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Terrorized Tourists: A Study of the Impact of Terrorism on Tourism

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The University of Southern Mississippi

Terrorized Tourists:

A Study of the Impact of Terrorism on Tourism

by

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Submitted to the Honors College of
The University of Southern Mississippi
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of the Requirements for the Degree of
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Abstract

Tourism is one of the largest sectors in the world; it is also one of the first to take a hit when terrorist attacks happen. Terrorism data has become more important to the tourism and travel industry since the attacks on September 11, 2001. This study looks at the impact that terrorism has on tourism levels, Gross Domestic Product, and Foreign Direct Investment in the countries of Brazil, Egypt, India, Russia, and the United Kingdom. The results of this study show that terrorism affects the daily operations of these countries, by impacting the amounts of GDP, FDI, and the number of tourists.

Key Words: Brazil, Egypt, FDI, GDP, India, Russia, Tourism, Terrorism, United Kingdom

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Chapter 1: Introduction

Globally, tourism is a \$6.9 trillion industry that accounts for over 265 million jobs; United States travelers alone spend billions of dollars a year (World Travel & Tourism Council [WTTC], 2014a). According to the U.S. Department of Commerce's Office of Travel and Tourism Industries, over 29 million Americans traveled abroad in 2013. When planning these trips, safety has become one of the first factors to consider. After the terrorist attacks on September 11, 2001 the global tourism industry suffered significantly because customers were afraid to fly. The World Travel and Tourism Council (WTTC) calculated that over 10 million travel industry jobs were lost globally, and also suggested that the terrorist attacks on September 11, 2001, decreased global travel and tourism by 7.4% of global travel and tourism demand (Lennon & O' Leary, 2005). Terrorism negatively affects tourism, and the purpose of this study is to examine the extent of that relationship, specifically of U.S. citizens abroad in the countries of Brazil, Egypt, India, Russia, and the United Kingdom. Studying the history and the recent economic trends helps to understand these countries current conditions.

1.1 Brazil

According to the CIA World Factbook (2014), Brazil started as a Portuguese colony and gained its independence in 1882. It is the largest and most populous country in South America, with 202,656,788 people, located in the north-eastern part of the continent. Brazil is growing its large industrial and agricultural industries, and has become South America's leading regional power and economic leader. Their economy is characterized by large and well-developed agricultural, mining, manufacturing, and service sectors, and a rapidly expanding middle class. In 2008, Brazil was hit by the recession, but they were

able to be one of the first emerging markets to recover. Unemployment has been at historic lows and interest rates have been at historic highs making Brazil very opportunistic for foreign investors. However, high income inequality and crime are problems that continue affect this developing country.

1.2 Egypt

According to the CIA World Factbook (2014), Egypt has been a kingdom since 3200 B.C., many different people have been in control of this region including the Persians, Greeks, Romans, Byzantines, Arabs, Ottomans, and British; Egypt gained its independence in 1952. The Suez Canal, completed in 1869, has made Egypt an important international hub of transportation. Egypt is located in the north-eastern corner of Africa, with a population of 86,895,099 people. Egypt boasts a rapidly growing population, limited arable land, and strong dependence on the Nile River, which strains resources and stresses society. The government, from 2004 to 2008, tried economic reform, to attract foreign investments and facilitate growth, and massive investment in communications and physical infrastructure to combat these issues. However, Egypt is marred by poor living conditions and limited job opportunities. Egypt has experienced political turmoil since 2011; tourism, manufacturing, and construction have been the hardest hit sectors from the political unrest.

1.3 India

According to the CIA World Factbook (2014), India has been inhabited since around 1500 B.C.; it has been controlled by several dynasties and was under British rule from the 19th century until its independence in 1947. India and its neighbor Pakistan have fought

three wars since 1947, and in 2008 terrorists from Pakistan attacked Mumbai, the financial capital. India is currently transitioning into an open-market economy. India's diverse economy encompasses traditional village farming and modern agriculture, which accounts for almost a half of India's workforce, handicrafts, a wide range of modern industries, and a multitude of services, which is the major source of India's economic growth. India has a strong outlook for long-term growth due to a young population, healthy savings and investment rates, the stabilization of the rupee, and increasing integration into the global economy. However, India faces many challenges, including poverty, corruption, violence and discrimination against women, an inefficient power supply, copyright infringement, inadequate infrastructure, limited higher education facilities, and rural-to-urban migration sprawl.

1.4 Russia

According to the CIA World Factbook (2014), Russia has been inhabited since the 12th century and expanded under dynastic rule to become the largest country in the world in terms of area. In 1917, the last czar was overthrown and communism became the political party in government. The country was then renamed the Soviet Union which lasted until 1991 when it was split into Russia and 14 other independent countries. Russia is now considered a centralized semi-authoritarian state with a mostly market-based, globally integrated economy. However, most industries are privatized and the protection of property rights is inadequate. Russia is one of the world's leading producers of oil and natural gas and they export a large amount steel and aluminum. Russia relies heavily on commodity exports and is incredibly vulnerable to the volatility of global prices. In 2014,

Russia intervened in the Ukraine, this has made predictions for economic growth to decline, and GDP growth could drop as low as zero.

1.5 United Kingdom

According to the CIA World Factbook (2014), The United Kingdom has played an important role in the development of parliamentary democracy and in advancements in literature and science. During the 19th century, the British Empire controlled over one-quarter of the earth's surface. But the arrival of the 20th century depleted the UK's strength after two world wars and the withdrawal of the Irish Republic; followed by the restructuring of the UK into a contemporary and thriving European nation. The UK is an active member of the EU, although it remains outside the Economic and Monetary Union. The UK is a leading trading power and financial center, and is the third largest economy in Europe. The service industry, particularly banking, insurance, and business services, are the key drivers of British GDP growth. The 2008 global financial crisis hit the economy particularly hard, and falling home prices, high consumer debt, and the global economic slowdown led to economic problems. In 2013, GDP grew 1.4%, accelerating unexpectedly because of greater consumer spending and a recovering housing market.

Chapter 2: Literature Review

2.1 Tourism

The ability to travel around the world for enjoyment and in relative safety is a fairly recent marvel, only 3.5 percent of the world's population participates in

International travel (Bianchi, 2006). Typically, tourism is regarded as a majorly desirable industry in most countries, since tourism is relatively low in pollution and energy consumption (Altindag, 2014). International tourism generates one of the world's largest sectors of economies for developed and developing countries.

Over 49 developing and less-developed countries rely on tourism for a large portion of their revenues in foreign exchange, second only to oil (Lennon & O' Leary, 2005). For example, tourism accounts for 9.2% of Brazil's gross domestic product (GDP) and it is currently listed as the 6th of 184 most important countries that are dependent on tourism (WTTC, 2014b). Ranked first is the United States, where tourism accounts for 8.4% of U.S. GDP (WTTC, 2014c). Current research suggests that one of the main reasons for travel is relaxation. Even if relaxation is not a priority; travelers do not want to be bothered with negative incidents such as faulty adventure equipment, events that are cancelled, or problems associated with food quantity or quality (Kozak, Crofts, & Law, 2007).

The operating environment for tourism changed dramatically with the attacks in September of 2001. The increasing number of terrorist attacks has become one of the predominant external threats to international travel, and the tourism industry must realize that terrorism is now an integrated risk of modern travel (O'Connor, Stafford, & Gallagher, 2008). When choosing a destination, image in terms of risk and safety has an impact on the probability of international travelers to visit such places that are perceived as under threat. For example, people perceiving terrorism as a risk of travelling are very likely to avoid the Middle East; visitors may have an image of Africa as a continent which is not safe because of its health risk. Additionally, Africa and Asia are perceived to

be worse than Europe and Australia due to health risks from poor food and water quality (Kozak, Crotts, & Law, 2007). Bianchi also agrees that tourists are particularly susceptible to perceived security threats related to crime, political instability and violence, health risks, and natural disasters (2006).

2.2 Terrorism

Tourism and terrorism are opposites when describing the quality of life. Tourism evokes living, relaxation, and enjoyment, whereas terrorism describes feelings of death, destruction, fear, and panic (O'Connor, Stafford, & Gallagher, 2008). Terrorism is the unlawful act of violence committed to collect ransom, overthrow a government, gain the release of prisoners, exact revenge for real or imagined wrongs, or punish non-believers of religion (Ball, Geringer, McNett, & Minor, 2013).

Gilham identified goals that terrorist attacks might be designed to achieve: to act as a catalyst for a more general aim, to force issues, to influence political behavior, to make demands, to provoke reaction (or overreaction), or to publicize a cause (2001, p.146). Domboróczy (2010) asserts that there has been a shift from political terrorism that was popular in the 1960s and 1970s to religious terrorism, specifically in the Islamic areas of the globe. Lennon & O' Leary (2005) found that terrorism has the greatest effect on the travel industry.

When terrorists attack, the objective of the attacks is to instill fear by threatening basic safety and security needs; this has a negative impact upon tourism in the area(s) of attack. When deciding about whether to take a vacation and where to visit, people take the risks such as victimization into consideration; individuals are most likely to visit safe

destinations. In international tourism, potential travelers to a country may be dissuaded from visiting when the probability of victimization is high (Altindag, 2014). Safety is one of the fundamental needs that Maslow proposed in his theory of “Hierarchy of Needs,” which illustrates the order of the types of needs people must achieve for self-fulfillment, which can be found in Figure 1 (Boeree, 1998).

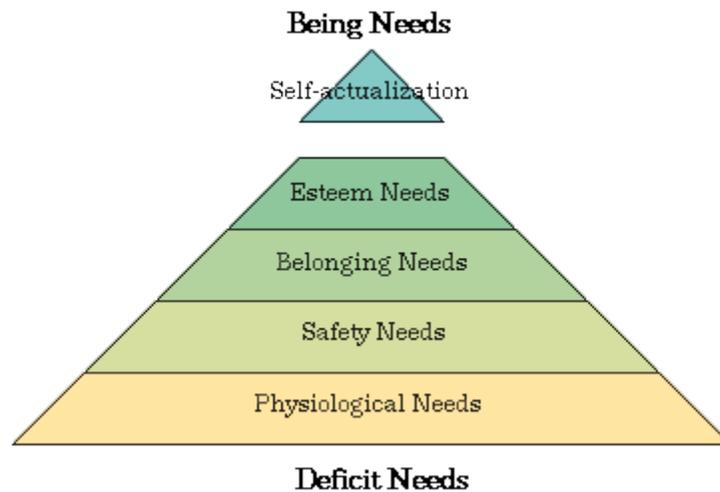


Figure 1. Maslow’s Hierarchy of Needs.

O’Connor, Stafford, & Gallagher (2008) found a possible link between Maslow’s theory and the decision to travel. The theory implies that the need for safety abroad must be satisfied before the need of self-fulfillment can be satisfied through travel abroad. Terrorism is not a 21st century problem, though terrorism has been steadily increasing over the past twenty years. Before 1985, terrorist attacks were on a smaller scale and travel was able to resume quickly; however, as terrorist attacks have become more frequent, the travel industry has adapted and offers terrorism insurance coverage (Lennon & O’ Leary, 2005).

Enders and Sandler (1996) propose that there are four sources of economic costs that terrorism events can impose. The first type of source being the loss of tourism revenues; the second type is the reduction of future stock capital or foreign direct investment; the third source type is the destruction of infrastructure; and the fourth type is the opportunity costs from terrorism prevention. Besides the obvious costs associated with terrorism attacks, the indirect costs of terrorism include additional advertising expenses necessary to attract new or more tourists, reconstruction costs for damaged tourist facilities, and security enforcement expenses to lessen future terrorist threats (Drakos and Kutan, 2003).

These economic factors show the negative relationship between terrorism and tourism. This idea can be tested in the first hypothesis:

Hypothesis 1: Terrorism risk levels in a region and the number of tourists traveling to that region are inversely related.

2.3 Foreign Direct Investment (FDI)

Decline in foreign direct investment is one of the source types of economic costs that are directly affected by terrorism. Foreign direct investment (FDI) is the purchase of sufficient stock in a foreign firm to obtain significant management control (Ball, Geringer, McNett, & Minor, 2013). Drakos and Kutan (2003) stated that terrorism might be hurting tourism, by reducing tourist arrivals and that over time, continued terrorist attacks might also lead to a significant reduction in FDI. Bandyopadhyay and Younas (2014) found that the decision to invest in a foreign country is reached after the expected return and the associated risk has been compared to other opportunities at home and

abroad. A higher incidence of terrorism, as perceived by potential investors, will reduce their willingness to invest in terrorism prone areas. Enders and Sandler (1996) established that when terrorist attacks are directed at foreign investment, then the perceived risks increases, and can be heightened if terrorists attack the symbols of the country's establishment. Enders and Sandler (1996) also determined that terrorist attacks are directed at foreign direct investment, and then the country's future stock of capital may be decreased through smaller inflows of investment from abroad. Abadie and Gardeazabal (2008) found that when the direct damage to a nation's capital stock is not very large, the overall impact may be catastrophic because fearful foreign investors might divert their money to other nations. A large loss of investment can be a result of these diversions. The relationship between FDI and terrorism can be tested in the second hypothesis:

Hypothesis 2: Terrorism risk levels and foreign direct investment are inversely related.

Enders and Sandler (1996) found that when FDI is targeted in terrorist attacks, one or two investing countries are specifically targeted. Larger countries may be better able to protect themselves through a diversified pool of investor countries, and are likely to have adequate resources to reduce the threat of terrorism and maintain a higher level of security. Bandyopadhyay and Younas (2014) concluded that as a major source of foreign capital and technology, FDI is used to support economic growth in developing countries. If terrorism reduces FDI contributions into these nations, their growth and development can be significantly reduced. The relationship between a country's size, calculated by GDP, and FDI amounts can be tested in the third hypothesis:

Hypothesis 3: GDP and FDI amounts are significantly impacted by terrorism.

Chapter 3: Methodology

The extent of the negative impact of terrorism on tourism on U.S. citizens abroad was tested using data about terrorism risk levels, GDP, FDI, and travel statistics of U.S. citizens. The data is organized into a cross-sectional data table over five years, 2009-2013, and looks at five different countries, Egypt, Russia, the United Kingdom, India, and Brazil. The reason for choosing these countries is that they are in different geographical regions of the globe, have varying terrorism risk levels, and varying GDP. To test H1, the terrorism risk levels and the travel statistics are compared; to test H2, terrorism risk levels and FDI amounts are compared; and to test H3, FDI amounts and GDP are compared.

Descriptive statistics supported a qualitative analysis, in which hypotheses were examined. Terrorism risk levels were found on the Aon terrorism risk map, Aon is a global company that sells terrorism insurance; FDI and GDP data were found on the World Bank database; and travel statistics, such as the number of tourists and number of flights come from the U.S. Department of Commerce. By examining the extent of the negative impact that terrorism has on tourism, this study will hopefully find meaningful data that will be used in future research.

Chapter 4: Results

4.1 Flight Data

The data of the number of American passengers on flights has been organized into the following table:

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|--------|-----------|-----------|-----------|-----------|-----------|
| Brazil | 1,432,998 | 1,713,990 | 2,003,403 | 2,243,923 | 2,484,721 |
| Egypt | 130,053 | 153,898 | 76,165 | 72,532 | 70,216 |
| India | 566,083 | 529,608 | 529,747 | 455,519 | 476,438 |
| Russia | 255,528 | 273,763 | 346,903 | 409,645 | 481,347 |
| UK | 8,075,692 | 7,842,021 | 8,360,462 | 8,448,342 | 8,565,401 |

Table 1.

According to the data, the number of Americans flying to the country of Brazil has significantly increased, by 73.4% between 2009 and 2013. Brazil is the only country in this data-set to see such a dramatic increase. Within the date range of the study, Egypt suffered a decrease in the number of visitors of 46% between 2009 and 2013. The number of travelers to India has been in a slow decline, with only a 15.8% decrease between 2009 and 2013. Russia also experienced a sharp increase of 88.4% in American visitors from 2009 to 2013. For the United Kingdom the numbers remained quite steady, the change in the number American passengers only increased 6.1% between 2009 and 2013 (“Air Carriers,” n.d.).

4.2 Terrorism Risk Data

In the following table, the terrorism risk levels from Aon have been organized by country and year.

| Terrorism Risk Levels | 2009 | 2010 | 2011 | 2012 | 2013 |
|-----------------------|--------|------------|--------|--------|--------|
| Brazil | Low | Negligible | Low | Low | Low |
| Egypt | High | High | Severe | High | Severe |
| India | Severe | Severe | High | High | High |
| Russia | High | High | Medium | Medium | Medium |
| UK | High | High | Low | Medium | Low |

Table 2.

Out of the five countries examined:

- Brazil’s terrorism risk levels remained almost consistently low, with the year 2010 being negligible.
- Egypt had the most volatile activity in levels, they were assessed as high three times and severe in 2011 and 2013.
- India started at a severe risk level and was downgraded to high in 2011, which it has maintained.
- Russia had a similar pattern in risk levels as India, but they started as high and were reduced to medium in 2011.
- The United Kingdom showed the most dramatic activity in terrorism risk levels, they were categorized as high in 2009 and 2010, and then they demoted to low for a year, followed by a rise to a medium level in 2012, and then back to a ranking of low in 2013 (Aon, 2009-2013).

4.3 Gross Domestic Product Data

The following table illustrates the amount of each country’s GDP in current U.S. dollars; organized by country and year.

| GDP | 2009 | 2010 | 2011 | 2012 | 2013 |
|--------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Brazil | \$1,620,188,056,417 | \$2,143,067,871,760 | \$2,476,694,763,271 | \$2,248,780,912,396 | \$2,245,673,032,354 |
| Egypt | \$188,984,088,127 | \$218,887,812,550 | \$236,000,735,704 | \$262,831,912,587 | \$271,972,822,883 |
| India | \$1,365,372,433,342 | \$1,708,458,876,830 | \$1,880,100,141,185 | \$1,858,744,737,180 | \$1,876,797,199,133 |
| Russia | \$1,222,643,696,992 | \$1,524,916,112,079 | \$1,904,793,021,649 | \$2,017,470,930,421 | \$2,096,777,030,571 |
| UK | \$2,208,001,972,524 | \$2,295,522,887,422 | \$2,462,484,285,580 | \$2,461,768,284,868 | \$2,521,380,958,035 |

Table 3.

According to Table 3, all five of the sampled countries experienced an increase in their GDP between the years 2009 to 2013:

- The United Kingdom had the smallest increase of 14.2% in GDP.
- Brazil had a 38.6% increase in GDP.
- India had a 37.5% increase in GDP.
- Russia attained the largest GDP growth rate at 71.5% (“GDP,” 2015).
- Egypt boasted a 43.9% increase in GDP.

The GDP levels indicate that Egypt is a considerably smaller country because their GDP at its highest is \$271 billion whereas the other countries have well over one or two billion dollars.

4.4 Foreign Direct Investment Data

The following table tracks the amount of FDI that each country received between the years 2009 to 2013.

| FDI | 2009 | 2010 | 2011 | 2012 | 2013 |
|--------|------------------|------------------|------------------|------------------|------------------|
| Brazil | \$31,480,932,200 | \$53,344,632,547 | \$71,538,657,409 | \$76,110,663,189 | \$80,842,996,681 |
| Egypt | \$6,711,600,000 | \$6,385,600,000 | -\$482,700,000 | \$2,797,700,000 | \$5,553,000,000 |
| India | \$35,581,372,930 | \$27,396,885,034 | \$36,498,654,598 | \$23,995,685,014 | \$28,153,031,270 |
| Russia | \$36,583,098,400 | \$43,167,769,100 | \$55,083,632,500 | \$50,587,554,700 | \$70,653,718,709 |
| UK | \$4,059,411,048 | \$61,325,946,152 | \$36,243,797,828 | \$66,827,274,608 | \$48,314,454,024 |

Table 4.

The FDI data is the strangest data set that was collected, when looking at the percentage changes; these selected countries were either significantly negative or significantly positive. Brazil had a 156.8% increase and Russia had a 93.1% raise. Most dramatically, the United Kingdom witnessed an unusual 1,090.2% amplification. On the negative end of the spectrum, Egypt observed a -17.3% decrease, while India exhibited a

-20.9% decline. With this data set it is more important to review each individual year, and not just the percentage increase.

4.5: Examination of Hypothesis 1: *Terrorism risk levels in a region and the number of tourists traveling to that region are inversely related*

To test the first hypothesis, *Terrorism risk levels in a region and the number of tourists traveling to that region are inversely related*, data from *Table 1* and *Table 2* were compared.

- Brazil had a 73.4% increase in passengers over the five years and had low or negligible risk levels, the hypothesis holds true.
- Egypt's risk levels were high or severe, and they observed a 46% decrease, these results also uphold this hypothesis.
- India had a 15.8% decline in American travelers and had a change in terrorism risk levels from severe to high; this still supports the hypothesis, even though the terrorism level became lower because India is still considered high risk and therefore the number of visitors should be lower.
- Russia showed a sharp increase of 88.4% in passengers and their risk level was decreased from high to medium; this data also endorses the hypothesis.
- United Kingdom experienced risk levels of high, medium, and low, as well as an increase of 6.1% in travelers; this data corresponds to the hypothesis.

Considering the foregoing, the data from the five countries examined proves Hypothesis 1 within the limitations of the study.

4.6 Examination of Hypothesis 2: *Terrorism risk levels and foreign direct investment are inversely related*

In understanding whether the second hypothesis, *Terrorism risk levels and foreign direct investment are inversely related*, the data from the *Table 2* and *Table 4* were compared. Brazil experienced low or negligible risk levels and a 156.8% increase in FDI, this data supports the hypothesis. Egypt observed high and severe levels and a -17.3% decrease. Egypt is a significant example to why this hypothesis is true because in 2011, when the risk was upgraded to severe, the country experienced a -\$482,700,000 in the amount of FDI. Also, India, who saw severe and high risk levels, recorded FDI with a -20.9% decline. This indicates that the hypothesis is true. In Russia, a 93.1% increase in FDI and a reduction in risk from high to medium support this hypothesis. Lastly, the United Kingdom achieved an incredible 1,090.2% increase in FDI and a ranking of high, medium, and then low, ultimately proves this hypothesis to be true. With the United Kingdom, it should also be noted that in 2009, the world was in a recession which most likely caused a very small amount of FDI for that year, which skews the percentage increase.

4.7 Examination of Hypothesis 3: *GDP and FDI amounts are directly impacted by terrorism*

For the final hypothesis, *GDP and FDI amounts are directly impacted by terrorism*; the data from *Tables 2, 3, and 4* were compared. Out of the five compared countries, Egypt, as of 2013, had the lowest amount of GDP, \$271 billion; the lowest amount of FDI, \$5 billion; and the highest terrorism risk level, severe. Whereas Brazil, as

of 2013, had one of the highest amounts of GDP, \$2.2 trillion; the highest FDI, \$80.8 billion; and the lowest terrorism risk level, low.

Chapter 5: Summary and Conclusions

Considerations

This study proved to be successful, all three hypotheses were confirmed. However, there are some factors to consider. The United Kingdom is the only country out of the five that were compared that is considered developed. Russia, India, and Brazil are developing nations that are part of the BRIC. According to the World Bank, both India and Egypt are considered lower-middle-income economies; Brazil is an upper-middle-income economy, while Russia and the United Kingdom are high-income economies (“Country,” 2015). Also in 2009, the world was in a recession which has affected the data set, especially in the amount of FDI contributed for that year. Egypt has seen active acts of terrorism in the last few years.

Limitations

This study was limited because it only looks at five countries. These countries were picked because of their varying geographic regions, GDP levels, FDI amounts, and know terrorism risk levels. However, more countries would need to be researched to fully validate the accuracy of these hypotheses. Also, the study only looked at five years of data; to be more thorough, additional data should be observed. One of the problems is that terrorism risk levels have not been recorded for very long unlike GDP and FDI. Margins of error are unknown within data sets obtained from the U.S. Department of Commerce, Aon, and the World Bank database.

Importance

This study is important because terrorism has become part of our daily lives, it occupies headlines around the world, and unfortunately for many people it is at their doorstep. The threat of terrorism is real to any company wishing to do business abroad, and therefore it is a factor that must be taken into account when making operational decisions. As this study noted, terrorist attacks are only the first layer of financial issues that may arise. FDI, GDP, and tourism levels are significantly reduced when the threat of terrorism is present. Terrorism is not going away anytime soon and the global community must take steps to protect financial wellbeing.

Conclusion

This study found that in Brazil, Egypt, India, Russia, and the United Kingdom terrorism risk levels and the number of American visitors are inversely related, FDI and terrorism risk levels are inversely related, and GDP and FDI are directly related to terrorism risk levels. This study could be viewed as a foundation study, a first step in a more thorough research of tourism around the world, which would further test the hypotheses. This study exposed, within its limitations, the validation of its theoretical constructs, but it would be noteworthy to further understand the relationship of terrorism to tourism and investments in an extensive study.

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