Economic and Energy Impacts of Saudi's Giga Tourism Projects

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Overview

As part of Vision 2030, Saudi Arabia has committed to diversifying its economy away from hydrocarbons. A central pillar of this effort will be the transformation of the Kingdom into a leading tourism hub. This entails increasing the number of visitors from 20 million in 2019 to 100 million by 2030 and the GDP contribution of tourism to 10% from the current 3.0%.

To help achieve these ambitious targets, the Kingdom aims to expand airport capacity to 330 million passengers and add 500,000 new hotel rooms. A major part of the strategy is the development of seven flagship giga tourism projects across the country, which are expected to come online over the next decade. The Public Investment Fund (PIF) is spearheading this effort, developing the Red Sea Resort, Amaala, NEOM (specifically Trojena and Sindalah), Qiddiya and Soudah. The PIF is also working with the Royal Commission for Al-Ula (RCU) and the Diriyah Gate Development Authority (DGDA) to develop Al-Ula and Diriyah respectively.

Methodology

The study employs a three-tiered analytical framework. First, we have built an investment/financial/ operations model for each project. The model develops a bottom-up simulation of the operations and financials by activity covering a 30-year period to 2050. This reflects the detailed capital spending (hotels, leisure facilities, shopping and dining, real-estate for sale etc.) and associated infrastructure investments as well as direct employment footprint. In the operational phase of the projects, the model estimates revenues from hotels, dining, shopping, sports and other leisure activities and real estate sales as well as the associated operating costs and EBITDA margins.

A second model integrates these outcomes with a granular input-output table of Saudi Arabia to estimate gross value added and employment contributions.

A third and final model based on a benchmark of similar but best-in-class projects globally, extends the analysis to assess the energy footprint and avoided emissions from the greener and more sustainable consumption patterns adopted by the projects. It estimates the direct and indirect electricity, water and transport fuel consumption per year at an aggregate and project or unit specific level.

Data source/notes: Most of the data/information is obtained from public sources, including project websites, PIF press releases and a detailed benchmarking of similar assets (hotels, Formula 1 tracks, etc.) globally. We also make extensive use of the Middle East Economic Digest (MEED) a proprietary project tracking database for capital spending and a granular input-output table of Saudi Arabia which has been developed by Saudi Aramco. Finally, this paper only considers NEOM's tourism projects (Sindalah and Trojena) and not the full city targets (The Line, Oxagon etc.).

Results

Supported by an investment of $66 billion, all seven projects are expected to generate an annual average of $34 billion ($20 billion directly) in GDP and 257,000 jobs (71,000 jobs directly) over the construction and operation phases of the businesses until 2050.

The projects have minimal energy footprint. By 2031 when most assets are operational, the projects will consume around 25 thousand Barrels of crude oil equivalent per day (MBDOe), or 0.5% of the Kingdom's current overall energy demand. Half of the energy is in form of utilities (power and water) or 3.4 TWh equivalent. Moreover, three projects are being designed to be fully green (Red Sea, Amaala, NEOM – Sindalah/Trojena). These will consume 1.8 TWh in green energy and avoid considerable emissions relative to the grid-sourced electricity.

The projects are not however without (manageable) risks which include their large scale, location, types of products (premium-heavy), insufficient differentiation (particularly between NEOM, Al Ula, Red Sea and Amaala) and (temporarily) an insufficient number of trained Saudi workforce.

Finally, we acknowledge some differences with the publicly reported impacts availed by PIF. Our use of publicly available data and PIF's reporting of high-level headline impacts means that a full reconciliation is not possible without access to the analysis conducted for these projects.

Conclusions

Saudi Arabia's giga projects are flagship showcases for an ambitious tourism sector. Over the 30-year period to 2050, on average, these projects are expected to create 257,000 jobs and generate over $34.0 billion in GDP annually. By 2031, energy requirements of the seven projects are estimated at 25 MBDOe of which half is consumed as utilities (with a large share of green energy). Crucially, the greenhouse gas emissions footprint of the projects is expected to be relatively modest as three projects will be fueled by 100% green energy. Together, these projects offer a strong start to delivering on the tourism ambition and diversifying the Kingdom's economy away from hydrocarbons.

References

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