

**Global Economic Crisis
And It's Effect On The Egyptian Tourism
nahla Nassar**

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Lecturer in the Tourism Department ,Faculty of Tourism and Hotel Management. Helwan
University

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Abstract

Although there had been speculations of a possible recession starting in late 2007 or early 2008, it is by mid September 2008, most world news papers, satellite TV channels and almost all news agents started to announce that a tough economic crisis reflecting its negative effects on monetary markets around the globe. Stock Markets all-over the world have fallen, large financial institutions have collapsed or been bought out, and governments (even in the wealthiest nations) have had to come up with rescue packages to save their financial systems. The Egypt as a part of this world has started to feel the reflection of this crisis, especially and mostly in the field of tourism. The idea of this paper is to offer some vital solutions to over come such decline in tourism rate attracting different segments in the tourist markets and highlighted other attractions.

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Key Words: Recession- Deflation – Inflation- Stagflation –economic crises

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Introduction:

A full-blown, prolonged recession has started in the U.S.A. and became now an inescapable fact, dragging the rest of the world into a severe slowdown. Most Western Europe, much of Middle East and Asian countries are facing now a sharp and unavoidable economic downturn.

The reasons behind provoking such recession are many and complicated, that various challenges have hindered those who were seeking definite explanation for the previous and present economic crises, which usually appear as sharp decrease in stock markets and massive long-lasting economic slowdown, which lead to a serious stagnation. That means that the disastrous aftermath of any recession (or depression) comes from its deep and broad effects on several vital essential activities, such as : Gross Domestic Production (GDP), industrial production, agriculture, real citizen's net income, employment, investment, trade, travel and tourism, education, health care and even arts and handicrafts ... and many other activities.(1)

Economic studies and reports presented by a number of world's prominent experts and officials had indicated that the contemporary crisis constitutes a serious Recession, which might create successive negative effects and results on many vital economic activities, and unfortunately, some specialized views expect that this recession is going to be a long – lasting one, that might end to a deep Depression.

Some politicians tried to lessen the serious consequences of the current recession to minimize its effects on the national economy and avoid disturbances in the local public opinion. This was noticed in last few years, when the oil prices escalated to awful costs, which led in turn to a parallel high food prices, and both had resulted in a worldwide inflation. On the monetary side, massive amounts of credits have caused bankruptcy of large and well established investment banks, insurance companies, as well as commercial banks in the USA and various other nations around the world. The crisis will definitely compel many countries to face dramatic financial difficulty and fearful records of unemployment. (2)



This research provides an overview of the contemporary global crisis, its causes, signs and negative consequences on several economic activities worldwide, in general and on Travel and Tourism Industry in Egypt in particular. It might be useful before handling the subject of this research, which is an endeavor to deal with such technical economic problem, to throw some light on a number of economic terms and notions that will be used in the narrative report of the subject matter.

The International monetary System:

Up till the middle of the 18th century, trade among different countries had relied chiefly on exchange dealings, as well as, golden bullions and authentic coins in some cases. While, the habitual everyday sales and purchases among people on ordinary markets depended mainly upon exchanging commodities and objects, together with direct payments in metal coins minted out of silver and/or gold (if available) in some other cases. Economic historians and scholars considered that era as the beginning of the gold standard (base) of the international monetary system, which is known as "The Golden Cover". That means that the prevailing monetary system commonly used and applied – at that time - among prominent and ordinary countries, enjoying relatively healthy economies worldwide and had depended on the gold as a standard (or criterion) to evaluate the charge (or the cost) of different commodities and services exchanged among them. The main point of that system was built on a definite absolute condition; that was the availability of funds and the complete possibility and trust of their convertibility at any time. Hence, the primary concern of any central bank was to keep and protect specie and gold bullion reserved, to ensure continued convertibility.(3)

The second half of the 19th century had witnessed an immense growth in volume of world trade, (three times between 1850 and 1880, three times again from 1880 to 1913). This trade entailed credit in the sense of tight confidence and trust, so that every major commercial center and trade company had to hold large amounts of authentic commercial paper and certificates as to secure transactions and mutual confidence of equitable reimbursement.

But, in times of recession and low activity, the calls for credits drew heavily on these reserves, for, when confidence failed, only the hard metal (gold and



silver) could serve as payment. To counter such situations, central banks and consequently investment and commercial banks used to tighten credits when funds were most needed and loosen them when the emergency had passed, by raising interest rates in crisis times to restrict demand and consequently the amount of required funds. (4)

Meantime, each money market tried to strain the resources by minimizing the funds. Such cases had led often to a case of self defending of reserves in each country, even at the expense of its own citizens. This process could not be limited to one area or country; all trading partners would necessarily suffer in turn. The constant expansion in trade traffic and the heavy demand on credits, together with the difficulties behind funds transference was the beginning of the idea of issuing paper money covered by gold and silver reserves. But during the early decades of the 19th century, almost all countries could not back their paper money with sufficient precious metals, and with the end of World War I, the gold standard became a matter of history. (15)

Nowadays, technology has revolutionized the way of using money. Billions and billions of funds are being transferred from different accounts to other accounts inland and overseas by written or electronic instructions. Thus, great amounts of different types of currencies are moving everyday inside and outside the borders merely as written numbers and electronic digits. Ordinary bills and coins used daily among people represent less than 8% of the trillions that circulate among different countries through certified papers and electronic communications. (3)

Other Forms of Money:

The augmenting volume of trade and commercial dealing among different countries around the world, and the massive amounts of money circulating among people locally and internationally, had created an impulsive need for additional quantities of ordinary money (bills and coins), or another forms or means of money, which could facilitate payment, exchange and transfer of the exact value of cash money. The substitute types of money should be certified documents or authorized notes issued by the government. Also it could be an authority recognized by the government (such as banks or official monetary organizations) to be used as legal tender, and serve as a medium of exchange.



There, appeared diverse forms of money (such as: a) Checks, b) Letters of credit, c) Debit & Credit Cards...), and later on electronic channels. By 1990, billions of different currencies were transferred annually by checks; but soon, electronic transfers went further, by using digitized records only (no paper required) to transfer amounts of money. From 1993 and on several trillions of monetary funds were moved electronically worldwide. (3)

What Is a Recession?

Almost all the scientific definitions that describe such instability which befalls the national, regional or global economy have met together in attributing its characteristics, signs, stages, degrees....etc. It was described as "A contraction phase of the business cycle," while it was prescribed by the U.S. National Bureau of Economic Research (NBER) as: "A significant decline in economic activity spread across the economy and, lasting more than few months, normally visible in real Gross Domestic Production (GDP), real income, employment, industrial production, and wholesale-retail sales."(4) Normally a recession is the result of falling demand; and it may be associated with falling prices (Deflation), or sharply rising prices (Inflation) or a combination of rising prices and stagnant economic growth (Stagflation).

A recession is a contraction phase of business cycle. It could hit simultaneously several vital and fundamental change in the segments of the overall national macro-economy, which appears as a significant different sectors and their activities: breakdown or bankruptcy in monetary and insurance corporations, slump in stock-markets, decline in industrial and agricultural production, increase in unemployment rates, contraction in foreign trade (export & import), 'ismay in investment projects, slowdown in domestic market traffic, retardation in travel and tourism business, losses in transport and communication facilities, deterioration in social welfare and health services, decadence in education and scientific research ...etc. Such negative changes or decadency (if compared or measured by previous, ordinary or expected common measures) should constitute an exceptional or abnormal situation, which might shove the society in or serious crises. (8) (10)

The foregoing definitions attributed the recession as a significant drop in a national, regional, or global economy, causing a case of slowdown in most (if



not all) vital economic activities. The main symptoms of such stagnation appear as a remarkable common decrease in demand on different aspects, which might reflect its shadows on various dimensions of the market/s, affecting gradually and successively the society's activities, as well as its proceedings towards development. These effects could be magnified as a result of diminishing the multiplier factor of money circulation and the surrounding circles. The decisive feasible outcome of this deterioration will virtually affect the real outcome of many branches of the business and consequently, the net earnings of high percentage of national population. (2)

High prices combined with economic 'inflation'- known as 'stagflation'- will impel almost everybody to recalculate his budget and reorganize his schedule of expenditure according to his urgent and pressing needs. Tourists might prefer to stay home or travel to closer and/or cheaper destinations. So, travel and tourism would diminish, to a certain extent, as far as the recession will remain and expand in the near future. Wholesalers, travel agents, hotels and tourist lodgings, means of transportation, recreation and entertainment projects, cultural sightseeing places and events....etc are expecting near significant reduction in their business traffic, turnovers and profits.

Predictors of a Recession:

There are no definite reliable symptoms that could predict the beginning of a recession crisis, but some economists found out that certain economic incidents could be considered as potential predictors of an approaching recession.

1- A Significant Drop in the Stock Market:

Very often, on the macro-economic level, when a remarkable slowdown befalls in a certain market, confidence in some /or many companies and corporations might also be shaken and tottered as a result of such economic instability. Reasonable number of stockholders, who feel afraid of losing more of their properties, and expect additional losses will prefer to retain their liquid money or exchange their treasures into gold, precious stones or durable assets. Those might rush accordingly by selling big sums of their shares, causing a case of sudden ample supply of stocks in the market. But the problem will be compounded as prices will be soon driven lower and lower. Such storming situation might lead automatically to what is known as "Stock market crash" or collapse. (6) (7)



2- Raise in Unemployment Rates:

-According to economic experts, the unemployment rate in the U.S. is going to elevate to unprecedented records since 34 years. Governmental figures showed that more than 533,000 jobs were lost till last November 2008. During the next month (December-same year) jobs market certified additional deep cuts: (Majestic renowned companies of Car industry decided to reduce their production and close a number of their factories, which has meant a loss of 270,000 jobs. Dow Chemical Co., the largest U.S. Chemical manufacturer would close twenty unite of his facilities, a cut of another 5,000 jobs. Likewise, many prominent hotels together with the Wyndham Corp., a worldwide Timeshare company, would add more than 4,000 job losses as a result of remarkable shrinks in their business). After almost six months from the beginning of the crisis, job losses amounted to a shocking figure (1.9 million), and expected to reach (2.6 million) within the current year 2009. The number of unemployed workers including part-time and temporary workers (per-hour) with few/ or without social benefits (such as: health, disability or life insurance has reached 8 million person, anticipated to reach 11.1 million in two years - if job losses conditions remained the same. *(Unemployment now is 7.2%. If it exceeded 8%, this is a Red Line in the USA)* *(Source: Employee Rights Blog- EmployeesIssues.com- Ent. Webpage).*(11)

3- Slowdown in Market Activities:

As mentioned before, the recession is a significant drop in a national, regional, or global economy, causing a case of slowdown in most - if not all – vital economic activities. The main symptoms of such stagnation appear as a remarkable common decrease in demand on different sectors, which will reflect its negative shadows on various dimensions of the market/s affecting the mechanical traffic of dealing activities (purchase and selling), as well as many chances of new investment and several proceedings towards growth and development. These effects could be magnified as a result of diminishing the multiplier factor of money circulation and the surrounding circles. The decisive feasible outcome of this deterioration will virtually affect the real outcome of many branches of the business and consequently, the net earnings of high percentage of national population.(6)



Normally in such cases prices of most products and commodities might drop in order to stimulate the retreated demand, but high prices combined with economic inflation -stagflation- will be the worst. In both cases, recession will impel almost everybody to recalculate his budget and reorganize his schedule of expenditure according to his urgent and pressing needs.

4- Shortage of Liquidity:

As mentioned before, such distressing economic tendency will reflect gradually its negative consequences on the performance of almost all economy's activities, which -in turn- will tend to lessen their manpower capacity, causing additional raise in the unemployment rates. Same gloomy atmosphere will shove several potential national and international investment projects to quit entirely from the stage of the market or postpone their investments to better circumstances in the future (7).

The Recession's Negative Effects on Travel and Tourism Industry:

Tourism industry is an integral component of the international economy, and there is no doubt that travel and tourism will be affected by the recent outbreak of global economic depression. It is by nature vulnerable highly sensitive to any economic breakdown. During tough times such as monetary breakdown, economic slowdown or recession, people conserve their cash to cover their essentials of life: food, shelter and other family necessities. The rank of priority of leisure travel and tourism on the ladder of needs might step back, as most travel and tourism involves discretionary expenses.

The most serious consequent reaction of this recession might touch the tourism development around the world, and particularly in the Middle East region. An example for such threat came as a call of warning from "Rohit Talwar", the author of an insightful report about "the Future of Travel and Tourism in the Middle East". He warned investors who planned to invest in tourism development throughout the coming decade, against the trend of actual recession, which may reach an overall depression. These words were due to the decline in tourism demand through the year under the influence of the financial crisis. Compared to the previous year 2008 which evidenced an



increase in international tourist arrivals reaching 924 million, which meant 16 million over 2007; representing a growth of 2%. (2)

The overall 2% growth in international tourism for 2008 builds on the strong results of the first part of the year before the collapse of the financial markets. The second half of the year showed an abrupt shift in trend with international tourist arrivals. Overall, the 5% growth between January and June gave way to 1% decline in the second half of the year. Tourism has initially resisted the economic downturn better than other economic sectors, such as construction, real estate or car manufacturing.

Growth was negative in the last six months of 2008 in both Europe (-3%) and Asia (-3%). The drop is even more significant in Asia given its double digit growth in 2007 and strong showing in the first part of 2008 (+6%). On the other hand, the Americas (+1%), Africa (+4%) and the Middle East (+5%) still posted positive results in the second half of the year, although with a significant slowdown compared with the period between January and June. (16) Despite the general deceleration, in 2008 several destinations around the world showed very positive results in all world regions. Such as Honduras, Nicaragua, Panama, Uruguay, the Republic of Korea, Macao (China), Indonesia, India, Egypt, Lebanon, Jordan, Morocco and Turkey.

As for domestic tourism, the UNWTO expects that it will show a more or less similar slowing trend. The UNWTO expects 2009 international tourism to be in range of 0% to a 2% decline. Along with the Americas, Europe will be the most affected region in terms of overall tourism results as most of its source markets are already in, or entering into, recession. In Asia and Pacific results are expected to be positive, although growth will continue to be much slower compared with the region's performance in recent years; the same applies to Africa and the Middle East. (16)

Effects of The Global Economic Crisis on Tourism in Egypt:

The economic report of the "Reuters News Agent" announced last November that the Egyptian economy may post its slowest annual growth in half a decade this fiscal year as a global crisis hits revenues from Tourism, the Suez Canal and foreign Investments. The report forecasted also that the



Egyptian (GDP) Gross Domestic Production growth will record at a median of 5.25%, down from 7.2% in the previous year.(6) Therefore, both governmental and private economic sectors are exerting their outmost efforts to take precedent actions in order to minimize the financial and economic instabilities that might be triggered from the present crisis.(8)

According to Middle East News Agency, the Assistant of Tourism minister said that the Egyptian tourism industry is one of the country's top hard currency earner. Same figures were mentioned by the Minister of tourism in a conference in Madrid. (14) Tourism accounts for 11% of the growth domestic product, and it absorbs about 12% of the total labor force in Egypt. This industry has started to feel the pinch of the Global Financial Crisis, with hotels bookings down 30% in January 2009 compared to the same month in 2008. Also a decline in reservations between 10-15% appeared for the winter season of 2009.(14) This estimated reduction in the number of arrivals during the year 2008 /2009 is about (-30%), which is equivalent to two million tourist, and that means that the tourism earnings from foreign (or) incoming tourism will lose almost \$2.2 billion. (The total revenues from foreign tourism, during the year 2007/2008 were \$ 10.83, while the expected figure during the year 2008/2009 will be around \$8.66 billion).

Also, the economic development Minister said the economic growth rate dropped to 4.1% in the second quarter of the 2008-2009 fiscal year, against 1.7% in the same period in the previous year. He expected that the Egyptian economic growth rate, recorded more than 7% in the past 3 fiscal years will side to about 5% by the end of the current fiscal year (from July1,2008, to June 30, 2009). (12)

As the new face of the Egyptian economy throughout the last decade has become a part and parcel of the world economy. as approximately 75% of Egypt's GDP (Gross Domestic Production) is engaged in the commercial exchange (whether import or export). Almost 65% of the country's exports are directed to the U.S.A. and Europe, and also about 53% of its imports originate from America and the European Union. Moreover, 2/3 of foreign investments during the last two years were delivered from the same countries. According to this net of composite relations, any political or economic incidents in the U.S. and Europe should be reflected on the Egyptian Economy.



This estimated reduction will probably lead to a wide range of unemployment crisis as Hotels and travel agents would keep their profit margins. Therefore the minister of tourism "zohier Garana" has agreed to exempt hotel establishments from tourism promotion fees which the ministry collects from the hotels to lessen their burdens during the financial crisis. Also the Egyptian government has also taken urgent procedures against the global crisis, by allocating LE. 10.5 billion for basic infrastructure and service projects compensating expected falls in foreign investments as well as L.E 2.8 billion for subsidizing exports to support national industry. (15) The ministry of economic development together with ministry of finance will adopt a special plan to inject big sums of local currency through a number of small projects to activate the domestic financial circulation on one side, and to face the increasing numbers of unemployment.

On the other hand, the pyramid of priorities of the ordinary consumer will definitely be changed, and consuming the tourism commodity will step back, whether in the number of travel days, or the quality of the trips. As the minister of tourism assigned that tourism traveling won't stop consequently but travelers will be looking for destinations close to home that would be both affordable and recreational. Therefore the ministry of tourism will change its broadcast advertisement campaigns to focus on promoting Egypt as an affordable holiday destination. This step must be done taking in consideration that using price reduction, as a weapon in this game will be seriously dangerous for future dealings, even after the recession's storm passes away. Prices bottoms and sealing should be respected, even with sharp shortage in the tourist traffic.

The unskilled employment absorbed by tourism can also be affected as investments in tourism development in the coming few years will also be effected. And alternative reduced development plans will replace the original ones, which means that a number of planed projects will be cancelled, whether in hotels, entertainment facilities, transportation, and other tourist infrastructures.



Suggestions for facing the crisis

- The demand for luxury standard of services will decrease, in comparison with ordinary or thriving times; while the demand for either lower standard or less cost services will increase. Therefore high lighting distinctive areas such as the Oasis and the Nubian area is highly recommended as new attraction to attract different types of tourists and still maintains a competitive price.
- The tourist official bodies together with the private sector have to boost not only the number of foreign tourists but also the number of travels in the domestic market. Both foreign and domestic tourists must receive equal treatment because during such hardships domestic tourism can contribute in covering the gap of the industry's retreat. According to the head of the Egyptian tourist Authority "Mr. Ahmed El Khadem", Domestic tourism constitutes 12% of Egypt's total tourist movement which should be expanded to overcome the lose done by the international tourism (13)
- Also, the Arab tourist market can contribute to the Egyptian market. As the number of tourists coming from Arab countries constitutes the 2nd major region sending tourists to Egypt about 16% of total travelers in 2006. as Saudi Arabia headed the list with 42,245 visits, an increase of 8.9%. There were also 86.9% more visitors from Qatar, and 11.9% more from the U.A.E. Also tourist nights spent by Arab tourists accounted for 1.7 million nights in 2007, up by 35.5% against 2006. Therefore the ministry of tourism can focus its advertisement campaigns on near Arab markets, as Egypt is considered one of the lowest coast destinations on the Mediterranean near by the region.(14)
- Youth is generally considered to be the adopter of new products and concepts. This provides the tourism industry with the opportunity to target the young age group as their potential customers. It is expected that the population aged between 15-64 years will constitute 64.4% of the total population by 2011.(15)
- As to encourage aviation, Egypt's aviation minister has agreed to reduce landing and takeoff fees, as well as ground handling fees for charter flights, and waive them entirely for charter flight that make 11 trips to designated destinations in the span of three months.
- Provide financial support for international marketing efforts that the private sector could not conduct.



- Highlight Egypt's tourist image among other international destinations as a low coast destination. By offering low coast packages for tourists who are willing to travel.

Conclusion:

Such economic crisis characterized by negative fluctuations, particularly long lasting recessions, might drift to serious deep depression or even hazardous stagnation. Such critical conditions usually have severe social consequences, a matter which might need prompt response from the concerned government. The cost of nonintervention from the responsible authorities could drive to hard situations: strikes, violent demonstrations, incidents of instability, or even social revolutions.(4)Therefore governments should not neglect such crisis but try to lemmatize its consequences and effects. Government interventions was met by different opinions according to the strategies adopted for handling such problems resulting from this economic recession. These opinions varied as to the school or theory followed by the policymakers and the conducting official sectors.

As for Egypt, The ministry of tourism has assigned a working group to deal with the fallout of the crisis, with measures being reviewed and changed every three month. Also the World Tourism Organization (WTO) held a specialized conference on the 2nd and 3rd of November 2008, in Sharm El-Shéikh, to discuss the Global Economic Crisis and the Climatic Changes facing the hole world, and their effects on Tourism Industry. A number of tourism ministers and experts from different countries attended the conference to find out urgent solutions and practical procedures against the contemporary challenges, which might hinder the regular progress of the International Tourism Industry, and throw negative effects on its actual traffic and future development.



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