

DOING BUSINESS UNDER TERROR: EMPIRICAL ASSESSMENT OF HOTEL BUSINESS IN THE POST CONFLICT PERIOD IN SWAT VALLEY, PAKISTAN

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Abstract

The growing militancy and terror conflicts around the world have widespread macro and micro economic effects. Tourism being a major contributor to the economy of Khyber Pakhtunkhwa province has been adversely affected during the last 3 years, because of increasing terror acts. This endeavor assesses the hotel business in the post conflict period in terms of monthly revenues, occupancy rates, tourists' arrival, employment, and rehabilitation sources. A data set of 70 hotels is selected in 2010 using simple random sampling technique. The findings indicate that the sample hotels in the study area have suffered huge financial losses. Furthermore, we find that tourists' arrival and monthly revenues have dropped extensively in urban, semi-urban and rural hotels. Moreover, the t-test results clearly show that, a significant difference exists in daily room occupancy, tourist arrival, monthly revenues and employment between the pre-conflict and post conflict period. Loans and private saving are identified as the major sources of financing for rehabilitation of the affected hotels in the area. We conclude that terror conflicts do have an adverse effect on business and tourism. It is, therefore, recommended that the government and non-governmental rehabilitation efforts should focus on financing the affected enterprises vis-a-vis ensure peace and security in the study area to rejuvenate the tourism industry in the area.

Keywords: terror conflict, tourism, economic losses, business, hotel industry

Introduction

Terror conflicts lead to huge economic losses that in turn affect the pace of the economic development in affected countries. Such acts of terrorism affect the per capita Income and decrease the flow of Foreign Direct Investment (FDI) as well (Abadie and Gardeatabal, 2003, Abadie and Gardeazabal, 2008). The presence of conflict leads to lower growth and higher inflation, and have adverse effects on tax revenues and investment (Gupta et.al, 2004). Even, quite mild terrorist activities could considerably reduce the inflow of capital to terror stricken country (Frey, et.al, 2004). The direct economic cost of conflicts is the decrease in the growth rate of GDP (Abadi and Gardeazabal, 2008). Moreover, terrorism

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also leads to the deterioration of political and social climate (Khan, 2008).

During the last couple of years, Pakistan too has suffered adversely as a result of the increasing militancy and its war against terrorism. The country has seen the worst ever terror's attacks, affecting almost every sector of the economy. The flow of FDI declined to \$910.20 million from \$1.4 billion in fiscal year 2008-09, mostly because of the upset confidence of foreign investors that in turn increased poverty and unemployment in the country. According to a recent statistics, nearly 35-50 percent of the population lives below the poverty line in Pakistan (ICM, SATP, 2009). The military operation launched by the government of Pakistan against the militants led to loss of 65 percent in the Karachi Stock Exchange (KSE) in 2009, since its capitalization in 2007. The domestic investors shifted their capital to other protected destinations as well. The foreign private investment has declined by 25.7 percent to only \$5 billion in 2008. The inflation rose to 12 percent in 2008. The GDP grew by 6 percent in 2008 as compared to 7.7 percent in 2005.

The Khyber Pakhtunkhwa a Pashtun dominated province in Pakistan, is the worst affected parts of the country. An estimated cost of approximately Rs. 300 billion has occurred to the province, because of militancy (Frontier Post, 2010). Specifically, the Swat Valley has suffered huge financial losses, as consequences of the growing militancy, during 2008-2009. The economic conditions deteriorated when the militants in the Swat valley challenged the writ of the government. Because of the hostile climate and lack of security, government agencies and Non Governmental Organizations (NGOs) ceased to function in the region. The worsening security situation led to the displacement of more than 2 million local people from the area, while thousands others were trapped in the conflict zone. Sources of livelihoods disappeared, and their assets were damaged. Agriculture, livestock and tourism, which are the three vital sectors of the local economy, were badly affected that in turn lead to loss of the livelihoods of local communities. The properties of local communities were looted and plundered by the militants who took control of the whole area of nearly 18 million inhabitants. Besides, women, children were traumatized as result of the alarming rate of suicide attacks, target killings and murders of the civil servants, teachers. Female were banned from attending the school in the area. As a

consequence, social, cultural, human assets and economic assets deteriorated. The armed conflict, which started in 2008, has pushed back the already marginal development to a level, which is yet to be recovered in the coming several decades. According to Ahmad (2010), War on Terror in KPK has had harmful political, economic and social consequences for KPK in general and its Pashtun population in particular and has produced detestation among the Pashtuns in the region.

Impact of Terrorism on Tourism

Despite the substantial contribution of tourism, it got scholarly attention only in the nineties (Sonmez, 1998). Studies on the impact of political turmoil such as the Maoist War in Nepal were studied in later years (Bahatarai, Conway and Shrestha, 2004). The gains from tourism have been found to be adversely affected besides its effects on GDP, fixed capital investment, and consumption expenditure.

There is an extensive body of literature on the association between the acts of terrorism and its impact on the tourism, for example in 1989, in a crackdown on students and as results of the conflict hotel occupancy rate in Beijing dropped by 30 percent and tourism revenues declined by \$430 million in that year (Gartner and Shen 1992, Hall and O'Sullivan, 1996 cited in Sonmez 1998). Studies also show that tourists are less likely to choose destinations with a higher threat of terrorist attacks (Frey, et.al, 2004) and tourism revenues are substantially reduced because of terrorism (Enders et.al, 1991). It has also a negative effect on the tourist choice of destination (Pizam and Smith, 2000). The impact of terrorism on tourism and tourism demand are closely linked (Pizam and Smith, 2000, [Araña](#) and Leon, 2008). Increased state repression and ethno religious diversity significantly positively affect the incidence of terrorism (Piazza, 2006). As such terrorism has generally very localized economics effects (Sandler and Enders, 1991). Various aspects of terrorism have been the subject of various studies, such as the macroeconomic consequences of terrorism (Blomberg, Hess, and Orphanides, 2004), the fiscal consequences of terrorism on low and middle income countries (Gupta, Clements, Bhattacharya, and Chakravarti, 2003) and the impact of terror conflict on the tourism destinations (Pizam, Smith, 2000). The effects on the political instability have also been investigated (Sönmez, 1998). As a result of the September 11 terrorist attack in the New York City, the tourism industry

lost about \$10 million day as many cancelled meetings. Hotel occupancy rates were about 50 percent lower than usual even though the overall rates were about 40 percent lower than usual. Moreover, a third of nations 256,000 unionized hotel and restaurants workers were laid off (The Washington Post, 2001).

In some countries such as Egypt, terrorists try to hurt the country income by violent actions against tourists. Similarly, the Kurdish action brings tourism down in the east of Turkey (Feichtinger, Hartl, Kort, and Novak 2001). Literature shows that terrorism, political instability and regional war curtail tourism (Hurley, 1988; Enders and Sandler, 1991, Pitts, 1996). However, the literature also indicates that war positively affects tourism. The war stimulates tourism such as promotional, emotional, military and political tourism and such category of tourism that is stimulated by war is the largest single known category of tourism known (Smith, 1998). Moreover, human rights violation, conflict, and other politically motivated violent negatively affect tourists' arrival and even type of government affect tourist arrival. Such as the arrival of tourists in an autocratic regime are lower than in a democratic one (Neumayar, 2004). Sociopolitical factors such as domestic violence, tension between neighboring countries and terrorism have been identified as serious threat to the tourism industry (Richa, 2005).

Looking at the impact of terror acts on tourism on the global level, the terror acts since 1972 have badly impacted the hotel industry across the globe and shift in touristic plans seriously curtailed revenues for many countries (Sonmez and Graefe, 1998). Hotel in Rome experienced a decrease of nearly 60 percent in 1985 in hotel occupancy among the American guests (Hurley cited in Sonmez and Graefe, 1998). Tourism, which is one of the important sources of income for the local people in the Swat valley of Khyber Pakhtunkhwa, was badly affected due to the increasing acts of terrorism and war against the militants. Majority of the hotels across the valley shut down as tourist ceased to visit the area because of the increasing bomb blasts, suicide attacks, target killings and abduction in the area. According to a survey report, the revenue growth in the hotel industry has suffered by 45 percent. Additionally, it adversely affected the level of employment, marketing activities and agriculture sector in the area. In the war affected Swat valley, the hotel industry suffered a loss of more than 7.5 billion Rupees during the last 3

years and over 800 hotels, including 405 restaurants remained closed due to the tense situation in the Swat valley (Qamar, 2009).

Pakistan is an attractive place for tourists across the region. The tourists visit due its many beautiful and adventure aspects. The country, because of diversified cultures, values and natural beauty, attract millions of tourists annually. The Khyber Pakhtunkhwa province is especially famous for the tourist as a hotspot for adventures and exploration. It is famous for its natural beauty, high mountains, valleys, hills and dense agriculture forms. Terrorism in Pakistan has adversely affected tourism. It has greatly de stabilized the economical fertility of hotel industry, in the event of the Meriot hotel bombing in 2007 in the capital city of Islamabad, attack on Pearl Continental hotel in Peshawar and PTDC motel in Swat. Because of the tourists' inflow within contributed huge amount of revenues to the economy. State Bank of Pakistan (2002), tourism generated 6.9 percent of revenue to GNP.

Among others, the arrival of tourists and hotel business were affected because of the conflict in the Swat valley. Majority hotels in the area were shut down because of the insecurity in the area and tourists ceased to visit the valley engulfed war against the militants. As a consequence, war against terrorism greatly reduced business activities in the Swat valley. Tourism business has also been found to be affected as result of the conflict in the province of Khyber Pakhtunkhwa. Recent literature indicates that the terror conflicts have largely affected all sector of the local economy and business has specially been affected. There is no single study, which has covered the impact of the conflict on the hotel business in case of swat valley. Taking into account the huge economic losses and its impact on the livelihoods of the people, this study add to the current literature on terrorism and its impact on tourism industry vis-a- vis unfolds insights to the policy makers around the world. The study specifically focuses on the post-conflict situation in the war affected region.

The paper is organized as follow: The first section discussed the status quo of the problem of conflict. Section two review the literature on the impact of conflict on the economy vis- a -vis the tourism industry. Section three focuses on the methodology. In section four we present the results and discussion. The last section outlines conclusion and forward policy recommendations.

Data and Research Methodology

A total of 70 hotels were selected using simple random sampling from the conflict affected Swat valley in Khyber Pakhtunkhwa province of Pakistan. These comprise of Semi-governmental and private sectors. An interview schedule was designed to collect data from the hotel owner/manager. The hotels were categorized into three groups: Urban, semi-urban and rural on the basis of their location. The interview schedule was pre-tested to adjust it to the real field survey. Face to face interviews were held with the respondents in the study area. The interview schedule focused on the variables such as the pre- and post conflict business activities in the hotels, room occupancy, number of guests visiting the hotel, revenues generated in the pre- and post conflict situations, cost of damages due to cross firing, theft, and loss of equipments etc. Similarly, number of employee working in pre- during and post conflict situation in the hotels were also included in the interview schedule.

The respondents were also inquired about their confidence in continuing hotel business after the conflict. Moreover, information was solicited about the capital needed to recover their business and the sources they used to reestablish their business in the post conflict situation. In addition to the primary data, secondary data were also gathered from various sources at the federal, provincial and district level. An interview schedule was used for soliciting information from the respondents. Face to face interviews yielded the needed information on the variables of interests for this study. The missing information was filled through revisiting the sample respondents in the study area. The refined data were transferred to excel sheet and the descriptive statistics, such mean, tables and graphs were generated using the Microsoft Excel Sheet.

The Study Site

The study area is located in North of Khyber Pakutunkhwa province. The valley is a famous tourist spot because of its scenic beauty, natural landscape and abundant natural resources. In the West of the Valley is located District Dir, while in the north it extends to Northern Areas bordering China.

The valley is endowed with natural forests and natural spring and water-falls which add to its attraction for the tourists. Swat valley is one

of the most beautiful and historical valley in Pakistan. It is one of the greener and more fertile valleys because it lies in the monsoon belt. In addition, the valley is rich with the Ghandhara civilization and historical places in many locations. Local crafts are also famous which has made the valley a popular location of the tourists. Therefore, the valley attracted tourist both within and outside the country. Especially, in the summer season, tourists' inflow reaches to the peak in the valley generating sufficient revenues for the business community. Hotel industry is also the source employment for local people. Since 2008, the valley came under fire because of the increasing militancy, suicide attacks, and explosions in the area.

In 2009, the government launched a military operation in the area to cleanse the area from the militants. Million of local inhabitants were displaced from the area. All the economics activities including the hotel industry came to a halt. In addition, many hotels were attacked and several others were looted. Physical damages million of rupees occurred to the hotels in the area and thousands of employees lost their jobs.

The swat valley became the centre of Terrorism, which directly affected every sector of the local economy. That in turn overburdened the economy of Pakistan. The conflict in the area devastated the economic conditions in the area. This led to the loss of a major share of revenue which was generated through tourism sector before the conflict. Swat valley is one of the most beautiful and historical place in Pakistan. It is greener and fertile valleys and it is so attracted due to his beauty and his hospitality of the people that the people called them with the name of Paradise on earth.

Results and Discussion

Data Analysis

The data of 70 hotels were used for the analysis. A total of 48 respondents were selected from hotels in the urban areas, 5 respondents were selected from hotels located in semi-urban areas, while 17 respondents were interviewed from hotels located in the rural areas. The sample respondents comprised hotel owner, managers and other employees of the hotels. The data was used to calculate mean and percentages. Microsoft Excel sheet was used to generate tables, graphs and charts.

Respondents Demographic Characteristics

The analysis shows that 24 percent of the sample respondents in the urban hotels are illiterate. While 20 percent respondents are illiterate in semi urban area and 23.5 percent of the respondents in the rural area are illiterate. Moreover, in the urban area 16.67 percent of the respondents are graduates, while among the respondents of the semi urban area 20 percent are graduates. The data of rural area sample consists of 17.65 percent with graduate level education. The analysis further show that 14.58 percent of the total respondents located in the urban area, 40 percent in semi urban and 47 percent in rural area are hotel owners (Table 1).

Table-1: Demographic Information of Respondents

Demographic Information	Hostel Location		
	Urban Area	Semi Urban Area	Rural Area
Illiterate respondents	12 (24)	01 (20)	04 (23.52)
Respondents with age < 40 years	32 (66.67)	02 (40)	09 (52.94)
Respondents with Graduate degree	8 (16.67)	01 (20)	3 (17.65)
Respondents who are hotel owners	07 (14.58)	02 (40)	08 (47)
Respondents with > 10 years experience	30 (62.5)	02 (40)	14 (82)
Sample Respondents	48	05	17

Source: Primary Survey. Note: Values in parenthesis are percent of total sample.

Out of total respondents in the urban area 62.5 percent have work experience of more than 10 years, while in semi urban area hotels about 40% have more than 10 years experience and in rural area respondents having more than 10 years experience are 82 percent. The data suggest that majority of the respondents are educated and few respondents are graduates.

Economics Losses (Rs.) of Conflict Affected Hotels

Table 2 presents the total estimated loss occurred of 48 hotels in urban area. The data show that the hotel in urban area has been affected worth cost of Rs. 821234. This cost includes Rs. 983673 as buildings' damages, Rs. 143827 as crockery loss and Rs. 181000 as assets losses. In 5 hotels of semi urban area, the total cost incurred due to the conflict is Rs. 100740. This cost includes Rs. 43740 as building damages, and Rs. 106000 as electric appliance loss Rs. 38000 as crockery loss. The 17 sample hotels in rural area have suffered a loss of Rs. 266600. This loss includes a loss of Rs. 202142 as building damages Rs. 60333 as assets

loss while Rs. 70000 have been lost as vehicle damages, theft etc. during the conflict.

Table-2: Economic Losses (Rs.) in conflict affected hotels

Type of Cost	Urban Area	Semi Urban Area	Rural Area
Estimated Loss (Rs) Building	983673.07	43740	202142.85
Estimated loss (Rs) assets	181000	0	60333.34
Estimated loss (Rs) crockery	143827.27	38000	45375
Estimated loss (Rs) electric appliances	31723.52	106000	31625
Estimated Loss (Rs) vehicle	16000	0	70000
Others estimated. loss (Rs)	403337.5	35000	77333.33
Total estimated. Loss (Rs)	821234.1463	100740	266600

Source: Survey Data, 2010

Impact of Conflict on Room Price, Hotel Revenues and Employment

The conflict has significantly affected the room price, monthly revenues and hotel occupancy in the study area. The average room price for all the categories of sample hotel shows reduction in pre and post conflict period. The average room price in the pre conflict times is Rs. 390.48 for urban hotel while it is Rs. 406.19 after the conflict. Considering the case of semi-urban hotel we find that average room price is Rs. 662.5 in the pre conflict period while it is Rs. 325 after the conflict.

Table-3: Average Change in Room Price, Monthly Revenue and Employment

Variables	Area		
	Urban Area	Semi Urban	Rural Area
Average Room Price (Rs)/Night (Pre-conflict)	390.48	662.5	338.24
Average room price (Rs.)/ night (post-conflict)	406.19	325	277.65
Average Revenue (Rs)/month (Pre-conflict)	360755	736000	243176
Average revenue (Rs.) /month (post-conflict)	3677	9800	5705.88
Average decline in revenue Rs./month	357078	726200	237470.12
Average No. of employees (pre-conflict)	7.67	9.2	9.65
Average No. of employees(post- conflict)	5.21	2.8	(4.35)

Source: The values in the parenthesis are the Post Conflict Values.

The analysis further indicates that the average room price of rural hotels is Rs. 338.24 in the pre-conflict period and it is Rs. 277.65 after the conflict. The analysis also reveals that monthly revenue in the pre-conflict period is Rs. 360755, while it is dropped to Rs. 3677 after the conflict for urban hotels. In the Semi-urban sample hotels, the pre-conflict monthly revenues are Rs. 736000 which declined to Rs. 9800

after the conflict. The monthly revenue of the rural hotels is Rs. 243176 in the pre-conflict period, and it is Rs. 5705.88 after the conflict. The room price has been declined more than 100 percent in semi urban are hotels. The conflict has affected the number of employees. We find the number of employee is 7.67 persons per hotel in pre conflict, which reduced to 5.21 persons per hotel after the conflict in case of urban hotel. In case of semi urban area the total number of employment is 9.2 workers per hotel in pre conflict and 2.8 workers per hotel in post conflict. In case of rural area, the situation of employment is also decreased from 9.65 workers per hotel in pre conflict to 4.35 workers per hotel in post conflict (Table 3). These results support the findings of other studies, which evidenced that tourism revenues are substantially reduced because of terrorism (Enders et.al, 1991).

Room Occupancy and Guests Arrival in Pre and Post Conflict Periods

The number of daily rooms' occupancy is decreased immensely in the conflict affected hotels. The daily rooms occupancy were 87, 96 and 88 percent in pre- conflict, which declined to these were 28, 9 and 10 percent in post conflict. More than 100 percent reduction occurred in daily rooms' occupancy in all sample hotels (figure 1). Moreover, it is evident from Figure 1 that the number of guests (local and foreign) is also decreased in all sample hotels of the study area.

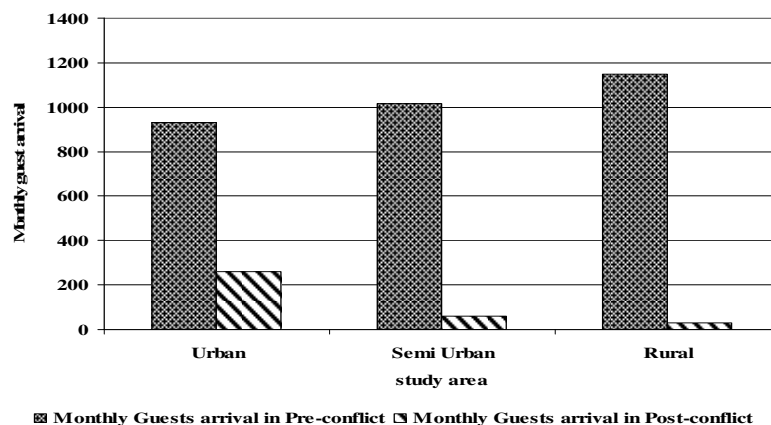


Figure-1: Pre- and post conflict guests arrival in the conflict affected hotels

Similar findings have been reported on the impact of terrorism on tourism and the hotel occupancy rate in New York city because of the September 11 attack on the twin towers in the city in 2001 (The Washington Post, 2001). The drop in hotel occupancy rates have also

been reported in case of China as result of the crackdown on students in Beijing in 1989 (Gartner and Shen1992, Hall and O'Sullivan, 1996 cited in Sonmez 1998). These findings add to the literature on the impact of terrorism on tourist choice of travel destination. As Pizam and Smith (2000) stated that tourists are less likely to visit areas with greater threat of terrorism. Our findings strongly support these studies and clearly unveil the impact of terror conflict on the hotel occupancy and reluctance of tourists in the affected areas.

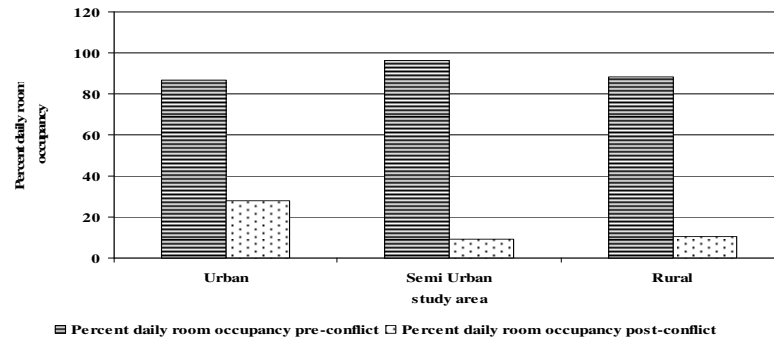


Figure-2: Percent daily room occupancy in pre and post conflict period

The results of comparing the mean through t- statistics are given in table 4. The significant t values of daily rooms' occupancy, local tourists' arrival, foreign tourists' arrival, monthly revenue, and employment indicate that growing militancy and the subsequent conflicts have widespread macro and micro economic consequences in sample study.

Table-4: T-test for pre- and post conflict assessment of room occupancy, guest arrival and employment

Variables' Name	t-value
Daily Rooms Occupancy	10.68 *
Tourists Arrival	8.72*
Average monthly Revenue	1.85***
Room Price per night	0.63
Employment	5.81*

Note: *, *** show significance level at 1% and 10% respectively

Sources financing of loss recovery and rehabilitation

Hence, the data provides adequate evidence to specify that the conflict affects average daily rooms' occupancy, local tourists' arrival, foreign tourists' arrival, monthly revenue, and employment in the study area.

However, the insignificant t value of room price per night indicates that room price is not affected due to the conflict. Tourism being a major contributor in the economy of Khyber Pakhtunkhwa province has suffered a major setback during the last 3 years.

To rejuvenate the devastated hotel industry is a daunting challenge for the hotel owners. The hotel business has been badly affected during the conflict. In the post conflict period, to restart the affected businesses, the respondents were asked to report their sources of financing for their business. The major sources of financing in the sample area are loans, assets and borrowing. We find that majority of the hotel in urban area have used loans to reestablish their hotel business. The respondents in semi urban area reported that they utilized savings to reestablish their hotel business. On the contrary, majority of the respondents in rural area reported a combination three major sources; saving, assets and borrowing (Table 5).

Table-5: Source of financing for hotel business reestablishment

Source of Financing the Loss (Amount in Rs.)	Area		
	Urban Area	Semi Urban	Rural Area
Savings	249731.7647	93500	28416.66667
Assets	7000	0	20000
Borrowing	112003.5	35000	56250
Remittances	40000	0	0
Loans	3000000	0	0
Others source	0	0	45000

Source: Survey Data, 2010

Conclusion and Policy Recommendations

Tourism plays a very important role in the economic development. The country, during the last couple of years, remained one of “the most vulnerable countries” in the world. Despite its geo-strategic importance in the South-East region, it is faced with the daunting challenge of mushrooming militancy in the country. The government has a strong commitment to fight against the menace of terrorism and root out the growing terror acts despite its financial vulnerability. The findings of this study will be helpful for policy makers in Pakistan to cope with the post conflict situation and it would also serve to act as a model of insight for the rest of the world.

Tourism is especially important industry in developing countries like Pakistan. It is of greater significance due to its employment and

revenue generation potential, particularly in the scenic and remote mountainous valleys of Khyber Pakhtunkhwa.. In recent outbreak of terrorism has largely affected all sectors of the Pakistanis' economy including the tourism industry. Taking into account the tremendous importance of the tourism industry and its role in the economic uplift of the communities dependent on tourism revenues, the quantification of losses in revenues, tourists' arrival, employment and occupancy rate in the conflict affected hotels can yield insight of great policy significance. This paper assesses the post conflict situation of the hotel business, quantifies the losses, and to identify the sources of financing for reestablishing the hotel industry in the area.

This paper has empirically examined the impact of the terrorism and growing militancy in the province of Khyber Pakhtunkhwa and the impact of nearly 3 and half years conflict on the hotel business in the valley of Swat. The results show that growing militancy and the subsequent conflicts have adversely affected the local hotel industry. There is a significant reduction widespread macro and micro economic consequences in sample study. The data provides adequate evidence to specify that the conflict affects average daily rooms' occupancy, local tourists' arrival, foreign tourists' arrival, monthly revenue, and employment in the study area. We conclude that the sample hotels in the study have been greatly affected. The results show that most of the hotel owners in urban area utilized loans to pool finances to their business, in semi urban area mostly financed their losses from savings. Majority of the hotel owners in rural area used three major sources for financing loss; saving, assets and borrowing for the reestablishment of their business.

It is further concluded that the terror conflict engulfed the whole Swat valley and produced a humanitarian calamity in the area displacing nearly 3 million people from the area. During the course of the conflict huge losses occurred because of damages to hotel buildings', crockery, assets, electric appliances and vehicle losses from the hotel. The terror conflict has had serious economic implications for the hotel industry in Swat valley of Khyber Pakhtunkhwa. The economic cost caused by the terror conflict is implausible and has significantly affected the average daily rooms' occupancy, local tourists' arrival, foreign tourists' arrival, monthly revenue, and employment in the study area. Keeping in mind the results of the study, we recommend that the government should give

high priority to the tourism industry. Further, the local government should develop roads infrastructure and accelerate post conflict reconstruction. The media might play a strong role in the promotion of the tourism industry. However, the promotion of sustainable peace and security is the duty of the political economy.

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