Oman: Impact of Tourism on the Economy & Diversification

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Agenda

- ✓ Oman's need for economic diversification & the "New Oil Normal"
- ✓ Economics of tourism & relevant case studies
- ✓ Competitiveness of Oman's tourism sector
- ✓ Oman can build on new tourism trends
- ✓ Recommendations & Takeaways for Oman

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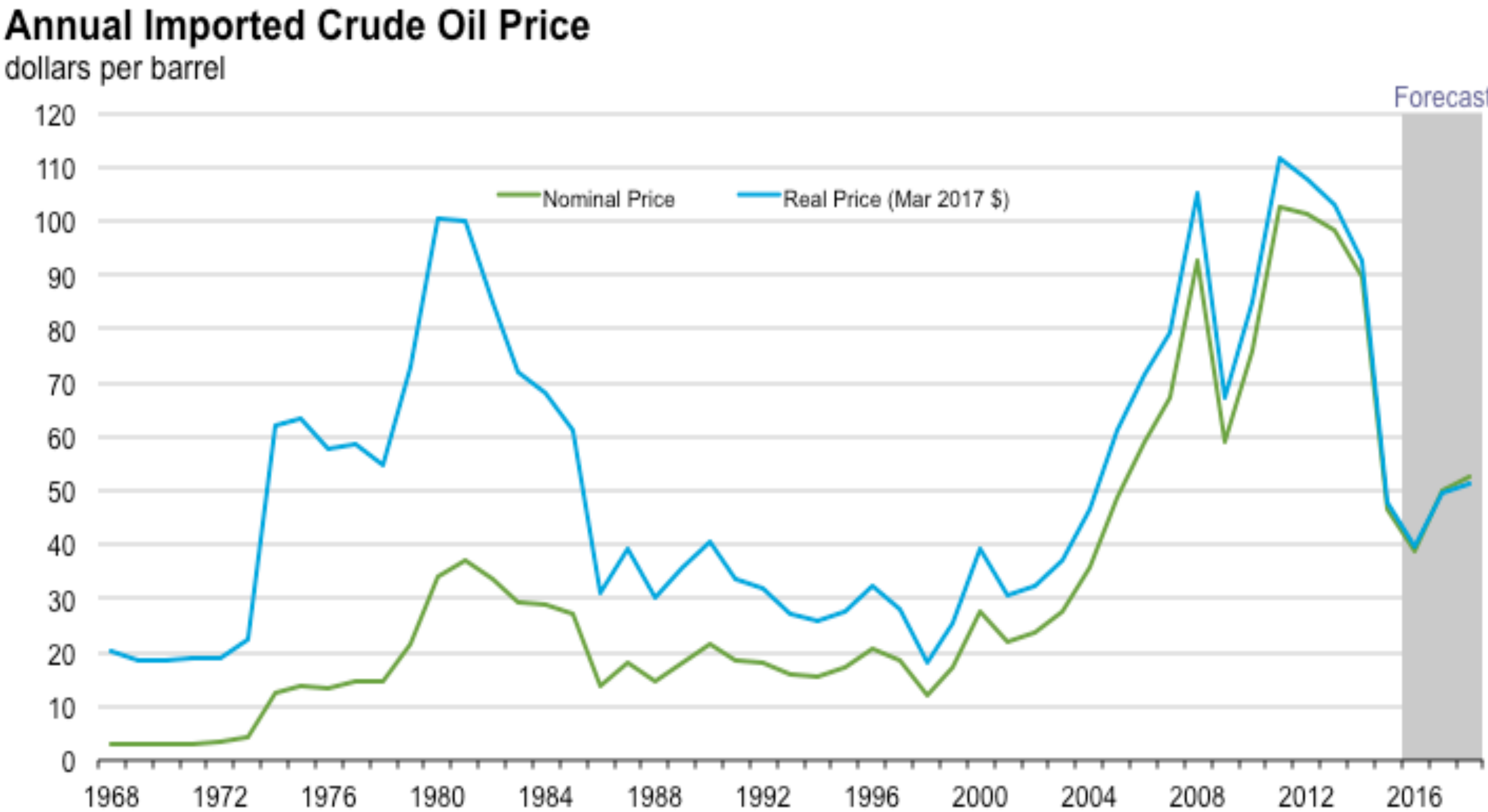
Crude Oil Prices, Nominal & Real, 1968-2018



Source: EIA

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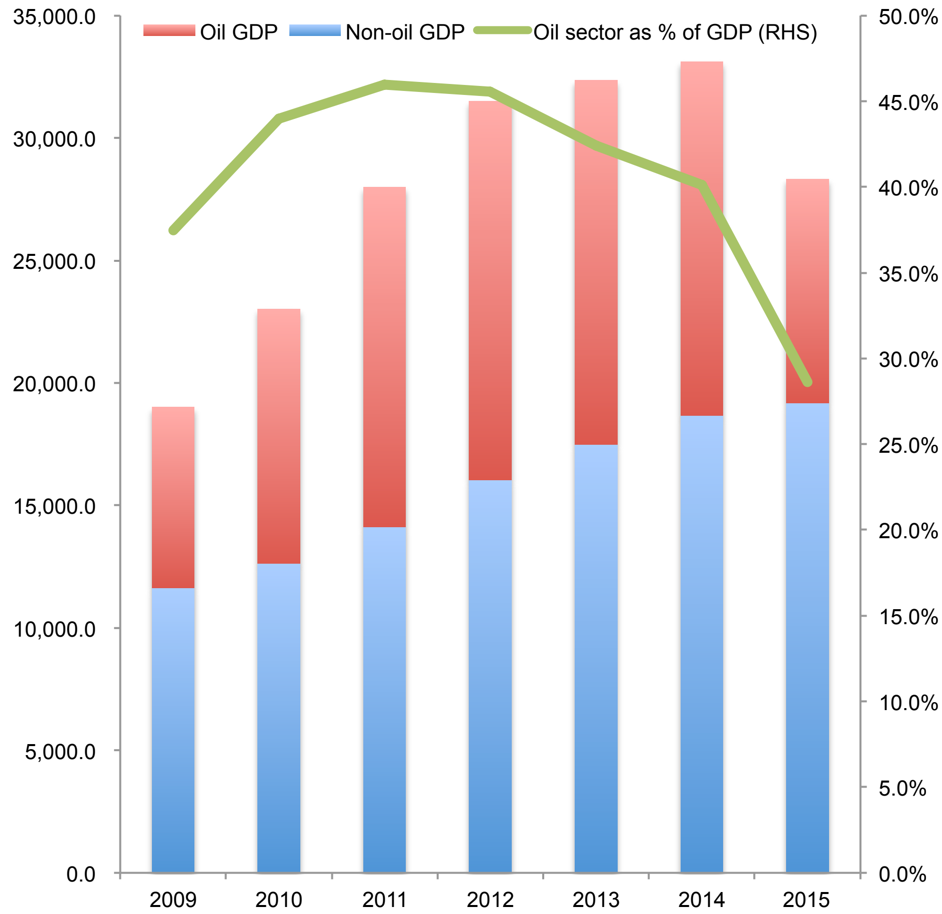
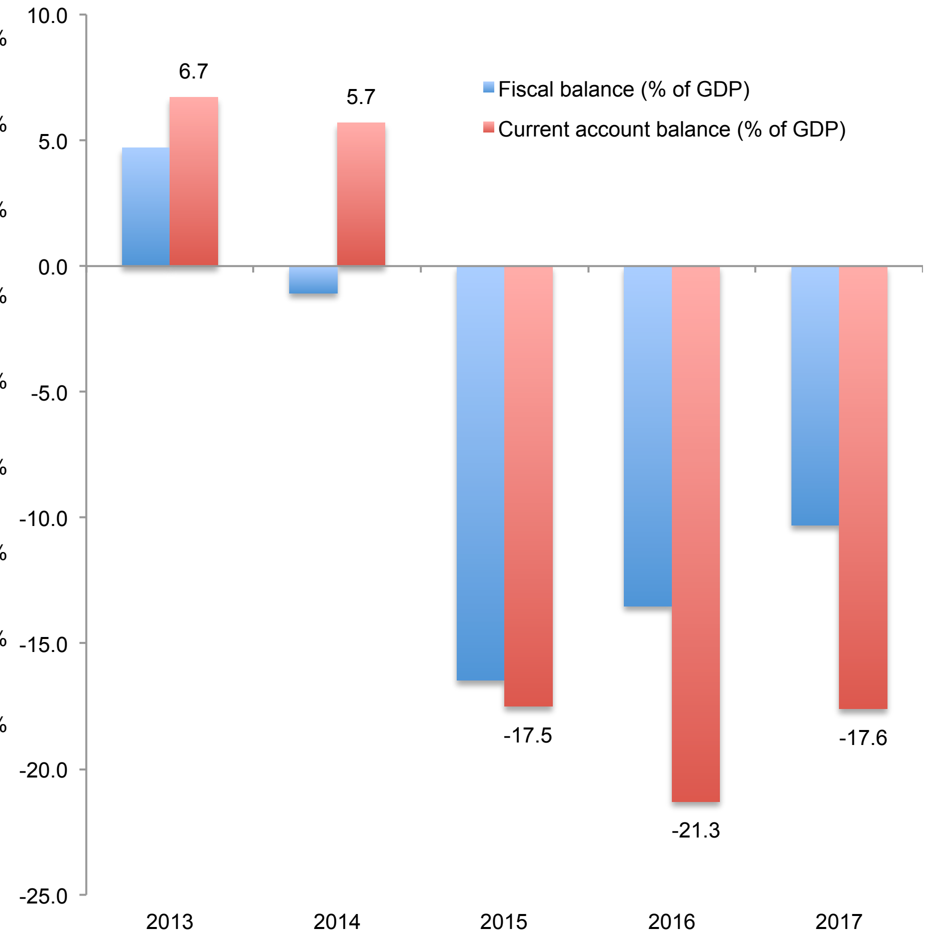
GDP growth, budget & external balances decline as oil price dips



Source: NCSI



Source: IMF

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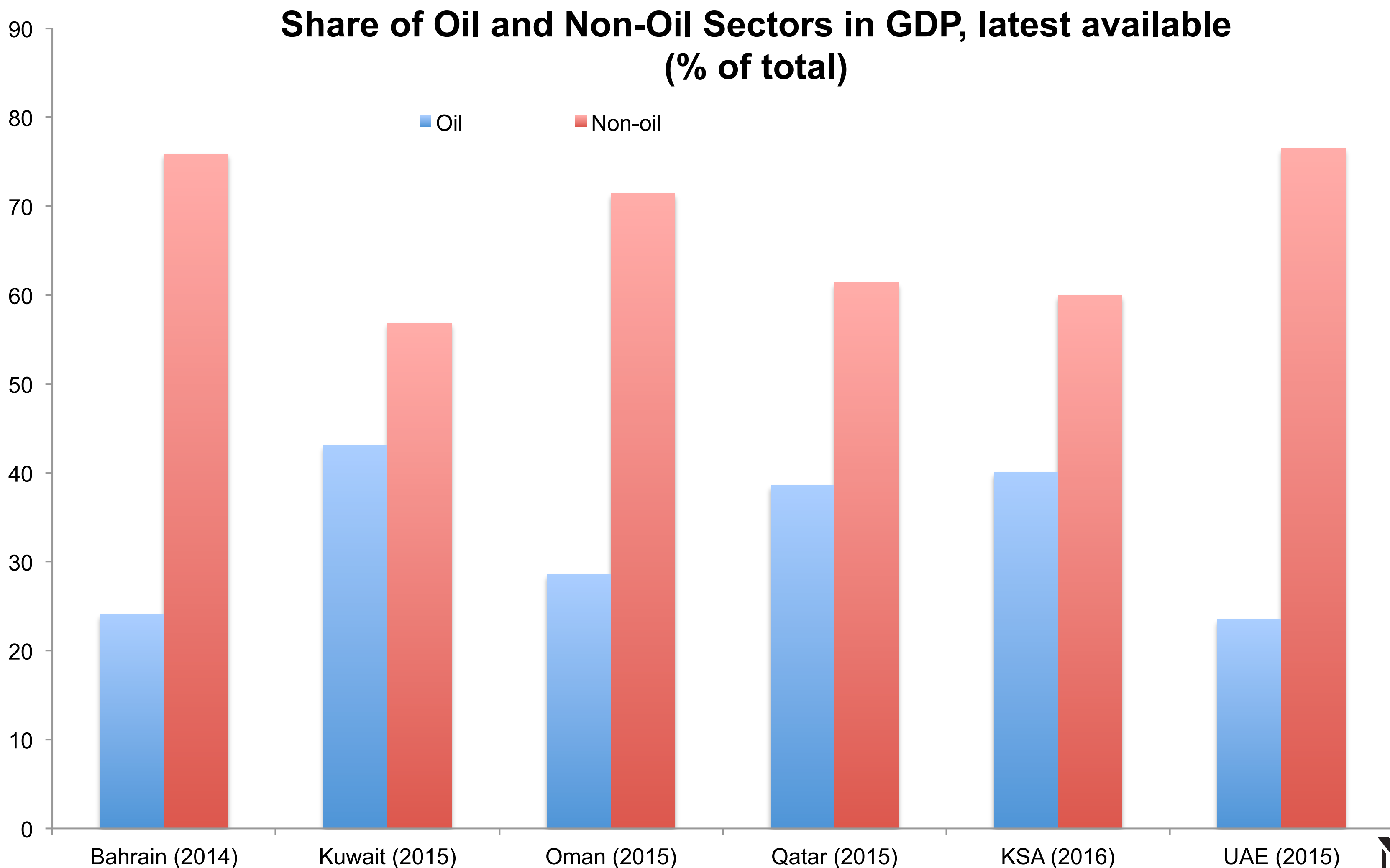
GCC are dependent on oil; non-oil depends on government spending which is dependent on oil revenue



Source: Country Statistics Authorities

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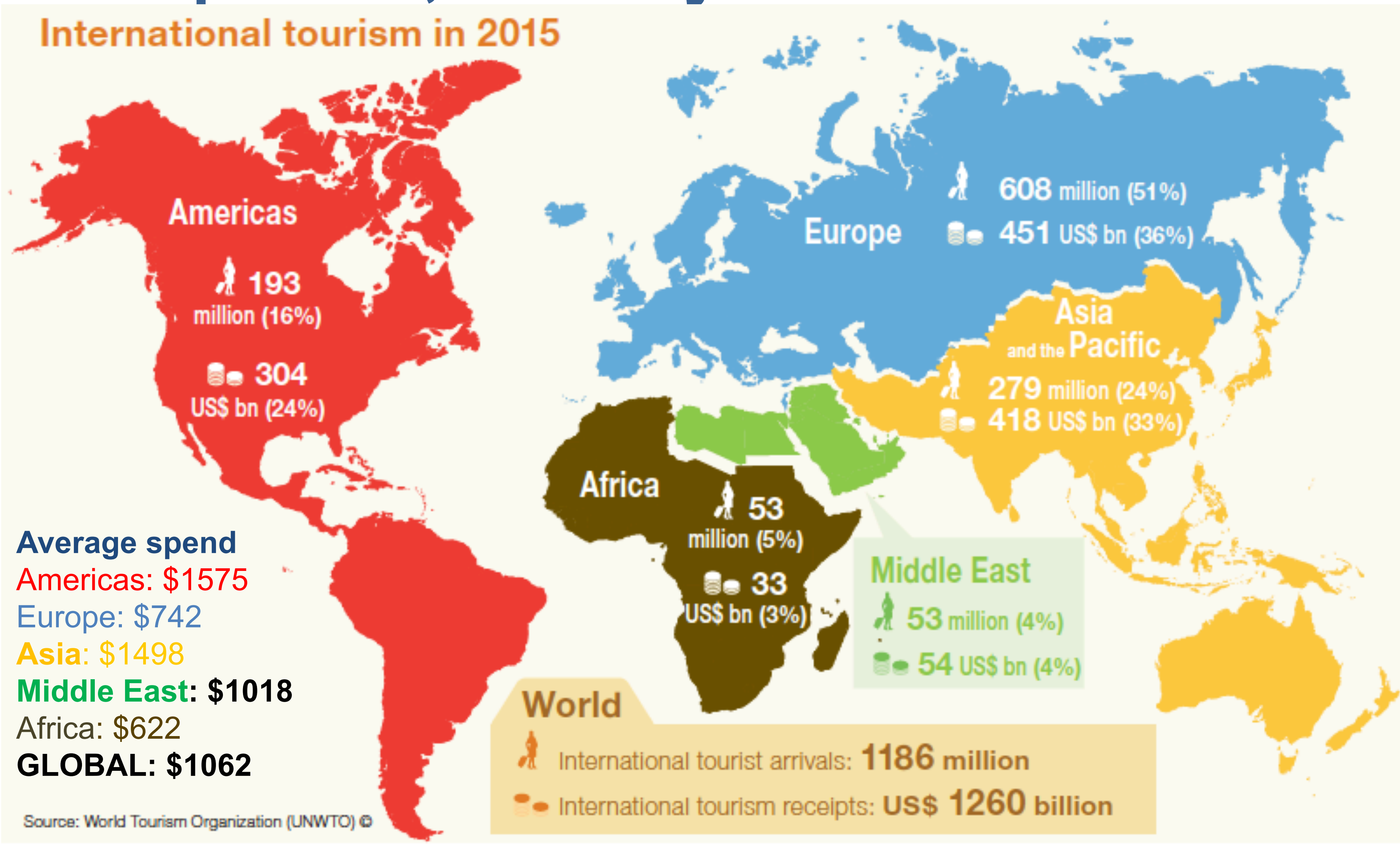
International Tourism: a global, competitive, industry worth $1.3tn



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Tourism can drive growth: has grown faster than world trade over past four years

Travel and tourism reached $7.2 tn; 10% GDP in 2015

GDP

10%

(direct, indirect and induced impact)

Source: World Travel & Tourism Council (WTTC)

Jobs

1/11

Source: World Travel & Tourism Council (WTTC)

Exports

US$ 1.5 trillion

7% of the world's exports

Source: World Tourism Organization (UNWTO)

International tourists

from 25 million
in 1950

to 1186 million
in 2015

1.8 billion
forecast for 2030

Source: World Tourism Organization (UNWTO)

Domestic tourists

5 to 6 billion

Source: World Tourism Organization (UNWTO)

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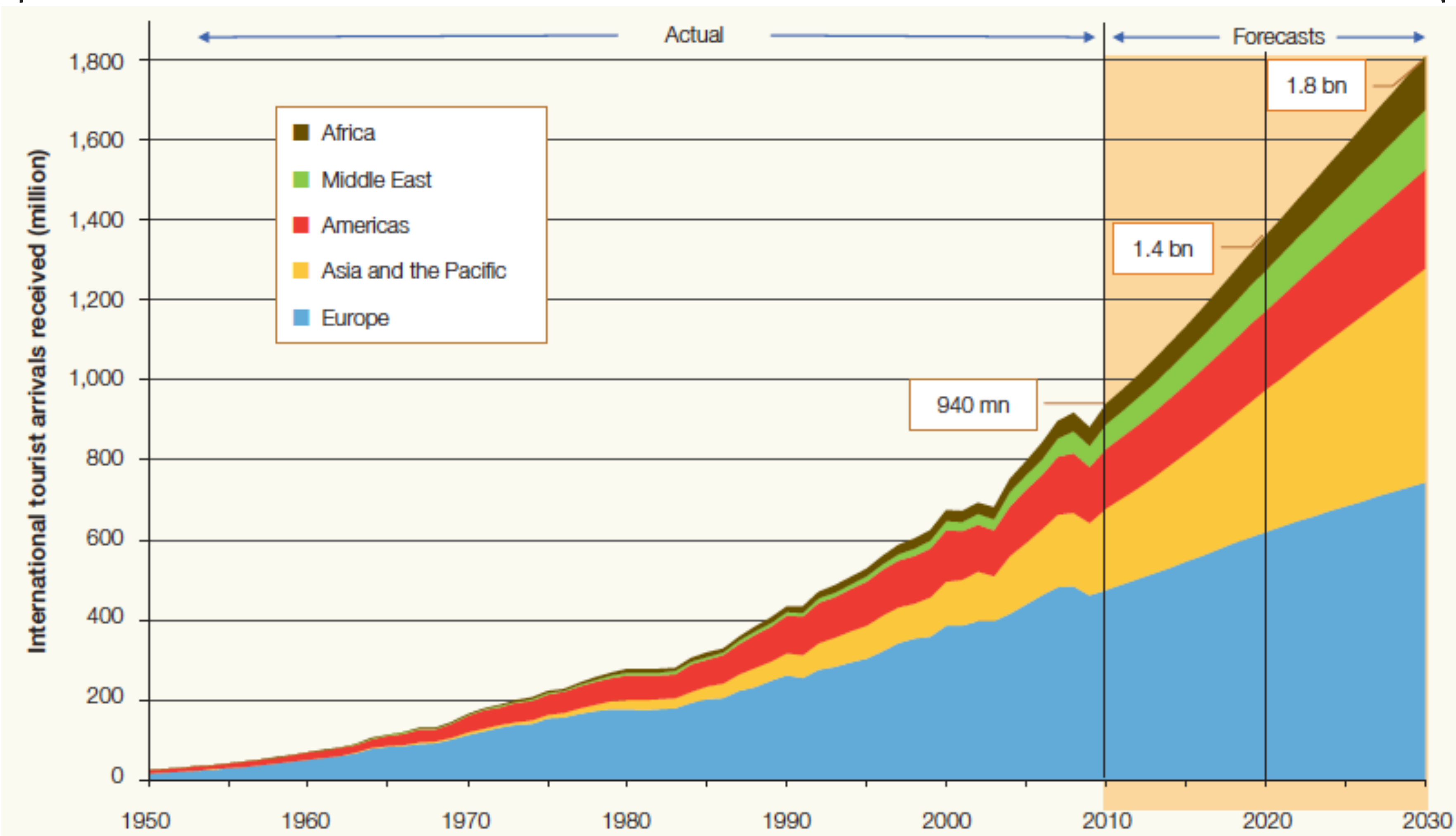
Tourism Towards 2030: will be dominated by Asia & EMEs



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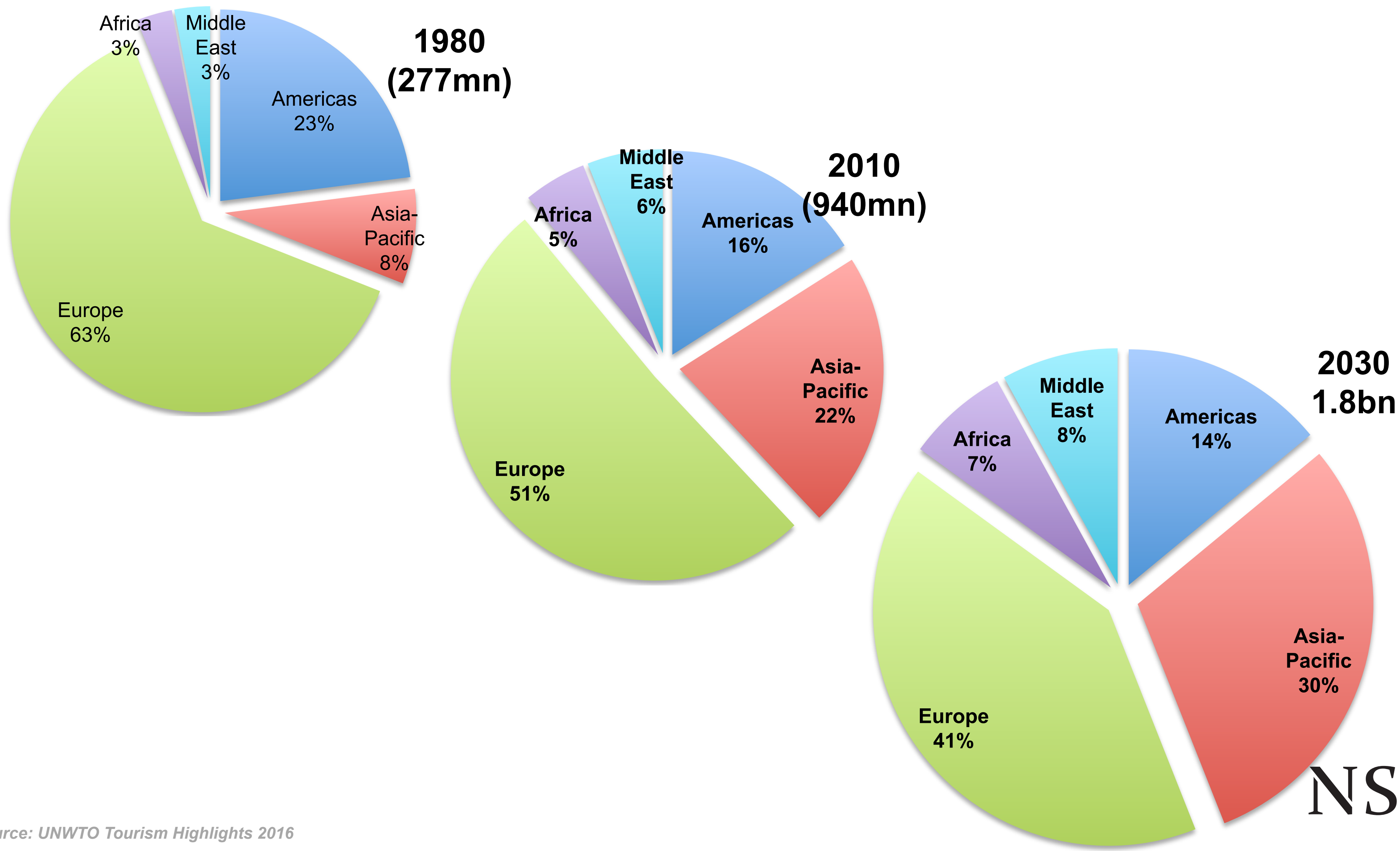
Source: UNWTO Tourism Highlights 2016

Asia Pacific, Middle East & Africa to increase their tourism shares by 2030



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Source: UNWTO Tourism Highlights 2016

Middle East Travel & Tourism sector to remain strong contributor to GDP & employment

By 2026, international tourist arrivals into the Middle East are forecast to total 115 Mn. generating expenditure of USD123.2bn, an increase of 5.1% pa.

Middle East	2015 USDbn[1]	2015 % of total	2016 Growth[2]	2026 USDbn[1]	2026 % of total	2026 Growth[3]
Direct contribution to GDP	72.4	3.0	4.4	122.2	3.4	4.9
Total contribution to GDP	194.5	8.0	4.4	328.2	9.2	4.9
Direct contribution to employment[4]	2,519	3.3	2.6	3,609	3.6	3.4
Total contribution to employment[4]	5,920	7.8	3.1	8,487	8.4	3.4
Visitor exports	72.5	6.3	2.8	123.2	6.0	5.1
Domestic spending	60.7	2.5	5.6	97.9	2.1	4.3
Leisure spending	109.7	2.4	4.6	184.4	2.8	4.9
Business spending	23.5	0.5	1.5	36.7	0.5	4.4
Capital investment	41.8	6.4	5.1	74.5	7.5	5.4

[1]2015 constant prices & exchange rates; [2]2016 real growth adjusted for inflation (%); [3]2016-2026 annualised real growth adjusted for inflation (%); [4]'000 jobs

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Source: Economic Impact Research, World Travel & Tourism Council

Factors underlying growth of Tourism

Demand-side factors

- Growing populations, the rising middle class in EME & higher disposable incomes
- Ageing populations (more leisure time, travel & spend more)
- Globalisation; Trade & tourism go together
- Greater availability of information via internet & media
- Safety & Security

Supply-side factors

- Technology, declining transport costs & greater connectivity
- Investments in facilities & infrastructure (roads, airports, hospitality, leisure) & logistics
- Lower travel & transport barriers
- Liberalisation & globalisation
- Innovation: AirBnB, Tripping, FlipKey, HomeAway, VRBO…
- Safety & Security

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Types of Tourism: different markets but in all cases must be 'client focused'

By Location

- Local
- Domestic
- Regional
- International
- Space

By Activity/motivation

- Cultural or historic tourism
- Religious tourism
- Leisure; Sun, Sea, Sand, Shopping
- Business
- Adventure/ outdoor tourism
- Sustainable & Eco-tourism
- Medical tourism

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Travel and Tourism Competitiveness

Top 10 most tourism-ready economies	
Travel & Tourism Competitiveness Index	**Global Rank**
Spain	1
France	2
Germany	3
United States	4
United Kingdom	5
Switzerland	6
Australia	7
Italy	8
Japan	9
Canada	10

Which countries prioritize travel & tourism the most?	
Travel & Tourism Competitiveness Index	**Rank**
Malta	1
Mauritius	2
Cyprus	3
Singapore	4
Iceland	5
Spain	6
Dominican Republic	7
Seychelles	8
Estonia	9
Barbados	10

Which countries can rely the most on their cultural resources to develop their tourism industry?	
Travel & Tourism Competitiveness Index	**Rank**
Spain	1
France	2
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Italy	8
Japan	9
Canada	10

MENA: Top 10 most tourism-ready economies	
Travel & Tourism Competitiveness Index	**Global Rank**
United Arab Emirates	24
Qatar	43
Bahrain	60
Morocco	62
Saudi Arabia	64
Oman	**65**
Jordan	77
Tunisia	79
Egypt	83
Lebanon	94

Source: Travel and Tourism Competitiveness Report 2015, World Economic Forum

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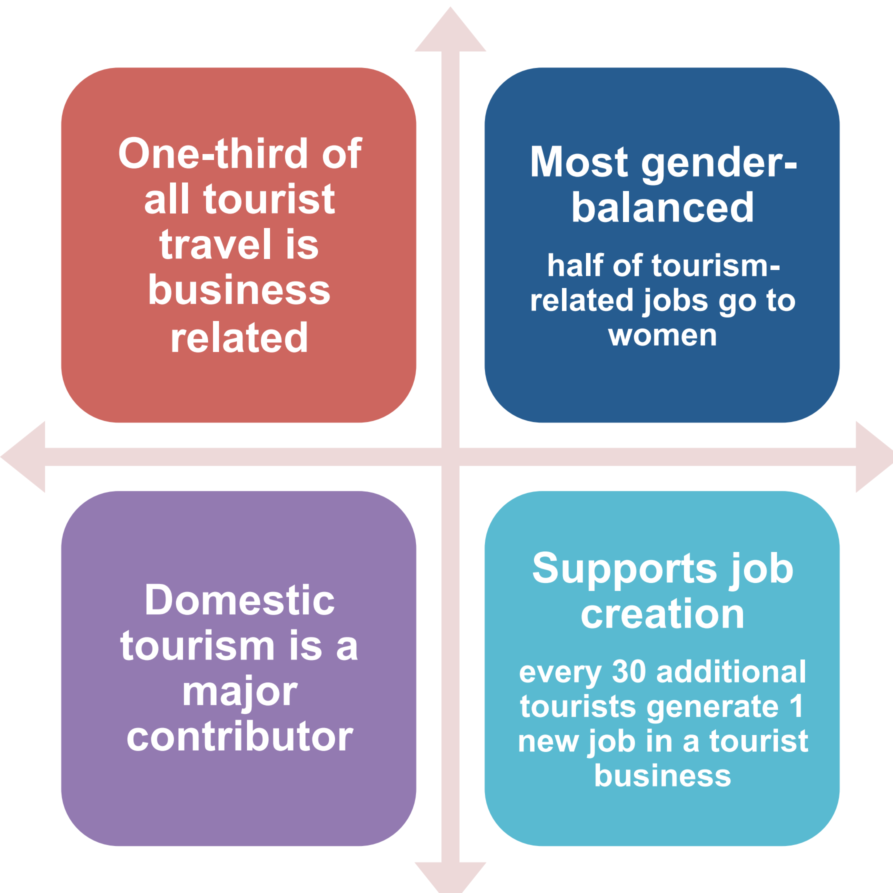
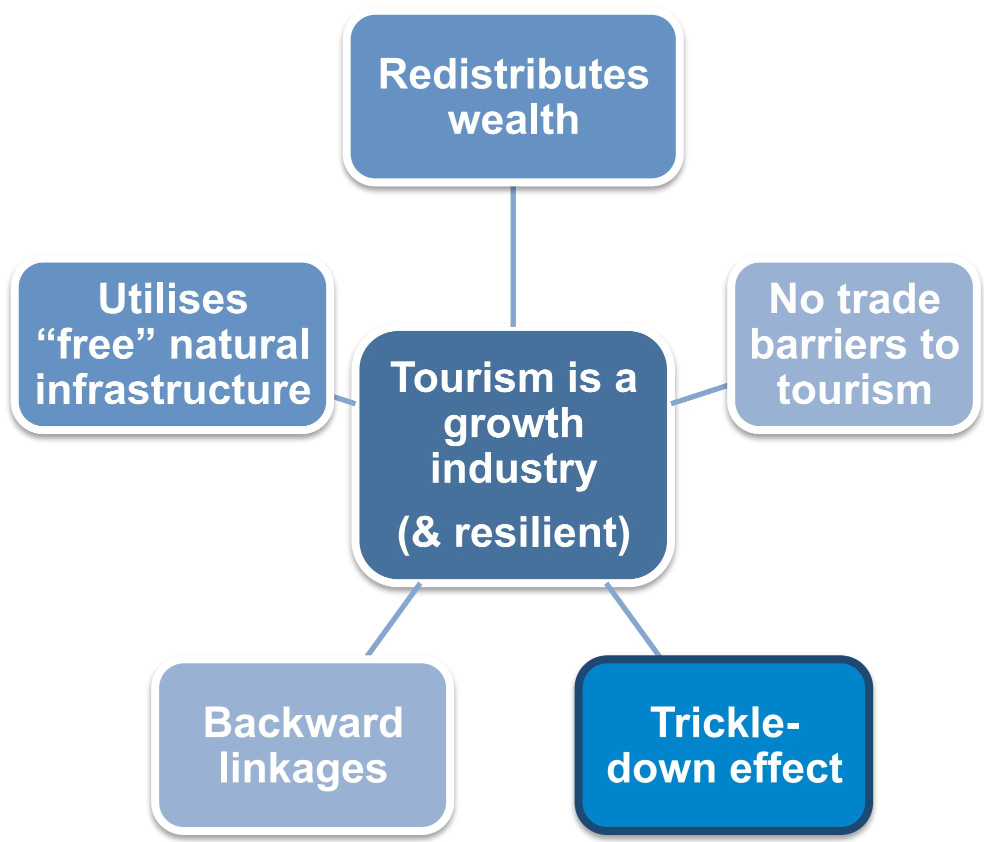
Stylised facts on Travel & Tourism

Tourism growth rates to average 4% per year for the next decade (WTTC)

Tourism is a growth industry: arrivals (1186mn from 25mn in 1950), receipts from intl tourism ($1260bn from $1.2bn in 1950); spread has widened (15 countries accounted for bulk of intl arrivals in 1950)





Contribution of Tourism to the Economy

DIRECT
Travel & Tourism Contribution

Commodities
- Accommodation
- Transport
- Entertainment
- Attractions/Events

Industries
- Accommodation services
- F&B services
- Retail trade
- Transportation services
- Cultural, sports, recreational services, media & marketing

Sources of spending
- Residents domestic T&T spending
- Businesses domestic travel spending
- Visitor exports
- Individual government T&T spending

INDIRECT
Travel & Tourism Contribution
- T&T investment spending
- Government collective T&T spending
- Impact of purchases from suppliers

INDUCED
Contribution (spending of direct & indirect employees)
- Food & beverages
- Recreation
- Clothing
- Housing
- Household goods

TOTAL
Travel & Tourism Contribution
- To GDP
- To Private sector
- To Employment
- To Government revenue

Source: WTTC's Economic Impact Research methodology

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Mexico: diversification via tourism

- **Geographical location**: Tourism mainly cross-border from US; mainly Sun-Sea-Sand
- **Mexico increasingly relies on tourism**:
  - ✓ Direct contribution of T&T to GDP 7.0% of total GDP in 2015; total contribution **15.1% of GDP**;
  - ✓ Tourism exports have grown by an average of 11% per year over past few decades;
  - ✓ Sector accounted for 16% of total employment (inc. indirect jobs); more than 50% are women
- Tourism's share of **trade in services** is also substantial, as **international travel receipts accounted for 77.2% of service exports in 2015**, ahead of OECD avg (21.3% in 2014)
- Identifying the "**higher value tourists**":
  - ✓ in 2015, non-border tourists (type of tourists who travel beyond the border zone) accounted for 21% of international visitors, but contributed 84.4% of visitor receipts
  - ✓ **Domestic tourism** is the mainstay of Mexico's tourism sector, contributing 88 of every 100 Mexican pesos consumed by tourists in the country.
- **Spillover effects**: Every $1mn in T&T sales generates $89k of GDP in wholesale & retail; financial services sector gains $25k & real estate sector gains $68k; an extra 10% in tourism spending in cities => 2.8% boost in employment + spillovers onto local manufacturing

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Sources: Benchmarking report & Economic Impact reports, WTTC, "Tourism Policy Review of Mexico – Assessment and Recommendations", OECD, "Tourism and Economic Development: Evidence from Mexico's Coastline", NBER Working Paper 22300, Jun 2016

Italy: Multi-faceted Tourism

- **Multiple markets**: historical + art & culture + religious + food & gastronomy…
- **Key facts** on tourism:
  - ✓ Direct contribution of Travel & Tourism to GDP was EUR68.8bn (4.2% of total GDP) in 2015; total contribution was **10.2% of GDP**; accounted for 11.6% of total employment
  - ✓ Tourism exports grew by 7.5% in 2015;
  - ✓ 67% of wealth produced by tourism comes from five Italian regions: Latium, Lombardy, Veneto, Emilia-Romagna & Tuscany. South of Italy contributes 18% of the tourism wealth
- **Support from the government**:
  - ✓ **Gov't Tourism Investment Fund** was launched in 2014 with the mission to invest in the Italian tourism industry in primary locations. The fund operates as a bridge between public assets in need of development and the private real estate market.
  - ✓ Gov't established a Permanent Committee, comprised of private & public entities, for the Promotion of Tourism in Italy and tasked with drafting 5Y National Tourism Plan
- **Tourism strategy 2017-2022**: growing **digitalization** (e.g. digitized duty-free shopping at Italy's airports); improvement in infrastructure; focus on the sharing economy (which already accounts for 15% of tourism industry)

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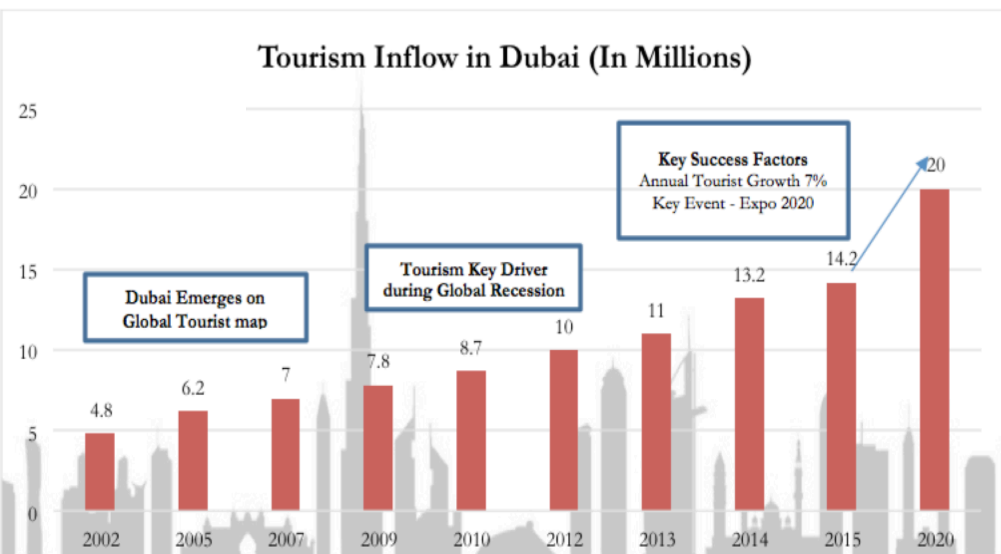
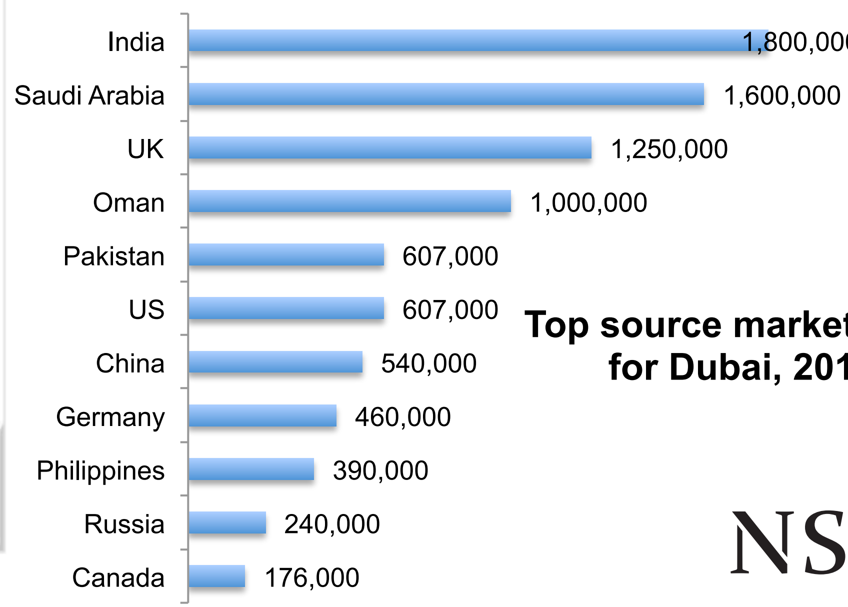
UAE/ Dubai: successful example from the region

- International Connectivity via Airlines (EK, FlyDubai..); Dubai is an Aerotropolis
- Integrated Trade & Travel Infrastructure + Logistics: Roads, Rails, Ports
- Building the “brand”/ Incentives to visit: 4S’s, Events like the shopping festival, food festival, Sporting events including Dubai World Cup, Tennis, Formula One, etc.
- Regional Business hub => attracting business travellers in addition to holiday go-ers
- Flexible Visa regime; Russia; accreditation from China – “Authorized Tourist Destinations” (ATD)
- Dubai welcomed 14.9mn visitors in 2016 (+5% yoy); Indians, British & other GCC top the list; Vision for 2020 Tourism = 20mn visitors



Y-o-Y Growth of Dubai Tourism Sector



Top source markets for Dubai, 2016

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Oman vs. UAE: an overview

	Oman	UAE
No visas required (No of countries)	6	38
Visa on arrival (No of countries)	65	17
Occupancy	65% (2016)	80% (2016)
Revenue per available room	USD 122 (Muscat, 2016)	USD 200 (Dubai, 2016)
Avg daily rates	USD 185 (Muscat, 2016)	USD 247 (Dubai, 2016)
Passengers handled at main airport	12.03mn (Muscat, 2016)	83.6mn (Dubai, 2016)
Flight movements	103,326 (Muscat, 2016)	418,220 (Dubai, 2016)
Airlines & Destinations	28 airlines with 55 destinations in 27 countries (Muscat)	90 airlines flying to 240+ destinations across six continents (Dubai)

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Source: EY Middle East hotel benchmark survey report 2016, Dubai Airport, Muscat Airport

Performance of Oman vs. Regional Peers

	Travel & Tourism's Total Contribution to GDP	2015 % share
30	Lebanon	22.1
35	Jordan	20.7
72	Syria	10.9
78	Bahrain	10.6
80	Yemen	10.5
	World	9.8
105	United Arab Emirates	8.7
116	Saudi Arabia	8.0
	Middle East	8.0
127	Qatar	7.1
149	Oman	5.7
164	Kuwait	4.9

	Travel & Tourism Investment Contribution to Total Capital Investment	2015 % share
36	Saudi Arabia	12.1
48	Lebanon	9.9
58	Jordan	8.8
70	United Arab Emirates	7.3
	Middle East	6.4
91	Bahrain	5.3
	World	4.3
115	Syria	4.0
130	Yemen	3.5
139	Oman	3.1
169	Qatar	2.2
181	Kuwait	1.4

	Travel & Tourism's Total Contribution to Employment	2015 % share
30	Lebanon	21.3
39	Jordan	18.1
66	Saudi Arabia	11.4
78	Bahrain	10.3
88	United Arab Emirates	9.6
	World	9.5
112	Yemen	8.0
	Middle East	7.8
118	Syria	7.7
119	Qatar	7.6
142	Oman	5.7
162	Kuwait	4.5

Source: Economic Impact Research, World Travel & Tourism Council

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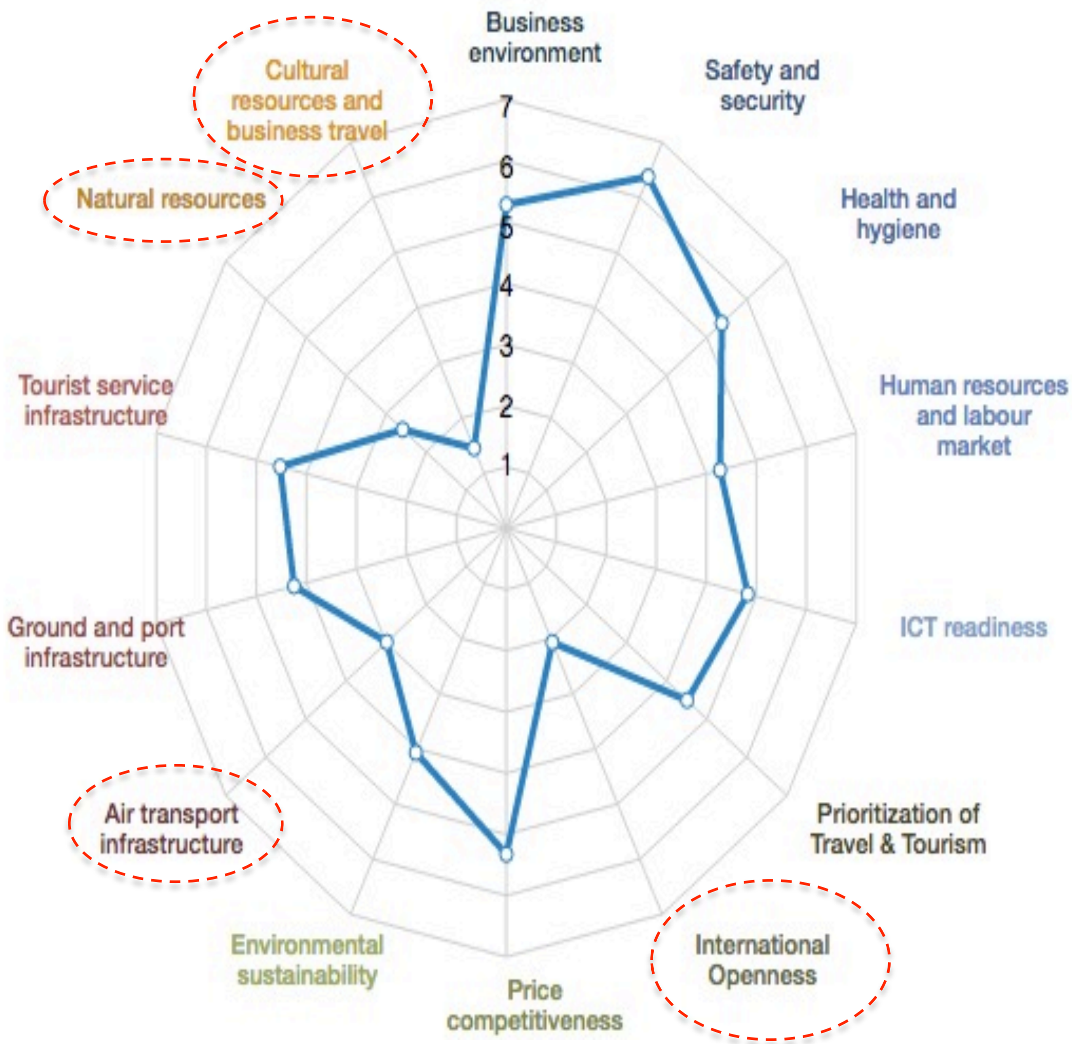
How competitive is Oman's Travel & Tourism Sector?



- Oman is ranked 65/141 countries in WEF's T&T Competitiveness Index
- Among the pillars, Oman has significant improvements to make in the below:
  - **Cultural resources**: to a large extent, this pillar captures how cultural resources are promoted rather than actual existing cultural heritage
  - **Natural resources** measures the available natural capital as well as development of outdoor tourism activities
  - **International openness**: measures how open a country is to people travel and services
  - **Air transport**: measures to what extent a country offers sufficient air connectivity for travellers' access to and from countries, as well as movement within many countries

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Source: Travel and Tourism Competitiveness Report 2015, World Economic Forum

Invest to capture changing demographics: ageing populations & EME tourists

Travel & Tourism Competitiveness Index performance & growth in intl tourism expenditure

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Source: Travel and Tourism Competitiveness Report 2015, World Economic Forum

	Info	Rank / 141	Score	Distance from best
Travel & Tourism Competitiveness Index 1-7 (best)		65	3.8	
Subindex: Natural and cultural resources 1-7 (best)		93	2.0	
Natural resources 1-7 (best)		90	2.6	
Number of World Heritage natural sites number of sites		83	0	
Total known species number of species		97	406.0	
Total protected areas % total territorial area		93	9.3	
Natural tourism digital demand 0–100 (best)		74	12.3	
Quality of natural environment 1-7 (best)		11	6.0	
Cultural resources and business travel 1-7 (best)		88	1.5	
Number of World Heritage cultural sites number of sites		51	4.0	
Oral and intangible cultural heritage number of oral and intangible cultural expressions		25	4.0	
Sports stadiums number of large stadiums		98	2.0	
Number of international association meetings number of meetings (average past 3 years)		91	7.0	
Cultural and entertainment tourism digital demand 0–100 (best)		102	3.0	
International Openness 1-7 (best)		119	2.1	
Visa requirements 0–100 (best)		111	20.0	
Openness of bilateral Air Service Agreements 0–38 (best)		104	7.8	
Number of regional trade agreements in force number		88	4.0	
Air transport infrastructure 1-7 (best)		58	3.0	
Quality of air transport infrastructure 1-7 (best)		42	5.1	
Available seat kilometres, domestic millions		49	12.0	
Available seat kilometres, international millions		58	203.0	
Aircraft departures /1,000 pop.		26	12.9	
Airport density airports/million pop.		52	1.4	
Number of operating airlines Number		71	32.0	

Positives:

Safety & Security (9th)

Business environment (18th)

Price competitiveness (20th)

Areas for improvement:

International openness (119th)

Natural resources (90th)

Cultural Resources & Business Travel (88th)

Source: Travel and Tourism Competitiveness Report 2015, WEF

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Much Potential: Oman's long-term growth vs. Regional Peers

	Travel & Tourism's Total Contribution to GDP	2016 - 2026 % growth pa
9	Lebanon	6.8
29	**Oman**	6.0
31	Jordan	5.9
48	United Arab Emirates	5.4
64	Kuwait	5.0
	Middle East	4.9
78	Bahrain	4.8
84	Qatar	4.7
89	Saudi Arabia	4.4
	World	4.0
147	Yemen	3.1
161	Syria	2.6

	Travel & Tourism Investment Contribution to Capital Investment	2016 - 2026 % growth pa
4	Qatar	8.6
17	United Arab Emirates	6.8
30	Lebanon	6.2
31	Jordan	6.2
35	Bahrain	6.0
36	Syria	6.0
42	**Oman**	5.8
	Middle East	5.4
	World	4.5
74	Saudi Arabia	4.4
80	Yemen	4.4
119	Kuwait	3.7

	Travel & Tourism's Total Contribution to Employment	2016 - 2026 % growth pa
12	Lebanon	4.0
13	Saudi Arabia	3.9
14	United Arab Emirates	3.9
20	Syria	3.8
36	**Oman**	3.5
	Middle East	3.4
41	Yemen	3.3
44	Bahrain	3.1
61	Jordan	2.8
63	Kuwait	2.8
	World	2.5
154	Qatar	1.0

Source: Economic Impact Research, World Travel & Tourism Council

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Economic Contribution of Travel & Tourism in Oman in the long-term vs. 2016

By 2026, international tourist arrivals into Oman are forecast to total 3,342,000, generating expenditure of OMR 1.5bn, an increase of 7.5% pa.

Oman	2015 US$mn[1]	2015 % of total	2016 Growth[2]	2026 US$mn[1]	2026 % of total	2026 Growth[3]
Direct contribution to GDP	1,812.5	2.5	6.6	3,495.8	3.4	6.1
Total contribution to GDP	4,145.2	5.7	6.0	7,862.9	7.7	6.0
Direct contribution to employment[4]	53.3	2.7	5.1	81.0	3.9	3.8
Total contribution to employment[4]	111.4	5.7	4.4	163.7	7.9	3.5
Visitor exports	1,768.2	4.5	5.4	3,852.4	6.6	7.5
Domestic spending	1,204.8	1.7	8.4	1,801.0	1.8	3.3
Leisure spending	2,175.5	1.8	7.7	4,483.2	2.7	6.7
Business spending	797.4	0.7	3.8	1,170.2	0.7	3.5
Capital investment	638.5	3.1	4.6	1,171.3	4.0	5.8

Source: WTTC; [1]2015 constant prices & exchange rates; [2]2016 real growth adjusted for inflation (%); [3]2016-2026 annualised real growth adjusted for inflation (%); [4]'000 jobs

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New Trends I: The “Sharing Economy”

Rise of the **“sharing economy”**: 95% of people use digital resources to organize a trip, using an average of 19 websites or mobile applications (BCG)

Opportunities to grow the tourism economy +

- Expand consumer options, grow market for tourism services
- Employ under-utilised assets & enable product development, without significant investment
- Stimulate innovation and new entrepreneurship opportunities
- Spread tourism to less visited areas
- Extend benefits of tourism to more people

Challenges for policy makers =

- Consumer protection and regulatory frameworks should be fit for purpose
- Competitive imbalances, with prospect of unfair competition for traditional regulated businesses
- Taxation of sharing economy activities and impact on tax revenues
- Labour market risks and protection for drivers, hosts and other service providers
- Impact on local communities and public interest

Strike the right balance: co-exist

- Re-think policy incentives, to ensure decisions are made in a creative, open and transparent way, with the end-user in mind
- Modernise policy and regulatory approaches

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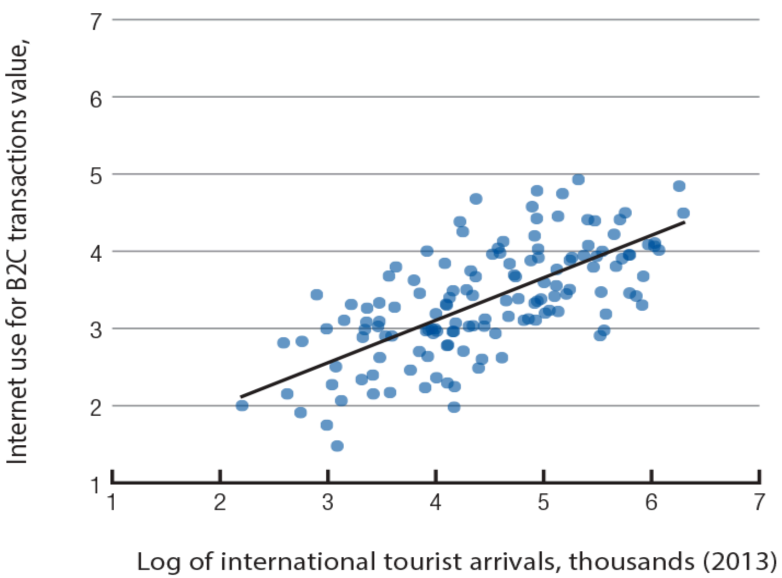
New trends II: Digital

tripadvisor Instagram

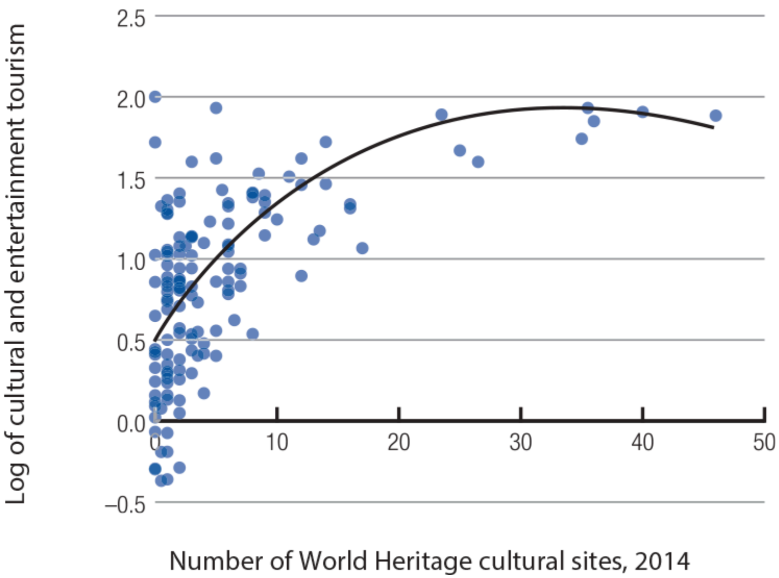
Develop & use Digital Tourism Marketing

- **Develop** online marketing strategies and country-level branding, and offer client care services beyond online booking => management awareness + developing skills from technical and programming knowledge to data interpretation, to understand and meet consumers' evolving needs
- **Need to value natural & cultural resources** - higher number of UNESCO heritage sites tend to be searched for more often: Oman home to 4 recognized UNESCO sites

International arrivals are correlated to extent of internet usage for B2C transactions



Number of cultural heritage sites & demand for cultural tourism



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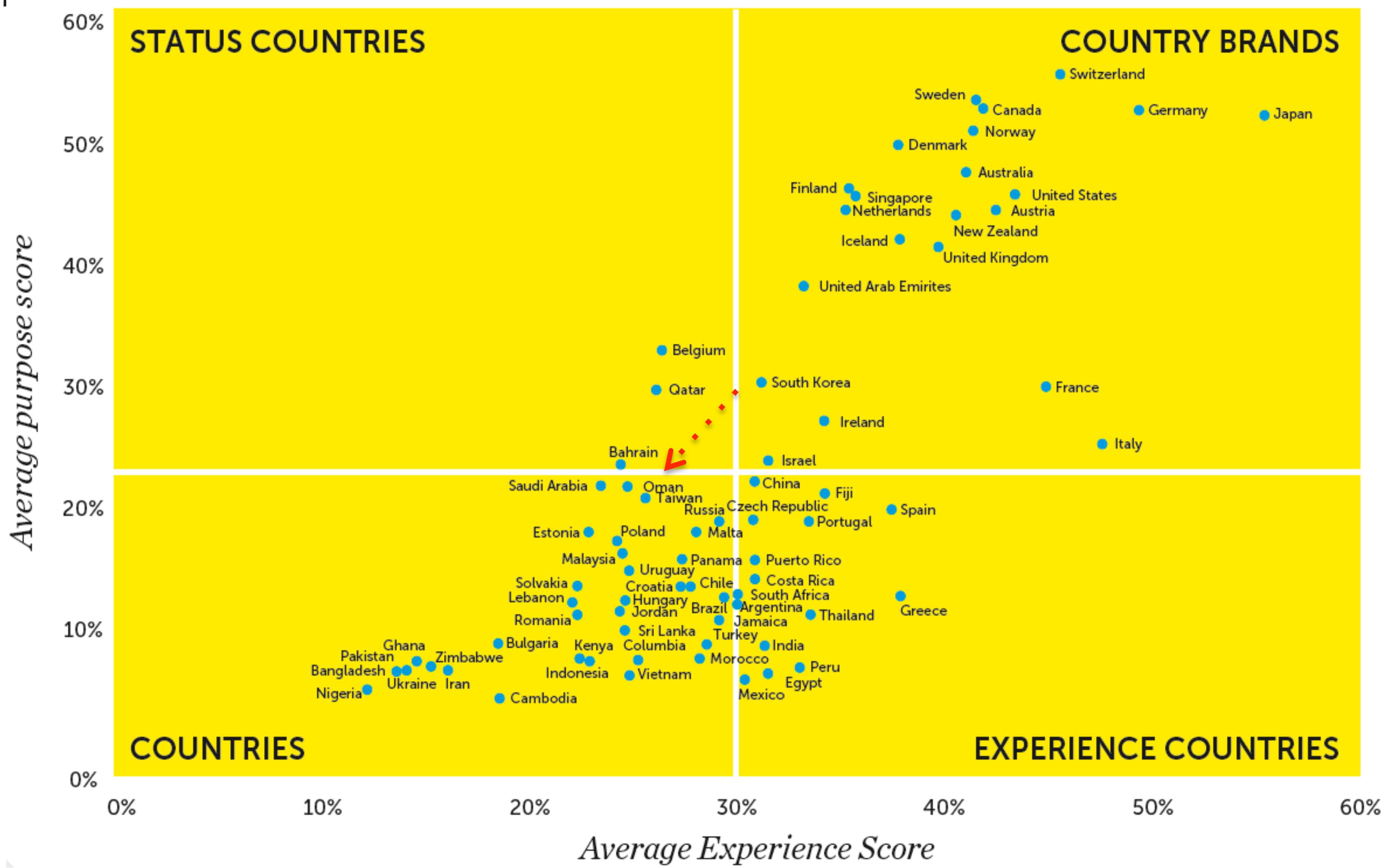
Where does the Oman "brand" stand?



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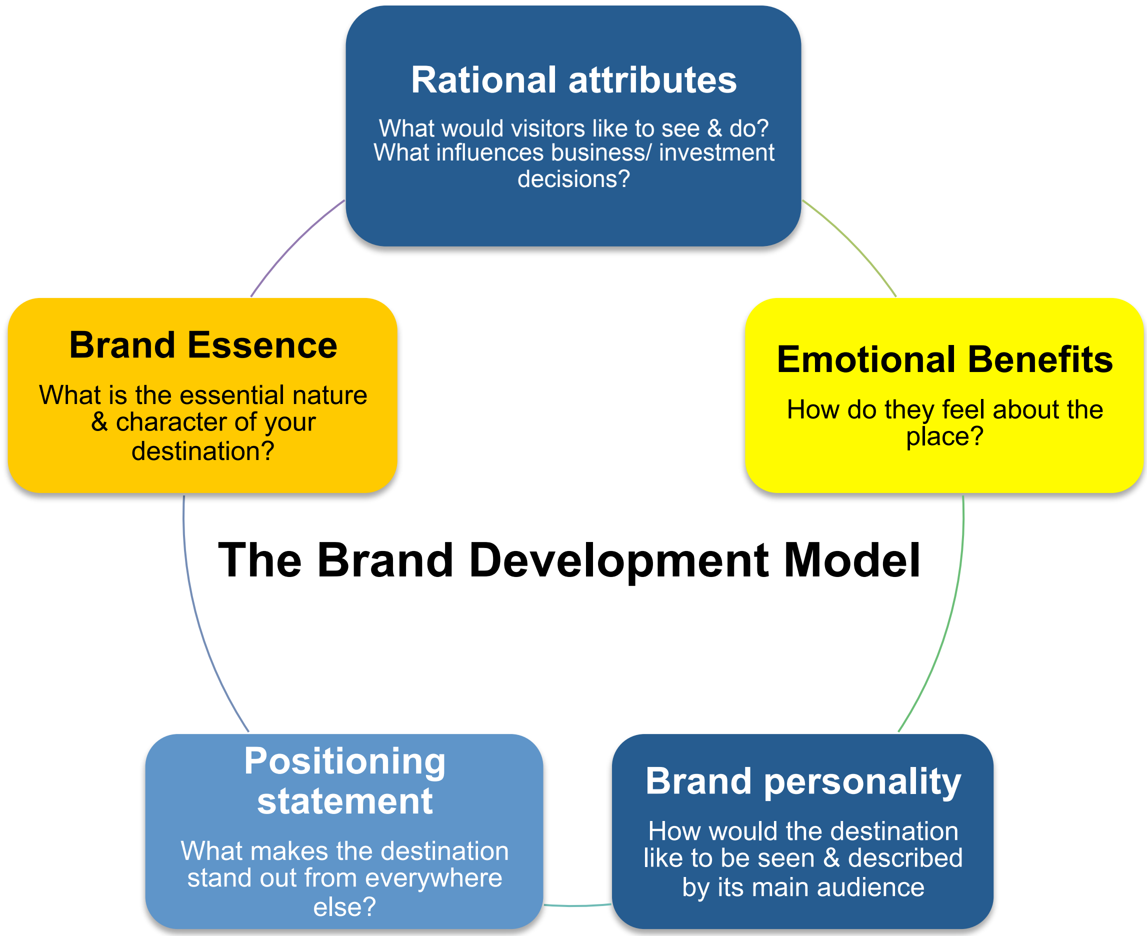
Source: Country Brand Index 2014-15 (FutureBrand)

66% Awareness	Overall Ranking
United Arab Emirates	19
Quatar	24
Bahrain	32
Oman	34
Saudi Arabia	39
Egypt	54
Morocco	57
Jordan	58
Lebanon	61
Iran	71

“Brand Oman”: What to do Next?



Source: Handbook on Tourism Destination Branding, UNWTO, 2009

Recommendations & Way Forward

- Tourism is a global growth industry and is highly competitive. It is increasingly dominated by tourism *into* and *originating from* EMEs.
- Oman has a regional comparative advantage as a tourist destination
- Tourism can be a major contributor to economic growth and employment in Oman
- Developing infrastructure to support tourism:
  - ✓ Hard (air-sea-road-rail connectivity, hospitality & leisure)
  - ✓ Soft (branding, digital marketing, visa regime, agreements with China etc.)
- Greater investments in T&T development: support a consumer-centric, market-driven approach to product and destination development
- Tourism is necessarily a Public-Private Partnership; grow linkages & synergies
- Re-branding Oman in a digital world: setting up the office of a “Chief Digital Officer” for Oman
- Promote the “sharing economy” by establishing supportive rules & regulations
- Regional cooperation: think arrangements with EK, FlyDubai etc. which are already established, have greater regional & international connectivity: win-win for all

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Bahla Fort: UNESCO site


Muscat Corniche


Al Hoota Cave

The Green Pool in Wadi Shab

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Thank you

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