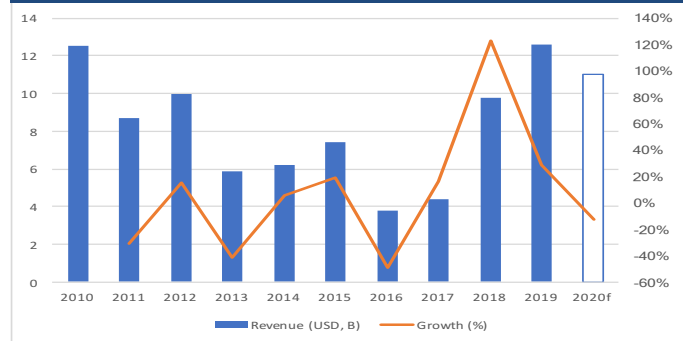
- Tourism is a vital source of economic growth in MENA, averaging 9% of GDP and playing a relatively greater role than elsewhere in the world.
- While some countries began easing COVID-19 measures and re-opening travel borders, there remains a need for clever revival strategies, as pre-pandemic tourism levels will not rebound rapidly.
- Domestic tourism is one way to mitigate pandemic-induced losses. It is unlikely, however, to sufficiently fill the vacuum created by the loss of international visitors.

Egypt: Pyramids, or pandemic?

Despite recent measures to revive the tourism sector, which contributes 12% of GDP and accounts for 15% of foreign currency revenue, fears of a COVID-19 second wave remain.

- Tourism, which normally employs around 2.5 million people (10% of Egypt's workforce), was expected to generate up to USD 16B in revenue for 2020. This has already been revised down to USD 11B.
 - With estimates that the virus is generating losses of up to USD 1B a month, we think it will be tough to achieve the new target.
- That is not to say that all will be a wash out. In recent years, Egypt's tourism industry has been able to bounce back after several shocks, ranging from internal political turmoil to the crash of a Russian airliner in October 2015, which led to Russia halting all flights to Egypt and Britain suspending them to Sharm El-Sheikh.
 - This suggests that the pull of Egypt for tourists may allow it to recover from the pandemic-induced downturn quicker than expected. But this depends on its ability to control the possibility of a second wave of the virus, as anticipated by the World Health Organization.
 - There is already an upward trend of infection rates in the country, registering over 1,500 cases daily.
- Tourism has been picking up; Egypt received the "Safe Travel Stamp" from the World Travel and Tourism Council, which provided around 145 restaurants with the necessary health and safety certificates to open. International flights to the Red Sea, South Sinai and Matrouh provinces have also resumed.
- On July 1, the country welcomed its first arrivals -- more than 350 Ukrainians -- to the coastal areas of Hurgghada and Sharm el-Sheikh.
 - Ukraine is the second largest source market for Egypt in terms of inbound arrivals (after Germany). Around 1.5 million tourists arrived from Ukraine last year, almost a 50% increase on 2018.

Figure 1 - Tourism Performance, Egypt¹



- To encourage international tourists and help revive the sector, the government has enacted several measures:
 - Tourist visas will not be required for those visiting the coast;
 - Tourists will be granted a 20% discount on tickets to museums and historical sites;
 - Aviation fuel will be discounted by 10 US cents per gallon;
 - Airlines will receive a 50% discount on landing and boarding fees.
- Despite these incentives, Egypt will face a demand-side constraint, particularly given that key source countries such as Germany and Britain have been advising against non-essential travel -- 16% and 7% of total arrivals in Egypt, respectively.
- In early May, domestic tourism resumed in specified regions of Egypt, allowing up to 50 percent capacity.
 - But while being a populous country, Egypt heavily relies on international tourism. We do not anticipate that local tourism will balance the shortfall at least not in the short-term.

Morocco: Casbah, or COVID?

After undertaking strict lockdown measures, slowing domestic as well as international tourism, Morocco's plans to open its borders to foreign travellers is crucial for the sector, a key economic building block.

- While Morocco has been commended for its COVID-19 response, tourism, which accounted for 11% of GDP and generated USD 8B in foreign currency in 2019, is among the sectors hardest hit.
- Revenue losses for 2020-2022 are forecast to reach USD 34B from tourism -- based on forecasts of a decline of 30% in tourists arrivals.
 - This comes after a landmark year in 2019, when tourist arrivals crossed the 13 million mark for the first time, a 5.2% increase from 2018.
- The sector employs 750,000 people directly and 2.5M indirectly (5% of the workforce) and has been focusing on promoting domestic tourism as means of recovering from this year's downfall.
 - Domestic tourism accounts for 22% of total tourism expenditure -- which is not bad -- but has grown less than 0.5% per year in the last 10 years.
- Moroccan tourists spend up to USD 2B every year on vacations abroad. The local governments of Marrakech

¹ Arabia Monitor; Central Bank of Egypt.

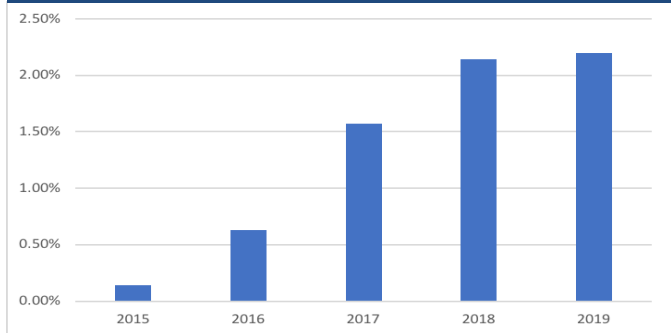
and Essaouira, both of which rely heavily on tourism, have targeted domestic tourism for recovery, hoping that foreign outlays would be spent locally. Among the moves:

- Rental car prices have been reduced by 50-66%;
- Hotels have reduced their fees by up to 65%.
- One snag with this strategy is that domestic tourists in Morocco prefer renting apartments or staying with family. This will not help the hospitality industry, which has around 87% of its hotels closed, incurring USD 14B in losses.
 - Domestic tourism is also only a two-month business (mainly July and August). Achieving full returns from this summer season is unlikely.
- Morocco's tourism sector has, however, recently received support from the World Tourism Organization and the European Bank for Reconstruction and Development via a "tourism recovery technical assistance package."
 - The package includes measures such as implementing hygiene and security protocols, executing methods to stimulate international demand and reinforcing local capacity to adopt protective measures.
- Despite this, there has been no official decision regarding which provinces will open for international tourism, nor on the dates for such a move.
 - Spain recently announced opening its borders to Moroccan tourists, but this appears one-sided for now. A continued lockout will be detrimental for Morocco as Spain is a primary source market for tourist arrivals.
 - In 2019, Spain accounted for 6% of inbound tourism, ranking second to the 17% of French arrivals.

Pre-pandemic, Morocco's tourism sector had made significant gains in attracting Chinese citizens, mainly due to exempting visa-entry requirements in 2016. The growth in arrivals will survive in the long-term, but not for now.

- Arrivals from China hit 43,000 the year the visa was lifted, followed by 180,000 and 200,000 in 2018 and 2019, respectively.
 - By contrast, arrivals from China were just 10,000 in 2015, the year before the visa exemption.
- Despite the increase, Chinese tourists still only made up about 1.5% of international visitors to Morocco in 2018, underscoring significant potential for Morocco to attract more in the long run.
- The initial aim for 2020 was for the government to attract 500,000 Chinese visitors throughout the year and to reach 1 million by 2030.
- In light of the virus, this year's target will clearly not be met, not to mention that fact that this would have implied 180% growth from 2018 levels.
- An immediate impact on Morocco from the virus outbreak has been the halt of Royal Air Maroc's first direct flights to Beijing following their launch on 16 January.

Figure 2 - Chinese Tourist Arrivals to Morocco (% of Morocco's total)²



The UAE: Shopping, or shutdown?

UAE's recent decision to reopen its border will be key for the tourism sector to gain momentum again. Any revival to pre-pandemic levels will start next year, however.

- The tourism sector contributes 12.1% of total GDP, with Dubai capturing USD 28B of international tourism spending - mostly from luxury shopping.
 - In 2019, Dubai attracted around 17 million tourists, a 5.1% YoY growth from 2018.
- Dubai started welcoming tourists again on July 7, but residents still face restrictions on outbound travel.
 - All citizens and residents have to undergo an antibody test upon arrival at Dubai airports and a 14-day quarantine is imposed for all positive COVID-19 cases.
- Yet with Dubai Expo 2020 postponed to 2021 (it had been, expected to attract over 25 million visitors), coupled with the intense humid, summer weather, the tourism sector will remain under pressure until early next year.
 - Revenue from international tourism for 2020 is forecast to decrease to USD 6.4B, 70% down from the USD 21.4B in 2019.
- Domestic tourism consumption contributed USD 47.4B in 2018, and this figure is projected to reach 83.9B in 2028, reflecting a vast opportunity for the UAE, possibly making up some of the loss of international arrivals this summer.
 - Abu Dhabi ranked the top in the UAE for domestic tourism, recording around 4 million visits in 2019.
- In efforts to drive domestic staycations further, Abu Dhabi's Department of Culture and Tourism has launched the 'Go Safe' campaign. It is a certification system for hotels, restaurants, tourist attractions, and other public spaces, designed to increase citizen confidence and create a transparent return to normality.
- With medical travel insurance also required as a pre-requisite, the UAE will not be able to rely on UK tourists, the third largest source market, after Saudi Arabia and India.
 - We anticipate some recovery in Q3 of 2020, but to reach pre-COVID levels the UAE will have to wait until at least March 2021.

² Arabia Monitor; Ministry of Tourism of respective country.

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Arabia Monitor
Aston House | Cornwall Avenue | London L3 1LF
Tel +44 203 239 4518
info@arabiamonitor.com
www.arabiamonitor.com