

Terrorism and Inbound Tourism: A General Equilibrium Analysis for Egypt

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Abstract

Egypt has been the target of intense terrorist attacks as the ousting of the first democratically elected Muslim Brotherhood president Mohamed Morsi in June 30, 2013 aroused rage among his followers. Since then and to date, the government has not been able to resolve this conflict peacefully or by the use of force, which implies that the terrorist attacks are not likely to subside in the near future. The Political instability that these attacks have created results in series disruption to economic activity particularly tourism. This cumulated in declining rates of growth, rising rates of unemployment and dwindling foreign exchange earnings. It became apparent that dependence on tourism, which is quite a large sector in Egypt, renders the economy vulnerable to prolonged downturns. Thus calls for measures to cope with the negative consequences of such downturns in the short run coupled with measures of a more long run nature designed to foster the expansion of manufactured exports which are considered a more stable source of foreign exchange.

Utilizing a Recursive Dynamic General Equilibrium Model, this paper assesses the extent of vulnerability of the Egyptian economy to a prolonged tourism shock and investigate the costs and benefits of measures to ease adjustment to this shock, an example of which is subsidies to the tourism sector. Other measures including but not limited to internal tourism are also explored. In addition, the paper investigates the tradeoffs involved in promoting tourism versus manufactured exports and assess implications for income distribution.

The model is calibrated to a 2011 Social Accounting Matrix (SAM) for Egypt to adequately capture the tourism shock that firstly took place in 2011. The SAM provides data on 58 production activities producing 51 commodities and 20 household categories depicting households by location of residence in rural and urban areas as well as by income levels (10 income deciles for rural and urban). Production factors are divided into 6 categories of which 3 are labor classes (skilled, semi-skilled and unskilled), in addition to land, capital and energy.

Given the importance of the tourism sector in Egypt, it is expected that the Egyptian economy prove very vulnerable to a negative tourism shock -especially if it is of persistent nature- with sizable adverse effects on unemployment.