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Terrorism as a Determinant of Attracting *FDI* in Tourism: Panel Analysis

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Abstract: The aim of this paper is to investigate whether terrorism is one of the important determinants affecting the investment decisions of foreign investors in tourism on a panel of 50 countries over the period 2000 to 2016. In addition to terrorism, the importance of three other theoretically significant determinants of attracting foreign direct investment (*FDI*) in tourism are explored—the previous level of *FDI* in tourism, the level of *GDP* and the international tourist arrivals. To obtain more reliable research results, the initial model is extended with certain control variables. The study uses system-GMM estimator for dynamic panel data models. The research results of a narrower and a wider model indicate that terrorism has no significant effect on the *FDI* inflow in tourism while international tourist arrivals significantly affect the future *FDI* in tourism in both models. Furthermore, the research results entail certain political connotations. In order to attract foreign investors in tourism, the most important factor is to ensure a stable macroeconomic environment with a competitive position in the Doing Business list and what better business conditions. Attention should also be focused on the security and preventive counter-terrorism, which will ensure that potential destinations reflect confidence, have a growth rate of tourist arrivals and, consequently, attract foreign investors.

Keywords: terrorism; *FDI* in tourism; SYS-GMM estimator

1. Introduction

Already at the beginning of this century, tourism has become the largest worldwide industry and its development continues [1]. According to World Tourism Organizatin's World Tourism Barometer, in 2018, international tourist arrivals grew by 7% in 2017 and reached 1322 million. This figure will reach 1.8 billion by 2030 [2]. Moreover, in 2017, tourism is shown to account for 10.4% of global *GDP* and 9.9% of total employment [3].

FDI (foreign direct investment) in tourism is very important for the further development of tourism, especially in the developing and less developed countries [4,5]. *FDI* enables host countries to be integrated into international tourism networks which will lead to increases in the flow of tourists and the generation of more income from tourism-related activities [6]. Tourism also strongly contributes to foreign exchange earnings, national income and job creation [7]. As far as *FDI* in tourism is concerned, from 2003 to 2016, $352 billion in capital expenditure was spent on tourism, and from 39 sectors, tourism ranked 10th in terms of capital investment [5].

Today, the number of terrorist attacks is much higher than it was at the end of the 20th century. According to [8], the peak was reached in 2014 when it recorded about 17,000 attacks, however the latest data show that since then, the number of terrorist attacks is still decreasing and in 2017, it amounted to about 11,000 attacks.

Tourism and *FDI* are two significant forces affecting the economy of many countries. They are also related to each other because the further development of tourism strongly depends on *FDI* in

tourism [9,10]. Simultaneously, during the 21st century, terrorism has become a very significant threat to global business and, thus, to *FDI* and tourism.

It is necessary to highlight in the context of this research that tourism is extremely volatile. Bearing in mind terrorism as a serious globalization challenge facing the world today and the volatility of tourism, the question is whether terrorism affects attracting foreign investors to tourism. The main aim of this paper is to investigate whether terrorism, with the previous level of *FDI* in tourism, the level of *GDP* and the number of international tourist arrivals, is a significant determinant of attracting *FDI* in tourism. In addition, to ensure the reliability of the research results, the research includes certain specific control variables such as control of corruption, index of political stability and the Doing Business index.

Bearing in mind the above-mentioned aim of this research, the author bases this research on a hypothesis that claims that terrorism is not a significant determinant of *FDI* in tourism. The survey was carried out involving a panel of 50 countries for the period 2000 to 2016. It is possible to highlight several key arguments in favor of the set hypothesis. Considering the interdependence between tourism supply and tourism demand [11], the first argument in favor of the hypothesis applies to tourist demand. Terrorism has been proven to have no significant impact on tourist decision-making, and [12] argue that tourists should not unnecessarily be concerned about terrorism. It has been proven, in the case of the African countries, that the long-term increase in political risk is associated with an increase in revenues from tourism [13]. Finally, tourism is increasingly dominated by the development of some of its selective forms, such as dark tourism. It is about tourists who are attracted by the terrorist danger in the terrorism-affected destination [14]. Also, it is needless to emphasize that international tourist arrivals are experiencing continuous growth and this trend is expected in the future as well [2]. The second argument concerns the tourism supply. Given that tourism supply responds to tourism demand, it is logical to expect that terrorism will not affect *FDI* in tourism. *FDI* in tourism is mainly focused on hotel business [6], which is very capital-intensive. Holders of such investments are aware of the possibility of a terrorism risk and they deal with it as with other types of business risks—they identify it, evaluate it and then manage it [15]. According to [16], terrorism is a low probability—high impact risks and the results of existing research indicate that foreign property owners usually underestimate the vulnerability of buildings to a terrorist attack. However, such reactions are expected, as data from the hotel and tourism industry point to the fact that hotel business returns to normal three months after an attack, as long as there were no further attacks [17].

International terrorism is certainly one of the greatest risks that internationally active corporations may face [18]. Globalization due to terrorism will not stop, however it will probably become more expensive and slower because of the need for insurance against terrorism, stricter border controls and immigration policies [19]. This impression is confirmed in the last decade because there has been a change of mentality between consumers and corporations that in response to terrorism, they are beginning to behave normally [20]. It should also be noted that, according to [21], investors in different sectors react differently and their ability to absorb or reduce future risks is influenced by numerous other economic and political factors. The fact is that, for example, international hotels are the symbolic targets of Western wealth and influence that attract the kind of militants who want to eliminate foreigners, business travelers, tourists and the local elite [22]. On the other hand, tourism is a very resilient sector and it takes only 13 months for tourism to recover from a terrorist attack [23].

The following section provides some stylized facts about the relationship between terrorism and *FDI*. Section 3 describes the data and the methodological framework of the research, while Section 4 shows the results and discussion of the conducted empirical research. Finally, a conclusion and policy implications are drawn in Section 5.

2. State-of-the-Art: Relationship between Terrorism and *FDI*

Despite the current importance of terrorism on a global scale, the role of terrorism as a determinant of attracting *FDI* has not yet been fully explored in the literature. At the same time, in the available literature, it is apparent that the results of the influence of terrorism on *FDI* are unambiguous.

One stream of the research suggests a negative impact of terrorism on *FDI*. There is certainly a need to highlight mature research such as [24,25]. In the period from 1975 to 1991, terrorism, on average, reduced the net inflow of *FDI* to Spain by 13.5% and Greece by 11.9% [24]. Ref. [25], with the example of the Basque Country, a region of Spain, found no indications that entrepreneurs left Spain because of terrorist activities, however they assumed that terrorism had caused Spain's negative reputation. Consequently, this may have directed foreign investors to some other destinations. The same authors, however in 2008 and on the example of the USA, pointed out that the standard deviation increase in the terrorist risk leads to a 5% decline in the net *FDI* [26]. Ref. [27] on the panel of 136 developing countries ascertained the negative impact of terrorism on *FDI*. Ref. [21] corroborates that transnational terrorism negatively affects the total inflow of *FDI* in advanced countries. Ref. [28] with the example of the selected EU and EEA countries, demonstrates that terrorist activities reduce the security and confidence of investors in countries that are exposed to terrorist activities, thus reducing the *FDI* inflow. The same inferences come from [29,30].

The other stream of research suggests possible contradictions related to the impact of terrorism on *FDI*. Even in 1983, terrorism generally did not significantly affect *FDI*, although it had significant localized impacts in places such as the Basque region in Spain or Northern Ireland [31]. Thus, ref. [32] with the example of OECD countries demonstrate the negative impact of terrorism on *FDI*, however they also point to the fact that the impact of terrorism on *FDI* in OECD non-member countries is insignificant. Furthermore, insignificant results related to the correlation of terrorism and *FDI* are found in [33]. Ref. [34] indicates that business terrorism has had a negative impact on *FDI*, while the impact of terrorism that was not related to *FDI* was statistically insignificant. Ref. [35] demonstrates the negative impact of terrorism on *FDI* only in highly corrupt countries. Ref. [36], in the Pakistan case, showed that terrorism has a negative, yet insignificant influence on *FDI*. Ref. [37] argues that terrorist incidents do not affect mergers and acquisitions (M&A), while the intensity and frequency of terrorist attacks negatively affect M&A. Interestingly, ref. [38] indicates that more terrorism led to more *FDI* in some of the regions and for the developing world as a whole. In other words, this means that terrorism encouraged *FDI*, especially in the 1990s.

When the research of the relationship among the observed variables is reduced to sectoral analysis and, in particular, to tourism, the results are even less pronounced. It is necessary to point out the research of [39] who on a panel of 57 countries, showed that institutional quality and democracies appear more important for *FDI* in services than general investment risk or political stability. In addition [40], by employing the panel of 50 countries they observed a positive impact of political violence on *FDI* in capital-intensive tertiary sector industries such as hotels and restaurants, transport, communications, real estate, etc. As far as tourism is concerned, only ref. [41] has shown that the impact of violent political turmoil on *FDI* in tourism cannot be confirmed by a clear link between the observed variables. Ref. [42] has pointed out, back in 1975, that there is an inadequate exemplification of the political component of research in tourism-related literature, while [43] in 1996 mentions the same issue. The scarcity of existing research related to issues of *FDI* in tourism and terrorism is evident in the current decade [41,44], which implies the need for such research.

Although in recent years there has been a growing number of studies related to the issue of *FDI* and terrorism, the study of terrorism as a determinant of attracting *FDI* in tourism is virtually unexplored. A review of the existing literature questions conventional wisdom that terrorism significantly reduces *FDI* in tourism [41]. Based on the foregoing and the fact that, according to the authors' knowledge, the study of terrorism as determinants of *FDI* in tourism has not been carried out so far, this justified the purpose of the research.

3. Methodological Framework and Data

3.1. Econometric Model and Estimation Method

In this study, the baseline model is as follows:

$$\begin{aligned} logFDI\_T/GDP_{i,t} &= a_0 + a_1 logFDI\_T/GDP_{i,t-1} + a_2 logTERR_{i,t} \\ &+ a_3 logGDPgrowth_{i,t} + a_4 logINTARR_{i,t} + \eta_i + \varepsilon_{i,t} \end{aligned} \quad (1)$$

where i is the home country index, t is the time index, α is the unknown parameter to be estimated, *FDI_T/GDP* is the ratio of *FDI* inflows in tourism to *GDP*, *FDI_T/GDP* (-1) is the lagged ratio of *FDI* inflows in tourism to *GDP*, *TERR* is the measure of international terrorism, *GDPgrowth* is *GDP* growth rate, *INTARR* is the number of international tourism arrivals, η_i is the unobserved country-specific effect term and $\varepsilon_{i,t}$ is the usual error term.

The *FDI* share of tourism in *GDP* (*FDI_T/GDP*) was included as a dependent variable of the model. As independent model variables, the former level of *FDI* contribution to tourism in *GDP* (*FDI_T/GDP* (-1)), International Terrorism (*INTTERR*), *GDP* growth rate and the number of international tourist arrivals (*INTARRs*) were included. All of the variables are in logarithm forms.

In order to obtain more reliable research results, the model subsequently included the specific control variables:

$$\begin{aligned} logFDI\_T/GDP_{i,t} &= a_0 + a_1 logFDI\_T/GDP_{i,t-1} + a_2 logTERR_{i,t} \\ &+ a_3 logGDPgrowth_{i,t} + a_4 logINTARR_{i,t} + a_5 POLSTAB_{i,t} \\ &+ a_6 CORR_{i,t} + a_7 DOINGBUS_{i,t} + \eta_i + \varepsilon_{i,t} \end{aligned}$$

where *POLSTAB* is the index of Political Stability and Absence of Violence, *CORR* is the index of Control of Corruption and *DOINGBUS* is the Starting a business index, part of a Doing business index.

This research employed the System-Generalized Method of Moments (SYS-GMM) state-of-the-art econometric estimation method [45]. Early research of similar models used standard OLS techniques that are susceptible to the well-known spurious regression problem [46]. According to [47], "the pooled OLS estimator does not deal with either country-specific effects across the panel or endogeneity bias". Ref. [48] in 1982 introduced GMM. GMM is commonly used to study the dynamics of adjustment in samples with relatively large cross-sections and short time periods. The standard GMM estimator controls for measurement errors and endogeneity. On the other hand, it does not account for unobservable country-specific effects and can be vulnerable to inaccuracy due to small-sample bias.

The SYS-GMM estimator is developed by [49,50]. It produces more efficient and precise estimates compared to dynamic GMM by improving precision and reducing the finite sample bias [51] by allowing for more instruments [52]. This estimator resolves some of the small-sample biases of the standard GMM estimator without enforcing particularly strong assumptions [53]. This estimator creates a system of two equations; the first equation is differenced while the second one remains in levels [54]. Also, in addition to the corrections for serial correlations, measurement error and endogeneity also accounted for the underlying data dynamics [55]. The consistency of the SYS-GMM estimator depends on the validity of the instruments. To address this issue, two diagnostic tests were used to test the validity of the instruments, the Sargan test and the Hansen test.

3.2. Empirical Data and Sample Selection

The research was carried out based on annual time series for the period 2000 to 2016. The panel of research countries was made up of the following 50 countries: Australia, Austria, Belgium, Bosnia and Herzegovina, Bulgaria, Chile, China, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hong Kong, Hungary, Iceland, India, Ireland, Israel, Italy, Kazakhstan, Korea, Kosovo, Latvia, Lithuania, Luxembourg, Macedonia, Mauritius, Mexico, Morocco, Mozambique, Netherland, Norway, Poland, Portugal, Russia, Serbia, Slovak Republic, Slovenia, Spain, Sweden,

Switzerland, Thailand, Tunisia, Turkey, United Kingdom, United States and Vietnam. The selection of this sample was made due to data availability of a dependent variable *FDI* inflow in tourism. However, this sample is sufficiently representative because the bulk of *FDI* in tourism is geared towards developed countries, i.e., 85–90 percent of TNC hotels are located in developed countries [56]. Out of a total of 145 destination countries of *FDI* in tourism, the top five account for 30.2% of greenfield *FDI* in tourism projects, and the top 10 account for 45% of the project. This panel includes almost all of the top 10 host countries (except UAE). Additionally, although the risk of terrorism is by no means absent in developing countries, it appears to be primarily associated with industrialized countries [57]. The representativity of the sample is supported by the fact that it includes the top 10 world destinations as far as international tourist arrivals and international tourism receipts [2] are concerned. All 50 countries in the panel make up 72% of total international tourism receipts (see Appendix A). Summary statistics can be found in Appendix B.

The variable *FDI* in tourism (*FDI_T*) has been obtained from [58–60]. The variable is employed in millions of US dollars.

Data for terrorism derives from The Global Terrorism Database (GTD) [61]. This research used international total casualties as a terrorism variable. Total casualties include both injuries and fatalities (killed). The GTD database does not offer per se a column distinguishing domestic and international terrorist incidents. Decomposition was done following established methodology by [62,63]. Decomposition started with [62] five-step procedure. After this procedure had been exhausted, the process continued with the known perpetrator group identity parameter used by [63].

Starting a Business indicator was obtained from the Doing Business database [64]. All the other variables were obtained from [65].

Hypothesis 1. *The level of FDI in tourism with a time lag of one period significantly affects the future FDI inflows in tourism.*

The movement of one company may initiate a chain reaction of countermeasures at the domestic and international level by rivals who want to protect their positions [66]. In oligopolistic industries, companies will often imitate interaction because alternatives to imitation following the strategy of differentiation may prove to be costly and dangerous [67]. The related concept is so called "herding" [68]. "Herding" is essentially unscrupulous behavior based on the security of numbers; as long as everyone else behaves unconsciously, the probability of serious consequences for a particular company is low. Such behavior does not necessarily have to be regarded as irrational, i.e., "it is not that they are blind—this is simply the logical result of competitive processes in an oligopolistic industry" [69]. In the context of *FDI*, the idea of this perspective is that transnational corporations are largely doing what other companies are doing in the organization field when there is a high level of uncertainty [70].

Hypothesis 2. *Terrorism has no significant impact on FDI in tourism.*

After the terrorist attack in the US in 2001, terrorism became a source of concern for international investors and has entered the scene as a form of political risk [71,72]. The impact of political risk varies depending on which industry *FDI* is focused on. The research focused on sectoral differences is very modest and points to the specificity of particular industries [73,74]. Ref. [75], in one of the early reviews of research on the effect of political risk, concluded that empirical evidence is inconsistent and has mixed results related to the influence of political instability on *FDI* stocks or flows. Secondly, back to 1983, terrorism generally did not significantly affect *FDI*, although it had significant localized impacts in places such as the Basque region in Spain or Northern Ireland [31]. Finally, all further research leaves a shadow on the existence of such a postulate [33,76]. Ref. [41] explored the link between terrorism and *FDI* with the example of Egypt and amply warned on exaggeration connected with the negative impacts of terrorism on *FDI* in tourism. Finally, ref. [44] also points to a lack of existing

research related to the *FDI* in tourism and terrorism and concluded that the issues are very complex and that the impact of terrorism on *FDI* in tourism cannot be generalized. Since tourism demand and tourism supply are closely linked, it is logical to assume that if terrorism does not significantly affect the decline in tourist arrivals, there will be no downturn in tourism supply, i.e., *FDI* in tourism will not decline. The arguments in favour of the set hypothesis are as follows: according to the latest research, tourists are not too concerned about terrorism [12,77,78], after the terrorist attack, tourism had already been recovering for 13 months [23], the latest UNWTO data show a continuous growth rate of international tourist arrivals [2], less significant and limited terrorist attacks have little impact on the expected returns of an investment project [33], out of 39 sectors, tourism is ranked 10th in terms of capital investment [79] and, above all, *FDI* in tourism continues to enter the countries affected by terrorism [80].

Hypothesis 3. *The size of the market is an important determinant of FDI in tourism.*

Market size is generally the most important determinant of *FDI* inflows. It is also a significant determinant of *FDI* in the services market [81]. The larger the market, the more likely it is that the investor will regain its fixed costs [82]. The size of the market is considered the most important location factor the investor considers when deciding on *FDI* [83]. The size of the overall economy market is measured by *GDP*. When the market size is small compared to other competitors in the country, such a market fails to attract *FDI* due to difficulty to achieve the economies of scale [84]. It should also be noted that the market size does not only apply to the domestic market, however also to the regional market in which the country is located. Corporations locate their *FDI* considering the regional context and context of the country as the country's attractiveness is limited by regional development characteristics [85]. Consequently, the main objective of regional political development has become attracting *FDI* [86]. The high economic growth affects the *FDI* inflows due to increased revenue and the effects of consumption [87,88].

Hypothesis 4. *The number of tourist arrivals significantly influences FDI in tourism.*

Although indicators such as *GDP* or *GDP* per capita determine the market size, the more relevant measures for tourism would be the propensity to travel within the economy [89]. The level and the degree of tourism products and tourism development are important because *FDI* in tourism is under their influence [56]. The country will attract foreign investors to tourism if it has an effective tourism marketing strategy and promotional programs that are significantly funded [90]. Tourist arrivals and *FDI* are interconnected. Tourist arrivals are considered the main cause for *FDI* in tourism [91]. A large number of tourist arrivals in the country also indirectly complement the existing market, thus affecting the attraction of *FDI* in the hotel industry [56,92]. The primary driver of service companies to invest abroad is based on tracking citizens and clients [93]. A significant number of studies have demonstrated the existence of a causal link between international tourist arrivals and *FDI* in tourism [94–99].

Hypothesis 5. *Political stability and the absence of violence positively influence the FDI in tourism.*

Political stability, along with macroeconomic stability, are key factors influencing the location decision of foreign investors. For every foreign investor, each country is the potential destination of its capital. However, given that every investor is a rational investor, one of the most important criteria when selecting a country in which to invest their capital is the investment risk. Generally, as long as the foreign investor believes it can operate profitably without excessive risk for its capital and staff, it will continue to invest. A host country with a high political risk will discourage *FDI* inflows into its market since the political volatility harms the profitability of *FDI*. The three major forms of political risk discourage *FDI* because of damage to their profitability and survival [100]: nationalization or expropriation of foreign assets (which is rare) and breach of contract (which is

much more common) endanger foreign investment; political instability and arbitrary regulation in policies related to *FDI* create uncertain investment environments and undermine the profitability of *FDI*; and political violence, including terrorist activities, can immediately damage foreign property and discourage productivity in the country for a long time.

Hypothesis 6. *The higher level of corruption in the country negatively affects the FDI in tourism.*

As corruption is widespread, less investor capital will flow to the country. Corrupt states are less likely to attract *FDI* in order to get assistance in the long-term economic development of the state. The amount of corruption in the country that foreign investors want to invest in sis as important as the cost of labor and the tax rate [101]. Corruption is occurring in countries where government transparency is low. Investors in these countries are either pulling or not investing at all, precisely because of the unstable political environment and inefficient bureaucracy and corruptive actions that ultimately damage the reputation of the investor and his profits. Lower levels of corruption leads to higher productivity of the sector [102,103].

Hypothesis 7. *The ease of starting a business has a positive impact on FDI in tourism.*

Starting a Business measures the paid-in minimum capital requirement, number of procedures, time and cost for a small- to medium-sized limited liability company to start up and formally operate in the economy's largest business city. The ranking of the Doing Business list indicates the attractiveness of the investment environment, where a higher position on the list means a more attractive investment environment. According to [104], a better ranking on Doing Business is significantly associated with higher *FDI* inflow. In addition, countries with more effective regulations for starting a business have greater benefits from *FDI* inflows. According to [105], one step higher on the Doing Business scale can bring an additional $44 million in *FDI* to the government.

4. Research Results and Discussion

The research results are summarised and presented in Tables 1 and 2. Table 1 presents the results from the Sargan's test and the Arellano-Bond AR(2) test. The p-value of the Sargan test is above 0.05, so the null hypothesis of the validity of instruments cannot be rejected. The results demonstrate the independence of the instruments from the residuals and, therefore, they are acceptable instruments. With regard to the Arellano-Bond test, there is no evidence of second-order serial correlation in the differenced error terms. The *p*-value of the aforementioned test is also above 0.05, so the null hypothesis of the no second-order serial correlation cannot be rejected.

Table 1. SYS-GMM (System-Generalized Method of Moments) diagnostics.

Sargans's test	28.16692 (p = 0.5090)
Arellano-Bond second-order correlation test	1.0709 (p = 0.2842)

Source: Author calculations.

Table 2. SYS-GMM estimation results.

Variables	Coefficient
Lagged *FDI_T/GDP* share	0.1404 ***
International arrivals	1.3261 ***
Terrorism	0.0221
GDP growth	0.2247 ***

Note: *** denote statistical significance at the 1% level. Source: Author calculations.

Table 2 shows the results of the SYS-GMM estimation. The results indicate a positive yet statistically insignificant impact of terrorism on *FDI* in tourism which is in accordance with the first research hypothesis. All of the other results are also in line with the set hypotheses. The international tourist arrivals, the lagged value of *FDI* in tourism and the *GDP* growth have positive and highly significant coefficients.

For the countries in the panel, all of the variables have the expected sign. The main variable of interest is terrorism, however it is statistically insignificant. As far as the other variables are concerned, a 1% increase in the lagged value of *FDI* in tourism leads to an increase of 14% in the *FDI* in tourism inflow. Furthermore, according to the research results, a 1% increase in international tourist arrivals leads to an increase of 132% in the *FDI* in tourism inflow. Lastly, a 1% increase in *GDP* growth leads to an increase of 22% in the *FDI* in tourism inflow.

An insignificant impact of terrorism on *FDI* in tourism is in line with the author's initial rational. Although it seems logical to assume that terrorism as a form of political risk [75] negatively affects *FDI* in tourism, there are some researches that have already pointed to the fact that political risk does not necessarily affect *FDI* [106,107]. Recent research suggests that political risk can contribute to the *FDI* inflows [108] and that a higher rate of terrorism leads to a higher *FDI* growth, especially with regard to developing countries [38]. Moreover, ref. [40] has demonstrated the positive impact of political violence on *FDI* in capital-intensive tertiary sector industries such as hotels and restaurants, transportation, communications, real estate, etc.

Positive and significant impact of previous *FDI* levels on future *FDI* inflows is in line with existing research [109–111]. The presence of existing *FDI* is also a signal to potential investors that it is an environment in which it is possible to operate successfully. In other words, one lag length is needed to stimulate further *FDI* in tourism, i.e., the level of *FDI* in the previous period encourages further growth of *FDI* in tourism.

Research results related to the growth rate of *GDP* are also in line with previous research [112,113]. The positive *GDP* growth rate points to the market demand and higher market demand attracts further *FDI* inflow. It also signals the size of the potential market and the possibility of its expansion in the future which motivates foreign investors to start new investments.

International tourist arrivals is the determinant that has the most significant impact on the *FDI* inflow. These results are also in line with previous research [56,114]. Bearing in mind the interdependence of tourism demand and tourism supply, it is logical to expect that the growth of international tourist arrivals significantly influences *FDI* in tourism.

Finally, the research results from the second proposed model with the control variables are summarised and presented in Tables 3 and 4. Table 3 presents the results from the Sargan's test and the Arellano-Bond AR(2) test. The p-value of the Sargan test is above 0.05, so the null hypothesis of the validity of instruments cannot be rejected. The results demonstrate the independence of the instruments from the residuals and, therefore, they are acceptable instruments. With regard to the Arellano-Bond test, there is no evidence of second-order serial correlation in the differenced error terms. The *p*-value of the aforementioned test is also above 0.05, so the null hypothesis of the no second-order serial correlation cannot be rejected.

Table 3. SYS-GMM diagnostics.

Sargans's test	19.76083 (p = 0.5980)
Arellano-Bond second-order correlation test	0.29344 (p = 0.7692)

Source: Author calculations.

Table 4. SYS-GMM estimation results.

Variables	Coefficient
Lagged *FDI*_T/*GDP* share	0.0812
International arrivals	1.3475 ***
Terrorism	0.1026
GDP growth	0.0867
POLSTAB	0.7482
CORR	−0.4070
DOINGBUSS	0.0863 ***

Note: *** denote statistical significance at the 1% level. Source: Author calculations.

Table 4 shows the results of the SYS-GMM estimation. The results, although not all significant, are also strongly in accordance with the research hypotheses even when control variables are included in the model. The results indicate a positive yet statistically insignificant impact of terrorism on *FDI* in tourism. The international tourist arrivals and the ease of starting a business have positive and highly significant coefficients. The lagged value of *FDI* in tourism, the *GDP* growth and the political stability have a positive yet insignificant impact, while corruption has a negative yet also insignificant impact.

For the countries in the panel, all of the variables have the expected sign. The very significant and positive influence on the further *FDI* inflow in tourism, even when the model includes control variables, still has the number of international tourist arrivals. According to the research results, a 1% increase in international tourist arrivals leads to an increase of 135% in the *FDI* in tourism inflow. As far as control variables are concerned, only the ease of starting a business is significant and therefore, a 1% increase in the Doing Business index leads to an increase of 8% in the *FDI* in tourism inflow. The significance of the Doing Business Index is in line with existing research results [115,116]. Better positioning of the country on the Doing Business list means a greater presence of global hotel chains in its economy [33]. Although the previous level of *FDI* in tourism has a positive impact on further *FDI* inflow into tourism, this determinant in the extended model is no longer significant. In other words, previous *FDI* in tourism has no significant impact on future *FDI* in tourism. Political stability and corruption are also not significant determinants that affect the future *FDI* in tourism and such results are consistent with previous studies [107,117].

5. Concluding Remarks

Starting from the fact that, according to the authors' knowledge, there is no research that examines terrorism as a determinant of attracting *FDI* in tourism, and that the results of previous research related to the importance of terrorism as a determinant of attracting total *FDI* are not unambiguous, the gap in the existing research is recognized. Given the abovementioned, the impact of terrorism on attracting *FDI* in tourism was explored using the panel of 50 countries for the period from 2000 to 2016. In addition to terrorism, three additional variables, the previous *FDI* level, the *GDP* growth rate and the number of international tourist arrivals, were included in the analysis. In order to obtain more reliable research results, the proposed model was expanded with additional control variables.

The example of a panel of countries has shown that terrorism is not a significant determinant of *FDI* in tourism. Such a result is expected and is consistent with the most recent research [41,44]. The significance of the previous *FDI* level, the *GDP* growth rate and the number of international tourist arrivals are in line with well-established and multiple proven theoretical points of reference which are considered extremely important determinants of *FDI* attraction [70,81,87,89]. All three underlying determinants positively and significantly affect the further inflow of *FDI* in tourism at a 1% level of significance. Looking at another model that has been expanded with certain control variables, it is possible to conclude that for the further *FDI* inflow in tourism, the most important is the further increase in the number of international tourist arrivals and the easier business conditions in the country. This is evidence that there are other factors that play a much more important role than terrorist risk when it comes to attracting foreign investors [118]. In the model with control variables, the *GDP*

growth rate, the previous level of *FDI*, political stability and corruption are not significant determinants of attracting *FDI* in tourism. According to ref. [119], the encouraging macroeconomic conditions, the political stability, the elimination of administrative and legislative barriers, the elimination of the image of the country as a corrupt destination and tourism staff education at all levels are particularly important for *FDI* in tourism. Nevertheless, political stability alone is not a guarantee of investment safety either in tourism or in any other part of the economy, especially in the absence of favorable economic conditions [120].

Knowing how tourism is rapidly recovering from terrorism [23] and taking into account the latest data from the market which show that *FDI* in tourism continues to enter the countries affected by terrorism [80], the obtained results are not surprising. The global hotel chains are the main providers of *FDI* in tourism, and corporations learned to handle and incorporate the risk of terrorism into their business in the 80's of the last century [121]. It is not to be overlooked and there is the possibility that the presence of global corporations in tourism can in fact help to restore trust in tourist destinations affected by terrorism [122]. Refs. [82,123] have shown that *FDI*, as part of economic globalization, has an adverse negative impact on transnational terrorism. In addition, contemporary thoughts suggest that terrorism will not stop further globalization [19].

According to the author's knowledge, the main contribution of this paper is that this is the first quantitative research that observes terrorism as a determinant of attracting *FDI* in tourism. Considering on the one hand the significance of *FDI* for the further development of tourism, especially in developing and less developed countries, and on the other hand, terrorism as a real threat to the further expansion of global business, such a contribution is of utmost importance. It should be highlighted as a particularly important contribution that the obtained research results point out that terrorism is not a significant determinant of attracting *FDI* in tourism and, as such, raises a serious foundation for future political action. Although the global political challenge is to keep terrorism under control and to annul it in the long run, foreign investors in tourism are primarily attracted by the growth rates of tourist arrivals and the business conditions in the country. Research results significantly contribute to the consideration of sustainability because they point to the fact that terrorism has not become a serious obstacle to further sustainable development, given the role that *FDI* and tourism can play in this area. Further *FDI* are directly linked to the achievement of global sustainable development goals [124] as they have the potential to create new jobs, increase production capabilities, lead to technology transfer, etc. Nevertheless, tourism also has a significant role in the achievement of the 2030 Agenda for Sustainable Development. The combined forces of *FDI* and tourism overcome the insecurity that terrorism entails and are a successful platform for contributing to sustainable development.

The research results may have significant implications for policy-makers. Competitive further development of tourism, especially in developing and less developed countries, requires investment in capital, infrastructure, knowledge and availability of global marketing and distribution chains. *FDI* in this area can play a significant role and most commonly appears in the form of global hotel chain expansion [56]. Such global hotel chains have a superior marketing and promotional effect because they are linked to global distribution systems, leading to production and qualitative effects in the host country because the presence of the global brand is a certain guarantee of service standards and, perhaps most importantly, the transfer of soft technology in the form of improving managerial expertise in the host country. Thus, further uninterrupted development of tourism inevitably requires attracting foreign investors as one of the pillars of the sustainable development of the global economy [5]. The research results suggest that policies aimed at attracting investors in tourism primarily need to ensure better business conditions in the country. Nevertheless, it is up to the political authorities to provide both security and preventive measures against terrorism that will maintain the threat of terrorism at the lowest possible level in the national, regional and international environment. The World Tourism Organization's recommendation is to "develop a national policy on tourism safety commensurate with the prevention of visitor risks" [125]. Absolute levels of instability and rates of violence in tourism are less important than the perceived uncertainty of potential tourists [126]. Adequate security and

preventive measures ensure that tourists perceive the destination as safe from terrorism. A direct consequence of an adequate political response to terrorism is the further development of tourism demand which, according to economic logic, encourages further tourist supply or, in this context, *FDI* in tourism inflows.

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Appendix A.

Table A1. International tourism receipts (million).

Country	Year	Country	Year	Country	Year
Australia	32.423	Iceland	2.415	Norway	5.205
Austria	19.300	India	22.427	Poland	10.977
Belgium	11.839	Ireland	5.186	Portugal	14.036
Bosnia and Herzegovina	709	Israel	5.722	Russia	7.788
Bulgaria	3.634	Italy	40.246	Serbia	1.151
Chile	2.737	Kazakhstan	1.549	Slovak Republic	2.748
China	44.432	Korea	17.210	Slovenia	2.424
Croatia	9.634	Kosovo		Spain	60.346
Czech Republic	6.309	Latvia	867	Sweden	12.614
Denmark	6.877	Lithuania	1.185	Switzerland	15.937
Estonia	1.536	Luxembourg	4.292	Thailand	49.871
Finland	2.717	Macedonia	285	Tunisia	1.239
France	42.481	Mauritius	1.572	Turkey	18.743
Germany	37.433	Mexico	19.571	United Kingdom	39.615
Greece	14.618	Morocco	6.548	United States	205.940
Hong Kong	32.860	Mozambique	108	Vietnam	8.250
Hungary	5.653	Netherland	14.054		
				Total	**875.313**
				World	**1220.000**
				Panel share	**72%**

Source: Author calculations according to [2].

Appendix B.

Table A2. Summary statistics.

Variable	Obs	Mean	Std. Dev.	Min	Max
FDI_T/GDP	574	4.13×10^{-9}	2.00×10^{-8}	0	2.96×10^{-7}
TERR	850	38.09765	621.4515	0	17840
GDP growth	849	3.268843	3.63209	−14.81416	26.97392
INTARR	829	1.33×10^{7}	1.75×10^{7}	99000	8.45×10^{7}
POLSTAB	793	0.4091093	0.780753	−1.99828	1.760102
CORR	800	0.7119057	1.009065	−1.177213	2.469991
DOINGBUS	524	83.72101	10.04922	41.53	98.12

Source: Author calculations.

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