

## The Future of EU-Turkish Tourism Relations under the Shade of BREXIT

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**Abstract:** This study aims to discuss the development of tourism sector Turkey with respect to recent political and economic context in EU-Turkey relationship characterized by political instability and growing economic crisis in Turkey along with the era of EU after the leave of United Kingdom, which is commonly known as “Brexit”. Parallel to the analysis of Genç (1998), the manuscript will argue that the strong relationship between EU and Turkey may be beneficial for both parties in the current context, where Turkish lira is rapidly devaluated with respect to adverse political and economic conditions in Turkey and EU seeks alternative routes for structural reforms in order to prevent the collapse of EU after losing one of its strong members, UK, as a result of dissatisfaction from the possibility of Turkey’s membership to the EU. The manuscript will conclude that EU still plays an important role for the development of Turkish tourism; therefore strong relationships will be pursued for a sustainable tourism development with standardized quality and persistent innovation compatible with the EU legislation for service sector.

**Keywords:** Turkey; European Union; Tourism; Brexit

**JEL Classification:** Z32

### 1. Introduction

Tourism sector appears as an important actor in Turkish economy, as it has direct and indirect contributions on GDP development, employment rate and external trade balance with the considerable amount of foreign exchange inflow and EU is highly effective on the Turkish tourism industry, since around 50% of Turkey’s tourist arrivals are from EU countries (Demir & Gozgor, 2017, p. 359). However, the growing instability in the Middle East, characterized by terrorist attacks, Syrian refugee crisis, diplomatic problems with Russia and so forth has an adverse impact on the economy and politics of Turkey, causing damage to the foreign trade as well as tourism industry (Kirişçi & Ekim, 2016, p. 68). In order to overcome these challenges, sustainable economic policies based on globally standardized quality and

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persistent innovation along with strong international relations should be implemented (Genç, 1998). For that reason, current status of Turkey in the process of “transposing” EU legislation into its national law as a candidate country (European Union, 2018) combined with existing challenges such as the growing tension between Turkey-U.S. relations and the rapid devaluation of Turkish lira as of 2018 August will make the EU-Turkey relations important more than ever, especially considering the fact that EU also have some severe problems regarding to its presence such as ongoing crisis in Mediterranean member countries (Greece, Spain, Portugal), ever-increasing Syrian refugee arrivals and dissolution threats as in the case of Brexit.

In this study, the development of Turkish tourism will be revisited based on current challenges both in EU and Turkey, as issued by the doctorate dissertation of Genç (1998). The manuscript will be centered on the research question that whether Turkey needs to pursue a close relationship with the EU in order to achieve a sustainable development for its tourism sector with standardized quality and persistent innovation. The paper will start with a brief historical development of Turkish tourism with respect to political and economic influences, such as military coups, global oil crisis, implementation of neo-liberal policies and so forth, with a specific focus on the EU-Turkey relation as the basis of analysis. Then, the focus will shift to the current issues in Turkey-EU relations especially considering the recent economic and political developments in the Middle East region and situation of EU after Brexit, and their impacts on Turkish tourism. Based on the recent findings, the study will conclude that the improvements in the EU-Turkey relations will be beneficial specifically for the tourism sector of Turkey, as discussed previously by Genç (1998).

## **2. Stages of Turkish Tourism Development**

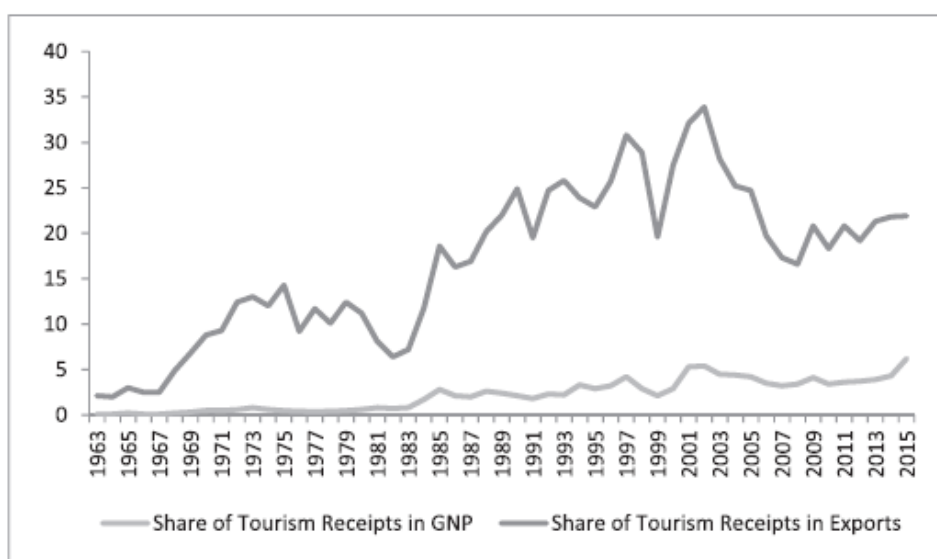
First of all, the development of Turkish tourism has been separated into five major stages since the establishment of Turkish Republic in 1923 (Var, 2011, p. 2). These are:

- 1- Strong nationalistic policy (1924-1950);
- 2- Protectionist liberalism (1951-1960);
- 3- Planned Economy period (1961-1980);
- 4- Introduction to private entrepreneurship (1981-1990);
- 5- Private sector and liberal economic policy (1990- present).

As the intention of this manuscript is to discuss the impact of EU in the development of Turkish tourism, the first two stages will be skipped, as the institutional framework between EU and Turkey was established with Ankara Agreement in 1963 (Directorate for EU Affairs, 2017a). Furthermore, recent changes in global markets

and international relations after 2008 Global Crisis and their reflections on tourism sector of Turkey have not been adequately captured in this categorization, thus a six step should be added, which deals with tourism market under the impact of EU-Turkey relations in 2010s.

Starting with the first Planned Economy Period, the new constitution followed by 1960 military coup leads to fundamental changes in the administrative structure of economy policy and enables the introduction of new laws that aim to reduce unemployment, high inflation, trade deficits, as well as providing a better income distribution within the society (Var, 2011, p. 4). The policies also include the establishment of Ministry of Tourism for the first time in 1965 in order to organize the tourism sector at a ministry level. These efforts raised the share of tourism receipts in overall Gross National Product (GNP) up to 15% until 1974 Global Oil Crisis, as seen in Figure 1. Then, the share of tourism started to drop around 5% level in 1983, following the political chaos during 1970s in Turkey, which eventually resulted in another military coup in September 1980 and another constitution was established in 1982, leading to a more neo-liberal governance in Turkey (Var, 2011, p. 5). Yet, the impact of tourism sector during Planned Economy period was rather limited compared to other periods and the impact of EU on Turkish tourism was mainly indirect.



**Figure 4. Share of Tourism Receipts in GNP and Exports**

*Source: (Demir & Gozgor, 2017 p. 359)*

The decreasing role of tourism industry in Turkish economy was recovered with the introduction of Tourism Encouragement Law in 1982 (Demir & Gozgor, 2017, p.

359). The law enables privatization of tourism industry supported by long term credits with low interest rates, employment of foreign nationals, alcoholic beverage permission, and so forth (Var, 2011, p. 5). Political stability also contributed to this improvement, since decreasing threat of social tension increased the attractiveness of country for tourism purposes, as well as other economic activities. As a result, the share of tourism industry in Turkish economy rapidly raised and reached to 25% of its GNP in 1991. The liberal turn of Turkish economy revived the relationship between EU and Turkey, which was frozen after 1980 military coup, and Turkey applied for the full membership in 1987 (Directorate for EU Affairs, 2017b). The development of tourism sector through 1980s can be also found in Figure 1.

Despite high excessive inflation and political instability with short-term coalition governments, along with terrorist attacks in multiple destinations of Turkey, the share of tourism sector in the overall economy kept growing with fluctuations through 1990s up until 2001 economic crisis. A rapid recovery was observed in the following years as a response to successful economic reforms, which indicated a “clean break” considering the performance of Turkish economy, and this time, until 2008 Global crisis (Macovei, 2009). Nevertheless, the share of tourism revenues harshly decreased from a level around 30% right after the 2001 crisis to below 20% in 2008. Figure 1 depicts the decrease in the share of tourism receipts in GNP, while share of tourism receipts in exports are slightly higher compared to previous decade.

Remarkable developments with the relationship with EU also contributed to improvements in tourism share in Turkish economy. For instance, Customs Union Agreement which came into force in December 1995 intensified Turkey-EU economic relations, strengthened the bond between two parties, and highlighted Turkish tourism destinations as an attractive option for EU citizens. Recently, the European Commission issued a report in 2006, namely “A renewed EU tourism policy: towards a stronger partnership for European tourism, which highlights the necessity for a more environmentally sustainable tourism in EU. Furthermore, another report that was issued in 2007, namely “Agenda for a sustainable and competitive European tourism” indicates that tourism services should be more competitive and sustainable, as well as oriented for maximizing tourist satisfaction in Europe (Dogan & Aslan, 2017, p. 240). As an official candidate country of EU since 1999 (Directorate for EU Affairs, 2017b), Turkey is responsible for implementing these sustainable tourism policies as long as the country is willing to be a member of EU, therefore ongoing relations guarantee the implementation of such policies.

### 3. Current Issues in Tourism regarding to Developments in EU and Turkey

Having provided a brief summary for the history of the tourism development in Turkey in three main periods, the focus will be the impact of current economic and political developments on EU-Turkey relation and hence the future of Turkish tourism. The year 2015 can be considered as a breaking point for Turkey, as the country has been facing severe political and economic problems including growing amount of Syrian refugees recorded as more than 3.5 million in August 2018 (UNHCR, 2018), terrorist attacks, political unrest resulted in a failed military coup attempt on 15 July 2016, and various other socio-political problems.

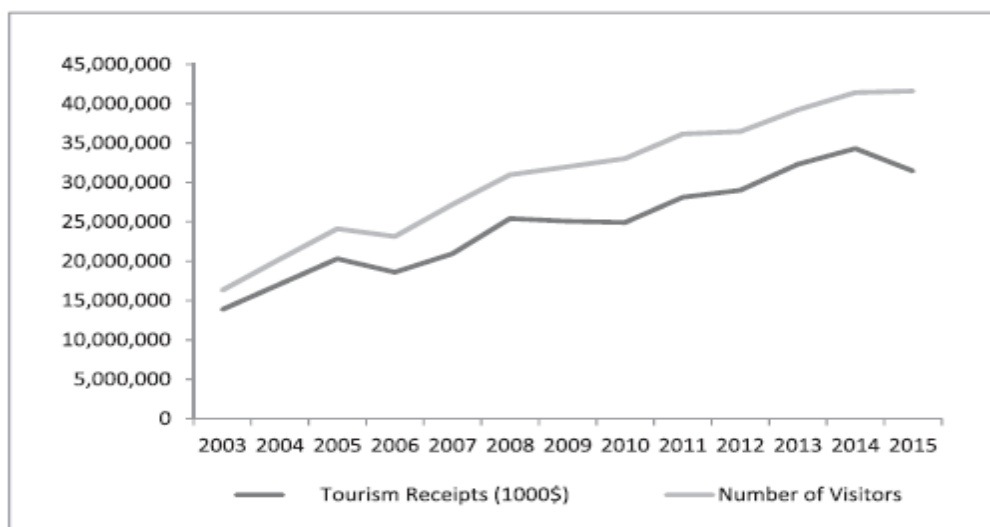
In addition to this, the value of Turkish lira depreciated rapidly against dollar, euro, pound and other currencies in very recent time; and considering the EU countries, 1€ was below 2₺ in 2008, and the highest value of 1€ was recorded as more than 8₺ in August 2018, which means more than 300% increase within 10 years, hence ricocheting the purchasing power of EU citizens in Turkey, despite considerable inflation in price levels, and consecutive tax additions for certain products such as alcoholic beverages, cigarettes, and so forth. The unstoppable devaluation of Turkish lira can be seen in Figure 2.



**Figure 2. ECB Euro Reference Exchange Rate: Turkish Lira (TRY) (August 2008-August 2018)**

*Source: European Central Bank, 2018 August 25.*

As a natural outcome for this devaluation, tourism revenues are expected to increase in Turkey, as it has become financially more and more attractive each and every year, but as mentioned previously, the political struggles that Turkey encountered discouraged the European tourists to come to Turkey to spend their holidays and enjoy their increased purchasing power in Turkish tourism services. Several countries across globe, such as United States, Australia, New Zealand, United Kingdom and Canada advised cancelling the travel plans for provinces close to Syrian border of Turkey, avoiding from non-essential travels in certain regions of Turkey including Istanbul and Ankara, and exercising increased caution in other parts (Travel.State.Gov, 2018). These precautions have a strong impact on the number of tourist arrivals, hence the tourism receipts in Turkey. Historically, there has been a constant increase in the number of tourists and tourism revenues up until 2015, as seen in Figure 3.



**Figure 3. Tourism Receipts in thousands \$ and Number of Visitors between 2003-2015**

*Source: Demir & Gozgor, 2017 (p. 360)*

However, after 2015, both tourist arrivals and revenues received from tourism in Turkey radically decreased in 2016. The data obtained from Ministry of Culture and Tourism (2018) suggest that the number of tourist arrivals was recorded as 36,244,000 in 2015, which then dropped to 25,352,000 in 2016, indicating lower amount of tourist arrivals even during the Global Crisis in 2008, which was stated as 26,336,000. Moreover, in the joint report of TurkStat, Central Bank and Ministry of Culture and Tourism (2018) it has been indicated that the total tourism revenues was 31,464,700 thousand dollars in 2015, and then reduced to 22,107,400 thousand dollars in 2016, and slightly recovered itself in 2017 with 26,283,600 thousand dollars.

In order to manage this rapid decline in the number of tourists and tourism revenues, Turkey is actively looking for possible improvements for its economy, as the degradation in the economy is not limited to tourism sector, rather Turkish economy is currently suffering at all sides. Some scholars claimed that the adverse situation in Turkey will re-energize the relations between EU and Turkey, which would bring democratic reforms back and compensate the economic losses caused by current challenges in the neighborhood of Turkey (Kirişçi & Ekim, 2016, pp. 68-69), whereas others are critical about structural reforms and fiscal rules imposed by EU on member countries by claiming that current mechanisms in EU are inadequate to protect the losers of globalization (De Grauwe, 2016, p. 249), such as countries like Turkey. Nevertheless, the general impact of EU on the development of Turkish tourism is seen as positive, since it will bring about a legislative framework in order to ensure a sustainable tourism development in the absence of a politically stable environment and responsible governance. In their study regarding to level of relative corruption in Turkey and other developing countries, Demir and Gozgor (2017) claim that any action taken by Turkey to reduce the level of corruption will increase the tourism inflows specifically coming from EU countries, since corruption leads to mismanagement of scarce resources for the benefits of a small group, hence bringing out additional costs for tourism services through bribery and so forth, decreasing the tourism competitiveness and attracting less tourists, because tourists prefer to travel less-corrupted countries as they avoid from additional costs to maximize their own benefits.

On the other hand, Brexit appears as an important challenge for the future of Turkish membership in EU along with possible benefits in the absence of UK in EU. Previous studies suggest that the support provided by UK for the membership of Turkey in EU has become a predominant issue in the Brexit referendum campaign, since the Leave campaign was emphasizing that remaining in EU will lead to further immigration crisis especially after the participation of Turkey as a member state with the support of UK (Ker-Lindsay, 2018, p. 2). This position of Leave campaign in EU will likely be pursued by Eurosceptic groups and political parties in other member countries, hence creating a further barrier for the membership of Turkey. At the same time, Turkey currently offers a valuable tourism investment opportunity for EU considering the devaluation in Turkish lira and available cheap labor for further developments in production or service sectors. Therefore, the bilateral nature of current crisis after Brexit regarding to the membership of Turkey increased the degree of uncertainty in future relations given the already existing complexities in economic and political context of both parties, and this confusion will naturally reflect on the development of tourism industry in Turkey.

#### 4. Concluding Remarks

In general, the EU-Turkey relations have a strong influence on the tourism sector of Turkey, and recent political and economic developments have a potential to make the cooperation between both parties more important than ever. Yet, the new era for EU after Brexit realizes that the membership of Turkey can be used as a threat by Eurosceptic groups in EU, and may lead to collapse of EU given the risk of increased amount of immigrants in member states after the participation of Turkey. For that reason, EU may be likely to limit its relationship with Turkey in order to maintain its existence. In addition to economic policies and diplomatic strategies, effective corruption control appears as a necessity for Turkey, indicating the absence of effective contract enforcement, independent judiciary, and responsive public services. In this regard, accessing to EU membership will be beneficial for Turkey for adapting the anticorruption laws to decrease the level of corruption, which will eventually increase the number of tourist arrivals, hence tourism revenues and GDP of country in general (Demir & Gozgor, 2017, p. 365). All in all, tourism is an important source of revenue for Turkey and effective measures based on a strong relationship with EU need to be taken in order to achieve a sustainable tourism development with persistent innovation and standardized quality.

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