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Investor Brief: Tourism Recession & Necessity For Reformation

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> The current situation of the promising revenue source, reasons behind its failure and new strategies on turning it back into its old glory

This is the second part of the “Turkey Investor Brief” series prepared by StratejiCo. If you would like to get a more comprehensive brief, **please get in touch with our team.**

Source: World Tourism Organization 2015 Tourism Highlights

Current Situation

In addition to dependence on foreign resources for energy consumption, downing of the Russian plane near Syrian border and subsequent attacks inside Turkey’s borders demonstrated its dependence on tourism revenue as well. An important part of Turkey’s GDP (6,2%) is composed by the tourism incomes. The incoming tourist number has fallen significantly in 2016. We have observed a decrease of 28% in April compared to the same month in the previous year. This is the biggest decrease since May 1999.

Not surprisingly, the biggest decrease is in the number of Russian visitors.

A decrease of more than 80% in Russian tourists is expected; which is roughly equivalent to 9-10% of all the incoming tourists. However, visitors from other countries have changed their favorite tourism destination due to terror attacks and regional unrest. More concretely, consecutive deadly bombing attacks took place in Istanbul and Ankara. All these resulted in a sharp decrease in tourism revenues and tourist numbers. Various tourism associations in Turkey even demand that tourism sector should be taken under protection with the exemption of property tax and return of private consumption tax by the government.

The deteriorating situation in tourism sector also made its structural problems even more visible. According to data by Ministry of Culture and Tourism, Turkey could not get much income despite experiencing an increase in tourist numbers in the first quarter of 2015. The average income by one tourist is approximately 900 USD but annual increase in tourist numbers does not bring an exponential increase. With the combination of the structural problem

(low value added, lack of innovation, lack of collaboration between public and private institutions) and recent incidences, Turkey tourism income has lost nearly 800 million USD in the first quarter of 2016 compared the previous year's same period.

Turkey on World Ranking

The above graphic shows Turkey's world ranking for tourism income and tourist numbers. After especially 2007, tourist numbers did not increase our ranking in the tourism income. Turkey has become 6th in tourist numbers in 2014 while placing at 12th in tourism revenue. Furthermore, the index prepared by World Economic Forum shows that Turkey ranks at 44th in travel & tourism competitiveness. The index based on criteria such as infrastructure, use of cultural and national resources, safety and security, price competitiveness, international openness. All the cumulative factors resulted in the fact that Turkey's loss almost reached to 800 million USD at the first quarter of 2016.

Results

Unemployment will increase greatly. Statistics state that 200.000 personnel in the sector are now currently unemployed because of the current situation even before the beginning of the tourism season. There are several sectors supplying to tourism; food, logistics, services etc. It is one of the driving forces of economy and employment.

Turkey's economy has been damaged by a loss of 800 million USD in the first quarter of 2016. This drop is coming only from the decrease of tourism figures.

Conflict with Russia will push the advent of new transformations such as energy diversification, renewable energy and domestic production.

Road Ahead

Conclusions

Compared to other tourist destinations, Turkey's tourist arrival amount is now incongruent with the tourism income. Tourism income is always less than arrivals. Tourism is an important asset and Turkey has been prominent as one of the top tourist destinations. Unlike an adaptive strategy, Turkey has the capacity to execute a shaping strategy with her potential. The way to Turkey's 2023 Targets (50 million tourists and 50 billion USD income) will be even more difficult with the current approach. Furthermore, current growth trend will slow down with the increasing unemployment and current deficit. In the short term, current account deficit and GDP slowdown will be visible with the low prices in the tourism sector trying to compensate the decreasing tourist numbers and income.

Strategy & Suggestions

Unlike the failure in international branding in hazelnut, (80% of hazelnut is produced in Turkey - but no international brand) Turkey must possess new approaches leveraging her competitive and pioneering advantage. Turkey should leverage her potential via increasing the tourism receipts in accordance with the arrival figures. The new strategy should include energy efficiency, tourism prioritization, reputation management and 4th industrial revolution methods. A new shaping strategy should increase the attractiveness of the tourism region as well as the resorts.

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