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Does Terrorism have a Limited Impact on International Investments in Tourism? Some Theoretical Considerations

Nikšić Radić M.*

Barišić M.†

University of Rijeka (Croatia)

ABSTRACT

Foreign direct investment (FDI) in tourism is a catalyst for a number of positive changes within the economy of the host country and reflect positively on economic growth. Therefore, it is in the interest of many countries to attract foreign investors, which is especially prevalent in developing countries. At the same time, the 21st century is marked by major changes in terms of safety, influencing the appearance of the contemporary international terrorism. Terrorism has many direct and indirect effects and is influenced by mass media, reflects on changes in behaviour patterns of modern tourists, including the movement of tourist flows as well as flows of FDI into tourism. Tourism, FDI and security are three very interrelated concepts. The purpose of this paper is to explore to what extent uncertainty, primarily in the form of terrorism, affects FDI in tourism. It should also be borne in mind that the picture of the risky countries in the conditions of global uncertainty changes very rapidly and in such circumstances each destination may potentially become risky. Existing research on terrorism and foreign direct investment in tourism are scarce and give different results.

Keywords: FDI in tourism; Terrorism; Globalization; Safety

* E-mail address: majanr@fthm.hr

† E-mail address: mateja.barisic11@gmail.com

Introduction

The international investment environment recorded significant changes in the 21st century. The governing structure of individual countries is becoming more aware of the potential of FDI in achieving not only economic growth but also the objectives of economic development. In parallel, the growing pressure of global problems such as the international financial crisis, terrorism and climate change is growing. Entering the 21st century, terrorism has become a burning issue in international politics. At the same time, terrorism is constantly evolving and adapting to counter-terrorism measures (Scott, 2012).

When a country enters a globalization system, its governing structures begin to internationalize the integration perspective and try to fit into a global environment (Stibli, 2010). Because of globalization, terrorism has changed its nature. New terrorist attacks are now directed towards citizens, not to governments (Coker, 2002). Globalization boosts religious fundamentalism. Some 40 years ago, there was no religious terrorist movement around the world, in the 1980s only two of the 64 known terrorist organizations in the world were moved by religious beliefs (Stibli, 2010). However, terrorism is probably not caused by modern globalization, as globalization is not caused by contemporary terrorism (Putra, 2004). The concept of dramatic and organized killing in public exposure due to fanaticism or political environment originates from the 60s of the 1st century as the activity of one of the radical segments of Judaism (Chojnowski, 2017). On the other hand, the aspiration to globalization, the path to development and wealth, has always been present in humanity (Franko Ass, 2013).

Globalization as a process has a strong influence on the development of tourism, but also applies the other way around. Along with the development of tourism in the world, new tourist destinations are emerging in recent decades. Nevertheless, competition among tourist destinations is no longer geographically limited as it is in the past, but is happening globally. Tourist destinations often resort to FDIs and use different ways and benefits in order to attract them. Their goal is to develop tourism through FDI and thus stimulate a whole series of positive economic changes resulting from this development.

In the light of the recent events, the question is how these terrorist attacks affect developed and otherwise secure countries such as the Europeans with an investment point of view. In other words, do these traditionally desirable investment destinations continue to attract investors? Given the topicality of these events, it is very difficult to find an adequate response as the indirect consequences of such attacks, such as influences on investor behaviour and on FDI flows in tourism, are measurable and visible after the flow of a certain time.

1. Global uncertainty, terrorism and tourism

The increase in employment, income from exports and the development of the service sector, are some of the most evident benefits of tourism development. The development of tourism is often associated with the fight against poverty (Holden, 2013).

Tourism is a set of activities where capital, infrastructure, knowledge and availability of global marketing and distribution chains are the key factors for the development, and FDIs are often considered one of the most effective development drivers for these elements (UNCTAD, 2007). Therefore, FDI can serve as an instrument for development of tourist destinations. Developing countries that tourism considers as the mode of economic and cultural revival of the country rely particularly on such investments. But in reality, most of the FDI are concentrated primarily in developed countries (UNCTAD, 2007).

Tourism is considered a generator of peace in a world that connects culture and implies freedom of movement. It is related to relaxation, recreation, and fun, while the characteristics of terrorism are quite the opposite. Terrorism and tourism may be considered as phenomena. By analysing the characteristics of each of these two phenomena, it is easy to conclude that, in essence, these two are completely opposite and in the same sentence incompatible. However, today they have a certain influence on each other. Clearly, there is a strong influence of political stability on tourism in any region, so any instability can be relatively and easily transformed into a threat. Proofs of this are terrorist attacks or actions, since they almost always have a foothold in the political reasons. Terrorism can be highlighted as one of the modern threats to security, and hence to tourism.

Terrorism in its core implies the use of violence to achieve its own, most commonly political goals, a phenomenon whose history dates back to the past. However, terrorism in the contemporary sense is more specific and relatively new, which is why the term global or modern terrorism is often used. Such a terrorism gained its masses during the 20th century, in parallel to the development of the weapons industry and by the growth of its internationalization (Chojnowski, 2017). It is more frequently mentioned in the media is the 1970s, and its significance in the international public comes most from the 1990s, especially in the 2000s, when terrorism was described as the primary threat to the security of the 21st century (Hall, 2010). In the last decades, the emergence of terrorism is more pronounced in the Western world, especially in countries with large Muslim populations, which is also one of the features of contemporary terrorism (Smith, Zeigler, 2017).

There are numerous definitions of terrorism that have arisen with an attempt to encompass all of its aspects. The following definitions of terrorism are outlined: “the premeditated use or threat of use of extranormal violence or brutality by subnational groups to obtain a political, religious, or ideological objective through intimidation of a huge audience, usually not directly involved with the policy making that the terrorists seek to influence” (Enders & Sandler 2002); “systematic use of terror as a mean of coercion, whose motive is to attract international attention to the political reasons that

terrorists endorse” (Young-Sun, 2005); “random destruction of property and life in order to promote a political agenda” (Korstanje, Clayton, 2012); “the form of political violence, usually used when one of the opposing factions has no power to overcome their enemy by military means, and if the opponent is a government, then the goal may be to turn citizens against power, reminding them that their government cannot protect them” (Korstanje, Clayton, 2012); “deliberately, politically motivated violence perpetrated against random civilians by paramilitary groups or secret agents, usually with an aim to influencing the public” (Kondrasuk, 2005); “illegal use of force or violence against people or property to intimidate the authorities, citizens or any other segment of society” (Glodblatt, Hu, 2005).

But more important than finding the most comprehensive definition of terrorism is to understand its essence. Terrorism contains violence and represents a threat to civilians, is contrary to fundamental human rights and this is absolutely unacceptable, unethical and immoral form of achieving certain goals.

In defining the concept of terrorism, one should distinguish between national and transnational terrorism. Enders and Sandler (1996) defined transnational terrorism as a terrorist incident in a state involving victims, targets or institutions of another state. While the terrorist attacks in the past generally had a national character, today's global terrorism has assumed transnational proportions. An additional difference between terrorism a few decades ago and contemporary terrorism lies in the fact that contemporary terrorism is more accidental or random. Specifically, systematic terrorism is directed to specific victims (Korstanje, Clayton, 2012). Extremists use terror as a communication strategy and carefully select the place and time of the attack to maximize media attention, which is why such attacks mostly occur in large cities where there is a high intensity of media agencies (Rohner, Frey, 2007). Large-scale cities and events are places where people's concentration is high and in such areas, tourism is quite developed. These are the areas where tourists easily become victims.

It is estimated that newspaper articles cover only one third of all transnational attacks, while television news account for only about one sixth (Pfeifer, 2012). The reason for this is likely to be sensationalism on the media side. It is more likely that media attention will be given to an assault that is suicidal and marked with as many victims as possible, and one that is targeted at developed countries. Terrorist attacks in the Western world are exceptionally accompanied by media, unlike those in the underdeveloped and less developed countries, where attacks are even more brutal and result in more wounded and killed by attacks than in Western European and North American countries (Rohner, Frey, 2007). In such countries, terrorists can achieve the desired media coverage only with more frequent and brutal attacks, as opposed to attacks on the West.

More intense direct and indirect contact with terrorism reinforces the perception of risks in international travel (Seabra et al., 2014). Tourists today have increased awareness of terrorism, higher perceived risk in travel and, accordingly, increased awareness of the importance of security.

Tourists are also exposed to other forms of crime, namely those of a social nature, but also to various types of insecurity, which are statistically much more frequent and more likely than terrorist acts (Korstanje, Clayton, 2012). Nonetheless, terrorism has a strong emotional component and a greater psychological impact on people.

To what extent indirect and direct contact with terrorism as a feature of global insecurity affects the perception of tourists about a particular destination, and thus the desire to go, is a complex issue. The existence of a tourist destination that attracts tourists is also a prerequisite for the existence of FDI in tourism, which will contribute to the development of tourism and thus affect a number of other positive economic changes. Nonetheless first, the criterion of personal safety of tourists must be met (Maslow, 1970; Pearce, 2005).

2. Connection between international investment in tourism and terrorism

The impact of uncertainty and risk on the perception of the dangers of tourists and tourism has been extensively analysed by experts, but the literature on the link between uncertainty and risk and FDI in tourism is rather scarce. It may be concluded that the investors expect the economic and political stability as well as a safe environment of a country when investing and thus is questionable whether they will invest in tourism in, for example, a war-affected country.

However, the contemporary world is confronted with new forms of insecurity, in the global sense, and perhaps the most obvious example is the emergence of contemporary terrorism. Terrorist activity has increased by as much as 80% in 2014 compared to 2013, reaching its record level (Institute for Economics and Peace, 2016). Of course, this information applies to the whole world, including terrorist actions in war zones, which are definitely excluded as potential (international) tourist destinations, both from the perspective of tourists and investors. However, these data are signalling very rapid changes in global security or today's uncertainty. Today, even most insurance companies are being hedged out of potential losses from cases related to terrorism (Drakos, Kutun, 2003).

International terrorism is on the list of the highest risks that internationally active corporations may encounter in the period 2008-2018 (EIU, 2008). This is also suggested by recent data (A. T. Kearney, 2015). Entering the 21st century, terrorism has become a burning issue in international politics. However, even though terrorism has been receiving media attention only since September 2001, transnational corporations were aware that terrorist threats increased business costs even in the 1980s. Research results derived from the survey of eighty-two high-ranking international executives showed that the terrorism was a major threat to international business during the 80's of the last century. The risk of terrorism was then the second most important obstacle to the international business (Ryans, Shanklin, 1980).

Terrorism has, in recent years, particularly after September 11 posed serious challenges to maintaining macroeconomic stability in the world. Consequently, research interests focused on issues of terrorism and its impact on global business. What is known until now is that terrorism negatively affects the inflow of FDI into the economy. Terrorist activities affect the creation of instability within the country in which they are taking place. Foreign investors invest where they can expect to make a profit, and this is where the investment will be safe, which is especially evident in greenfield investments. A favourable security situation is therefore a prerequisite for

the FDI inflow. Therefore, it should be emphasized that the loss of investor confidence in the potential host country is the main and most influential consequence of terrorism on FDI. As far as the impact on overall FDI is concerned, not to mention tourism, many studies have shown that the relationship between terrorism and FDI is unfavourable or even extremely negative. If the level of terrorism increases, the level of FDI decreases, and vice versa (Sander, Enders, 2004).

But the results of the research so far have not been unambiguous. A number of studies have shown that terrorism negatively influences the inflow of FDI (Ender, Sandler, 1996; Abadie, Gardeazabal, 2003, Frey et al., 2007). The research by Enders and Sandler (1996) states that the atmosphere of uncertainty and increased financial risk causes change in the direction of an investor's investment to avoid a loss, resulting in FDI inflow reduction and considering terrorism as having a significant negative impact. Abadie and Gardeazabal (2005) proved that higher levels of terrorist risks are associated with lower levels of FDI.

Some research has resulted in ambiguous results. Blomberg and Mody in 2005 demonstrated that transnational terrorism has a negative impact on investment decisions by foreign investors when the model includes dummy variables, but when excluded, this result was no longer significant. Also, Enders et al. in 2006, came up with similar ambiguous results that depend on to which group of countries the investments are targeted, the OECD countries or its non-members. Earlier research has shown that short-term investments are more sensitive to terrorist attacks since long-term investments have higher sunk costs (Lutz Lutz, 2006). Interestingly, recent research has shown no short-term link between terrorism and FDI, while medium and long-term causality has been confirmed (Egger and Gassebner, 2015; Shahzad et al., 2015). There are also differences of influence depending on whether the terrorist attacks are predictable or unpredictable. If terrorist attacks are foreseeable, investors adjust their decisions to potential threats, but if they are unpredictable, they have a negative impact on investment (Li, 2006). Finally, there are also differences depending on whether the aim of the terrorist attacks was related to the operations of foreign companies or had no connection with their business. If terrorist attacks are aimed at damaging foreign investors' buildings, killing their employees, or destroying their products then terrorism has a statistically significant impact on FDI inflow, but if that is not the case then there are no statistically significant results on their relationship (Powers and Choi, 2012).

As far as sectoral research is concerned, they have shown that wealthy, developed countries with a diversified economic structure are better off with the consequences of terrorist attacks than small, poor, more specialized countries (Bandyopadhyay et al., 2014). It is also worth highlighting the research conducted by Mihalache in 2010 who investigated the impact of violence on FDI by sectors. Surprisingly, the results of the research have shown a positive impact of political violence on FDI in capital-intensive tertiary sector industries such as hotels and restaurants, transportation, communications, real estate, etc.

According to the Agrawal study (2011), investors in different investment sectors do not respond to terrorism in the same way and their ability to absorb or reduce future risks is influenced by other economic and political factors. This explains a significant but inconsistent connection between violence and FDI. Namely, terrorism has had a

sensitive and significant impact on mining, manufacturing, construction, transport and infrastructure, but not on agriculture, footloose manufacturing and the financial sector. It has been shown that investments in certain sectors are more sensitive and responsive in the circumstances of poor security situations such as terrorism.

Terrorism can affect certain industries such as, for example, September 11 affected the airline and tourism (Drakos, 2004). There is also the possibility that the presence of transnational corporations in tourism will help restore confidence in the terrorism-affected tourist destinations. An example is the bombing of Bali in 2002, when foreign-owned resorts with strong marketing (holding high-ranking conferences, visiting senior government leaders) helped restore confidence in Bali (Hitchcock, Darma Putra, 2006). The only study that theoretically deals with the impact of terrorism on FDI in tourism is Steiner's study (2010), which investigated the impact of violent political turmoil on FDI in tourism, concluding that the results of the research cannot be confirmed by a clear link between the observed variables.

It is also useful to point out that terrorism does not significantly affect long-term tourist behaviour (WTTC, 2015; Gazopoulou, 2011).

Conclusion

Terrorism has always been a threat to the world but over the last few years, it has reached the media coverage and attention so the pulse of that threat became more powerful than ever. The threat of terrorism is particularly important for established tourist destinations, both for tourists and investors. Terrorist attacks have triggered a change in corporate risk management practices. It should be borne in mind that one of the potential effects of terrorist violence can be identified by the decline in FDI (Lutz and Lutz, 2006). Transnational corporations face their business with a multitude of risks requiring successful management. Such corporations are aware of the need for proactive responses to terrorist activities that may endanger their business (Subhash, Grosse, 2009).

The transnational corporations have at least one common characteristic with the terrorism, and that is that they are present everywhere (Krug & Reinmoller, 2003). This is due to the globalization process. Terrorist attacks are becoming cost with which corporations must count when expanding their business. Reducing investment and operations in high risk areas is the cost of terrorism with which corporations are confronted (Mazzarella, 2005). Although some corporations decide to reduce FDI, such a choice results in opportunity costs. FDI reduction leads to the loss of potentially lucrative foreign business ventures and losing access to cheaper foreign factors of production. Although the government perceives that investors are generally relieved of risks, it should be emphasized that among investors there are those who are more inclined and those who are less prone to risk. There are also cases when an investor wants to invest in high-risk countries. Namely, some investment decisions may even be motivated by high yields due to the higher risks they are based on (Asongu et al., 2015). However, it is questionable how many the investors who invest in tourism tend to risk due to the sensitivity of tourism to risks and crises.

According to Rochelle Turner, director of research at the World Travel & Tourism Council, travel and tourism is a very resilient sector. Tourists have short memories. According to the WTTC study, the impact of terrorism on tourism is not of a long-term nature. Illustratively, it takes 13 months for tourism to recover from a terrorist attack, while it takes 21 months to recover from a disease, 24 months to recover from an environmental disaster and 27 months to recover from a political unrest (Zillman, 2015). At the time of the terrorist attack, tourists are very sensitive to security, but as soon as the situation is normalized, prices and attractiveness again become the dominant factors (Fes, 2017).

Terrorism almost always dragging a negative connotation. Nevertheless, there is also a need for knowing who called what terrorism and when and where they made these claims (Crenshaw, 1989). A review of literature shows that certain consequences of terrorism in tourism are always present, but the intensity of their influence on tourism and FDI in tourism depends on the correlation of several factors such as the economic power of the country exposed to terrorism, the type, form and manner of attack, the volume of direct consequences, the profile of victims, the type of destination and the degree of its substitutability, the role of tourism in the country's economy, the media coverage, and the reaction of destinations and behaviour of affiliated entities abroad (marketing). However, the relationship between investors and tourists is difficult to distinguish, especially if this is done years after the first such process has begun (UNCTAD, 2016). For this reason, it is not possible to determine with full certainty the impact of falling tourist arrivals on the FDI inflow in a tourism in destination.

In line with the specific features of tourism and investment in tourism, tourism must also have special security measures to avoid crises. In the case of terrorism and fear of terrorism, destinations can do little, almost nothing, to predict or prevent such things. Adequate crisis management and constant investment in security can be done to prevent possible and mitigate unavoidable crises. Investing in security is an important element that affects the investment climate of the country, which is particularly evident in FDI in tourism, which is fundamentally influenced by the fact that the country invests in security. Bearing in mind the necessity of security measures, it is essential to emphasize the importance of preventive measures against terrorism. The best preventive measure is certainly education as relevant, inclusive and equitable quality education prevents youth from joining violent extremist groups (UNESCO, 2017).

It is possible to conclude that the issue of global security or insecurity is very complex so the impact of terrorism on tourism, tourism itself and FDI in tourism cannot be generalized.

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