**Mendel University in Brno**


**Faculty of Regional Development and International Studies**


Fakulta
regionálního
rozvoje
a mezinárodních
studií


**Bachelor Thesis**


**The impact of tourism on the socio-economic development of Egypt**

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**Brno 2016**

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**Abstrakt**

*Tourism is the one of the notable and fastest growing industry in the world today. It presently accounts for about a good share of world capital investment. Egypt is regarded as a strong tourism trademark, offering a wide variety of tourism and sites that draw millions of tourists every year. The primary aim of this thesis is to investigate and analyse the impact of tourism on the Socio-economic development in Egypt which is measured by the economic growth GDP. This thesis used both quantitative and qualitative techniques in analysing the data to achieve the required results. A linear multiple regression model was used to estimate the relationship between the variables used in the model. Statistical reports like graphs, bar charts and others were used in reporting. The data used was time series ranging from 2000 to 2014 and it was obtained from the World Bank country indicators, the Egypt Statistical Service as well as the central bank of Egypt. From the panel data regression analysis, it was found that income from tourism was negatively related to the economic development in Egypt (GDP) and also, did not have any significant impact. This implies that, income from tourism in Egypt should be looked at since it has recorded a downward trend for some time now. This downward trend could be attributed to the Arab-Spring and the political instability in the region, thereby increasing the fear of safety among tourism especially from Europe and America. It is high time for Arab governments and their international partners to focus on the economy and on building inclusive institutions in order to safeguard security in the region if the full potential of tourism is to be realised.*


*Keywords: Tourism Potential, Socio-Economic Development, GDP, Expenditures*

**Abstrakt**

Turismus je jeden z nejrychleji se rozvíjejících průmyslů dnešní doby a je do něj investována značná část světového kapitálu. Za jednu z nejsilnějších turistických velmocí současnosti je považován Egypt díky jeho značně rozsáhlé škále nabídek, jak míst památečních, tak i rekreačních, které přilákají každoročně miliony návštěvníku z různých zemí světa. Primárním cílem této teze je tedy prozkoumat a podrobně analyzovat dopad turismu na sociálně-ekonomický vývoj v samotném Egyptě pomocí měření ekonomického nárůstu hrubého domácího produktu (HDP). V této tezi jsou používány kvantitativní i kvalitativní metody analýzy dat pro dosažení požadovaných výsledků. Pro odhadnutí vztahu mezi proměnnými byla použita vícenásobná lineární regrese. Pro vyjádření statistik byly použity sloupcové grafy a jejich následná porovnání. Použitá data byla čerpána z egyptských indikátorů Světové banky a to v rozmezí roků 2000-2014. Z panelových dat regresní analýzy bylo zjištěno, že příjem z turistického průmyslu byl negativně ovlivněn ekonomickým rozvojem v Egyptě a neměl žádný významný dopad. Tato zjištění nabádají k přezkoumání příjmu z turismu v Egyptě z důvodu jeho již delší dobu trvajícího úpadku. Jako jedny z možných důvodů úpadku lze uvést Arabské léto a současnou politickou nestabilitu v zemi, díky kterým vzrostly obavy potencionálních návštěvníků o jejich bezpečí v Egyptě. Je nejvyšší čas, aby se Arabské vlády a jejich mezinárodní partneři zaměřili na ekonomiku a budování inkluzivních společností pro zabezpečení pořádku a bezpečí v Egyptě, aby bylo dosaženo maximálního potenciálu tamního turismu.

**Klíčová slova:** Turismus, potenciál, sociálně ekonomický vývoj, HDP.

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## 1.0 Introduction

Tourism is the leading and fastest growing industry in the world today. Tourism presently accounts for about 7% of world capital investment with revenue predicted to rise up to 1.550 billion dollars by the year 2016. Africa has a significant portion in the growing international tourism trade with regards of both tourist arrival and receipt. The relevance of the tourism industry in Egypt lies in its tourism resources in generating foreign exchange (Zhang et al. 2016). Egypt is regarded as a strong tourism trademark, offering a wide variety of tourism and sites that draw millions of tourists every year. With regards to the country's location in the Middle East, violent governmental changes, internal political tensions and urgent terrorist attacks, the industry is constantly under threat and needs urgent attention (Avraham, 2016; Maxwell, 2007).

According to Johanson (2013), unlike to other countries in the Middle East and North Africa, Egypt have relatively limited oil reserves, and as a consequence have a large economic dependency on tourism as an export product. Stemming from the political instability in Egypt during their recent revolutions, the country have experienced a significant decline in tourism arrivals. To this day, tourism numbers in the MENA region have not yet recovered their pre-revolution numbers. This decline in tourism number could be partly due to perceptions of safety for tourists which continue to hamper arrivals to Egypt.

Indication from the World Travel and Tourism Council (WTTC, 2015), suggests that the direct contribution of Travel & Tourism to GDP was in Egypt was EGP117.2bn which represented 5.9% of total GDP in 2014, and was forecast to rise by 3.2% in 2015, and further to rise by 4.5% pa, from 2015-2025, to EGP187.7bn which will represent 5.6% of total GDP in 2025. The total contribution of Travel & Tourism to GDP was EGP255.0bn which represented 12.8% of GDP in 2014, and this was also projected to rise by 2.9% in 2015, and to further rise by 4.7% pa to EGP413.2bn which will represent 12.4% of GDP in 2025.

In the same positive vein, in 2014 Travel & Tourism directly supported 1,322,500 jobs representing 5.2% of total employment in Egypt. This is expected to rise 2.0% pa to 1,708,000 jobs which will represent 5.3% of total employment in 2025 (Travel & Tourism Economic Impact 2015 Egypt, 2015).

The primary aim of this thesis is to investigate and analyse the impact of tourism on the Socio-economic development in Egypt which is measured by the economic growth GDP.

## 1.1 Background of the area of study

The geography of Egypt relates to two regions, thus Southwest Asia and North Africa. The country has coastlines on each sides of the Mediterranean Sea and the Red Sea. Egypt share borders on the west with Libya, the Gaza Strip and the northeast with Israel and to the south is Sudan. Egypt covers an area of about 1,001,449 km2 which is 386,662 mi$^2$. The longest straight-line distance in Egypt from end to end (north to south) is about 1,024 km (636 mi), while that from east to west records 1,240 km (771 mi). It covers over 2,900 km (1800 mi) of coastline on the Mediterranean Sea, the Gulf of Suez, the Gulf of Aqaba, and the gulf shore. Egypt is segmented into 27 governorates, this include two city-governorates: Alexandria (Alexandria Governorate) and Cairo (Cairo Governorate). Nine governorates make up the Lower Egypt in the Nile Delta region, of Upper Egypt laterally with the Nile river south from Cairo to Aswan and five frontier governorates which covers Sinai and the deserts that lie west and east of the Nile river. Egypt is mainly desert. 35,000 km2 which represents 3.5% of the total vast land area is cultivated and permanent settlement. The majority of the country is surrounded by the wide band of desert that stretches eastwards from Africa's Atlantic Coast across the continent and into southwest Asia (Ball, 1939; Fayed, 1985).

Notwithstanding covering only about 6.5% of the total area of Egypt; the Nile Valley and Nile Delta are the most significant regions, which serves as the country's only cultivable regions and supporting about 99% of the total population. Extending approximately 800 km is the Nile valley from Aswan to the outskirts of Cairo. The Valley is precisely cool and often referred to as Upper Egypt, while the Nile Delta region is commonly called Lower Egypt. Steep rocky cliffs plunges along the banks of the Nile in some stretches, whereas other areas beside the Nile are flat, making enough room for agricultural production. Formerly, flooding of the Nile during the summer delivered silt and water to make agriculture possible on land that is otherwise very dry and unsupportive of agricultural activities. Subsequently with the construction of the Aswan Dam, agriculture in the Nile valley rest on irrigation. The Nile delta is made up of flat, low-lying areas. Parts of the delta are marshy and water-logged and therefore, not suitable for agricultural activities (David, 2002).

Fig. 1: Geographical location of Egypt

Source: State Information Service (Egypt)

## 1.2 Problem Specification

Notwithstanding the fact that tourism is vital to the development of any nation, there are associated problems with tourism in Africa. The situation is more so due to the geographical location of Egypt and the related political situations in the region. Being a tourism hub, and one of the preferred destinations by tourists the world over, Egypt has attracted millions of people around the world. Considering all the positive attributes associated with tourism in Egypt, the impact on the economy is dwindling in recent times. The influencing factors of tourism to the socio-economic development of Egypt is what this research seeks to unravel.

## 1.3 Aim of the study

The primary aim of this thesis is to investigate and analyse the impact of tourism on the Socio-economic development in Egypt which is measured by the economic growth GDP.

**1.4 Objective of the study**

The objectives of this study include:

1. To establish revenue generation from tourists to the economy of Egypt.
2. To examine the economic and social impacts of tourism in Egypt.
3. To establish the effects of tourists to the development of Egypt.

**1.5 Research questions**

The research questions for study are:

1. What revenue is generated from tourists to the economy of Egypt?
2. How can we examine the economic and social impacts of tourism in Egypt?
3. How do we examine the effects of tourists to the development of Egypt?

**1.6 Significance of the study**

The field of tourism has received numerous attention over the years; there has been numerous studies in this area as well. Due to its impact on various economies across the globe, it still receives priority from the private and the public sector up until now. This research will provide more acumen in the subject area of tourism, the dynamic processes as well as current trends and how the tourism could be improved and managed in order to be beneficial.

Additionally, the study will be relevant to relevant government institutions as well as the private sector in making informed decisions about tourism in Egypt. Lastly, there will be suggested recommendations that could to a larger extent enhance tourism development in Egypt.

**1.7 The Organization of the Thesis**

This thesis is categorised into five chapters. Following this introduction which cover the general introduction to the topic and the purpose of the thesis, chapter two entails the

literature review; the theoretical part, review of papers, studies and related researches in the field of tourism in Egypt, the African context and the world at large. The third chapter deals with the description of methods adopted for the elaboration of this research. The fourth and fifth chapters deals with the discussion based on the methodology and data used and conclusion and summarisation of findings as well as recommendations respectively. Followed by these five chapters are the references used in this work and some appendixes.

## LITERATURE REVIEW

## 2.0 Introduction

The objective of this chapter is to provide a background review of the significance of tourism worldwide and with specific focus in Egypt. Additionally, this chapter will provide a general overview of global trends of tourism demand, in the Middle East as well as Egypt over the last decade and before. Increase in tourism demand and the importance of specific originating regions and countries, and the competitive status of Egypt relative to other alternative Middle East tourist destinations are discussed. The section seeks to explore the trends in the Egyptian tourism demand and patterns that permit identification of the most essential determinants of tourism demand for Egypt.

## 2.1 Definition of tourism

With reference to Burkhart and Medlik (1981), tourism definitions can be distinguished under two main literature: conceptual and technical definitions.

The idea provides a notional, theoretical framework, that identifies the essential characteristics, and that distinguishes tourism from similar, typically connected, but totally different phenomena, technical definitions offer instruments for specific statistical, legislative, and industrial functions (Burkhart & Medlik, 1981).

**2.2 Conceptual Definitions**

Below is the definition of tourism as presented by the International Association of Scientific Experts in Tourism (AIEST).

Tourism according to Papadopoulos (1985), is the sum of the phenomena and relationships arising from the travel and stay of non-residents, in so far as they do not lead to permanent residence and are not connected with any activity related to earnings.

One can draw some vital inferences from this definition. It involves both dynamic and static elements; the movement of travellers to places they intend to visit and the stay in alternative non-resident destination respectively. Again, it differentiates the movement of people from people permanently residing and working in the host country. Lastly, it differentiates tourists as temporary visitors from migrants who are people indulging in long term economic activity as well as other earning activity. Some critiques of this definition draw their point from the fact that excludes business travel from the concept of tourism.

McIntosh (1977), also defined tourism as the art, science and business of attracting and conveying visitors, accommodating them and graciously taking care of their needs and wants.

The definition of tourism above is much more comprehensive. This is due to the fact that it considers other qualitative aspects of tourism rather than only its business components. Conversely, it does not provide a distinct definition of the tourist who is considered the most vital agent in tourism. Again this definition does not emphasis on spatial or temporal aspects, which are also crucial in tourism according to Leiper (1979).

**2.3 Technical Definitions**

Variety of studies, surveys and plans employ technical definitions for tourism, this can be realised at local and the global stage. These technical definitions are chiefly significant for statistical measures. As far back as the 1930s, numerous governments and industries in the tourism sector sort the need for a clear definition of tourists that will distinguish them from other travellers and serve as a common base by which there can be the collection of comparable statistics. United Nations World Tourism Organization (UNWTO) formerly called the League of Nations Statistical Committee in 1937 defined an international tourist as

an individual who visits a country different from where he habitually lives for a period of at least twenty four hours (Leiper, 1979).

## 2.4 Overview: the challenges in attracting tourism for developing countries

Countries within the developing world face several difficulties. plagued by a challenging reality, several of those countries tend to experience crisis events associated with crime, terrorism, political unrest, natural disasters, epidemics and accidents, and in some places such occurrences are nearly a part of daily life. Having a lasting series of crises poses a major threat to the destination's public image and to its ability to draw in tourists and guests especially (Beirman, 2003). The threat to the destination's public image is strengthened as a result of developing countries have inadequate resources available for crisis percussion, prevention and management (Glaesser, 2006).

When a destination image is vulnerable by recurrent crises, developing countries ought to constantly communicate with crisis-related messages so as to safeguard their image and maintain their position within the international tourism arena. Consequently, the utilization of crisis communication strategies and techniques should be an integral a part of tourism marketing in developing countries; it's a crucial channel for these countries in presenting their place, communicating their values, managing their images and battling negative stereotypes. During the last 20 years several developing countries have joined the global tourism market as a part of globalisation processes and therefore the fall of the iron curtain. These countries had suffered from negative public and media image that made it difficult for them to compete over tourists with countries with sturdy and familiar brands (Fletcher et al. 2005; Avraham & Ketter 2016).

## 2.5 Sustainable Tourism in a Changing World

Tourism within the 21st century should anticipate a future marked by dynamic global relationships and social structures, technological innovations, and growing spatial awareness and environmental concern. Major shifts within the nature and scale of tourism are already obvious because the industry struggles to retort to a variety of forces at work. Change and also the change agents concerned are powerful and positive forces if controlled

constructively. Instead of opposing change, or just accepting and accommodating change, the tourism industry should manage change to its advantage and that of the environment that nurtures it. Endorsement and application of the thought of sustainability and of best-practice environmental management provide compelling evidence of how modification may be controlled to contribute towards the achievement of environmental excellence. Although tourism thrives best in conditions of peace, prosperity, freedom and security, disturbance to those conditions is to be expected. The industry response should be sufficiently resilient to get opportunities for the expansion of tourism in keeping with the dynamics of an ever-changing world and increasing concern for ecologically sustainable development. The era of environmental concern ushered in by the global Conservation Strategy and therefore the Brundtland Commission in the eighties was given revived impetus following the Rio Summit and therefore the adoption of Agenda 21. Most governments in different parts of the world have currently committed themselves to ecologically sustainable development in a very wide range of policy areas.

The idea of sustainability expresses the concept that humanity should live within the capability of the environment to support it (Jacobs, 1995). Sustainable development is that which 'meets the requirements of the present without compromising the ability of future generations to fulfil their own needs' (World Commission on environment and Development, 1987). It's uneasy to argue with such a fascinating, if somewhat fuzzy approach. However, it becomes additionally meaningful once supplemented by more specific objectives and guiding principles. These have been articulated by any variety of national and international agencies and organizations, and usually embrace elements of:

• Conservation and enhancement of ecological processes

• Protection of biological diversity

• Equity within and between generations

• Integration of environmental, social and economic considerations.

If this all sounds familiar, it is not surprising. Indeed, the concept of ecologically sustainable development has been challenged as merely a reworking of longstanding philosophies about conservation and stewardship of resources for the future. What is new is the widespread endorsement of the concept and the incorporation of a proactive environmental dimension into corporate planning and management (Murphy 1994; Francová, 2003).

Sustainability implies a fresh approach to planning and a renewed commitment to use resources within the capacity of the environment to sustain such use. Support for environmentally sustainable development is now evolving strongly in the tourism sector, as the logical way of balancing environmental concern with growth and development of the industry (Pigram & Wahab, 2005).

## 2.6 Factors Influencing Tourist Characteristics and Behaviour

Tourists vary enormously in age, income, education level, taste, and origin. Consequently, they purchase an unbelievable variety of tourism merchandise (Inskeep, 1991). Fig. 2, adapted from Kotler, Bowen and Makens (1999) portrays however, the antecedent mentioned stimuli are turned into responses inside the tourist's black box. In Fig. 2, there are numerous factors that influence tourist's characteristics and behaviour. Specifically, tourist characteristics have an effect on how they understand and react to stimuli (the tourism products). They are psychological, cultural, social, and personal factors. In addition, the aim of travel additionally plays on vital part in tourist's final buying selections.
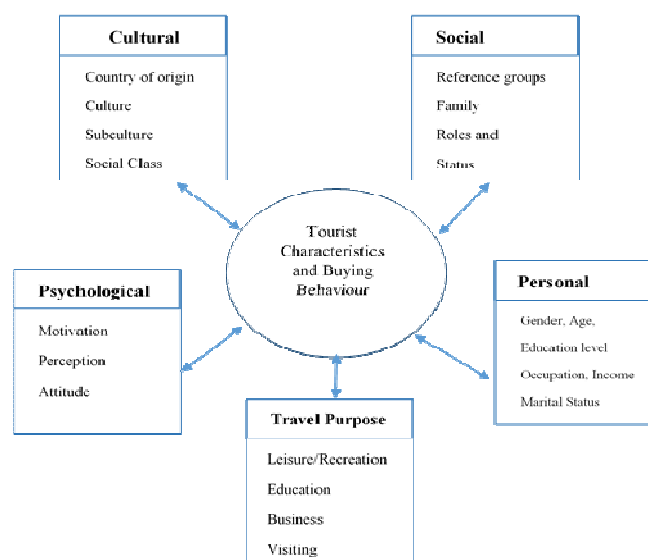


Fig. 2: Factors influencing Tourist's Characteristics and Buying Behaviour

Source: Adopted from Kotler et al. 1999

## 2.7 Characteristics of the Tourism Product

The tourism product could be a combination of numerous elements. These elements may be tangible or intangible. For example, in a destination many suppliers like hotels, restaurants or tourism guides participate within the production of services. Moreover, tourism isn't solely based on the production of products or services. Several intangible characteristics are embodied in individuals. Consequently, sociological and cultural aspects of the native population as well as of tourists could influence the tourism experience. In spite of this diversity, tourists ponder the merchandise as a complete experience (Weiermair, 2006; Ryglová et al. 2011).

Tourism is thus an industry that creates experiences rather than isolated products. Each experience is unique. Accordingly, as in other service industries, personalization plays a major role in tourism. However, personalization is not only a characteristic of services, but also of some manufacturing products. Besides, some services can be standardized in order to increase productivity. This phenomenon of industrialization in services and flexibility in manufacturing (Miles, 2005) has neared both sectors. Nonetheless, standardization in tourism is not always possible or desirable. The limits of standardization are usually related to significant cultural differences between markets (Hall & Williams, 2008) and the difficulty of reproducing services in the same form.

However, imitation, although not in exact form, is frequent in the tourism sector. Innovation in services is difficult to protect. In this context, product innovations are more difficult to protect than organizational, marketing or process innovations. Due to its intangibility, tourism innovation is seldom patented. Consequently, organizations try to innovate continuously, in order to gain advantage on competitors (Hjalager, 2002). However, the lack of innovation protection may as well reduce the incentive to invest in innovation (Hipp & Grupp, 2005).

Given its intangibility, most of services cannot be kept or transported. Intangible innovations have therefore a time-length. Tourism services sometimes occur in a very determined period of time. For this reason, the supply cannot be delayed to a different period of time. So as to minimize the impacts of high seasonality and low capacity utilization, tourism companies implement management methods like pricing systems. For instance, airlines and hotels supply completely different prices relating to occupancy. Another characteristic of the

tourism product is its coinciding production and consumption (Miles, 2005; Weiermair, 2006).

Tourists routinely have an image of what they expect, however they will initially assess the entire experience once they come back from holidays. Provided that the qualities of services aren't easily transmitted to customers before consumption (Hipp & Grupp, 2005). Weiermair (2006) indicates that destinations ought to create confidence and introduce quality criteria. Interactions between people as well as information exchanges are elementary in tourism innovation. What is more, with the enhancement of the service sector, the interest on sharing information instead of merchandise has increased (Freeman & Soete 1997; Schejbal, 2008).

Moreover, investments in intangibles could be more vital for organizations than tangible investments in capital merchandise. In light of this context, the tourism industry may be extremely IT-Intensive. Therefore, information plays a significant role, whether or not it's provided to tourists, kept in databases or used to improve the strategy of the organization. Typical examples the employment of IT in tourism are the implementation of information warehousing in organizations so as to combine and analyse data from numerous sources, or the employment of internet platforms to gather and share data concerning tourism destinations. Nonetheless, services don't seem to be solely intangibles.

As it has been mentioned before, the tourism product may be a combination of various components of tangibles and intangibles. Consequently, it appears necessary to spot those elements kind of this product. In this matter, Gallouj (2002) acknowledges three groups of characteristics for products. First, service characteristics, that are outlined because the utility provided by the product from the user's point of view. Second, technical characteristics that describe the inner structure of the technology. Third, method characteristics, that are associated with the production strategies of the service. This contribution therefore regards the utility of the service from the user's point of view, its internal composition and also the production method.

Gallouj's set of characteristics may be applied to tourism services. during a guided visit, as an example, the information and the amusement provided to tourists represent its service characteristics, the mode and means of communication, the guide's knowhow and also the objects observed its technical characteristics, and the modes of preparation and development of the visit type its process characteristics. Another approach that contributes to identify the particularities of services is the one introduced by Miles (2005). His approach, though, isn't

based on service characteristics, however on kinds of services. He distinguishes between three categories of services. First, physical services like transport or catering. Second, human services, relating to primarily public services dedicated to people. Third, information services like consultancy or recreation. Consequently, the tourism product can be also thought of as a combination of the three kinds of services (Palatková, 2011).

**2.8 Importance of Tourism in Egypt**

Tourism is amongst the vital factors in economic sector of Egypt that doesn't simply create employment opportunities and income generation but additionally in foreign currency income that shows that the tourism industry's development could lead on to higher economic prospects of the country. The industry is very important not only for individuals but for country itself. It may be a medium or portal through which individuals across the globe could share the concepts and information while forging an understanding amongst themselves. Tourism provides an opportunity to understand the different societies, cultures, tradition, foods and life style of various countries around the world. Tourism doesn't just help generate income but it also helps to maintain the economic stability in the country. Tourism helps people by providing them with employment directly and indirectly. People working on tourism industry are the direct beneficiary but the people working on agriculture, airlines, hospital, hotels are the indirect beneficiary. The products from the indirect beneficiary can be promoted via tourism and get to the international market as well. It helps people to understand each other and respect each other which help to maintain the peace in the country and the world. Tourism is a medium which helps create mutual relation among nations and help bring diverse people close to each other and interact in close proximity. It plays a greater role in keeping friends, family and relatives close and in contact with each other once in a while which is important in the world today. Tourism also helps create demand in the market which allows the local products to get the market and increase the popularity of it (Archer, 1995; Laws, 1995).

**2.9 Impact of Tourism**

Tourism is among the most vital industries in the world which provides a major source of economic outcomes and therefore the chance and opportunity for employment. It's also a

complex industry which needs large capital investment and resources moreover. It creates a both positive and negative impact depending upon how it's managed. If it's managed properly then it can have a positive impact on all social, economic and environmental side. If it's not managed properly then the impact will be negative which might be calamitous (Lea, 2006; Holloway et al. 2009).

### 2.9.1 Socio-Cultural Impact

On the positive side of tourism impact, development of the infrastructures that results from the tourism industry would be advantageous to the community and its individuals. Tourism encourages the preservation of historical places, ancient customs, festivals and handicrafts which might otherwise have gone extinct or lost with time. The social interaction between the guest and also the host creates an improved cultural understanding. This permits raising global awareness of essential problems like poverty. On the negative side, bad influence would possibly enter in the community alongside the guest in the community like use of drugs and alcohol as well as prostitution. The crime level would possibly increase yet alongside the increment of the crowd. The entry of recent culture within the host community would possibly have an effect on the pre-existing culture of the community. The erosion of ancient values and customs may happen with increase of tourist within the area (Simm, 2016).

### 2.9.2 Environmental Impact

The environment and its resources are very important for tourism industry since the tourism is directly related to environment. This can lead to having both positive and negative effect on the environment. Tourism development might lead to the conservation and protection of environment which is a good thing. It would help to raise a global awareness about the environmental values and help protect the natural areas by increasing their economic importance. Better and economical use of the environmental resources might be successful then after. Along with these, the construction of roads, buildings, houses, hotels, airports might have an adverse effect on the environment. Overuse of natural resource is dangerous and a serious matter. Tourism also creates an increased pollution through traffic emission, littering, noise and increased sewage production (United Nations Environment Programme, 2016).

### 2.9.3 Economic Impact

Tourism has the biggest impact on the economy of any place or the world. First and foremost, tourism helps in creating the opportunity of employment. The increment of employed people helps to generate income and raise the standard of their living. It helps people to create new industry in rural areas and increase their production. In urban areas, it provides an opportunity to for investment and development of infrastructure. These all helps to increase the tax collection which later helps in economy of the country. Even though it helps to create an employment opportunity, the payments to those jobs are minimal and are seasonal which creates underemployment. Labour may be imported rather than using the local labour. Greater demand of goods, foods and services can cause in increment of cost of living. Areas that are dependent on tourism can be highly affected by terrorism, natural disaster and economic recession (Kreag, 2001; Holloway et al. 2009).

### 2.10 International Tourism Trends

Worldwide economic factors, violent conflicts and terrorist attacks as well as the refugee crisis in Europe are impacting very differently on the global tourism industry this year. The overall trend remains satisfying, however, and 2015 has been another good year for world tourism with a 4.5% rise in outbound trips in the first eight months of this year. The outlook for 2016 remains healthy and further growth of 4.3% is expected.

International tourist arrivals grew by 4% to a total of 810 million worldwide in the first eight months of 2015 according to World Tourism Organization (UNWTO) figures released last October. Europe, the world's most visited regional destination, recorded a robust 5% increase in international tourist arrivals, the highest across all regions and a notable result for a rather mature region. Asia and the Pacific, the Americas and the Middle East all enjoyed 4% growth, while limited data available for Africa points to an estimated 5% decrease in the number of international tourists. The Demand was positive overall, although tourism flows were influenced by the comparatively strong currency fluctuations, UNWTO pointed out. Many destinations are benefitting from more favourable exchange rates, while others have become more expensive, but seen their purchasing power abroad increase (ITB, 2015).
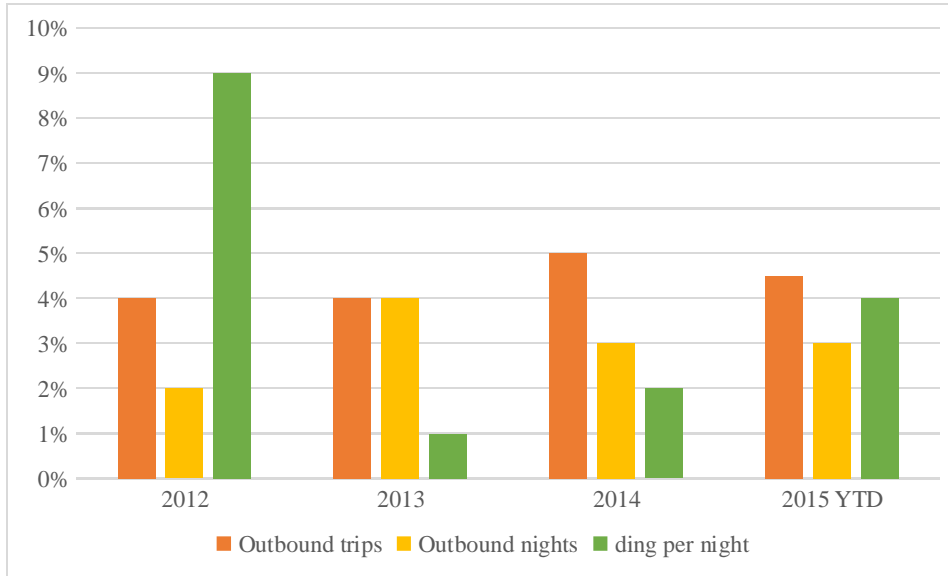
Fig. 3: World travel trends (change in % over respective previous year)

Source: World Travel Monitor 2015, IPK International

## 2.11 Impact of Tourism to the Economic Development of Egypt

### 2.11.1 Visitor Exports and Investment

Money spent by foreign visitors to a country (or visitor exports) is a key component of the direct contribution of Travel & Tourism. In 2014, Egypt generated EGP59.6bn in visitor exports. In 2015, this is expected to grow by 3.5%, and the country is expected to attract 10,504,000 international tourist arrivals. By 2025, international tourist arrivals are forecast to total 15,473,000, generating expenditure of EGP93.5bn, an increase of 4.2% pa.
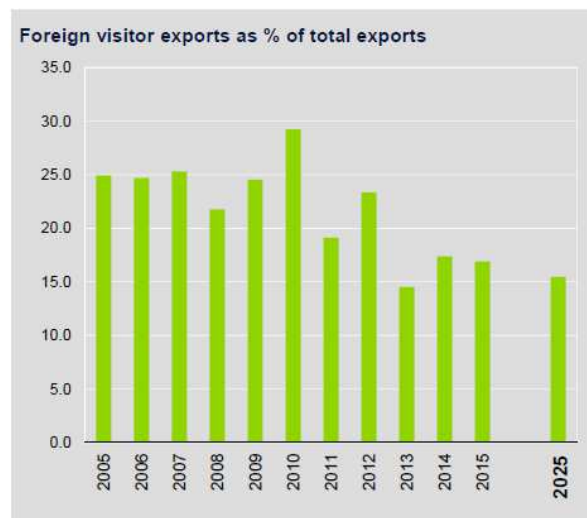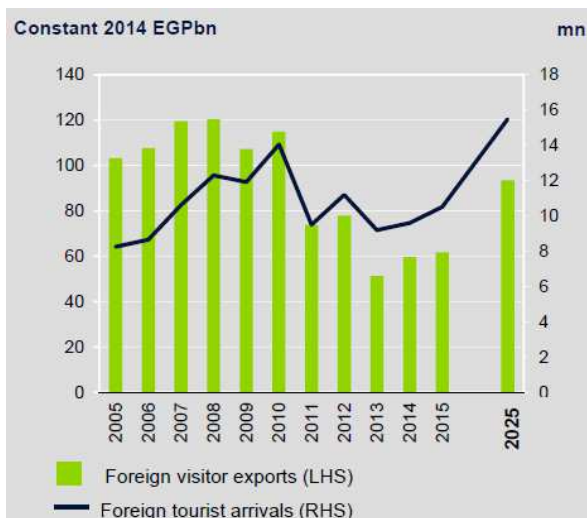
Fig. 4: Egypt Visitor Exports and International Tourist Arrivals

Source: State Information Service, Egypt.

The total contribution of Travel & Tourism to employment (including wider effects from investment, the supply chain and induced income impacts, see page 2) was 2,944,000 jobs in 2014 (11.6% of total employment). This is forecast to rise by 4.3% in 2015 to 3,071,500 jobs (11.8% of total employment). By 2025, Travel & Tourism is forecast to support 3,790,000 jobs (11.7% of total employment), an increase of 2.1% pa over the period.
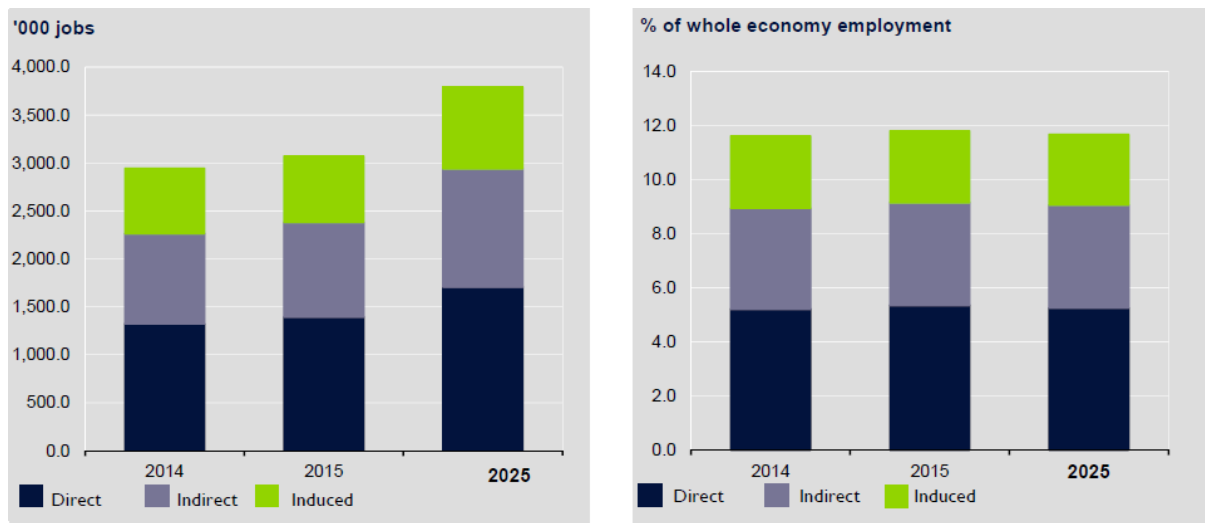


Fig. 5: Total Contribution of Travel & Tourism to Employment

Source: State Information Service, Egypt.

**2.11.2 Different components of Travel & Tourism**

Leisure travel spending (inbound and domestic) generated 72.0% of direct Travel & Tourism GDP in 2014 (EGP119.8bn) compared with 28.0% for business travel spending (EGP46.5bn). Leisure travel spending is expected to grow by 3.0% in 2015 to EGP123.4bn, and rise by 4.5% pa to EGP192.1bn in 2025. Business travel spending is expected to grow by 4.0% in 2015 to EGP48.4bn, and rise by 4.4% pa to EGP74.3bn in 2025.
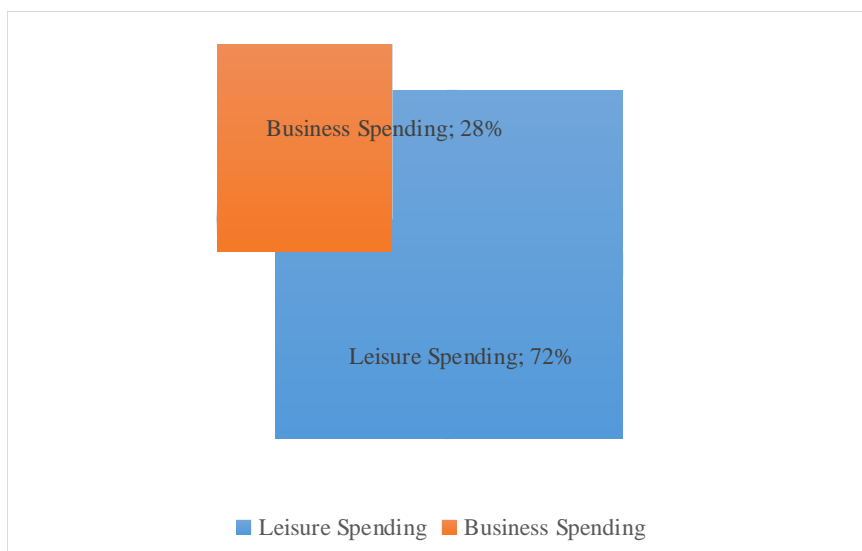
Fig. 6: Travel & Tourism's Contribution to GDP: Business vs Leisure, 2014

Source: State Information Service, Egypt.

Domestic travel spending generated 64.1% of direct Travel & Tourism GDP in 2014 compared with 35.9% for visitor exports (ie foreign visitor spending or international tourism receipts). Domestic travel spending is expected to grow by 3.1% in 2015 to EGP110.1bn, and rise by 4.6% pa to EGP172.9bn in 2025.Visitor exports are expected to grow by 3.5% in 2015 to EGP61.7bn, and rise by 4.2% pa to EGP93.5bn in 2025.
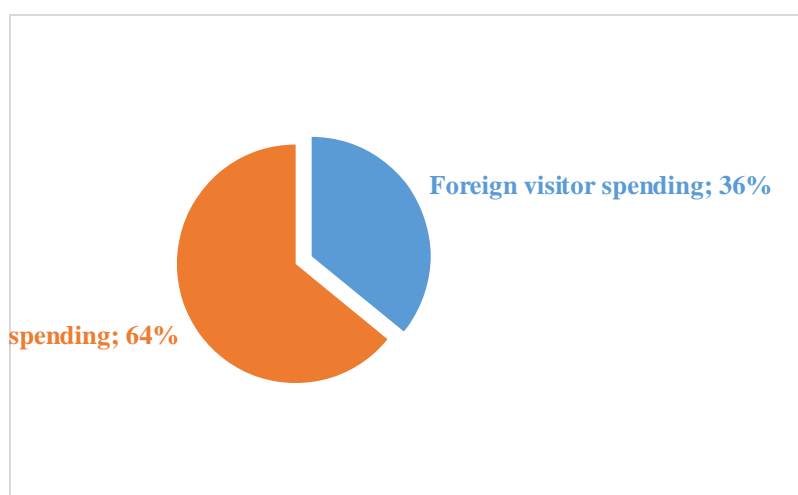


Fig. 7: Travel & Tourism's Contribution to GDP: Domestic vs Foreign, 2014

Source: State Information Service, Egypt.

The Travel & Tourism industry contributes to GDP and employment in numerous ways. The total contribution of Travel & Tourism to GDP is twice as large as its direct contribution.
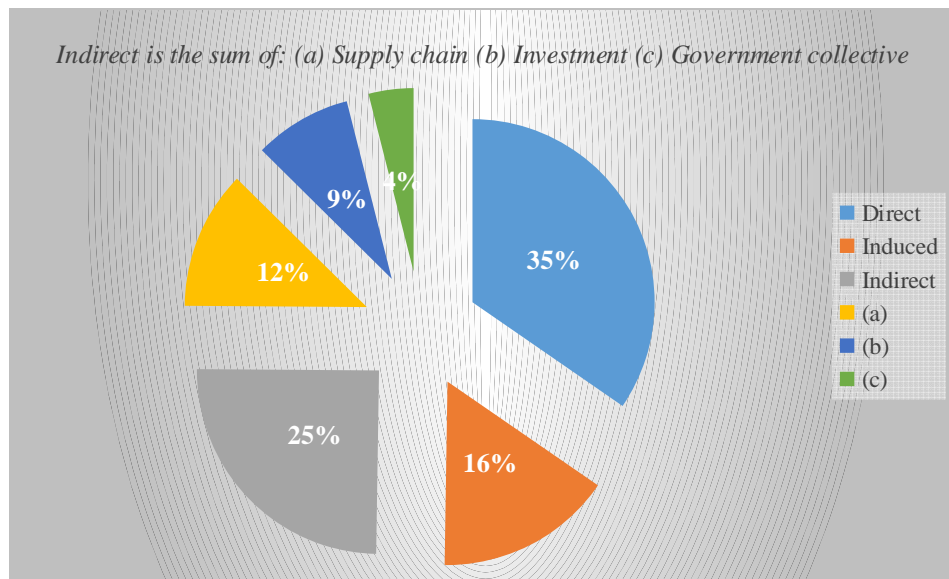
Fig. 8: Breakdown of Travel & Tourism's Total Contribution to GDP, 2014

Source: State Information Service, Egypt.

## METHODOLOGY

### 3.0 Introduction

The purpose of this thesis is to describe the Socio-economic development of tourism industry and to do a thorough analysis of the positive and negative impacts on economy of Egypt. The methodology and analysis which will mainly help to achieve the objectives will mainly focused on the economic variables (GDP Growth, Net Exports, Government Final Consumption Expenditure and Income from Tourism). This research will also estimate the level of significance of these factors to growth of GDP.

### 3.1 Research design

The primary aim of this thesis is to investigate and analyse the impact of tourism on the Socio-economic development in Egypt which is measured by the economic growth GDP. In order to achieve this, a linear multiple regression model was developed to examine this relationship and the study uses a similar empirical framework used by early writers on this topic. The study makes use of reported data which were obtained on both the dependent and independent variables. Based on the regression model analysis, relationships between

variables are explained and tested to ascertain if they are significant enough to be used as bases for conclusions.

## 3.2 Data Technique

This thesis used both quantitative and qualitative techniques in analysing the data to achieve the required results. A linear multiple regression model was used to estimate the relationship between the variables used in the model. Statistical reports like graphs, bar charts and others were used in reporting. The data used was time series ranging from 2000 to 2014 and it was obtained from the World Bank country indicators, the Egypt Statistical Service as well as the central bank of Egypt.

## 3.3 Data Analysis

The model used in this thesis assumed a multiple linear relationship between the variables. The independent variable used in the model was the GDP Growth whereas the dependent variables are net exports, government final consumption expenditure, net income from tourism and foreign direct investment (FDI) were matched to determine their significant contributions to Gross domestic product of the economy. The research assumed GDP to be determined by the level of net exports, government final consumption expenditure, income from tourism and foreign direct investment.

**Tab. 1: Variables**

| Variable | Symbol |
|---|---|
| GDP | Y |
| NET EXPORTS | X1 |
| Government Final Consumption Exp. | X2 |
| Income from Tourism | X3 |
| Foreign Direct Investment | X4 |

Source: Author's own work

### 3.4 Sample and sampling method

The purpose of the study is to look at impact of tourism on the socio-economic development in Egypt. In this regard, purposive sampling method was used which is in line with the purpose of the study. The sample size of the study is Egypt and was chosen from a population of all African countries.

### 3.5 Correlation Analysis

The study made use of correlation analysis specifically the Pearson Correlation in other to measure the degree of association between the variables. The Pearson Correlation ranges between +1 and -1. A correlation coefficient 1.0 shows a perfect positive correlation and 0 shows no correlation.

### 3.6 Multiple Linear Regression Model

Upon reading literature on the subject matter of this study, it was found that there is a relationship between tourism development variables and socio-economic development of a country. Hence the study used a multiple linear regression model to ascertain this association. In this study, four factors were considered to enable the researcher formulate an appropriate regression model to verify which of the factors contribute significantly to socio-economic development measured in terms of GDP.

### 3.7 Regression Model

The Multiple Regression analysis was employed in the study to explore the combined effect of the variables of working capital management on performance.

The regression equation for the sample follows:

$$log\,GDP_t = \beta_0 + \beta_1\,NETEXP_t + \beta_2\,GFE_t + \beta_3\,TOR.INC_t + \beta_4\,FDI_t + \varepsilon_t$$

$GDP_t$ = is the dependent variable and is a proxy for economic development.

$NETEXP_t$ = used as measure of the difference between export and import of the country.

$GFE_t = ¿$ used to measure the government spending in tourism.

$TOR.INC_t$ = measuring the proceeds from the tourism industry.

$FDI_t = ¿$ Measures how the country is attracted to investment.

$\varepsilon_{it}$ = residual term

$\beta_1$ = unit/department specific effect

**t** = represent the years under consideration (2000-2014)

## 3.8 The Coefficient of (Multiple) Determination, $R^2$

It measures the amount of the total variability in the response variable that is accounted for by the fitted model. Also the coefficient of determination represents the per cent of the data that is closest to the line of best fit. Thus, it simply tells how well the model fit the data set. The coefficient of determination is such that $0 \leq R2 <$ and denotes the strength of the linear association. A high value of $R^2$ indicates a reliable regression equation for prediction.

## DATA ANALYSIS AND DISCUSSION OF RESULTS

## 4.0 Introduction

The results of the study is presented in components, the first explains the descriptive of the variables used to determine the impact of tourism on socio-economic development in Egypt, secondly, correlation analysis to determine the relationship that exist among the variables, analysis of the regression model to test for its significance, testing for the significance of the estimated coefficient and summary of the model are discussed respectively.

## 4.1 Descriptive statistics

**Tab. 2: Descriptive statistics of dependant and independent variables**

| Variable | Obs | Mean | Std. Dev. | Min | Max |
|----------|-----|------|-----------|-----|-----|
| **GDP** | 15 | 1.32 | 0.47 | 0.59 | 1.96 |
| **NETEXP** | 15 | -4.85 | 2.20 | -8.54 | -1.35 |
| **GFE** | 15 | 11.76 | 0.66 | 10.88 | 12.75 |
| **TOR.INC** | 15 | 8.13 | 3.10 | 4.12 | 1.36 |
| **FDI** | 15 | 4.32 | 3.90 | -4.83 | 1.16 |

**\*\*\*Stata Output**

From Table 4.1 above, GDP (GROWTH) has a mean value of 1.32 of all the 10 year period and a standard deviation of 0.47. The minimum value for GDP recorded in the analysis is 0.59 and the maximum is 1.96**.** For the years under study, Net Export **(NETEXP)** recorded a mean value of -4.85 with a standard deviation of 2.20. The corresponding minimum and maximum values were -8.54 and -1.35 respectively.

In addition, Government Final Consumption Expenditure **(GFE)** also had a mean of 11.76 with a standard deviation of 0.66. Its minimum value is 10.88 and recorded a maximum value of 12.75.  The country's income from tourism **(TOR.INC)** gave a mean value of 8.13 and a standard deviation of 3.10 with a corresponding minimum and maximum values being 4.12 and 1.36 respectively. The Foreign Direct Investment **(FDI)** also had mean of 4.32 and a standard deviation of 3.90. In addition, it had a minimum value of -4.83 and a maximum of 1.16.

**4.2 Tourism Arrivals in Egypt**

The Graph below (Fig.8) describes the number of international tourists to Egypt.
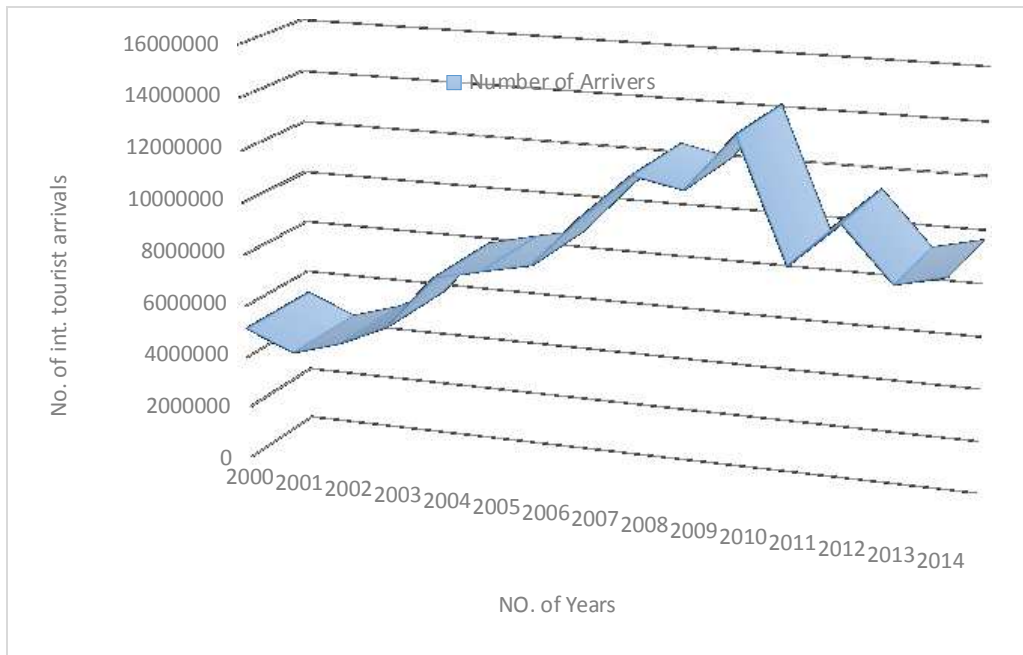
Fig. 9: Number of international tourist arrivals, 2000–2014

Source: Egypt Statistical Service

The graph above (Fig.9) describes the total number of international tourists to Egypt. The graph shows that the number of arrivals has risen quite steadily since 2000. In 2001 there were around 4,357,000 foreign arrivals. In 2005 it reached up to 8,244,000 people. The number of tourists reached a level of 10,610,000 2007 and again rose to highest in 2010 to a total of 14,051,000. It decreased sharply in 2011 to 9,497,000. However it increased again in 2014 to 9,628,000. Comparatively, the graph below depicts the number of tourist arrivals year by year in percentage terms.

Fig. 10: Tourist arrivals in Egypt

Source: Egypt Statistical Service

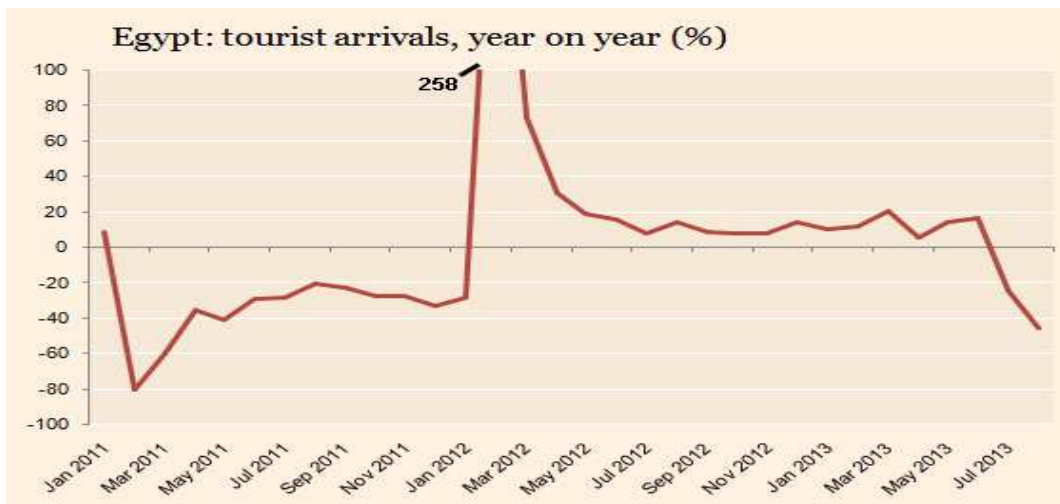From the graph above and the years under review, it can be seen that the highest number of tourist arrivals was recorded in January 2012 with 258% whilst the lowest has between January 2011 and March 2011. This drop in tourist arrivals was as a result of the Arab spring the country was experiencing in that particular year. The number of arrivals rose gradually till it achieved the highest point in January 2012. The period between May 2012 and May 2013 saw a quite low stabilized number of arrivals till it dropped to negative again in July 2013. The pyramid shaped is one of the tourist site in Egypt which attracts more people.



Fig. 11: Pyramids of Giza

Source: Egyptian Tourism Authority

The Giza Necropolis ("pyramids of Giza") is an archaeological site on the Giza Plateau, on the outskirts of Cairo, Egypt (Fig. 11). This complex of ancient monuments includes the three pyramid complexes known as the Great Pyramids, the massive sculpture known as the Great Sphinx, several cemeteries, a workers' village and an industrial complex (see appendix).

Fig. 12: Tourist arrivals (Pyramid Shaped)

Source: Egypt Statistical Service

The pyramid shaped site in Egypt alone attracted arrives of 14million tourist in 2010 (Fig.12). The lowest was recorded in 2001 with a little above 4 million. The monthly tourist arrivals in Egypt is also shown on the graph below.
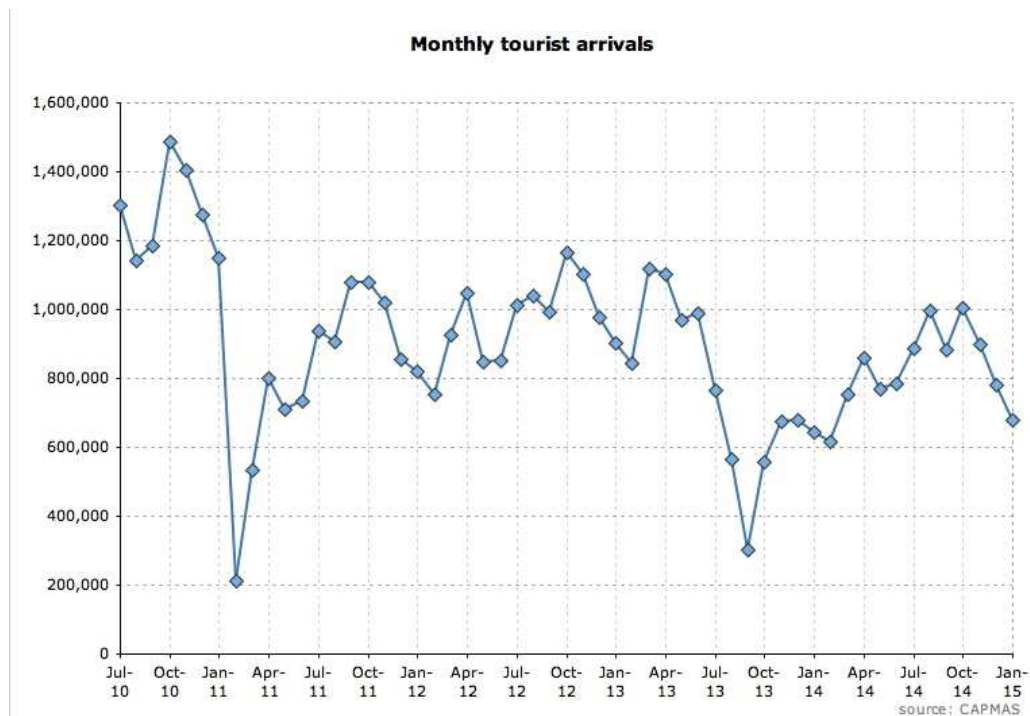


Fig. 13: Monthly Tourist Arrivals

Source: Central Agency for Public Mobilization and Statistics (CAPMAS)

The above graph (Fig.13) considers a period from July 2010 to January 2015. The month which saw the lowest arrivals of tourist in Egypt was February 2011 and highest has been October 2010. September 203 has also saw one of the lowest in the history with only about 300,000 arrivals. The graph below also shows the number of tourist arrivals from October 2015 to September 2016.



Fig. 14: Tourist Arrivals (Years)

Source: www.tradingeconomics.com

It is clear from the above diagram (Fig.14) that the number of arrivals of tourism in Egypt has declined drastically in 2016. The highest total number recorded within the year is July 2016 with a total of 539.

## 4.3 Tourist Expenditures in Egypt

The graph below describes the number of international tourists' expenditures to Egypt.
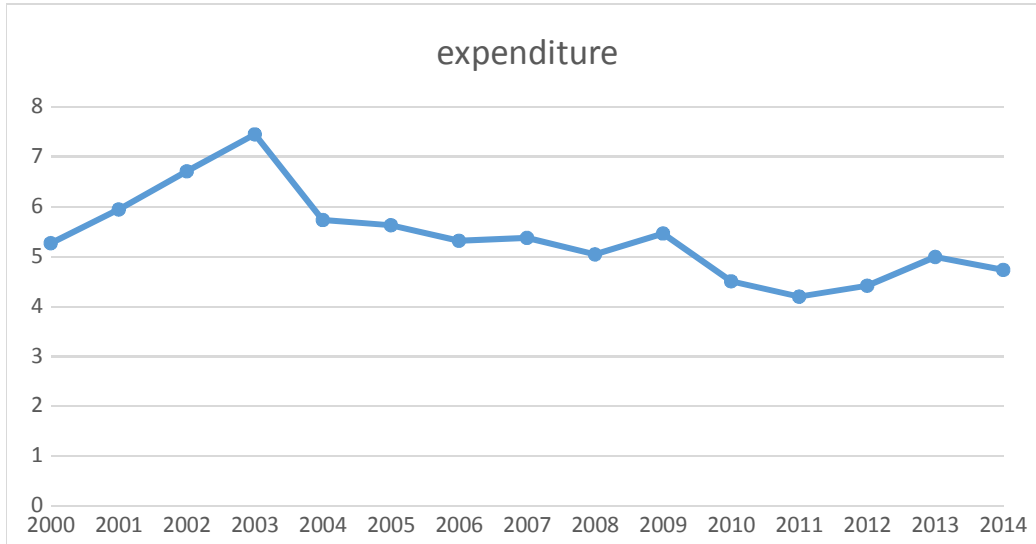
Fig. 15: Number of international tourist expenditures, 2000–2014

Source: Egypt Statistical Service

The above graph (Fig.15) describes the total number of international tourists' expenditures to Egypt. The graph shows that the amount of tourists' expenditures was $5.26M and rose consistently to 2003 to $7.45M. This began to fall 2004 and 2005 to $5.7M and $5.62M and continue to fall in 2006 $5.31M. Since then the international tourists' expenditures to Egypt continue to fall and rise till 2014. The country Egypt has also done a huge capital investment in their travel and tourism industry.
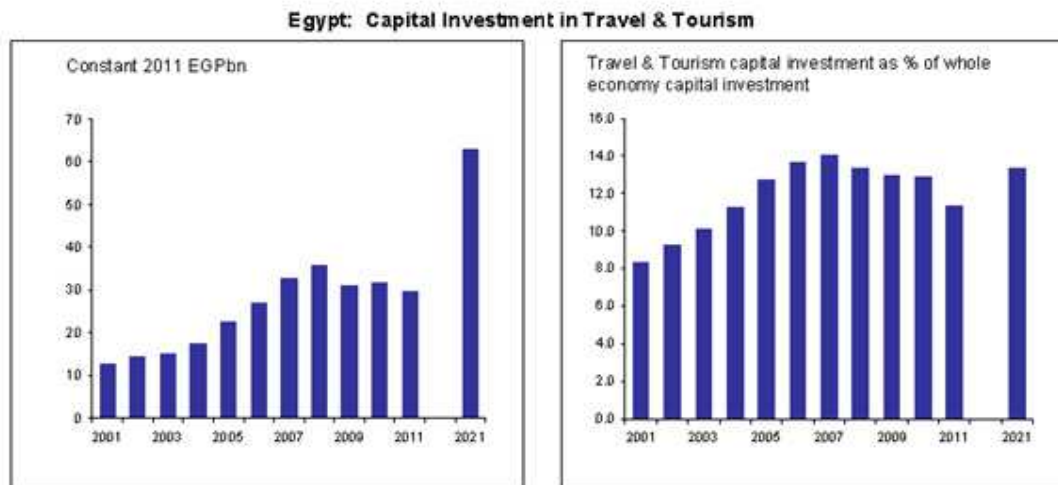


Fig. 16: Capital Investment Trends

Source: Egyptian Tourism Authority

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It can be seen from the above graph (Fig.16) that investment in the industry has been a consistent increase from 2001. The highest investment the country has done was in 2008 where it invested EGP 35bn represented 13% of the whole country economy capital investment. The capital investment in tourism is projected to be EGP 65bn represented a projected percentage of 14% in 2021.

## 4.4 Quantitative Analysis

This section offers the quantitative analyses for the study. The analyses further include two distinct methods of statistical examination. The first portion holds the Correlation and scatter analysis to determine the degree of association between any two variables of study. The second portion contains the Regression analysis for the performance (efficiency) indicator used in the study separately.

## 4.4.1 Scatterplot

The scatterplot shown in figure 17 describes the relationship between the dependent variable and the independent variables.
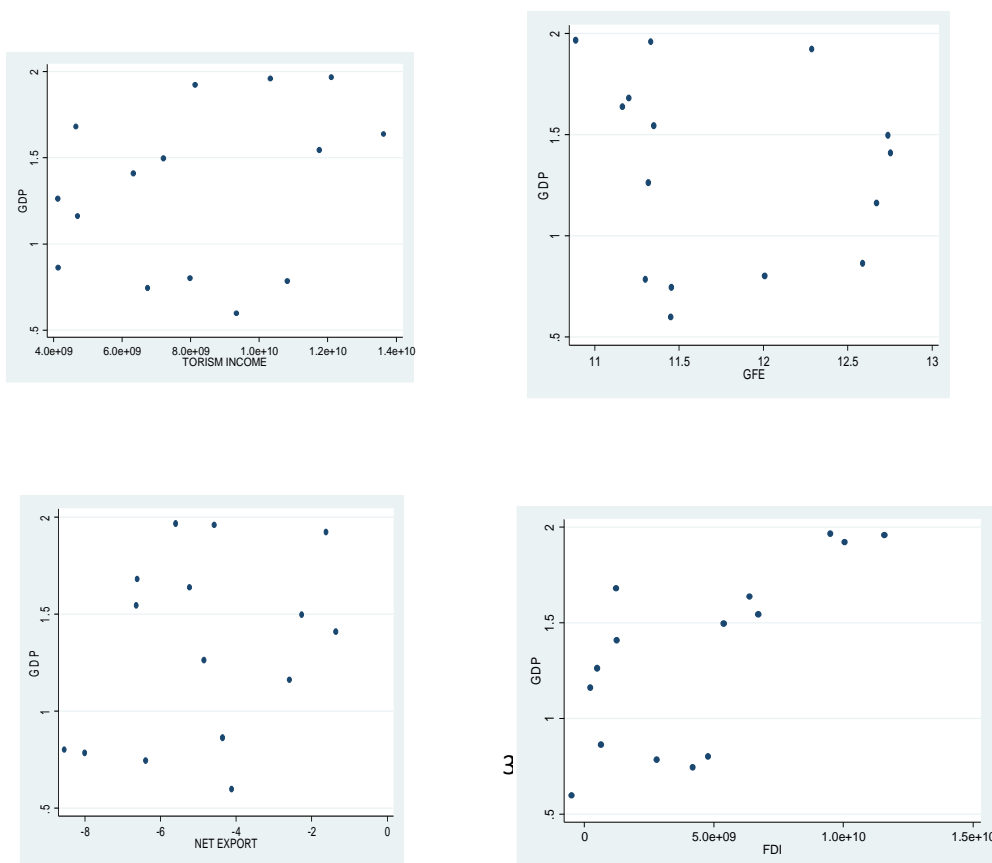
Fig. 17: Scatter Plot

Source: Author's own work

**4.5 Regression Summary**

This thesis used the summary of regression results to examine whether there exist a significant relationship between GDP (i.e. the dependent variable) and the independent variables.

*Ho: β1=β2=β3=........... =βk= 0*

*HI: at least one of βi is not zero*

**Tab. 3: Summary of the Regression Model**

| Source | SS | df | MS | Number of obs | = | 15 |
|--------|-----|-----|-----|----------------|-----|-----|
| | | | | F( 4,   10) | = | 5.75 |
| **Model** | 2.1994802 | 4 | 0. 54987 | **Prob > F** | = | 0. 0115 |
| **Residual** | 0.956116 | 10 | 0. 09561 | **R-squared** | = | 0. 4166 |
| | | | | **Adj R-squared** | = | 0. 5758 |
| **Total** | 3.15559639 | 14 | 0. 22539 | **Root MSE** | = | 0. 3092 |

**\*\*\* Stata Output**

**4.6 The Coefficient of Determination, R$^2$**

R$^2$ measures the amount of the total variability in the response variable that is accounted for by the fitted model. That is, it measures the extent to which the explanatory variables explain

the variation in the dependent variable. The results presented in Table 4.3 show that $R^2$ (coefficient of determinations) value of 0.4166 indicates that 41.66% of the variation in the response variable is explained by the explanatory variables. The p-value of 0.0115 explains that the explanatory variables are significant because it is below the confidence level of 0.05.

### 4.6.1 Testing for the Significance of the Estimated Coefficients

**Tab. 4: Coefficients of the predictor variables**

| GDP | Coef. | Std. Err. | t | P>t | [95% Conf. | Interval] |
|---|---|---|---|---|---|---|
| **NETEXP** | 0.1204 | 0.507421 | 2.37 | 0.039 | -0. 0074056 | 0.2335266 |
| **GFE** | -0.3379 | 0.189215 | -1.79 | 0.104 | -0.7595128 | 0.0836825 |
| **TOR.INC** | -4.07 | 3.966670 | -1.03 | 0.328 | -1.2998010 | 4.7667911 |
| **FDI** | 9.11 | 2.799908 | 3.26 | 0.009 | 2.88891811 | 1.5388110 |
| **_CONS** | 5.82100 | 2.516897 | 2.31 | 0.043 | 0.2130056 | 11.428891 |

**\*\*\* Dependant variable: CIR**

$$GDP_t = 5.8210 + 0.1204\,NETEX - 0.3379\,GFE - 4.0400\,TOR.INC + 9.1100\,FDI$$

*For the variable Net Export (NETEXP)*

From the model, **GDP** is inversely related to NETEXP with a coefficient of 0.1204 and is significant in measuring performance (GDP) since its p-value of 0.039 is less than the significance level of 0.05. From the above, a unit change in NETEXP will decrease GDP by 0.1204.

*For the variable Government Final Expenditure (GFE)*

**GDP** and **GFE** are negatively related with a coefficient of -0.3379 and GFE is insignificantly in measuring the impact since the p-value of 0.104 is more than the significance level of 0.05.

*For the variable Tourism Income (TOR.INC)*

From the regression results as shown in Table 4.4 GDP and TOR.INC are negatively related with a coefficient of -4.070011 and this relationship is insignificantly in measuring the impact of tourism since the corresponding p-value of 0.328 is more than the significance level of 0.05.

*For the variable Foreign Direct Investment (FDI)*

Foreign Direct Investment (FDI) is found to be positively relationship with GDP with a coefficient of 9.11. Though, p-value of 0.009 which is less than a confidence level of 0.05 suggest a significant relationship, the coefficient suggest little impact on tourism (GDP).

**Tab. 5: The economic contribution of Travel & Tourism: Nominal prices**

| Egypt (EGPbn, nominal prices) | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2015F |
|---|---|---|---|---|---|---|---|---|
| Visitor exports | 63.8 | 75.3 | 53.9 | 64.1 | 46.0 | 59.6 | 67.2 | 182.2 |
| Internal tourism consumption | -34.1 | 138.4 | 126.1 | 150.9 | 141.8 | 166.4 | 187.1 | 519.3 |
| Purchases by tourism providers | 86.0 | 98.4 | 89.1 | 107.3 | 99.4 | 117.2 | 131.7 | 365.9 |
| Direct contribution of Travel & Tourism to GDP | 31.2 | 35.7 | 32.3 | 38.9 | 36.0 | 42.5 | 47.7 | 132.7 |
| Induced | 38.1 | 43.3 | 41.1 | 48.3 | 45.4 | 53.3 | 59.6 | 169.3 |
| Total contribution of Travel & Tourism to GDP | 186.5 | 211.3 | 198.5 | 233.4 | 218.1 | 255.0 | 285.0 | 805.4 |
| Employment impacts('000) | 1,631.8 | 1,671.5 | 1,304.4 | 1,434.7 | 1,225.9 | 1,322.7 |  | 1,707.9 |
| Total contribution of Travel & Tourism To employment | 3,635.8 | 2,981.1 | 3,177.5 | 2,730.2 | 2,944.1 | 2,944.1 | 3,071.5 | 3,790.0 |

Source: www.wttc.org

# SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.0 Introduction

The main purpose of the study was to analyse the impact of tourism on socio-economic development in Egypt. This chapter is therefore a summary of the findings from the analysis of data, conclusions and recommendations based on the findings of the study.

## 5.1 Summary of findings

The summary of findings are discussed based on the specific objectives of the study. This thesis used four different data from the World Bank database and applied a multiple regression was run on the data collected using GDP as a dependent variable to measure the impact of tourism on the socio-economic development in Egypt. The major findings of the study are summarized below.

First of all, the study found that net export (NETEXP) and economic impact (GDP) are positively related. The results indicate that net export has little impact on economic development when it is measured in terms of GDP growth. This suggest that an improvement of export leads to a marginal increase in its economic performance and vice versa.

Another variable that is seen as a stricter measure of the impact of tourism on socio-economic development is the government final expenditure. The results shown that there was negative relationship between government final expenditure and economic growth (GDP) and the results showed no significance.

In addition, it was found in the results that, tourism income (TOR.INC) had no significant negative relationship with economic growth (GDP).

Foreign Direct Investment (FDI) had a positive relationship with economic growth (GDP), and also, the relationship is significant and thus contributes to economic development.

**5.2 Conclusions and Recommendation**

This study used various factors to measure the impact of tourism on the socio-economic development in Egypt In this regard the socio-economic development was measured in terms of economic growth using GDP.

From the panel data regression analysis, it was found that income from tourism was negatively related to the economic development in Egypt (GDP) and also, did not have any significant impact. This implies that, income from tourism in Egypt should be looked at since it has recorded a downward trend for some time now. This downward trend could be attributed to the Arab-Spring and the political instability in the region, thereby increasing the fear of safety among tourism especially from Europe and America.

Also, net export had a significant positive relationship with economic growth in Egypt (GDP) meaning that as the export of the country improves, economic growth in terms of GDP also increases significantly and vice versa.

Another important variable was government final expenditure on consumption which also had a insignificant negative relationship with economic growth GDP. However the variable foreign direct investment (FDI) had a significant positive relationship with economic growth GDP and therefore when efforts are made to increase the FDI in Egypt, it will contribute to an increase in the country's GDP.

It is high time for Arab governments and their international partners to focus on the economy and on building inclusive institutions. An almost exclusive focus on divisive political and identity questions since the Arab Spring started in 2010 has contributed to the current malaise. Peace, stability and democracy in the Arab world will be achieved only if all Arab citizens, especially the youth are fully included in their countries' economy and society if they feel that their voices are heard in the various institutions of governance (Ghanem, 2016).

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## APPENDIX

## Map of Egypt

**Tourist Sites in Egypt** (Source: Egypt Tourism Authority)

**White Desert**

**Siwa Oasis**



**Abydos Temple**

**Abu Simbel**