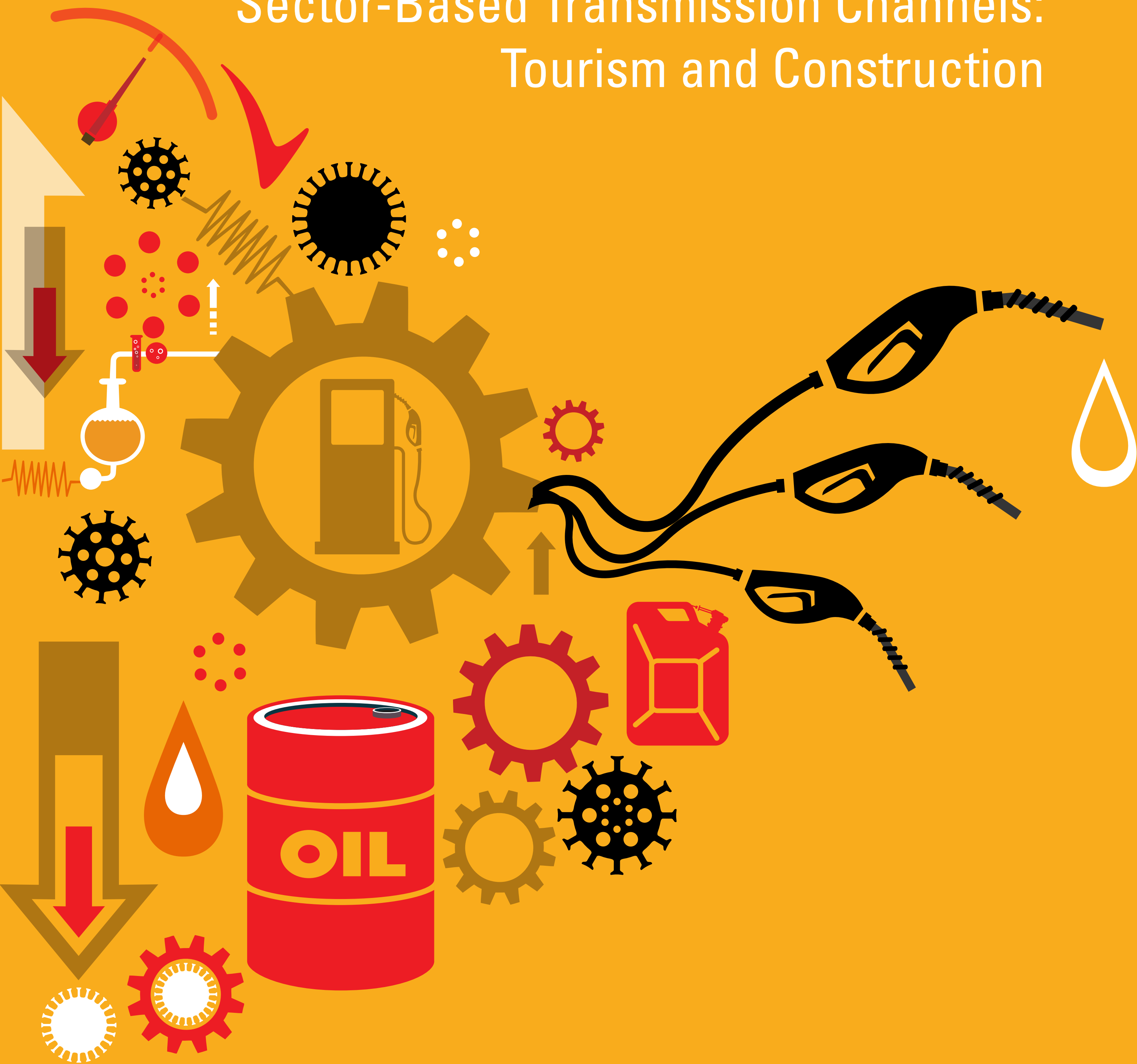
03

Sector-Based Transmission Channels: Tourism and Construction



03

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Many countries in the Arab region have identified economic diversification as a critical factor in expanding prosperity and achieving the Sustainable Development Goals (SDGs). Each of the 17 Voluntary National Reviews from the region presented to the High-Level Political Forum since the adoption of Agenda 2030 specifically mentions economic diversification and/or restructuring as priorities. Construction is described as a relevant sector in all 17 reviews, and tourism is mentioned in 15.[1]

Tourism

Tourism has become one of the fastest growing economic sectors in the world in recent years and is recognized as a potentially integral contributor to job and wealth creation, economic growth, environmental protection and poverty alleviation.[2] It also plays a vital role in the promotion of cultural heritage and diversity. Given its growing importance and multiplier effect, tourism is emphasized in the 2030 Agenda for Sustainable Development, as reflected in SDGs 8, 12 and 14, which refer to tourism-specific targets.

In the Arab region, while tourism has picked up in some countries in recent years, it has slowed in others. The region's share of international tourist arrivals has averaged six percent of the world total since 2015 (Table 3.1), dropping from 7.8 percent in 2010. Following a drop of 6.1 percent in 2016, the year-on-year increase in the region's number of international tourist arrivals was 14.8 percent in 2017 and 5.9 percent in 2018. However, this regional increase and the static regional share (as a percentage of global tourist arrivals) conceal changes across the region; while tourism maintained a constant regional share in countries like Lebanon, Jordan and Algeria, the countries of the Gulf Cooperation Council (GCC) managed to increase their collective regional share of tourist arrivals from 30 percent in 2010 up to 48 percent in 2018. The UAE's share doubled from 10 percent in 2010 to 19 percent in 2018. At the same time, Saudi Arabia also witnessed a significant increase from 15 percent in 2010 to 19 percent in 2018. Bahrain has also attracted more tourists, with its share increasing from one percent in 2010 to five percent in 2018. Conversely, Egypt's share dropped from 20 percent in 2010 to 14 percent in 2018. Recent data on conflict-affected countries like Syria, Yemen, Somalia and Iraq is missing, but in 2011, arrivals to Syria dropped by 40 percent from 2010, and the share of tourism (out of total exports) dropped from 31 percent in 2010 to 13 percent in 2011.[3]

1 Economic diversification and/or restructuring appears in the Voluntary National Reviews (VNRs) of Algeria, Bahrain, Egypt, Iraq, Kuwait, Lebanon, Libya, Morocco, Oman, the State of Palestine, Qatar, Saudi Arabia, Sudan, Syria, Tunisia and the United Arab Emirates. The Jordan VNR does not mention economic diversification but economic reforms as a priority, while Djibouti, Somalia, Syria and Yemen have not submitted VNRs. Iraq and Sudan include no mention of tourism among the key sectors, and in the Iraq and Libya VNRs, construction is in the context of post-conflict reconstruction.

2 ILO "Tourism and Employment Factsheet", 2018; and ILO Sectoral Brief: The Impact of COVID-19 on the Tourism Sector. https://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---sector/documents/briefingnote/wcms_741468.pdf.

3 Own calculations based on UN World Tourism Organization (UNWTO) Tourism Data Dashboard, 2020, https://www.unwto.org/unwto-tourism-dashboard, accessed on 1 July 2020.

Table 3.1 International tourist arrivals

	(million)				
	2010	2015	2016	2017	2018
World	955.7	1,202.4	1,243.6	1,333.2	1,408.8
Arab countries	75.0	71.7	67.3	77.3	81.9
Algeria	2.1	1.7	2	2.5	2.7
Bahrain	1	4	4	4.4	4.4
Djibouti	0.1	NA	NA	NA	NA
Egypt	14.7	9.3	5.4	8.3	11.3
Iraq	1.5	NA	NA	NA	NA
Jordan	4.2	3.8	3.6	3.8	4.2
Kuwait	0.2	0.2	0.2	0.2	NA
Lebanon	2.2	1.5	1.7	1.9	2
Morocco	9.3	10.2	10.3	11.3	12.3
Oman	1.4	1.9	2.3	2.3	2.3
State of Palestine	0.5	0.4	0.4	0.5	0.6
Qatar	1.7	NA	NA	2.3	1.8
Saudi Arabia	10.9	18	18	16.1	15.3
Sudan	0.5	0.7	0.8	0.8	0.8
Syria[1]	8.5	NA	NA	NA	NA
Tunisia	7.8	5.4	5.7	7.1	8.3
UAE	7.4	14.2	14.9	15.8	15.9
Yemen	1	0.4	NA	NA	NA

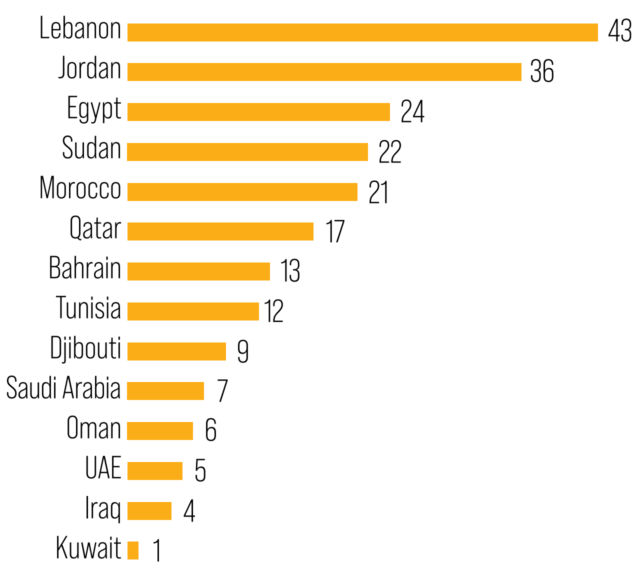
Source: UNWTO Tourism Data Dashboard, 2020 (data as of 1 July 2020).

Notes: 1 arrivals to Syria dropped to 5.1 million in 2011; data for Libya and Somalia do not exist; countries in grey have scored higher than the world's compound annual growth rate over the period 2015–2018.

In the region's oil-importing MICs, the tourism sector makes up a significant share of the countries' overall exports of goods and services and an important source of foreign currency earnings. In 2019, tourism receipts made up 43, 36 and 24 percent of total exports in Lebanon, Jordan and Egypt, respectively (Figure 3.1). It also makes up slightly more than one-fifth of total exports for Morocco and Sudan. In the case of Lebanon and Sudan, many of the tourists are expatriates returning to their home countries for vacations. For Saudi Arabia, religious tourism (Hajj and Umrah) make up substantive revenues, with the number of pilgrims from outside the country reaching 1.9 million in 2019[4] (see Figure 3.2).

Travel and tourism data for 2019 (WTTC, Table 3.3) show that this sector plays a very important role in employment both at the world and regional

Figure 3.1 Share of tourism in total exports (Percentage), 2019



Source: UNWTO Tourism Data Dashboard, latest data available as of 4 July 2020.

Notes: data for Tunisia, Oman, Kuwait, UAE and Djibouti refer to the year 2018 rather than 2019; export revenues from international tourism are composed of "travel" and "passenger transport" receipts.

4 General Authority for Statistics of Saudi Arabia, "Hajj Statistics 2019 (1440 Hijri)", https://www.stats.gov.sa/sites/default/files/haj_40_en.pdf, accessed on 4 July 2020.

levels. In Arab countries, this sector's contribution to employment exceeded the world average of 10 percent in eight countries, and its contribution to GDP exceeded the world's average in six countries. According to the WEF Travel and Tourism Competitive Index (TTCI),[5] the scores of 10 out of the 13 Arab countries that are covered by the report improved over the period 2017–2019, with the largest improvement in Egypt (seven percent), Oman (5.1 percent), Kuwait (2.7 percent), Algeria (2.5 percent) and Tunisia (2.4 percent), while noting that UAE is the highest scoring economy in the region on this Index and that four out of the top five scoring economies are from the GCC, with the fifth being Egypt[6] (see Table 3.4).

Table 3.2 International tourism receipts[1]

	USD billion				
	2010	2015	2016	2017	2018
World	979.2	1,222.9	1,250.1	1,347.2	1,457.1
Arab	62	66.5	67.9	77.9	84.8
Algeria	0.2	0.3	0.2	0.1	NA
Bahrain	1.4	2.7	3.8	4.2	3.7
Djibouti	0	0	0	0	0.1
Egypt	12.5	6.1	2.6	7.8	11.6
Iraq	1.7	2.8	3.1	3.0	2.0
Jordan	3.6	4.1	4.0	4.2	5.2
Kuwait	0.3	0.5	0.6	0.3	0.5
Lebanon	8.0	6.9	7.0	7.6	8.4
Libya	0.1	NA	NA	NA	NA
Morocco	6.7	6.3	6.5	7.4	7.8
Oman	0.8	1.5	1.6	1.7	1.8
Palestine	0.7	0.3	0.2	0.2	0.2
Qatar	0.6	5.0	5.4	6.0	5.6
KSA	6.7	10.1	11.1	12.1	13.8
Sudan	0.1	0.9	1.0	1.0	1.0
Syria[2]	6.2	NA	NA	NA	NA
Tunisia	2.6	1.4	1.2	1.3	1.7
UAE	8.6	17.5	19.5	21.0	21.4
Yemen	1.2	0.1	0.1	NA	NA

Notes: [1]/NA = data not available; data for Somalia not available.
[2]Syria's receipts dropped to US $1.8 bn in 2011.
Countries in grey have scored higher than the world's compound annual growth rate over the period 2015-2018.

Source: UNWTO Tourism Data Dashboard, 2020 (latest available as of 1 July 2020).

Table 3.3 Travel and Tourism contribution to the economy in 2019

	Contribution to GDP	Contribution to employment
World	10.3	10.0
Algeria	5.7	6
Bahrain	13.3	15
Egypt	9.3	9.7
Iraq	6.4	6.8
Jordan	15.8	17.7
Kuwait	5.3	6
Lebanon	18	19.2
Libya	3.1	3.3
Morocco	12	12.4
Oman	7.5	8.1
Qatar	9.1	11.8
KSA	9.5	11.2
Sudan	6.1	6.2
Syria	8.6	8.8
Tunisia	13.9	10.8
UAE	11.9	11.1
Yemen	5.8	6

Source: World Travel and Tourism Council (2019 data as reported in March 2020, data extracted from country briefs). Countries in grey have scored above world average in the contribution to GDP.

5 The Travel and Tourism Competitiveness Index measures the set of factors and policies that enable the sustainable development of the travel & tourism (T&T) sector, which in turn contributes to the development and competitiveness of a country. It comprises four sub-indexes (enabling environment; T&T policy and enabling conditions; infrastructure; and natural and cultural resources; 14 pillars and 90 individual indicators, distributed among different pillars). For more information, see: World Economic Forum (WEF), *The Travel and Tourism Competitiveness Report 2019: Travel and Tourism at a Tipping Point,* http://www3.weforum.org/docs/WEF_TTCR_2019.pdf.

6 Egypt achieved the highest performance improvement among the Arab countries in three out of fourteen sub-indices that make up the TTCI; namely "safety and security"; "ground and port infrastructure"; and "natural resources".. Egypt also scored the highest in three other sub-indices: "price competitiveness"; "environmental sustainability"; and "cultural resources and business travel". Oman achieved the greatest improvement in the "human resources and labour market" sub-index. In the "tourist service infrastructure" sub-index, which is a pillar that measures the availability and quality of key tourism services such as quality accommodation and car rentals, Saudi Arabia recorded the highest improvement of 10.3 percent between 2017 and 2019, while Yemen recorded a deterioration of 15 percent, Algeria 10.8 percent and Lebanon 7.6 percent; noting that Lebanon and Yemen were the only countries which showed no remarkable improvement in the "price competitiveness" pillar. On the natural resources and international openness sub-indices, the score of 11 Arab countries (out of the 13 Arab countries included in the Index) were within the bottom 50 percent, which means that the region is still behind when it comes to ecotourism and visa requirements – except for Qatar, which is the region's top scorer, the most improved on the "international openness" sub-index, and ranked 64th globally after waiving entry visa requirements for citizens of 80 countries in 2017. Jordan ranks 68th on this sub-index (see Table 3.4).

Table 3.4 **WEF Travel and Tourism Competitiveness Index 2019 – global rank (left) and sub-indices highest scoring (right)**

Global Rank 2019	Economy	Score 2019	Difference (of 2019 Index) from 2017 (score growth %)
33	UAE	4.4	-1.3%
51	Qatar	4.1	1.5%
58	Oman	4	5.1%
64	Bahrain	3.9	0.4%
65	Egypt	3.9	7.0%
66	Morocco	3.9	2.2%
69	Saudi Arabia	3.9	1.4%
84	Jordan	3.6	-1.2%
85	Tunisia	3.6	2.4%
96	Kuwait	3.4	2.7%
100	Lebanon	3.4	0.3%
116	Algeria	3.1	2.5%
140	Yemen	2.4	-0.9%

		Highest scoring country (score)
Enabling environment	Business environment	Qatar and UAE (5.6)
	Safety and security	Oman (6.5)
	Health and hygiene	Saudi Arabia (5.7)
	Human resources and labour market	UAE (5.1)
	ICT readiness	UAE (6.4)
T&T policy and enabling conditions	Prioritization of travel and tourism	Morocco (5.2)
	International openness	Qatar (3.5)
	Price competitiveness	Egypt (6.5)
	Environmental sustainability	Egypt (4.7)
Infrastructure	Air transport infrastructure	UAE (5.7)
	Ground and port infrastructure	Bahrain (5.2)
	Tourist service infrastructure	UAE (5.6)
Natural and cultural resources	Natural resources	Morocco (3.1)
	Cultural resources and business travel	Egypt (3.3)

Bottom 20% Top 20%

Impact of COVID-19

The tourism industry has been hit hard by the COVID-19 lockdown and containment measures, and recent studies show that it could contract at an unprecedented pace (by between 45 and 70 percent),[7] causing major disruption in the airline industry and taking a heavy toll on tourism-related sectors such as transportation, hospitality and entertainment (including food).

Globally, the majority of workers in the tourism sector are under 35 years of age, and half of them are 25 or under. Women represent between 60 and 70 percent of the global tourism workforce,[8] even though they are often over-represented in lower-skilled and lower-paid occupations. The sector is also an important source of employment for migrant workers. We have no reason to assume that the basic profile differs in the Arab region, meaning that young people and women will be disproportionately affected by the slowdown.

In a region where young people (aged 15–24) make up 17 percent of the population,[9] and where youth unemployment is among the highest in the world, it is likely that the hiatus in international tourism will increase unemployment largely among young people and especially young women. Moreover, in the GCC countries, tourism contributes to an average of 10.5 percent of employment (Table 3.3) and jobs in this sector are largely occupied by migrant workers. For example, the share of non-Saudi employees in the trade, accommodation and food industry amounted to 79.6 percent according to the 2017 Saudi Employment and Wages Survey.[10] This is also the

7 International Labour Organization (ILO), *Sectoral Policies Department Factsheet*, 2017, https://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---sector/documents/publication/wcms_544196.pdf.

8 Ibid.

9 Source: UN DESA, *World Population Prospects 2019* (2020 estimates), https://population.un.org/wpp/, accessed in 16 June 2020.

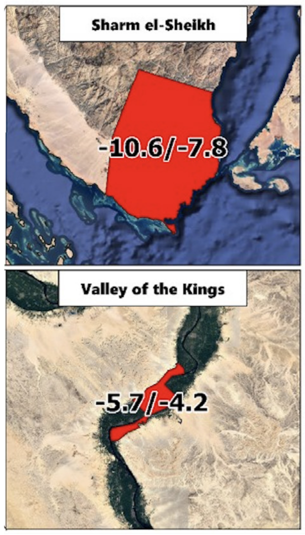
10 General Authority for Statistics, Kingdom of Saudi Arabia, Employment and Wages Survey 2017, https://www.stats.gov.sa/sites/default/files/employment_and_wages_survey_2017_en.pdf.

case for the UAE, where this sector represents 11.1 percent of employment,[11] but where 90 percent of those employed in the private sector are migrants.[12]

The full impact on tourism is difficult to estimate but year-on-year changes monitored by the United Nations World Tourism Organization (UNWTO) project devastating losses in the immediate term and suggest that tourism activity will not reach pre-crisis levels until 2022 at the earliest. International tourist arrivals had dropped by 40 percent in the Middle East[13] compared to 44 percent worldwide by the end of April 2020.[14] Tunisia alone witnessed a drop of 54 percent (April 2020–April 2019). Statements by Tunisian officials indicate that the tourism sector could lose approximately 400,000 jobs due to COVID-19.[15] In Egypt, official statements indicate that tourism revenue has declined during the pandemic by 80 percent in 2020 compared to the same period in 2019.[16] In Saudi Arabia, the tourism industry could decline by 45 percent compared to last year according to officials.[17] In Morocco, a study published by the National Tourism Confederation (CNT) in April 2020 estimated that this year 39 percent fewer tourists will arrive than in 2019 and that losses in the tourism sector will amount to $13.9 billion between 2020 and 2022.[18]

For countries undergoing complex political crises, where the tourism industry relies primarily on nationals living abroad who spend holidays in their home countries, it is difficult to estimate the impact of COVID-19 on tourism. In Lebanon, which has been suffering from protracted financial and economic crises and political instability since October 2019, tourism employs almost one-fifth of total employment, the highest in the Arab region (Table 3.3). It is concerning that COVID-19 has prevented Lebanese expatriates from visiting the country and injecting much-needed hard foreign currency.

Figure 3.2 Estimated economic drop at selected tourist places in Egypt



Source: authors' calculations based on satellite imagery from NASA Worldview https://go.nasa.gov/3anYhwR.

Using night-time light satellite imagery to estimate the economic impact on tourism[19]

An early and quick attempt to estimate the impact of the dual shock on the tourism sector could be provided by the NTL satellite imagery methodology (Henderson et al., 2012).[20] Indeed, in the Egyptian case, the areas that have suffered most according to the drop in NTL were associated with tourism. Figure 3.2 reports two examples of tourist areas that were significantly affected by the lockdown measures, as shown by the GDP decrease reported in the map. Using these two areas to exemplify the results, it is clear how Sharm el-Sheikh is estimated to suffer a more dramatic decrease in GDP in the course of 2020 with respect to the still severe reduction observed in the Valley of the Kings. This appears plausible since

11 World Travel and Tourism Council (WTTC), 2020, "United Arab Emirates Country Profile" in 2020 Annual Research: Key Highlights.

12 International Labour Organization (ILO), "United Arab Emirates", https://www.ilo.org/beirut/countries/united-arab-emirates/WCMS_533531/lang--en/index.htm.

13 The UNWTO Middle East category includes 14 Arab countries: Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, Palestine, Qatar, Saudi Arabia, Syria, UAE and Yemen.

14 UNWTO, International Tourism and COVID-19 Dashboard, https://www.unwto.org/international-tourism-and-covid-19, accessed on 4 July 2020.

15 Globaldata Travel and Tourism, "Tunisia must use government funds effectively to bounce back from Covid-19", Airporttechnology.com, https://www.airport-technology.com/comment/tunisia-government-funds-covid-19/.

16 Statement by Minister of International Cooperation, Rania Al-Mashat, during a webinar organized by the American Chamber of Commerce and the Egyptian–American Joint Business Council today titled "The COVID-19 pandemic: Coronavirus is an imminent opportunity for multilateralism", https://www.egypttoday.com/Article/3/85232/5-factors-to-affect-Egyptian-economy-due-to-COVID-19.

17 *Arabian Business*, "Saudi's tourism industry could take 45% hit due to Covid-19", April 26, 2020, https://www.arabianbusiness.com/travel-hospitality/445714-saudis-tourism-industry-could-take-45-hit-due-to-covid-19.

18 Hatim, Y., "Morocco Could Lose $13.85 Billion in Tourism Revenue Due to COVID-19", Moroccoworldnews.com, https://www.moroccoworldnews.com/2020/04/300361/morocco-could-lose-13-85-billion-in-tourism-revenue-due-to-covid-19/.

19 This section reports the early findings from a forthcoming UNDP paper.

20 Henderson, J. Vernon, Storeygard, Adam, and Weil, David N. 2012. "Measuring Economic Growth from Outer Space". In: American Economic Review 102.2, pp. 994–1028. doi: HYPERLINK "https://doi.org/10.1257/aer.102.2.994"10.1257/aer.102.2.994.

the area of Sharm el-Sheikh relies on seaside tourism with multiple overnight stays, as opposed to the day-to-day tourism of the Valley of the Kings. Similarly to Egypt, Tunisia, Jordan and Morocco have experienced a GDP decrease at tourist sites.

Using value chain analysis to estimate the vulnerability of the tourism sector[21]

In this section we investigate countries' integration into the international production network by using inter-country input–output (ICIO) tables. Due to country coverage, the entire analysis is conducted using EORA IO Tables for 2016 – being the last available update – disaggregated in 26 sectors. These instruments provide information on flows between country-sectors, yielding a matrix of input origins and output destinations for the production of each country-sector; this allows, in turn, for identification of value-added (VA) flows. Given the characteristics of the current crisis, understanding both the origin of VA absorbed, and the destination of VA produced, by each country, is crucial to identify the actual vulnerability to the pandemic. These two aggregates provide a representation of the supply and demand capabilities of country-sectors, being the economic aggregates actually impacted by the pandemic. Such a change of perspective focuses where VA is generated rather than exchanged and allows – even though bypassing the intermediate transactions between origin and destination of VA – to implicitly track the whole structure of the chain. In a nutshell, if countries are individual links in a chain, our analysis allows for the identification of the largest upstream (VA origin) and downstream (VA destination) links, relative to the selected countries. Conversely, usual global value chain studies tend to focus on relative position and order, rather than on size, along the value chain. Given that the shock is expected to induce a recession impacting supply and demand capabilities, we are of the opinion that focusing on link size could provide a more significant identification of countries' exposure.

In light of the relevance of the tourism sector in the region, we perform the analysis relying on EORA sectoral classification, which we proxy by using the hotels & restaurants (H&R) and transport accounts. The H&R sector appears to have a lower international exposure than transport, while no particular differences are apparent concerning international partners.

Looking at individual countries, the UAE can be considered the most "vulnerable" country in our sample: in addition to a high level of exposure in the percentage share of foreign absorbed/originated VA, the UAE presents a very low level of partner diversification, with Japan and India constituting by far the main partners of, respectively, foreign absorbed and originated VA for both the sectors. Conversely, Egypt, given its almost entirely internal VA absorption/origin, could be the most resilient to the shock. However, possible areas for concern are its very high share in GVC-related trade, as well as its international network that exposes Egypt to large partners' economic contractions. Jordan and Lebanon, on the other hand, have similar figures regarding the share of VA absorbed and originated abroad, as well as a similar network for VA destination and origin.

Looking at country aggregates by VA destination, Egypt's main absorber is Europe, followed by Asia and the Arab region. Different patterns emerge for the other countries: about 80 percent of the UAE's VA absorbed abroad is from Asia (around the 50 percent) and the region (around 30 percent); the opposite is found for Lebanon and Jordan. The origin of VA provides a completely different picture. Europe is the most important region for Egypt, Jordan and Lebanon, and accounts for more than 30 percent for UAE. The main source of VA for the UAE is Asia, which stands as second largest origin for the whole group. Looking at the region as a whole, this has a much lower relevance than for VA destination; only Jordan sources more than the 10 percent from this region, with values more or less equal to North America.

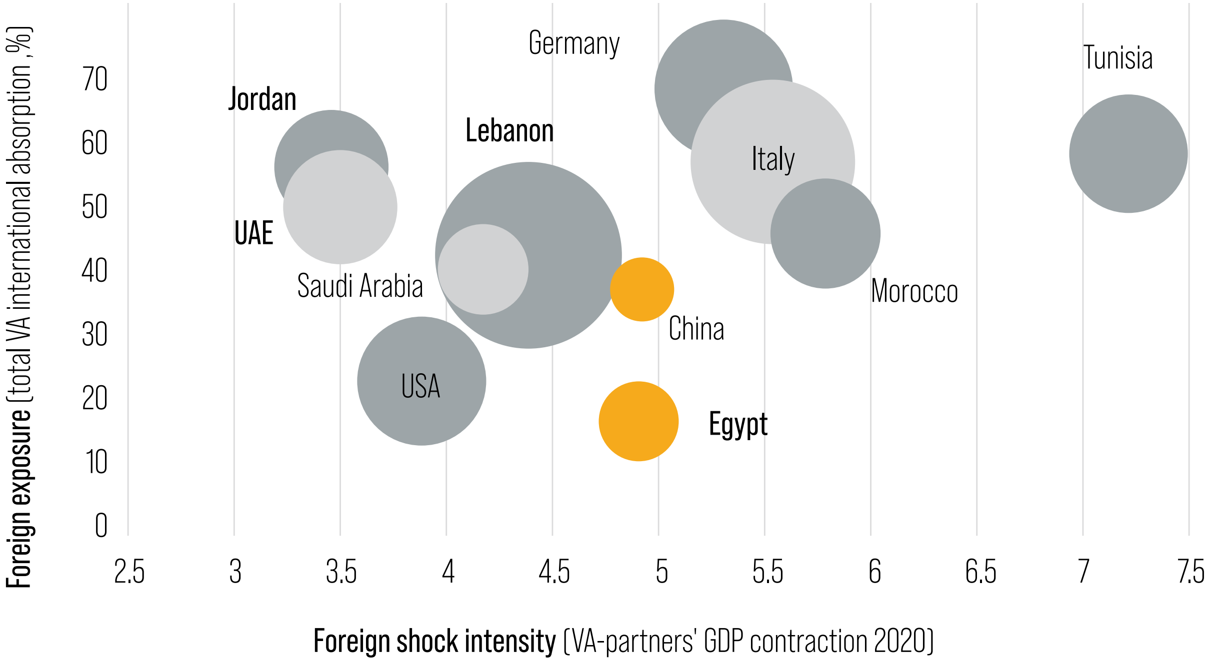
Looking at main partners, we find a high degree of homogeneity: the USA, China, Germany and Italy are the most important partners, with India being the leading country for the UAE, UK and France in the top 10 for the entire group.

We consider the exposure to economic shocks by combining the extent of GVC-related exposure to foreign demand and supply of VA, and the intensity of the economic shock in each country's partners. The former represents a measure of how exposed countries are to foreign shocks; the latter quantifies the intensity of such shocks. This information is displayed in the scatter graph below (see Figure 3.3).

Two main groups of countries emerge. In the top right, we find the most exposed countries: Germany, Italy, Morocco and Tunisia. The latter is by far the most threatened country in both dimensions. These countries are highly connected with the rest of the world – and thus highly exposed to shock – and their partners have been hit hard by the COVID-19-induced economic shock.

21 Preliminary findings from UNDP (forthcoming). In terms of country coverage, this work has been conducted on Egypt, Jordan, Lebanon and the UAE.

Figure 3.3 **Countries' COVID-19 international exposure**



Source: Authors' estimates.

Notes: Bubble size denotes own GDP contraction. Bubble colour denotes GDP change based on IMF April 2020 forecasts: red denotes GDP growth; blue denotes GDP contraction. The x axis (horizontal) expresses average partners' GDP contraction for origin and destination. The y axis expresses the sum of the share of VA used and produced, respectively, originated and absorbed abroad.

In the bottom left one finds less-exposed countries but different types of exposure emerge. Egypt's partners suffered major GDP contractions, but the low foreign VA exposure may act as a shield to the transmission of economic shocks. Conversely, the main threat for Jordan and the UAE comes from their large foreign VA exposures, while their partners have been hit relatively less by the COVID-19 economic crisis. Saudi Arabia and Lebanon occupy a similar position and are more exposed than the UAE in both dimensions; however, Lebanon is expected to suffer much more in economic terms. This highlights the conclusion that, while international links play a non-negligible role in the transmission of shocks, national policies remain of primary importance.

Policy review and recommendations

Measures to support the tourism industry will prove critical, including as means to protect its already vulnerable workforce – comprising, to a great extent, young people, women and migrants. Some countries are adopting targeted tourism stimulus packages.

GCC countries have adopted measures such as waivers of fees and municipal taxes to ease the financial burden on private employers, including owners of tourist and leisure facilities. Saudi Arabia is providing concessional finance for small- and medium-sized enterprises (SMEs) by granting loans from banks and credit line facilities to support business continuity and maintain employment levels in these enterprises, in addition to postponing the payment of some government and municipal fees payable by the private sector for a period of three months. This was made possible by the fact that the Saudi Arabian Monetary Authority (SAMA) launched a SAR 50 billion ($13.3 billion/two percent of GDP) package to support SMEs, extending credit lines to banks to allow them to offer grace periods on loan repayments and increase lending to businesses.[22] The UAE has suspended tourist taxes and municipal fees for tourism and entertainment sectors for the remainder of 2020. Oman announced that restaurants are exempt from tourist and municipal tax until the end of August 2020. Bahrain decided it will waive the value of electricity and water bills for all individual and corporate accounts for a period of three months, including for migrant workers, and also introduced an exemption from the expat levy for those whose Iqama (residency permit) expires by 30 June 2020, extending their residency for a period of three months without

22 International Monetary Fund (IMF), "IMF Policy Tracker", https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#S, accessed on 26 June 2020.

charge to make it easier for migrant workers. Similarly, the Supreme Committee of Qatar decided to exempt the tourism and retail sectors from electricity and water bills for a period of six months. Kuwait adopted similar measures and also gave MSMEs and individuals a six-month grace period for the repayment of loans with no penalties or interest.[23]

Egypt has recently adopted a series of measures to kick-start tourism. Its Ministry of Tourism and Antiquities has been distributing "hygiene safety" certificates to hotels after fulfilling the regulations issued by the Ministry and approved by the cabinet in accordance with the standards of the World Health Organization (WHO).[24] In parallel, the government has waived tourist visas for visitors to Egypt's tourism-centric governorates until 31 October 2020.[25] At the same time, the Ministry of Petroleum and Mineral Resources has offered a discount on the price of fuel for aviation, and the Ministry of Civil Aviation is offering companies a 50 percent discount on landing and parking fees.[26]

Overall, taking into consideration the macro-fiscal outlook of the countries and existing social security and service delivery networks, it is important for the government to explore a combination of the below:

- offering temporary unemployment benefits while designing programmes to redirect the tourism workforce into other promising areas;

- stimulating domestic tourism as a long-term viable option, with a focus on ecotourism (if applicable) in line with the UNWTO "Global Guidelines to Restart Tourism" (May 2020) which had called for incentivizing and facilitating domestic tourism to ensure a partial recovery of this sector;[27] and

- offering a wide range of stimulus and financial support packages to employers to help sustain their business. Packages can include such measures as waiving of fees, grace periods for loan repayments, and tax exemptions.

At the regional level, there is a need to revive the efforts of developing an intra-Arab tourism strategy, initiated by the Arab ministers of tourism in 2015 during a forum organized by UNWTO and the Arabian Travel Market (ATM).[28] Unfortunately, many of the challenges that were identified at that time are still quite relevant – such as visa processes, land border crossings and the lack of air-lift and open skies policies, which makes air travel within the region relatively expensive.

Construction

The construction sector plays a considerable – albeit variable – role in Arab economies and labour markets. Related regional trends include a still-expanding population, now estimated at 430 million and expected to exceed 660 million in 2050, and a fast pace of urbanization, with 60 percent of the population living in urban areas compared to 31 percent in the 1960s, and ranging from 90 percent in the Gulf Cooperation Countries (GCC) to less than 50 percent in Egypt, Somalia, Sudan and Yemen.[29] But beyond those common trends, the construction sector presents different contextual characteristics by country and country grouping (see Figures 3.4 and 3.5).

In **oil-exporting countries,** the construction sector's contribution to GDP and employment has expanded since the beginning of the 21st century – a phenomenon largely dependent on the notable flows of oil revenues, drawn to a sector considered relatively stable and profitable. In past decades, the sector attracted domestic and foreign investments, as well as generous credit lines, while public investment in infrastructure still plays a

23 Economic and Social Commission for Western Asia (ESCWA), "COVID-19 Stimulus Tracker", http://covdata.unescwa.org/, accessed on 22 June 2020.

24 Ministry of Tourism and Antiquities (Government of Egypt), Newsletter, Issue 5, May 2020, http://www.egyptologyforum.org/MOA/MoTA_Newsletter_5_English.pdf, accessed on 4 July 2020.

25 Ministry of Tourism and Antiquities (Government of Egypt), "New Discounts Offered to Encourage Tourism", n.d., https://egymonuments.gov.eg/en/news/new-discounts-offered-to-encourage-major-tour-operators-to-organised-trips-to-egypt-s-touristic-governorates.

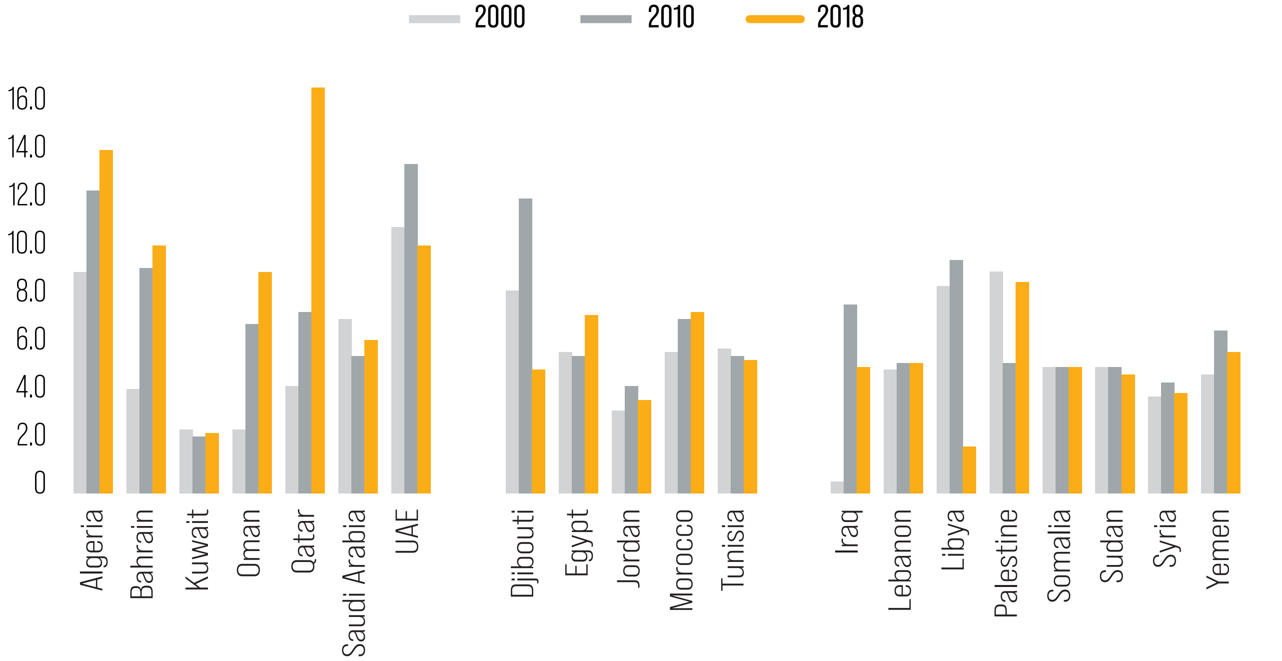
26 Official Facebook Page of Egypt's Ministry of Tourism, https://www.facebook.com/moantiquities/.

27 UN World Tourism Organization (UNWTO), "Global Guidelines to Restart Tourism", 28 May 2020, https://webunwto.s3.eu-west-1.amazonaws.com/s3fs-public/2020-05/UNWTO-Global-Guidelines-to-Restart-Tourism.pdf, accessed on 26 June 2020.

28 UNWTO, "UNWTO and ATM Ministerial Forum Address Intra-Arab Tourism", 11 May 2015, https://www.unwto.org/archive/middle-east/press-release/2015-05-11/unwto-and-atm-ministerial-forum-address-intra-arab-tourism.

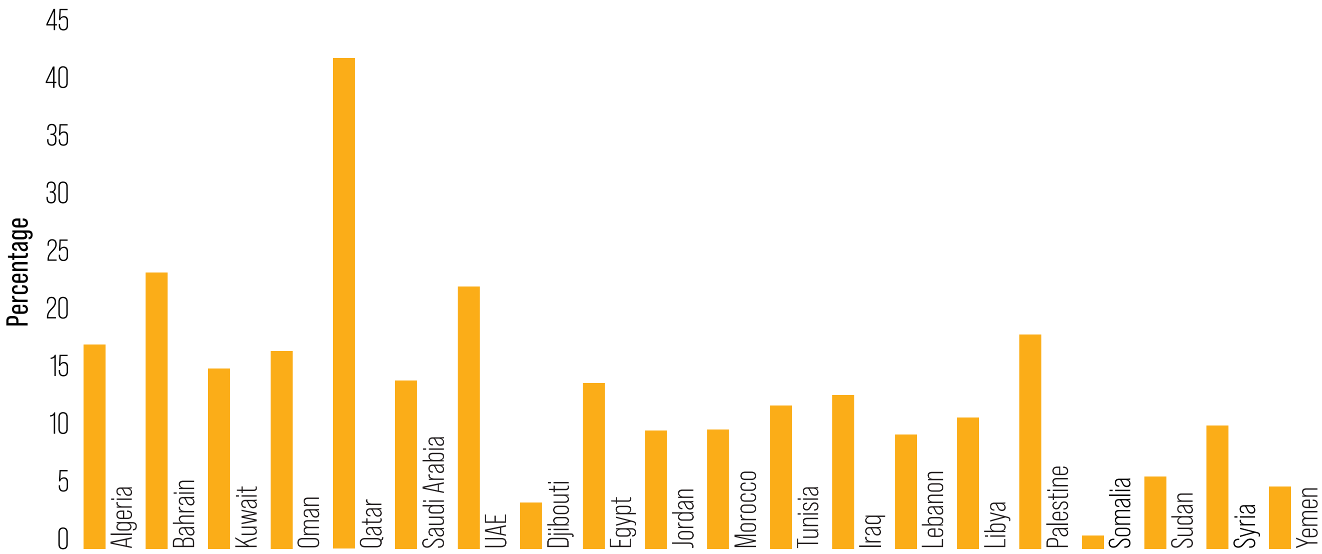
29 Data source: author's calculation from UNDESA World Population Prospects 2019.

Figure 3.4 Construction – percentage share of GDP/value-added at current prices



Source: UN DESA Statistical Division National Accounts.

Figure 3.5 Percentage of employment in the construction sector



Source: ILOSTAT 2020.

considerable role. In 2019, however, construction was sluggish due to the volatility of oil prices,[30] including in Qatar, where a construction boom in previous years had resulted in exceptionally high value-added to GDP (about 14 percent in 2017 and 2018) and share of overall employment (above 40 percent). Another feature specific to construction in the GCC is the prevalence of the migrant low-skilled workforce, which is often characterized by opaque recruitment processes, late payment of wages, dangerous working and living conditions, and limited access to effective dispute resolution.[31]

30 Globaldata, Global Construction Outlook to 2023 – Q3 2019 Update, extracted by World Cement in October 2019.

31 Wells, J., *Exploratory study of good policies in the protection of Construction Workers in the Middle East,* ILO Regional Office for Arab States, 2018.

In **oil-importing middle-income countries,** private investment in construction has relied on the mobilization of internal resources, especially since foreign direct investment (FDI) has plummeted by 50 percent over the past ten years, first due to the 2008 global recession and then to the 2011 uprisings.[32] In these countries, public investment in infrastructure plays a pivotal role. For example, in Djibouti, port expansion and related infrastructure and urban projects were behind the 10 percent contribution of the construction sector to GDP in 2010 – a value which has been reduced to four percent today, partly due to the lack of a reliable local supply of building materials and workforce, and various administrative delays.[33]

In Egypt, construction activities benefit from the availability of semi-skilled and unskilled labour at low cost, as well as locally available raw materials and industries to transform them, that were activated for public megaprojects that boosted economic growth in 2016/17.[34, 35] In Morocco, the "Villes sans bidonvilles" (cities without slums) programme is a rare case of integrated public interventions addressing both housing and social issues related to rapid urbanization.[36] As middle-income countries in the region have high unemployment rates – especially among young people – the construction sector has been identified as part of the solution. Yet, most construction jobs are for unskilled workers, while data available for Egypt and Tunisia shows that a majority of the unemployed have completed intermediate, if not advanced education.[37] Furthermore, in countries where women's participation in the labour market is particularly lacking, the construction sector does not seem to offer much opportunity, as 98 percent of those employed therein are male,[38] owing in part to high entry barriers for women, including legal obstacles, represented in most countries of the region by laws prohibiting women from undertaking arduous jobs.[39]

Fragile and crisis-affected countries (FCCs) have the potential to benefit more from employment opportunities in infrastructure and construction, as their unemployed workforces have a higher incidence of people with basic or less than basic education. But instability, weak public finance and the inability to attract private financing present insurmountable obstacles. In war-torn countries, reconstruction efforts absorb a considerable amount of available financing, including official development assistance.[40] In Lebanon, post-conflict reconstruction has been intertwined with public debt and fiscal instability,[41] circumstances that affect not only the Lebanese population, but also Syrian refugees, for whom construction is one of only three sectors in which they are permitted to work.[42] In Palestine, construction challenges typical of developing countries are exacerbated, including by a substantial amount of informal construction, the need to import most materials, and a lack of urban planning and infrastructure.[43] Yet, Palestinian banks prefer to provide credit to real estate rather than productive sectors, since the latter are exposed to severe and unpredictable economic restrictions imposed by Israel.[44]

Some characteristics of the construction sector in the Arab countries do not follow the sub-regional division used above. For example, while the ease of obtaining construction permits is predictably high in some oil-exporting countries and non-existent in some conflict-affected countries, most oil-importing middle-income countries – and even Iraq – present less administrative burdens than Algeria (see Table 3.5).

A common feature is the disregard for environmental sustainability in construction, which, coupled with

32 IMF, Balance of Payments and International Investment database, https://data.imf.org/BOP.

33 Oxford Business Group, *Major logistics infrastructure, a new free trade zone and industrial parks fuel economic expansion in Djibouti,* n.d., https://oxfordbusinessgroup.com/overview/laying-groundwork-major-logistics-infrastructure-and-new-free-trade-zone-fuel-continued-economic.

34 ILO, "Employment Impact of Infrastructure Investments in Egypt", 2016 https://www.ilo.org/employment/Whatwedo/Publications/research-briefs/WCMS_575881/lang--en/index.htm.

35 Africa Development Bank Group, *African Economic Outlook 2018.*

36 World Bank, *Maroc Villes Sans Bidonvilles. Rapport Final Analyse d'Impact Social et Sur la Pauvretè, 2014.*

37 Estache, A., E. Ianchovichina, R. Bacon and I. Salamon, *Infrastructure and Employment Creation in the Middle East and North Africa,* The World Bank, Washington DC, 2013.

38 ILOSTAT.

39 UNDP et al., *Gender Justice & Equality before the law: Analysis of Progress and Challenges in the Arab States Region*, 2019.

40 Mardirosian, R.C., *Infrastructure Development in the Shadow of Conflict: Aligning Incentives and Attracting Investment,* 2010.

41 Harvie, C., and A.S. Saleh, "Lebanon's economic reconstruction after the war: A bridge too far?", *Journal of Policy Modeling,* Vol. 30, Issue 5, 2008. 42 The other sectors are agriculture and cleaning, as per the Ministry of Labour Decision 1/41 of 31 January 2017.

43 Middle East Business, "Main Challenges faced by the Palestinian construction sector", 2014, https://middleeast-business.com/main-challenges-faced-by-the-palestinian-construction-sector/.

44 UN Conference on Trade and Development (UNCTAD), *Developments in the Economy of the Occupied Palestinian Territory*, 2017.

Table 3.5 Doing business: Dealing with construction permits

Oil-exporting countries			Oil-importing middle-income countries			Fragile and crisis-affected countries		
Country	Rank (out of 190 countries)	Score	Country	Rank (out of 190 countries)	Score	Country	Rank (out of 190 countries)	Score
UAE	3	89.8	**Morocco**	16	83.2	**Iraq**	103	67.7
Qatar	13	84.2	**Tunisia**	32	77.4	**Sudan**	124	64.2
Bahrain	17	83.1	**Egypt**	74	71.2	**Lebanon**	164	53.7
Saudi Arabia	28	78.3	**Djibouti**	87	69.4	**Palestine**	148	58.2
Oman	47	75.2	**Jordan**	138	60.3	**Libya**	186	0
Kuwait	68	71.9				**Somalia**	186	0
Algeria	121	65.3				**Syria**	186	0
						Yemen	186	0

Source: World Bank, Doing Business 2020.

population growth, urbanization and rising living standards, has resulted in inefficient energy consumption levels that are growing at a faster rate than GDP. Most construction taking place in the region is not energy-efficient and it is not conducive to adaptation to climate change and its concomitant increases in water scarcity and rising temperatures, which in several countries are already unbearable in the hot season.[45]

The impacts of COVID-19 and lower oil prices

COVID-19 has had a direct impact on the construction sector in the Arab countries through the global economic downturn, which has translated at the national level into a reduction in available finance and remittances, as well as lockdowns and restrictions of movement, which have brought to a temporary halt construction activities in most countries. The severity of lockdown measures varies across Arab countries,[46] although some measures have been adopted across these countries, given the common regional profile of dense cities that make social distancing difficult. Moreover, the abrupt drop in oil prices has drastically reduced liquidity for the financing of construction projects in oil-exporting countries.

Therefore, the actual impact of the pandemic on the sector will depend on the extent of the overall economic recession, oil price dynamics, a possible second wave of the infection in the Autumn, and the effectiveness of stimulus measures implemented.

The impact will also be considerable on the workforce engaged in construction. As we will see in Chapter 9, informal workers and those employed in small- and medium-sized building companies risk losing their income in the absence of unemployment benefit schemes or other social protection measures. Employees in bigger companies are also negatively

45 ESCWA, *Addressing energy sustainability issues in the buildings sector in the Arab region,* 2018.

46 IMF, "Policy responses to COVID-19: Tracker," https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19?utm_medium=email&utm_source=govdelivery#I.

affected, especially migrant workers in GCC countries who, besides the lack of security in the workplace, often live in crowded housing and have been disproportionally exposed to the effects of COVID-19.[47]

Policy implications: The imperative to improve construction regulations in Arab countries

Several countries have adopted stimulus policies to counter the effects of lockdowns that can benefit the construction sector, ranging from tax postponement, facilitated loan repayment, or – occasionally – direct subsidies to the construction sector, such as for building temporary homes for 25,000 expatriate labourers in Kuwait.[48] However, the construction sector in the Arab region also suffered pre-existing conditions, which have been exacerbated by the COVID-19 pandemic, exposing its vulnerability in terms of investment and workforce. Some of the stimulus measures put in place might help reduce the negative consequences of the pandemic and the fall in oil prices, but they are insufficient to prevent the impact of similar events in the future, or to address other challenges. A more ambitious overhaul of the construction sector in the region might take into consideration additional measures, which could be included as conditional for large businesses as well as SMEs to access stimulus measures, such as:

- The immediate lessons learned from COVID-19:
  - Regulations in the construction sector could demand a different design of public places, including offices, schools, hospitals, shopping malls, etc. to facilitate physical distancing.
  - In the least developed countries and FCCs in the region, public and donor investments in infrastructure should prioritize the building of hospitals and other medical facilities to cope with the current pandemic and ensure improved access to health care in the longer term, as mentioned in Chapter 1.
- Ensure construction workers' safety nets: put in place payment protection systems for construction workers and sub-contractors, safety measures in the workplace and other labour entitlements that apply to both domestic and migrant workers.[49]
- Boost climate-smart construction and infrastructure that is energy efficient and responds to the requirements of adaptation to climate change.[50]

47 Gulf Monitor, "COVID-19 Highlights vulnerability of gulf migrant workers", 5 May, 2020, COVID-19 Highlights vulnerability of gulf migrant workers.

48 ESCWA COVID-19 Stimulus Tracker, op. cit.

49 Wells, J., op. cit.

50 International Monetary Fund (IMF) Regional Economic Outlook: *Middle East and East Asia,* April 2020, https://www.imf.org/en/Publications/REO/MECA/Issues/2020/04/15/regional-economic-outlook-middle-east-central-asia-report; Accessed 25/05/2020.