CAPITAL ECONOMICS

How will the Middle East conflict impact tourism?

- **The conflict in the Middle East risks damaging the perception of safety in the region's tourist hubs, especially in the Gulf. History shows that such crises can trigger steep declines in visitor numbers that take years to recover. The likes of the UAE (mainly Dubai) and Bahrain are most vulnerable given their proximity to Iran and dependence on tourism sectors. Saudi Arabia is less vulnerable.**
- **Several studies (see here, here and here) show that the safety of a destination is more important for tourists than other factors such as the weather, good transport routes and nature/culture.** (See Chart 1.) One survey found that three in four people in the UK would turn down a free holiday if the Foreign, Commonwealth and Development Office deemed a destination as unsafe. Many governments advise their citizens not to travel to the Gulf. The US and UK advisories include Egypt, even though it hasn't been involved in the conflict.
- The experience from other parts of the Middle East and North Africa can provide us with a guide as to what might happen to tourist arrivals in the Gulf amidst the current conflict and after it ends. As Chart 2 shows, typically, tourist arrivals fall by 30-40% following a crisis event (the events are listed in the chart legend), although larger falls aren't uncommon (arrivals in Israel fell by ~80% following the October 7th attacks).
- Of course, the nature of the crisis is key; a war affecting the country in question may lead to a sharper fall and similarly, direct attacks point to quicker downturns. And it is worth noting that these examples are somewhat different to the current situation. Egypt, Tunisia and Israel experienced terrorist attacks, while Jordan saw Arab Spring protests, and security concerns lingered due to the conflict in neighbouring Syria.
- **It typically takes around three years after an event before tourist arrivals return to their previous levels but, as Jordan's experience can attest, it can take much longer if security fears linger**. Indeed, tourist arrivals in Jordan are yet to recover to levels seen 15 years ago prior to the Arab Spring.
- The blow to tourism sectors from the current conflict is likely to vary across countries. **Proximity to Iran – and vulnerability to further Iranian attacks – may prove key, in which case the UAE, Oman, Bahrain, Qatar and Kuwait appear at much greater risk of disruption**. Lebanon is also vulnerable in light of Israeli strikes on its territory, although its tourism sector has already suffered in recent years against the backdrop of a severe economic crisis and regional tensions.
- **The risks facing Saudi Arabia are, arguably, smaller as many of the Kingdom's popular tourist destinations (namely Riyadh, Makkah and Jeddah) are located far from its Gulf coast.** And religious tourism, which accounts for 40% of foreign visitors travel to the Kingdom and ~55% of overall tourist spending, is likely to prove much less sensitive to the Iran conflict. (See Chart 3.)
- The overall economic impact of a decline in visitors will also vary significantly by country and depend on the relative size of tourism sectors. **Lebanon, Bahrain and the UAE are among the most tourism-dependent economies in the Middle East, with tourism sectors accounting for 6-9% of GDP.** (See Chart 4.) Alongside the hit to airlines and hotels, other sectors catering for tourists such as restaurants, retail and recreational services are also likely to suffer.
- **There are a couple of crumbs for comfort**. One is that, with around 27% of tourism in the Gulf being intra-GCC, the aggregate impact of a fall in international tourism may be softened if would-be travellers choose to spend at home instead. Another is that, in the Gulf at least, strong balance sheets mean that any loss of tourism receipts won't result in severe economic strains. Egypt, however, looks more vulnerable – see here.
- Of course, there is enormous uncertainty surrounding the future of Iran, and tourists' perceptions of regional security will depend on the path that it takes. (We outlined four potential scenarios here.) But the conflict clearly risks puncturing the perceived safety and stability of the Gulf countries, many of which had placed building out tourism sectors at the heart of their diversification. **In that context, the conflict could pose a challenge to long-term economic prospects in the region**. (For more, see here.)

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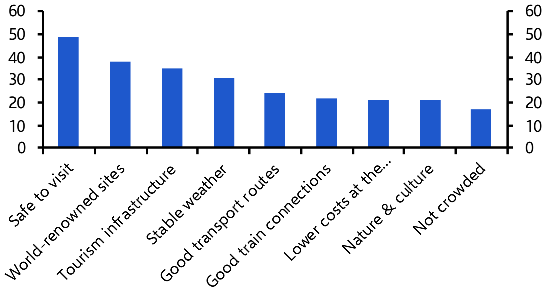
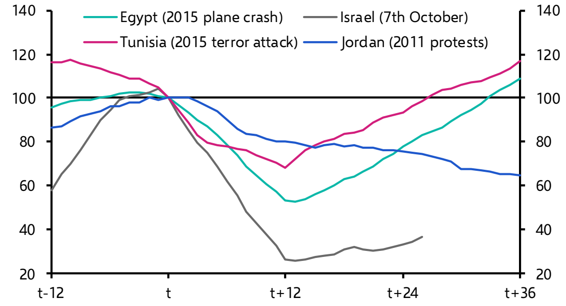
Chart 1: Holiday Destination Selection Criteria (% of respondents citing it as important)



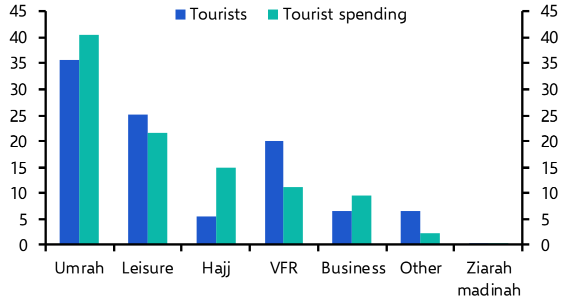
Sources: ETC, Capital Economics

Chart 2: Visitor Arrivals (Indexed to 100 at t = Date of Crisis Event)



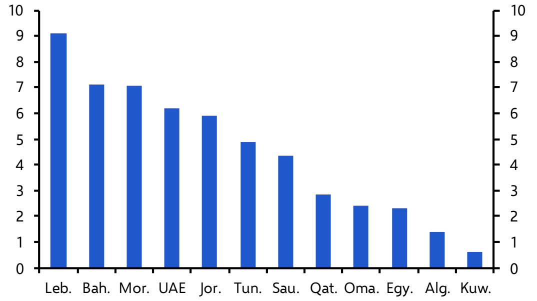
Sources: LSEG, CEIC, Capital Economics

Chart 3: International Visitors to Saudi by Purpose (% of total)



Sources: Saudi Ministry of Tourism, Capital Economics

Chart 4: Tourism Direct GDP (% of GDP)



Sources: IMF, Capital Economics