

The Impacts of Political and Economic Uncertainties on the Tourism Industry in Turkey

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Abstract

Turkey is one of the most visited countries by international tourists in the world. In 2013, the tourism receipts in the country increased by 11.4% compared to the previous year. More than 4 million Russian tourists visited Turkey in 2013, mainly on the Mediterranean region. Utilizing a case study approach, this study examines the impacts of the political and economic uncertainties on the tourism market in Turkey. The uncertainties are identified as follows: (1) global economic crises, (2) political instabilities between the EU and Russia, and (3) domestic and regional political instabilities. Based on the number of tourist arrivals and statistics on tourist flows, the study reveals that the tourism market in Turkey is indirectly affected by the political instability and following economic crisis in Russia. Furthermore, the domestic and regional political instabilities surrounding Turkey have not negatively affected tourist flows. This study contributes to the literature with an analysis on how uncertainties in state policies have an impact on the tourism market. The paper is based on secondary resources such as in-depth statistical data, country reports, industry forecasts as well as risk/reward and security ratings.

Keywords: Tourism, uncertainty, policy, market, political instability, economic crisis

1. Introduction

This study analyzes how the country's incoming tourism is affected by political and economic uncertainties by examining political instabilities and economic crises during the period of 2014-2015. This study provides two arguments: first, the existing literature on the relationships of tourism in regards to political instability and economic crises examines political instability and economic crises as two separate factors. Moreover, these studies examine these factors within a given country or region by observing their impacts on the concerned country or region; however, there is little literature that analyzes the interaction between political instability and economic crisis. This paper analyzes how political instability and economic crises are inter-related and how the interaction between these two factors has diverse impacts on the tourism sector. Second, this study contributes to the literature with an analysis on how uncertainties in state policies have an impact on the tourism market, specifically in Turkey. As such, the study analyzes uncertainties and risks as distinct constructs and identifies risk as "a state in which the number of possible events exceeds the number of events that will actually occur, and some measure of probability can be attached to them" (Stone & Gronhaug, 1993, 40, quoted from Quintal, et al., 2010, 798), and uncertainty has "no probability attached to it. It is a situation in which anything can happen and one has no idea what" (Hofstede, 2001, 148, quoted from Quintal, et al., 2010, 798).

Turkey has a mature and developed tourism market, which is based on culture and mass-market beach tourism. As tourism receipts and hotel occupancy statistics show, the sector is growing. According to the BMI forecast, it is expected that overall tourism receipts increase from an estimated USD 38.2 billion in 2014 to USD 48.3 billion by the end of our forecast period, which also signifies an increase on previous forecasts (BMI 2015, 19). In parallel to this statistics in growth trends, it is expected that the value of the hotel and restaurant industry will increase from USD 20.3 billion in 2015 to USD 25.3 billion in 2018 (p. 22). As these aforementioned statistics demonstrate, the tourism market in Turkey is characterized with a potential of strong growth (p. 27).

This study, providing a case study approach, examines the tourism market in Turkey in relation to the current regional political instabilities and economic crises. This study specifically analyzes the impacts of the political unrest in Crimea (started in February 2014) which resulted in an economic crisis in Russia. The political tension between the EU and Russia led to the decreasing number of Russian tourist arrivals to the EU. These developments, as deficits for the EU, actually created opportunities for tourism in Turkey. On another note, the increasing tourist arrivals to Turkey points out that tourists do not perceive a threat in relation to the regional political unrests in Syria and Iraq. Based on the number of tourist arrivals and statistics on tourist flows, the study reveals that the tourism market in Turkey is indirectly affected by the political instability and following economic crisis in Russia. Furthermore, the domestic and regional

political instabilities surrounding Turkey have not negatively affected tourist flows.

2. Literature Review

The tourism industry has a complex nature, which shows how political, economic, social and cultural factors are interrelated with each other (Bergner & Lohmann, 2014)¹. This study relates the impacts of political instability and economic crises on tourism in relation to uncertainty. In the literature, political instability is mostly identified with terrorism, unrest and political conflict in contrast to peace and stability (Sönmez, 1998; Sönmez & Graefe, 1998; Helmy, 2014). Morakabati (2013) identifies political instability in relation to conflicts, crises, instability, war, hostilities and instabilities. While Teye (1988) relates political instabilities to government changes and coups, Hall & O'Sullivan (1996) provide different dimensions of political instabilities such as international wars, civil wars, coups, terrorism, riots/political protests/social unrest, strikes (quoted from Sönmez, 1998, 448). Consistently, political instability is defined through political violence (Neumayer, 2004).

Yap & Saha (2013, 597) and Helmy (2014) identify political instability with uncertainty. Uncertainties are related to unexpected events that affect tourism demand such as "wars, terrorist attacks, natural disasters, epidemics, and financial crises" (Song and Lin, 2010, 17). Likewise, Hoti et al. (2005) analyze uncertainty in relation to "unexpected domestic and foreign economic, financial and political factors" (p. 2241). Bhattarai et al. (2005) identify political instability with political turmoil, "a situation that has created a crisis of authority in governance, and directional uncertainties in daily life" (p. 671) as well as a lack of stability and security (p. 686).

Dolnicar (2007) relates the term uncertainty to the "intangible nature of the tourism product" (p. 98) and associates the term with risk and perceived risk by tourists in their choice processes. Similarly, Fletcher and Morakabati (2008) analyze the effects of terrorism and political instability on the level of tourism activity and associate uncertainty with personal safety and security as well as risk perception. Floyd et al. (2004) examine the relationship between perceived risk and travel intentions and identify risks as financial risk, health risk, physical risk, crime risk, terrorism risk, social risk, psychological risk and risk of natural disasters.

Evans and Elphick (2005) study financial crises and crisis management in relation to uncertainties, which are identified as risks and vulnerabilities (p. 135). Steiner (2010) examines the impacts of political risk and violent political unrest on tourism FDI. As such, political unrest is related to political risk, which is differentiated from political instability; and this differentiation is embodied with the distinction between violent and non-violent political unrest. Steiner (2010) identifies international non-violent government interference as economic sanctions, foreign trade embargos, blockades and travel restrictions (p. 729). Uncertainty is defined in relation to high levels of anxiety, high levels of financial barriers, and low levels of benefits (Minnaert, 2014).

Smeral (2009) examines financial and economic crises in relation to tourism and analyzes the impacts of the crises on consumer behavior. Kozak et al. (2007) found that travelers change their travel plans on the basis of their risk perception such as the fear of disease, the lack of sanitation, the perceived risk of natural disaster or political dispute. Williams & Balaz (2014) use the concepts of uncertainty and risk interchangeably and argue that the two concepts are inherent to tourism in relation to the limited knowledge, such as the impossibility of storing unsold tickets and unoccupied accommodation (p. 1).

Silva et al. (2010) study risk in relation to unknowns. Uncertainties are identified as future unknowns in indicators, projections, and expectations (Smeral, 2010). Similarly, Hunter-Jones et al. (2008) relate uncertainty to unknowns and the lack of knowledge during the decision making process of tourists, which lead to the perceptions of fear and risk. Again, Bergner & Lohmann (2014) identify uncertainty with change and unforeseeable events such as climate change, changes in technologies, demographic change as well as changes in work situations and changes in tourist behavior, needs, and aspirations (p. 426-428). Minnaert (2014) associates uncertainty with risk, travel inexperience, lack of knowledge and financial uncertainty.

Quintal et al. (2010) differentiates perceived risk from perceived uncertainty. Uncertainty and risk are rarely examined as "distinct constructs" (Quintal et al. , 2010, 797; Ghosh & Ray, 1992, 1997). However, this distinction is limited to the factors of financial loss, performance loss, physical loss, psychological loss, social loss and convenience loss; as well as their impacts of the probability of perceived risk and the perceived uncertainty.

The studies that measure the extent to which the factors of political instability and terrorism affect tourism market reveal different ranking of variables. For instance, according to the study on tourist concerns that would prevent tourists from booking their trip; war/military conflict ranked at 79 percent; life threatening diseases with 59 percent; an act of

¹ Similarly, Rodriguez & Estevez (2007) associates perceived environmental uncertainty to a function of both complexity and dynamism.

terrorism with 56 percent; the lack of access to clean food and water with 46 percent; and political instability with 46 percent (Dolnicar, 2007). According to another study, while war and political instability are the most weighted risks to pre-travel decisions, terrorism is the least significant (Hunter-Jones et al. , 2008, 245). Similarly, Yap & Saha (2013) evaluated the effects of political instability, terrorism, and corruption on tourism development and their study revealed that although terrorism has negative impacts on the market, its effect on tourism is lower than that of political instability. Ranga and Pradhan (2014) show that despite terrorist attacks, tourist arrivals increased and tourism flourished in India. Similarly, the figure below shows that despite political instabilities, the number of tourist arrivals in the Middle East increased between the years 1950 and 2010 (Morakabati, 2013) (Figure 1).

3. Political and Economic Uncertainties

This section examines political and economic uncertainties as global economic crises, political instabilities between the EU and Russia, and domestic and regional political instabilities.

3.1 Global Economic Crisis

The relationship of tourism and economic crisis is associated with uncertainty in "the duration, depth, and implications of the global economic crisis" (Papatheodorou et. al. 2010, 39) and how such uncertainty is transmitted into the tourism industry as economic volatility (p. 44). Since the global economic crisis, inbound travel to Turkey increased from 31. 7 million arrivals in 2012 to 37 million in 2014. According to the BMI forecast, the arrivals to the country are expected to increase to 44. 9 million by 2018. It is also estimated that Europe will continue to be the main region to constitute Turkey's inbound tourism; yet, other regions such as the Middle East and Asia Pacific will send more tourists to Turkey by 2018 (BMI, 2015, 15). The diversity in the source of tourist arrivals to Turkey is seen as an advantage for the country in relation to the political and economic instabilities.

The 2008–2009 global economic crises resulted in a decrease of international tourist arrivals by 4 percent and a decrease of international tourism revenues by 6 percent in 2009 (UNWTO, 2013). Despite these declines, the tourist arrivals to Turkey continued to increase in 2008 and 2009 (Turizm, 2015) (Figure 2).

The intensity and duration of the impacts of the global economic crisis on the tourism market vary dependent on the region. Similar to Turkey, the Middle East and the Caribbean countries were less affected and managed to recover the negative affects at a quicker pace. Likewise Africa's international tourism industry was not affected by the crisis (UNWTO, 2013).

3.2 Political Instabilities between the EU and Russia

Russian travelers have become the main source of tourists for both the EU and Turkey. In 2013, 32 million Russian travelers visited Europe, composing the third largest source for Europe (ETC, 2014). Similarly, with more than 4 million tourist arrivals, Russians make-up the second largest source for Turkey (BMI, 2015). However, the political instabilities between Ukraine and Russia over Crimea, which resulted in economic and political crises, have changed travel trends in these markets (ETC, 2014). According to the report published by the European Travel Commission,

"While the European tourism sector is not a direct target of international sanctions introduced in response to the crisis, it does suffer indirectly. The weakening Rouble, partly a by-product of deteriorating trade relationships, has progressively reduced outbound travel from Russia. The climate of economic uncertainty, fear of hostile attitudes towards Russians and deteriorated visa processing, amplified by media coverage, contribute to diverting travel from Russia to non-European destinations. (ETC, 2014)"

The impacts of political instabilities on the tourism market vary in different countries. Whereas the top tourism destinations for Russia, which are Finland, Lithuania, Switzerland and Czech Republic, were mostly negatively affected; Latvia, Cyprus and Turkey, which pose neutral positions, received an increasing number of Russian tourists (ETC, 2014).

Russian tourist arrivals to Turkey have dramatically decreased in 2014 due to the decrease in consumer spending confidence in Russia, which is based on the decrease in global oil prices. Additionally, due to the impacts of the EU's sanctions and visa complications for Russian nationals, tourist arrivals from Russia is expected to grow, by almost a million between 2014 and 2018. Moreover, the close political and economic ties between the governments of Russia and Turkey may result in increasing touristic activities between the countries (BMI 2015, 17).

According to the report published by the European Travel Commission, the change in the travel flows from Russia has also been affected by the decreasing purchasing power of Russian travelers due to the depreciation of the Rouble against the Euro (ETC, 2014). For instance, it is expected that Finland will be most affected by the depreciation of the Rouble due to the country's close proximity to Russia and the significance of daily trips and shopping of Russian travelers to Finland (EurActiv, 2014). However, it is also expected that the depreciation of the Rouble will lead to an increase in tourist flows to European destinations that are not as costly to visit, such as Turkey, Greece and Hungary (ETC, 2014).

Turkey has been receiving an increasing number of Russian tourists. During the political instability between Russia and the Ukraine, Turkey refused to apply sanctions despite the fact that EU candidate countries are invited to share in sanctions being imposed. Therefore, Turkey has emerged as a main destination for Russian travelers. As a result of current sanctions, every country shows diverse results of Russian tourist arrivals. Turkey showed a significant increase as well as Greece and Cyprus, compared to the overall performance of the EU countries (ETC, 2014).

Spain, which is the second largest destination of Russian tourists after Turkey, has been experiencing a slowdown in Russian arrivals at almost a 5 percent decrease in growth in the early months of 2014. Poland is another country that is expected to experience the highest decrease in tourist arrivals from Russia, which corresponds to almost a 32 percent decrease in the number of Russian travelers. Similar to Poland, Germany and Italy experienced significant decreases in Russian tourist arrivals (ETC, 2014). According to the report of the European Travel Commission, the removal of the economic sanctions may have a negative impact on Turkey. It is forecasted that even a small change in percentage growth rates might be associated with a large number of people and changes at the total European level (ETC, 2014).

3.3 Domestic and Regional Political Instabilities

Turkey is a well-developed destination that offers a variety of options ranging from historical, cultural and natural attractions to sea-sun-sand tourism with beach resorts, festivals, activity holiday options and medical tourism (BMI 2015, 27). Despite this strong positioning, the forecast reports mention that "these developments are dependent on the maintenance of a stable political and security environment in the country over the forecast period" (p. 27). The possible threats to the stability include political instabilities such as anti-government protests; the treatment of PKK; and the conflict in Syria and Iraq, with their spillover effects. Nevertheless, it is expected that none of these threats will have a direct impact on tourism outside Istanbul (p. 27).

On 6 January 2015, a police building in Sultanahmet, one of the main touristic places in Istanbul, was attacked by a suicide bomber. A police officer and the assailant were killed. Following this terrorist attack, many travel warnings were published by government agencies. According to the Australian Government's Department of Foreign Affairs and Trade, the advice was published on their website on 07 January 2015:

"... The overall level of advice has not changed. We advise Australians to reconsider their need to travel to within 50 kilometres of the borders with Syria. We continue to advise Australians to reconsider their need to travel to the provinces of Hakkari, Sirnak and Siirt, which border Iraq and Iran and to exercise a high degree of caution elsewhere in Turkey because of the threat of terrorist attack (Smarttraveller, 2015)."

Similarly, according to the UK Government's foreign travel advice, the threats of demonstrations and terrorism were explained and the advice was as follows:

"The Foreign and Commonwealth Office (FCO) advise against all travel to within 10 km of the border with Syria. The FCO advise against all but essential travel to:

- *the remaining areas of Sirnak, Mardin, Sanliurfa, Gaziantep, Kilis and Hatay provinces*
- *Siirt, Tunceli and Hakkari provinces.*

Over 2,500,000 British nationals visit Turkey every year. Most visits are trouble-free. (GOV. UK, 2015)"

While regional political instabilities can threaten Turkey's tourism, there are avenues for growth. For instance, political upheaval in competitive countries in tourism, such as Egypt, may lead to increases in tourist arrivals in Turkey, which may result in the growth in the hotel sector. Terrorist attacks and the political instabilities in Syria and Iraqi borders constitute a main threat for inbound tourism to Turkey but these threats have yet to come to fruition.

4. Tourism Market Forecasts

According to the forecast reports, the investment plans of the top hotel chains declare confidence in the strengths of Turkey's tourism market and the popularity of Turkey as a tourism destination. More importantly, the increase in tourist

arrivals, especially among high-spending tourists from the Middle East and Russia sustains the growth in tourism investment in Turkey.

According to the BMI report, the top 10 hotel chains have currently a presence in Turkey, which signifies a well-established environment for tourism. The top hotel chains include Accor Hotels, Best Western, Carlson Rezidor Hotel, Choice Hotels International, Hilton, Hyatt, Intercontinental Hotels, Marriott, Starwood, and Wyndham. More importantly, the investments of these chains have planned to expand in 2015. For instance, Wyndham operates 34 hotels in Turkey as of 2015, up from just 14 hotels in 2014. Similarly, Hilton has rapidly expanded in 2015 with 34 hotels including the new Hilton Istanbul Bomonti Hotel and Conference Centre located in Istanbul. In addition to this, Hilton plans to open its 50th hotel in Turkey, the 147-room Hampton Izmir, in early 2016. Accor and Best Western have also planned to continue expansion in the next two years (BMI, 2015).

Domestic investors have in parallel, boosted Turkey's tourism sector. For instance, Dedeman opened new hotels in Antalya, Zonguldak, İstanbul Bostancı, Gaziantep as well as in Kazakhstan and Erbil. Also, new hotels are under development in İstanbul Levent and İstanbul Bostancı. It is expected to see an increase in hotel numbers of more than 1,300 between 2015 and 2018; and thus, a slight decline in occupancy rates to over 31 percent is expected (BMI, 2015, 21) (Table 2).

According to the BMI forecast, Turkey has a Tourism Risk/Reward Index score of 53. 7, placing the country in 13th place in the region of Central and Eastern Europe. The reward scores for tourism take into account the numbers and percentage growth of tourist arrivals over the past year and the BMI's forecasts for future growth. Turkey receives a tourism market score of 60. 00, which is above average for the region (BMI 2015, 25).

Despite the strong presence of Turkey's tourism industry, the risk/reward ratio takes into account weaknesses such as the anti-government protests and "the poor state of parts of the domestic infrastructure" (p. 25). These factors decreased the reward ratio of potential returns to 53. 4. Similarly, since there are also weaknesses in the country structure, the reward ratio is decreased to 43. 5 (Table 3).

As regards to risk scores, this score "offers an evaluation of industry-specific dangers and those emanating from the state's political and economic profile that call into question the likelihood of anticipated returns being realised over the assessed time period" (BMI 2015, 25). Turkey has a risks to realisation of potential returns score of 54. 3.

The market risks score considers short-term political stability and regional stability, as well as vulnerability to external factors. The score for Turkey is better for domestic political stability with the score of 51. 5 in the market risks column. As regards to country risk score, it covers aspects such as legal framework, bureaucracy, market openness and security risks. Country's risk score of Turkey is fairly well with the score of 56. 5.

5. Conclusion

This study analyzes the impacts of political and economic uncertainties on the tourism market in Turkey. The factors of political instabilities and economic crises intertwine with each other and their impacts have been differently in Turkey than in other countries. While the economic sanctions of the EU applied to Russia negatively affected the Russian tourist flow to the EU, it positively affected the tourism market in Turkey with an increase in Russian tourist flows.

This study analyzes how the country's inbound tourism is affected by political and economic uncertainties by examining the dynamics of the political economy with a particular attention to political instabilities and economic crises. This study contributes to the literature with an analysis on how uncertainties in state policies have an impact on the tourism market in Turkey. This study does not assume a priori that risks and uncertainties are inherent in tourism.

Despite political and economic uncertainties such as global economic crises, political instabilities between the EU and Russia, and domestic and regional political instabilities, the tourism market in Turkey has not been impacted negatively. According to the BMI forecast (BMI, 2015), it is expected that overall tourism receipts will continue to increase. The tourism market in Turkey is characterized with a potential of strong growth. Based on the number of tourist arrivals and statistics on tourist flows, the study reveals that the tourism market in Turkey has indirectly affected by the political instability and following economic crisis in Russia. The domestic and regional political instabilities in Turkey have neither affected the tourist flows. In parallel to the current literature, the impacts of political instabilities on tourism are more significant than the impacts of terrorism. As regards to risk ratios, the tourism market in Turkey secures its strong position. However, despite its position of strength, the positive growth expectations are dependent on the maintenance of a stable market environment in Turkey.

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Tables and Figures

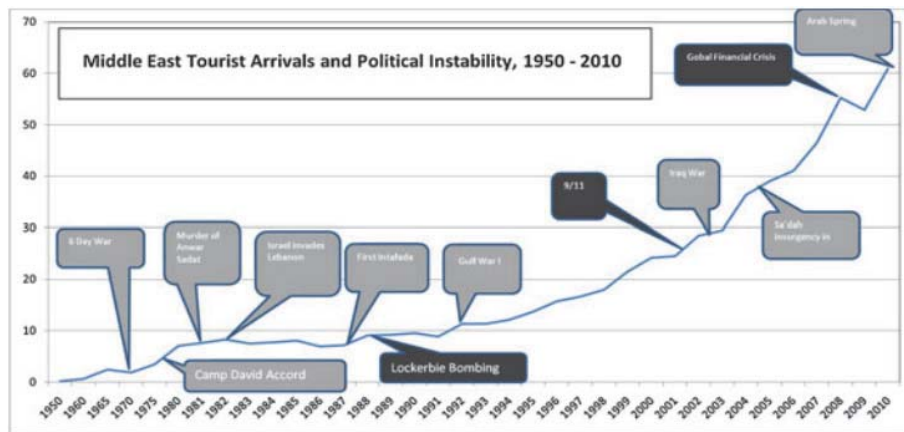


Figure 1: Middle East tourist arrivals and political instability, 1950–2010

Source: Morakabati, 2013, p. 377.

Table 1: Inbound Tourism, Top 10 Markets by Arrivals '000 (Turkey 2011-2018)

	2011	2012	2013	2014e	2015f	2016f	2017f	2018f
Germany	4,826. 3	5,028. 7	5,041. 3	5,534. 4	5,508. 9	5,553. 7	5,698. 3	5,890. 2
Russia	3,468. 2	3,599. 9	4,269. 3	3,190. 0	3,459. 7	3,729. 4	3,999. 2	4,268. 9
United Kingdom	2,582. 1	2,456. 5	2,509. 4	2,680. 7	2,706. 0	2,765. 9	2,811. 1	2,870. 7
Bulgaria	1,491. 6	1,492. 1	1,582. 9	1,777. 6	1,776. 1	1,829. 6	1,932. 7	2,070. 3
Georgia	1,152. 7	1,404. 9	1,769. 4	1,904. 6	2,092. 3	2,329. 4	2,573. 8	2,925. 2
Netherlands	1,222. 8	1,273. 6	1,312. 5	1,500. 7	1,477. 7	1,502. 6	1,572. 6	1,665. 5
Iran	1,879. 3	1,186. 3	1,196. 8	1,272. 4	1,612. 0	1,770. 3	1,989. 4	2,231. 7
France	1,140. 5	1,032. 6	1,046. 0	1,230. 9	1,205. 0	1,209. 4	1,256. 3	1,323. 3
USA	757. 1	771. 8	786. 0	876. 8	920. 8	963. 6	1,004. 7	1,061. 0
Syria	974. 1	730. 0	1,252. 8	1,252. 8	1,252. 8	1,252. 8	1,252. 8	1,252. 8

Source: BMI, 2015, 17.

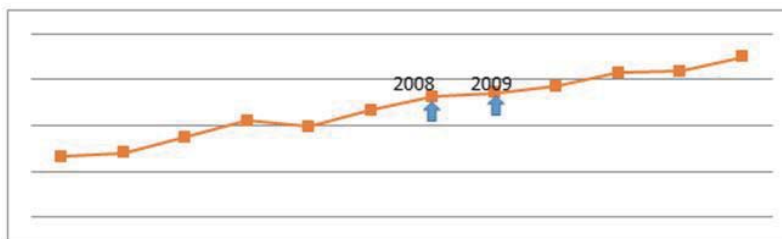


Figure 2: Tourist Arrivals to Turkey (2002-2012)

Source: Turizm, 2015.

Table 2: Hotel Accommodation (Turkey 2011-2018)

	2011	2012	2013	2014e	2015f	2016f	2017f	2018f
Occupancy Rate %	33.9	34.2	32.8	32.0	31.6	31.3	31.2	31.1

Source: BMI, 2015, 22.

Table 3: Reward and Risks Ratios

	Reward			Risks				Rank
	Limits of potential returns	Tourism market	Country structure	Risks to realisation of potential returns	Market risks	Country risk	Tourism index	
Slovenia	58.80	46.67	76.99	69.44	61.71	75.77	61.99	1
Estonia	51.50	45.00	61.24	76.85	67.27	84.69	59.10	2
Hungary	52.91	38.33	74.78	72.48	63.35	79.95	58.78	3
Cyprus	54.22	55.00	53.04	69.36	57.48	79.08	58.76	4
Armenia	57.71	48.33	71.78	58.73	61.77	56.25	58.02	5
Poland	55.95	48.33	67.38	60.68	50.46	69.03	57.37	6
Montenegro	55.38	45.00	70.95	59.81	66.35	54.46	56.71	7
Latvia	51.15	41.67	65.38	67.91	59.23	75.01	56.18	8
Belarus	57.99	50.00	69.98	50.52	63.75	39.70	55.75	9
Lithuania	49.00	43.33	57.50	70.47	60.05	79.00	55.44	10
Moldova	54.97	56.67	52.43	55.87	57.79	54.29	55.24	11
Kazakhstan	53.19	46.67	62.98	59.36	69.06	51.42	55.04	12
Turkey	53.40	60.00	43.49	54.26	51.50	56.51	53.65	13

Source: BMI, 2015.