

# How to Re-emerge as a Tourism Destination after a Period of Political Instability

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In an era of growing political turmoil, the tourism sector is facing a significant test. Political stability and safety are prerequisites for tourism; even the mere threat of events such as civil unrest and terrorism can cause tourists to rethink their decision to visit a destination. The impact of political instability on a destination's tourism sector is both immediate and potentially long-lasting. In addition, in some circumstances, instability in one country may have an impact on the tourism sector of neighboring countries.

While the road to recovery can be long and arduous, the scale of the economic benefits from tourism makes investing in Travel & Tourism (T&T) worthwhile. Emerging economies, which generally run a higher risk of political unrest, are expected to account for 57% of total tourist arrivals by 2030. In those countries, tourism has the potential to drive foreign trade, increase access to international markets, increase foreign investments, spur entrepreneurship in an industry with low barriers to entry and spur broader economic development given the sector's strong linkages with other industries.

So what measures can countries take to revamp their tourism sectors after political unrest? This chapter draws lessons about government responses and the trade-offs they involve.

## **IMPACT OF POLITICAL INSTABILITY ON PERFORMANCE OF THE TOURISM SECTOR**

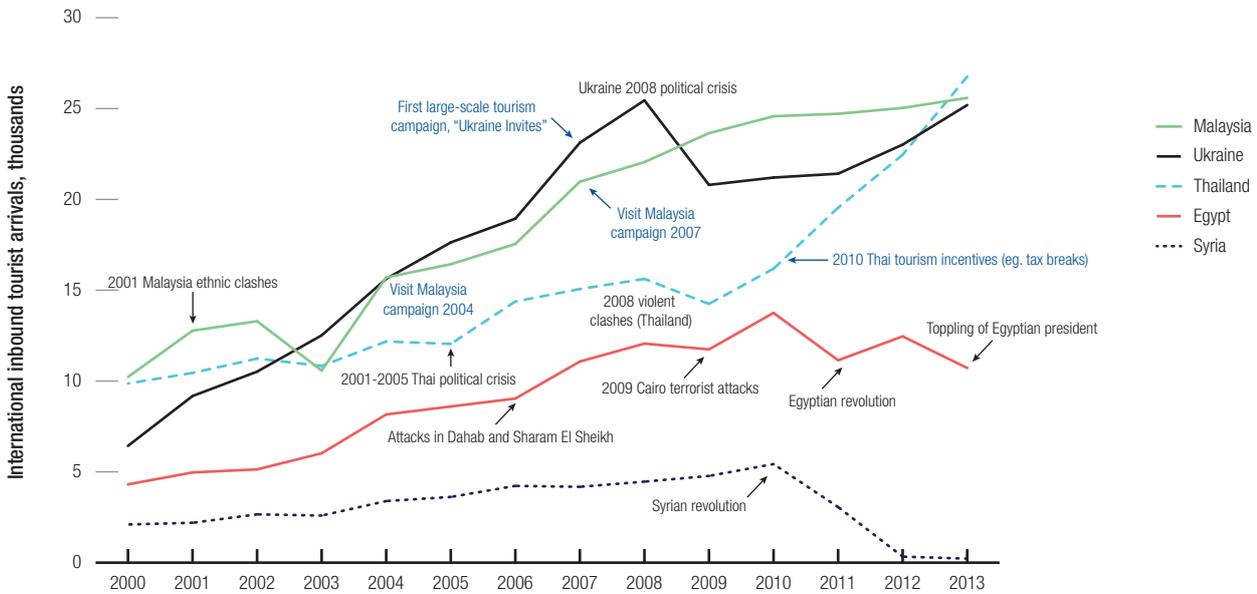
Countries affected by political unrest inevitably experience a decline in the number of international tourists and in tourism receipts. No country has been able to shield its tourism sector against the impacts of insecurity.

Egypt's experience over the last decade serves as a good case study. The 2005 Sharm El Sheikh attacks and 2006 attack on the city of Dahab, which left more than 23 Egyptians and tourists dead, caused a national loss of 8% of foreign tourism receipts in 2006. The Arab Spring and toppling of President Mubarak in 2011 saw tourist arrivals decline by nearly a third year-on-year, to 9.5 million from 14 million. History repeated itself two years later, when political turbulence that led to the ousting of President Morsi led to a decline in tourist arrivals from 11.5 million trips in 2012 to 9.5 million in 2013.

Another example is Lebanon, where the Lebanon-Israeli war in 2006 and a series of violent episodes in 2008 led to year-on-year declines in foreign tourism receipts of 17.3% and 7.2%.

Examples can be found in other regions as well: Thailand experienced a decline in tourists' confidence beginning in December 2008 when international airports started closing and many foreign tour agents quit the country. This led to a 3% year-on-year decrease in foreign tourist arrivals and a 12% decrease in foreign tourism receipts in 2009. The effects continued into 2010, with nearby countries benefitting from an increase

Figure 1: Number of international inbound tourists in selected countries, 2000–2013



Source: The Economist Intelligence Unit, Euromonitor.

Note: Events in black indicate "shocks" to the T&T industry; items in blue indicate T&T promotional activities.

in visitors. Similarly, in Ukraine, the 2008 political crisis sparked by the armed conflict between Russia and Georgia caused a year-on-year decline of around 18% in foreign tourist arrivals.

The decline in tourist numbers during and after periods of political unrest is illustrated in Figure 1.

The main factors translating political turbulence into a decline in international tourism arrivals relate to media reporting of political conflict, as well as any accounts of negative experiences from family and friends. Negative images of a tourist destination created in this way can persist for years and affect a whole country, even if the political instability was contained in a small region.

Tour operators and travel agents can scale back operations, as a result of insufficient bookings or fear of liability suits. For example, German tourism giant TUI reported a year-on-year loss of 46.4 million euros in the first quarter of 2012 due mainly to weaker demand for travel to destinations in unrest-afflicted North Africa; after Russia annexed Crimea in March 2014, several cruise lines altered their Black Sea sailings to bypass Odessa, Sevastopol and Yalta.

As a result, a vicious circle can develop: political unrest leads to lower demand, private investment declines as investors lose confidence, and public investment declines as security concerns cause funds to be re-prioritized (see Figure 2). This leads to decreased readiness of the country as a tourism destination, and a further reduction in its appeal to tourists.

The effects of political unrest on tourism can spill over borders, especially where a country is considered as part of an overall itinerary. For example, tourism in the Maldives is impacted by political unrest in Sri

Lanka, since the Maldives is often considered an add-on destination to Sri Lanka. However, there can be a positive impact on neighboring destinations that are seen as unstable. For example, as political unrest affected other parts of the Middle East, tourism grew strongly in Qatar (+8% from 2010 to 2011) and the UAE (+9%). Similarly, Greece, Cyprus and Turkey benefited from conflict in Egypt, Israel, Jordan and Lebanon in the 1990s as tourists saw them as alternatives to experience Middle Eastern flair and ancient sights.

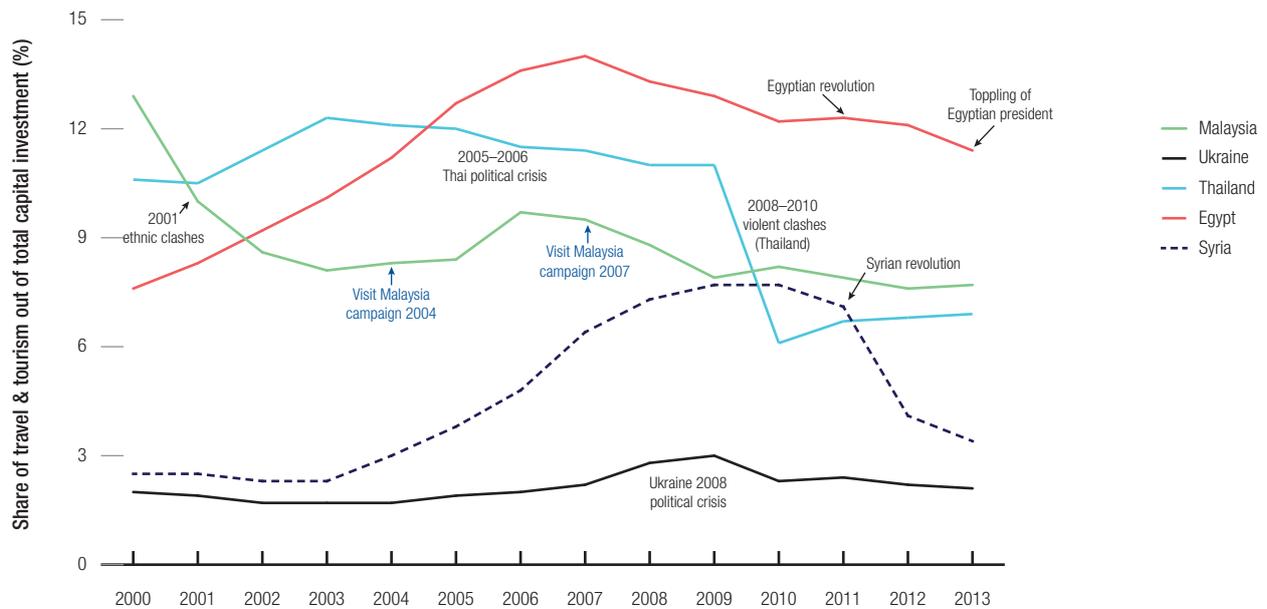
Tourism receipts can decline even more steeply than tourist numbers as the nature of tourist profiles changes—wealthy, security-sensitive segments are replaced by more price-sensitive, risk-taking tourists. For example, following Ukraine's 2008 political crisis, total tourist arrivals did not decline but tourism receipts declined by 20%, implying a decrease in the per-tourist spend. A similar effect took place in Thailand where violent clashes in 2008 caused a ~9% drop in average tourist spend in 2009 (Figure 3).

Even domestic tourism declines in times of political turbulence, as citizens tend to save their disposable income in anticipation of uncertain economic times ahead. In Thailand, total domestic travel and tourism spend dropped by 10% in 2009 compared to 2008 (Figure 4).

### GOVERNMENT MEASURES TO REVAMP THE TOURISM SECTOR AFTER A PERIOD OF POLITICAL INSTABILITY

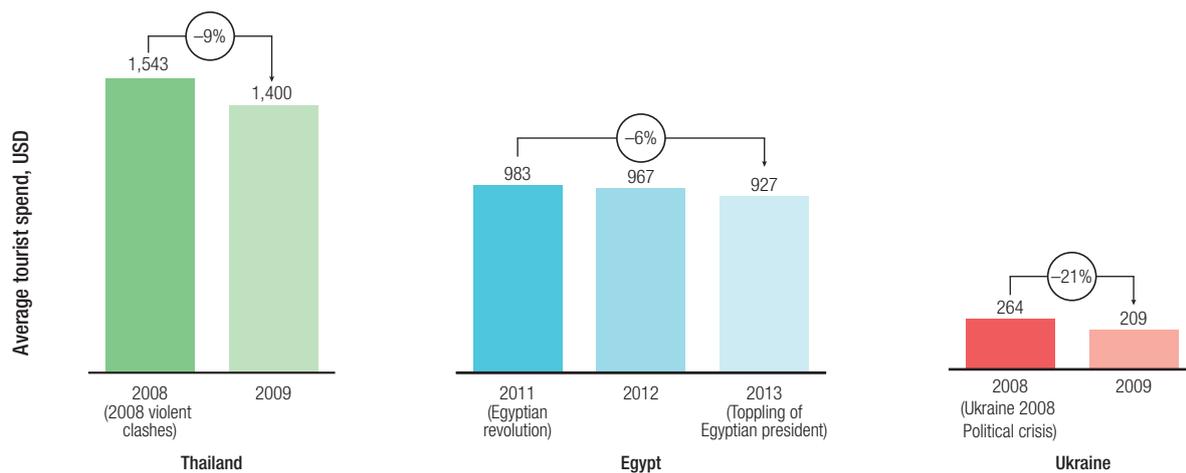
While an initial negative shock from political unrest is inevitable, governments should rest assured that the tourism sector can be slowly revived if action is taken.

Figure 2: Capital investment in Travel & Tourism out of total capital investment, 2000–2013



Sources: Euromonitor, The Economist Intelligence Unit, World Travel & Tourism Council and Strategy& analysis.  
 Note: Events in black indicate "shocks" to the T&T industry; items in blue indicate T&T promotional activities.

Figure 3: Change in average spend per inbound tourist, selected countries



Sources: The Economist Intelligence Unit, Strategy& analysis.

Countries can take measures during crises, while safety and security are slowly being restored, and to boost the tourism sector once the situation is normalized. Those measures should be targeted at four key stakeholders that influence whether a tourist decides to visit a destination: the tourists themselves, the media, tourism businesses and governments of potential tourists.

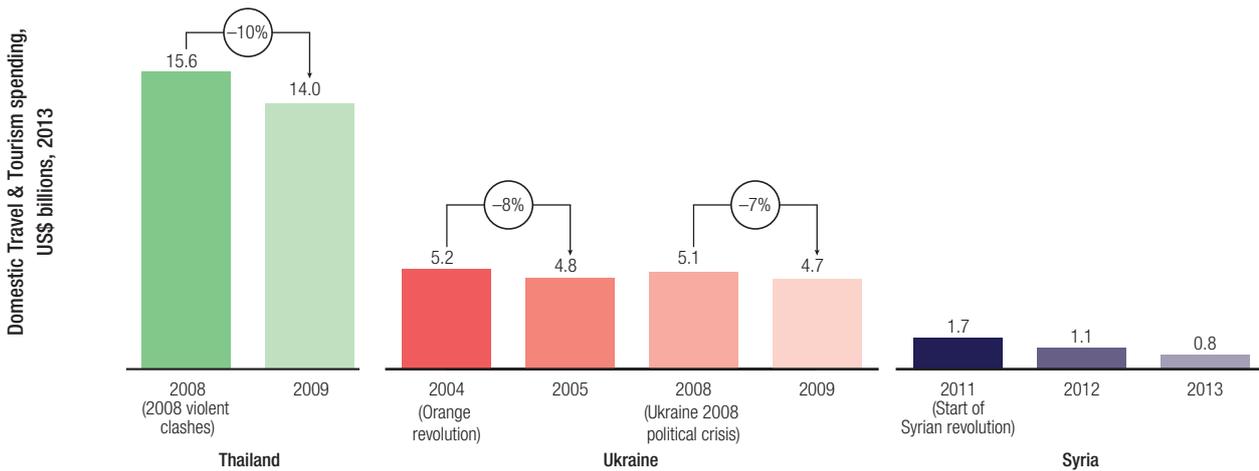
**Crisis management**

During the crisis period itself, the immediate priority is to demonstrate exceptional crisis management capabilities to minimize losses, ensure tourists' safety and limit excessively negative media perceptions. This includes effective search and rescue efforts, provision of safe shelter for tourists, tightened security around touristic

areas and facilitation of return to home countries. The success of initial panic containment and crisis management efforts can have great impacts on the destination's image and hence on future tourism arrivals.

Pre-emptive planning of crisis management, rather than a reactive response, is a key success factor. For example, the recovery effort following the 2002 bombing of a Kuta nightclub in Bali was devised after the attack took place, which led to slow and laborious recovery of tourist confidence and revenues. In contrast, security response to the London underground bombings of 2005 was quick and decisive, as London officials had established relationships and practiced agreed-upon procedures in case of a terrorist attack. The terrorist events had no visible subsequent effect on tourism.

Figure 4: Change in total domestic Travel &amp; Tourism spending, selected countries



Sources: The Economist Intelligence Unit, Strategy& analysis.

### Perception management

Governments should limit negative media publicity about the destination when it is exaggerated. In cases when the perceived insecurity situation is more acute than the actual one, or when security is restored, strong, impactful communication campaigns must be developed to address would-be visitors' concerns. Campaigns can also emphasize the limits of conflict regions and the safety of other areas.

### Incentives for tourists and the industry

In cases of security misperceptions, governments and companies can incentivize tourism demand by reducing prices of tourism products and services. For example, after the 2002 Bali bombings, around three-quarters of hotels dropped their prices, by an average of 37%. In Greece, to avoid the perception of insecurity stemming from unrest and protests in Athens undermining tourism in other parts of the country, the government waived levies on airline and ferry tickets and almost halved VAT on tourist accommodation. Hotels bookings beyond the capital recovered as prices fell significantly. In Thailand, to encourage tourism following the country's 2014 military coup, the Thailand Authority for Tourism organized the "Amazing Thailand Grand Sale" with discounts for tourists in more than 15,000 shopping malls, department stores and restaurants.

Countries can also put a positive spin on political events that have devalued a country's currency, making it cheaper for tourists to visit the destination. For example, Bali used the drastic devaluation of the rupiah in the aftermath of the 2005 bombings in a marketing campaign with the slogan "Our loss is your gain!"

Price reduction strategies have a downside, however. Unless subsidized by the government, they often imply reducing staff salaries or numbers. More fundamentally, they can negatively affect the perceived value of the destination, making recovery more difficult

when things improve.

On the supply side governments can help tourism-related businesses regain momentum after a slowdown through fiscal policy, low interest rate loans and promotional trips for foreign tour operators and travel agents to restore their confidence in the safety and security of the destination. For example, Macedonia offered subsidies to air carriers willing to introduce new destinations for passengers—those carriers received €40,000 for each new destination, and the government paid seven to nine euros for each ticket purchased on these new flights. As a result, flights by low-cost carriers nearly doubled in 2014.

A similar incentive plan was made in 2011 by the Egyptian government, which reduced levies on unfilled plans seats to discourage airlines from cutting the numbers of flights to Egypt. In Thailand, following the May 2010 riots in Bangkok, the government announced tax incentives for companies hosting domestic or international trade shows and training seminars.

### Domestic tourism

Shifting focus from international tourism to domestic tourism is a common measure. For example, in December 2008, the Thai government cooperated with the private sector to organize a "Thai Travel Fair", cutting prices of local airlines and hotels, which increased the quantity and frequency of domestic travel. In 2010, Thailand introduced a personal taxable income deduction for Thai residents on domestic tourism-related spending.

However, an increase in domestic tourism does not typically offset the losses incurred by a decline in international tourists, as they tend to spend much more than domestic tourists. Bali's efforts to promote domestic tourism after the bombings resulted in attracting tourists that spent only a third as much per day as foreign tourists.

### New segments

Countries can also shift focus from traditional tourist segments to new segments that are less susceptible to the impact of political unrest. This includes regional tourists who have a more realistic, less exaggerated view of the severity of the political situation in the country, and more price-sensitive tourists. For example, in light of the 2002 and 2005 bombings, Bali diverted its focus from its traditional Western holidaymakers to ones closer to home in Japan and Taiwan. In Macedonia, after years of unrest, the government boosted subsidies for tour operators focusing on visitors from Bulgaria, Serbia and Bosnia. Egypt recently decided to grant Indian tourists, historically not major visitors to Egypt, visas on arrival and agreed to launch a direct flight between Cairo and New Delhi.

Efforts to reach out to new tourist segments can include looking at technological advances, such as e-bookings and social media, to facilitate interaction with visitors and make it easier for them to learn about and visit the destination.

### Crisis-immune product offerings

Countries can develop strategies to decrease the riskiness of their products, such as physically insulating touristic places from areas facing political unrest. This strategy has been successful in Egypt, where isolated resorts and enclave cities have been developed along the Red Sea, and across the Caribbean—the isolated peninsular resort of Labadee in Haiti, for example, is fenced, heavily guarded and completely closed off for locals except for the resort personnel. Tourists can disembark only from cruise ships and are not allowed to move beyond the resort and into the politically unstable Haitian cities.

### Multistakeholder planning

Measures to revamp the tourism sector depend on proper planning and coordination among various stakeholders, as well as the availability of funding for tourism infrastructure and marketing efforts. Although the tourism industry is not responsible for the development or implementation of disaster management plans and arrangements, tourism authorities should, when possible, participate in disaster planning and management activities through appropriate local, regional or national committees. This enables tourism to be taken into account by disaster management agencies and promotes the need for appropriate measures to be established to protect visitors in times of crisis.

To enable better responses to tourism safety risks, the World Tourism Organization (UNWTO) recommends that countries “develop a national policy on tourism safety commensurate with the prevention of visitor risks”, and form national tourism councils with executive committees responsible for risk management in key

areas, according to the needs of each destination. South Africa, for example, established a Tourism Safety Task Group that included the Department of Environmental Affairs and Tourism, the South African Police Service and the South African Tourism Board. Following 9/11, Australia developed an Australian National Tourism Incident Response Plan, establishing a response framework and actions for national, state and territory governments to ensure rapid, detailed and targeted responses to incidents with an impact on the tourism industry.

Another common risk anticipation measure is the establishment of tourism recovery funds. For example, in the wake of the Bali bombings, the Indonesian government’s Bali Recovery Fund (\$7.2 million) and general Tourism Recovery Fund (\$6.5 million) helped the recovery of the sector.