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The Impact of International Trade and Tourism Development on Quality of Life: Evidence from Turkey

Uluslararası Ticaret ve Turizm Gelişiminin Yaşam Kalitesi Üzerindeki Etkisi: Türkiye'den Kanıtlar

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ÖΖ

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1. Introduction

In recent years, the concept of sustainability gained attention from governments, international institutions, and researchers. As a result of the increasing competition in

Bu çalışma, uluslararası ticaret, gelir dağılımı, ekonomik büyüme ve turizm gelişiminin yaşam kalitesi üzerindeki etkisini, OECD üyesi olan ve Birleşmiş Millet Dünya Turizm Örgütü raporuna göre turist sayısında 6. sırada yer alan Türkiye örneğinde, 1990-2019 yılları arasındaki yıllık veri setini kullanarak araştırmayı amaçlamaktadır. Çalışmanın metodoloji kısmında FMOLS, DOLS, CCR ve Johansen Eşbütünleşme tekniklerinden yararlanılmaktadır. Ampirik sonuçlar, GSYİH, GINI katsayısı, uluslararası ticaret ve yaşam kalitesi arasında uzun vadeli bir ilişkiyi doğrulamaktadır. Analiz sonuçları ayrıca turizm gelişiminin Türkiye'deki yaşam kalitesi üzerinde istatistiksel olarak anlamlı bir etkisi olduğunu doğrulamamaktadır. Bu çalışma, Türkiye'di yaşan vatandaşların daha iyi bir yaşam sürmesine önemli ölçüde katkıda bulunmadığı ve GSYİH, gelir dağılımı ve uluslararası ticaretin yaşam kalitesinin önemli tici güçleri olduğu sonucuna varmaktadır. Bu çalışmanın sonuçları, bazı önemli politika çıkarımlarını içermektedir.

ABSTRACT

This study aims to explore the impact of international trade, income distribution, economic growth, and tourism development on the quality of life for the case of Turkey, which is a member of OECD and ranks 6th in tourist arrivals, according to United Nations World Tourism Organization (UNWTO, 2020) using annual frequency dataset from 1990-2019. The present study leverages on Fully Modified Ordinary Least Squares (FMOLS), Dynamic Ordinary Least Squares (DOLS), Canonical Cointegration (CCR) and Johansen Cointegration techniques. Empirical results confirm a long-term relationship between GDP, GINI coefficient, international trade, and quality of life. The analysis results do not confirm the significant effects of tourist destinations in the world, this sector does not significantly contribute to a better life of citizens living in Turkey while GDP, GINI coefficient, and international trade are found to be important drivers of life quality in Turkey. The results of this study contain essential policy implications.

production and technology, companies started to use cheaper and less environmentally friendly production processes, therefore, the concept of sustainability in all aspects has been ignored in the world until international problems arise such as global warming and climate change.

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Many countries came together to discuss how to cope with these problems on international platforms. Kyoto Protocol and Paris Agreement are some of these initiatives which aim to decrease carbon emissions all over the world. The Sustainable Development Goals were introduced by the United Nations in 2015, as a part of the 2030 Agenda for Sustainable Development which laid down a 15-year plan (UN, 2021). It consists of seventeen goals with an ultimate aim to end poverty, protecting the world and improving the well-being of all people. Goal 12 is about responsible production and consumption which targets doing more and better goods for the environment with less resources. It also deals with decoupling economic development from environmental pollution, increasing the efficiency of energy and encouraging healthier lifestyles. The reduction in poverty and the transition towards low-carbon and green economies can also be significantly contributed by sustainable consumption and production which will end up providing a better quality of life.

For a long time after industrial revolution, countries set development targets focussing only increasing their gross domestic product (GDP), however this method was far from being sustainable over a long time. The 'Beyond GDP' finds GDP inadequate to approach reflect the multidimensional essence of development and supports the use of alternative policy metrics. GDP is a measure of economic performance, although widely used as an indicator of well-being, representing monetary development. Neither the social and environmental costs are taken into account, nor social and ecological costs are represented. The recent recessions have shown that GDP estimates alone hide economic problems. Alternative indexes can strengthen surveillance and direct policy to achieve balanced economic, social and environmental objectives. The choice of metrics matters as this affects the design, follow-up and assessment of policies. To date, international organizations, statistical institutions and NGOs have developed various alternative indicators (e.g. the Human Development Index, Ecological Footprint, Gini Index and Better Life Index) and are increasingly being used in policymaking (European Parliament, 2021; OECD, 2021a).

There are many factors influencing the life quality of people, and many indexes are being developed to measure economic factors as well as social, economic and cultural dimensions of it. International trade is seen as an engine for economic growth in many economic models and is accepted to increase people's level of living conditions. Exports contribute to a country's economic well-being by creating jobs in the exporting sector. Workers' income is increased as a result of new jobs created by export activities. Evidence suggests that exporters are more efficient and pay higher wages than non-exporters. In terms of economic well-being, some approaches in international economics argue that export-oriented production boosts economic growth, increases salaries, lowers unemployment, results in greater state revenue, and hence improves nations' well-being (Clarke, 2007; Sirgy et al., 2007)

Tourism is another significant contributor to quality of life in countries where tourism services play an essential role in their economy. Tourism industry has recently become the third biggest export industry following the chemicals and fuels industries. Moreover, tourism industry makes up 7% of international exports with USD 1,7 trillion and 28% of world's services exports. Therefore, tourism industry helps to improve the balance of payments and reduce trade deficits of the countries. (UNWTO, 2020)

Therefore, it is crucial to investigate the impact of tourism and international trade on the quality of life. Turkey is seen as a suitable country to study on this topic, as tourism services and international trade activities play an important role in her economic structure.

Turkey is a developing country with a high potential in international trade with its jeostrategic position between Asia, Europe and Africa and a tourist destination surrounded by seas and has a cultural heritage from many empires. Therefore, investigating Turkey in such a study would help understand other developing countries in terms of quality of life and its main macro determinants. Turkey, which is a member of OECD, candidate of EU membership, and ranks 6th in tourist arrivals, according to United Nations World Tourism Organization (UNWTO, 2020) has a young population, offering many opportunities for various industries. The country has an ambition to increase her exports and therefore many export oriented industries are supported by the government. Given the ultimate importance being placed to international trade and tourism services, it is expected that the quality of life in the country would be increased.

The study consists of four parts. The first section includes the introduction part, which provides information about the aim, importance and structure of the study. The second section includes a literature review about the topic, third section includes methodology, fourth section includes results and last section concludes the study.

2. Literature Review

Tourism is one of the most crucial elements of economic growth, which contributes industrial development, employment and improvements in quality of life. The academic literature has paid much attention to the impact of regional tourism. Tourism development has focused on factors like tourism attractions, international trade, economic growth, infrastructure, and globalization. The tourism and international trade related literature are organized with single country studies as follows.

Croes and Vanegas (2008) tried to measure the poverty reduction performance by looking at tourism development and economic growth in Nicaragua. According to their analysis, a long term relationship between the three variables were found. The correlations suggest a Granger causal relationship among economic growth, tourism development, tourism and poverty reduction. Besides, economic growth, tourism, and poverty reduction are interlinked for the Nicaraguan economy. The Granger causality result was not significantly affected by the lag selection. The empirical evidence points to the economic muscle of tourism to solve Nicaraguan poverty at an optimal scale by contributing both the public and private sectors.

Kadir and Jusoff (2010) demonstrate the relationship between tourism and trade by implementing regression modelling. This analysis has been conducted with quarterly data of international tourism receipts, exports, imports and overall trade of Malaysia. The unit root test shows that the data are stationary in first-difference and not level. The cointegration test showed that all the series are not completely cointegrated. Due to this, the long-run equilibrium was not derived. According to the Granger causality measure, there is unidirectional causality from exports to international tourism receipts at a significance level of 5 per cent. The causality analysis reveals that imports cause international tourist receipts at 5 per cent level of significance and total trade causes international tourist receipts at 10 per cent level of significance. The overall growth of trade incrementally supports tourism and travel. According to them, future economic policies should rely more on foreign exchange earnings from tourism and trade.

Luo et al. (2016) suggest that urbanization does not generally affect different regions in Guangdong China uniformly. Suburbanization will have different impacts on different regions of the world. Economic policymakers must be mindful of the diverse aspects of the effects of urbanization as cities influence tourism development. They obtained the data from 21 cities in Guangdong on an annual basis between 1997 and 2012. According to the findings of this research, a strong relationship among tourism development, GDP and tourism is demonstrated by using fixed-effect, random-effect regression analysis and pooled OLS.

Rivera (2017) elaborates the dynamic linkage among economic growth, tourism and human development in Ecuador by using a cointegration technique, with a nonlinear error correction technique. It shows an interesting point regarding tourism as a development strategy. It was confirmed that tourism does not affect economic or social development. Tourism growth does not generate human development but damages it.

Işik, Kasımatı and Ongan (2017) determine that there is a long-term stable relationship between economic development, foreign trade, and tourism for Greece. ZA unit root tests and the ARDL models are used to determine the long-term relationship among the relevant variables. In addition, the vector error correction model (VECM) proves that their economic growth, financial development, international trade and tourism expenses are cointegrated. Economic growth, financial progress, foreign trade, and tourism expenditures have had a causal impact on the rises in the CO2 emissions in Greece. Fahimi et al. (2018) investigate the economic growth of microstates between 1995-2015 and uses a panel dataset which takes account of correlativity. The relationships among tourism, investment in human resources and economic growth are discussed in depth by employing the Granger causality testing technique developed by Dumitrescu and Hurlin (2012). Their research results indicate that travel has a major effect on the economic success of a nation. Over the sample era, the tourism industry has not been bringing much in terms of export sales to Singapore. It may have led policymakers to diversify their economy from being dependent on tourism to an economy focused on training and human capital.

Shahbaz et al. (2020) conduct empirical research by considering the influence of tourism on the Malaysian economy. The data is obtained for the study period, which is from 1991q1 to 2017q4. The combined approach provides a complete understanding and analysis of the relationship between variables. They found a long-run relationship among the relevant variables. Tourism which is represented as visitor arrivals and visitor expenditures, redistributes income by lowering income inequality. Income inequality is positively correlated with economic growth and trade openness leads to a decrease in income inequality. The conclusions show that there is a positive effect running from tourism development to income distribution.

Fafurida, et al. (2020) establish a link between the number of total tourism capacity and the economic development for Indonesia (including 33 provinces in 2011-2017 period of time). Gross domestic product, regional income, human development index and international trade have positive effects on tourism variable (WIS), while poverty has a negative impact. WIS, HDI, and HDI are essential factors influencing the GDRB. Research on the first model suggests there is a conformity of the hypothesis and substantial relationship on tourism ($\alpha = 1$ per cent). The data of the second model also shows the crucial results. This research has shown that the tourism sector can have a positive impact on economic development in Indonesia.

The relationship between tourism sector, economic development, and human development was explored by Croes et al. (2021) which study focuses on tourism sector economic development and human development in terms of the transition economy. Tourist specialization is linked to human development through a division of labour system. The skill of a nation is the basic concern to an economist. LIML estimates this relationship's roots in the sense of Poland. Tourism areas aren't considered to have a significant long-term impact on the GDP or HDI. It is an indicator that human progress will be increased due to economic growth. Human capital has a U-shaped relationship with economic growth and human development. There are two theories, two experiments, and two migration policies proposed in the study's implications.

International trade in broad terms is one of the major determinants of life quality and helps people increase their income by exporting goods and services. Many studies have been conducted to analyze the impact of international trade on the quality of life. Second group of research regarding the impact of tourism development and international trade on quality of life in multiple country studies can be summarized as follows.

Štreimikienė and Barakauskaitė-Jakubauskienė (2012) presents a definition of quality of life and mentions that there is a link between sustainable development and quality of life. The evaluation of the quality of life in Lithuania compares it to other countries. Quality of life is an explicit or implicit policy objective. Measuring the quality of life is a complex subject, and there have been no agreed-upon objective measurements. Sustainable development idea is a new approach to measure the quality of life. In this context, the aim of sustainable development is to ensure people's quality of life. It can be stated that quality of life in terms of people health, economic growth, etc. all these can be perceived as an inter-relating issue. A satisfied person generally results in a stable and robust economy.

Cárdenas-García et al. (2015) studied the effects of tourism and international organizations on economic growth. An argument against this relationship was recently developed, and it is now argued that this relationship is not necessarily automatic. The major goal of this research is to analyze the linkage between the economic development and growth of tourism. From a sample of 144 countries, it can be revealed that there is a crucial relationship between the tourism industry and economic growth.

Kim et al. (2016) note that tourism, poverty, and economic development are all interrelated in developing countries. Unbalanced panel observations were used to establish the empirical model of the study. The results indicate that tourism has essential impacts on the poverty ratio from the point of a country's income per capita: the positive effect of tourism on poverty reduces when the country's income crosses a certain threshold. It is discovered that the less developed countries (those with an income per capita below USD \$3400) have enjoyed the benefit of the tourism industry.

There are many ways to positively impact psychometric aspects of tourism economics according to the study conducted by Darmayasa et al. (2018). This study has proven that economic benefits have no significant relationship with community life in new tourist destinations. The development of the new tourist destinations will lead to the financial benefit and satisfaction of the people living there and then lead to the ability of the people to become involved in the tourist destinations development programs. These indicators show that the size of the economy is not sufficient to make predictions of the public's intentions in tourism destinations development. It is an outstanding achievement in the tourism field by devoting efforts to psychometric aspects such as happiness, personal benefits, and life satisfaction to study and predict peoples' intention towards the development of the new tourist destinations.

A recent study conducted by Yücel (2021) investigated the impact of shocks in the top 20 most visited countries on tourism industry. Their results show that impact of various shocks on tourism industry are transitory and effects of the shocks are going to die out after a while.

3. Data And Methodology

This section concentrates on the data and methodological sequence for the current study. Firstly, Human Development Index (HDI) is an indicator consisting of crucial elements of human development: a long and healthy living, having a good education and well-living standards. Other than the traditional GDP approach, it includes life expectancy at birth, having access to healthy food and health infrastructure in the country which is closely related to the environmental quality. Education indicator measures the average year of schooling, which provides skilled labour demand in the industries leading to better competitiveness in the world economy. Gross national income per capita is used to measure the standard of living dimension. An alternative index has been developed by OECD to measure the quality of life is called Better Life Index. This index helps people to evaluate well-being across countries in the areas of material living conditions and quality of life, focused on eleven issues that the OECD has defined as important (OECD, 2021a). Another indicator is ecological footprint which contains not just greenhouse gases to measure the environmental impacts of countries, but also soil, cropland, fishing areas, forest products, and pastureland (Köksal et al.,2020). GDP gives an idea about the economic development level in a country; however, it is also essential to know how it is distributed among its members. Therefore an index called Gini Index is developed to measure the distribution of wealth of a country. Any values from 0 and 1 may be taken by the coefficient (or 0 per cent to 100 per cent). A coefficient of zero implies an entirely even distribution within a community of income or capital. A coefficient of one reflects a perfect disparity where all the money is earned by one citizen in a society, whereas other persons obtain nothing (OECD, 2021b).

However, this study differ in terms of scope by considering Turkey which have received less attention in the relevant literature. Furthermore, this study also claims to be the first to explore the effect of international tourism on quality of life which deviate from previous literature that focus on the tourism led growth hypothesis (TLGH). This study aims to analyze the role of factors that may influence the quality of life with the help of some econometric models. The variables used in the model are GDP, international trade, tourism development and Gini coefficient. To this end, in this study, the dependent variable is defined as the quality of life which is represented by Human Development Index (HDI). Independent variables are international trade which are represented by trade openness (TRD) that is calculated as exports plus imports of goods and services over GDP, tourism development (TOUR) which is represented by tourist arrivals data, income distribution which is represented by Gini index (Gini), and Gross Domestic Product (GDP) of Turkey. The annual dataset that ranges from the year 1990 until 2019, consisting of 30 years, is used in this time-series study. TRD and GDP data are taken from Worldbank Development Indicators, Gini index data are taken from Index Mundi and Turkish Statistics Institution (TÜİK), HDI data are taken from UNDP and TOUR data are taken from TÜRSAB. Descriptive statistics of the data used in the study are given in Table 1.

 Table 1: Descriptive Statistics

	GDP	GINI	HDI	TOUR	TRD
Mean	4.99E+11	40.92333	0.6979	20038208	46.981
Median	4.58E+11	41.3	0.693	18668371	48.155
Maximum	9.58E+11	42.9	0.82	45058286	62.683
Minimum	1.31E+11	38.4	0.583	5389308	30.476
Std. Dev.	3.04E+11	1.20907	0.077637	12112664	8.2617
Skewness	0.151893	-0.3964	0.151865	0.373366	-0.3926
Kurtosis	1.329411	2.339044	1.763902	1.808223	2.90186
Jarque-Bera					
Probability	3.603943	1.331759	2.025239	2.472423	0.7827
Sum	0.164973	0.513821	0.363266	0.290483	0.6761
Sum	1.50E+13	1227.7	20.937	6.01E+08	1409.44
	2.68E+24	42.39367	0.174797	4.25E+15	1979.46
Observations	30	30	30	30	30

The main purpose of this study is to analyze the impact of major determinants of well-being on the quality of life. Fully modified least square (FMOLS), dynamic least squares (DOLS) and canonical cointegrating regression (CCR) methods are used to measure the long-run relationship between the selected dependent and independent variables.

Phillips and Hansen (1990) introduced the Fully Modified Least Squares (FMOLS) methodology to perform optimal co-integrating regression estimation. According to Pedroni (1996), the asymptotic distribution of the Dynamic OLS estimator was the same as that of the FMOLS estimation. Using CCR method, we are able to incorporate almost any cointegrating model that has been employed in real applications, including models that are deterministic and singular as well as stochastic and regular (Park, 1992). As indicated, both the FMOLS, DOLS and CCR calculations were carried out in order to verify the outcome.

First, unit root test are done in order to evaluate the stationarity of the data before conducting cointegration analysis. Table 2 shows that all five variables are not stationarity in level however after the first differences are taken, then the all series become stationary as I (1).

Table 2: Unit Root Test

	Statistics (Level)			Statistics (First Difference)			
	PP_{T}	PP_{I}	PP_N	PP_T	PP_{I}	PP_N	Conclusion
GDP	-0.861	-1.549	0.773	-4.727*	-4.683*	-4.469*	I (1)
GINI	-2.184	-2.506	-0.714	-4.994*	-4.866*	-5.031*	I (1)
HDI	0.177	-2.283	7.599	-3.372*	-3.222*	-1.142	I (1)
TOUR	2.390	-1.688	5.177	-5.660*	-8.490*	-4.138*	I (1)
TRD	-1.279	-2.397	0.999	-7.029*	-7.183*	-4.919*	I (1)

*The rejection of the null hypothesis at the 10% level

The cointegration analysis of FMOLS, DOLS and CCR relies on the situation that the series applied must be stationary, such as the conventional cointegration approach. As shown in Table 2 all series become stationary so that cointegration analysis can be applied. In addition, by considering independent variables such as trade openness, tourist arrivals, Gini index and GDP, it is possible to interpret the derived coefficients on the effect of HDI. The equation is shown as econometric symbols, where the long-

term relationship determinants are analyzed in the following equation (1):

$$\begin{aligned} \Delta lnHDI_{t} = a_{0} + \sum_{i=1}^{m_{1}} \sigma_{it} HDI_{t-i} + \\ \sum_{i=0}^{m_{2}} \beta_{it} TRD_{i,t-i} + \sum_{i=0}^{m_{3}} \theta_{it} GINI_{i,t-i} + \\ \sum_{i=0}^{m_{4}} \theta_{it} \Delta lnTOUR_{i,t-i} + \sum_{i=0}^{m_{5}} \theta_{it} \Delta lnGDP_{i,t-i} + \\ \delta_{1i} HDI_{t-1} + \delta_{2i} TRD_{t-1} + \delta_{3i} GINI_{t-1} + \\ \delta_{4i} TOUR_{t-1} + \delta_{5i} lnGDP_{t-1} + \varepsilon_{it} \end{aligned}$$
(1)

Dependent Variable HDI	Fully modified least square (FMOLS)			Dynamic least square (DOLS)			Canonical cointegrating regression (CCR)		
Independent Variables	T-stat	P-val	Coef	T-stat	P-val	Coef	T-stat	P-val	Coef
TRD	2.5631	0.0171	0.1348	2.3899	0.0380	0.1525	2.4639	0.0213	0.1361
GINI	3.8386	0.0008	0.6672	4.5408	0.0011	0.8449	3.7067	0.0011	0.6556
lnGDP	2.7755	0.0105	0.0860	0.5061	0.6237	0.0391	2.2015	0.0376	0.0829
InTOUR	1.4313	0.1652	0.0561	1.2104	0.2540	0.1069	1.2411	0.2266	0.0591
С	-7.7445	0.0000	-6.5893	-5.1250	0.0004	-6.9007	-7.3056	0.0000	-6.5169

Table 3. Cointegration Estimation Results (FMOLS, DOLS and CCR Models)

As a support and checking the robustness of the model, Johansen cointegration test has been done as shown in Table 4. According to the test results, at most 2 cointegration relationship exist among the five variables which implies the long-run relationship between the variables.

Table 4: Johansen Cointegration Test

Нур	othesis		Trace Statistic	
H0	H1	Statistic	Critical Value	Prob.
r=0	r>0	75.96764	69.81889	0.0149
r=1	r>2	50.1962	47.85613	0.0296
r=2	r>3	31.19379	29.79707	0.0343
r=3	r>4	15.00821	15.49471	0.0591

4. Empirical Results

According to the results reported in Table 3, there have been found many variables significantly affecting the dependent variable HDI as a measure of life quality. Equation (1) has been developed in order to assess the major determinants of HDI. Four different methods, FMOLS, DOLS, CCR and Johansen Cointegration Tests are applied for the reliability and comparison purpose of the test results. All three estimators are in harmony with the majority of the results. TRD and GINI were considered as independent variables which has been found statistically significant positive effect on HDI in all of the models. GDP has a statistically significant positive effect on HDI in the models FMOLS and CCR where in DOLS model it is found to be insignificant. It has been confirmed by all models that TOUR do not have a significant impact on HDI. This empirical outcome have some crucial policy implications for the tourism sector and government administrators. Subsequently, I observe a statistical positive relationship between international trade and quality of life, thus, indicating the pivotal role of international trade in quality of life in the study area. Additionally, income distribution shows a positive and statistically positive relationship with quality of life in Turkey. This outcome is insightful for policy makers in the region as income sharing is strongly correlated with the quality of life.

5. Conclusion

There are many studies attempting to measure the impact of macro economic variables on the quality of life using different methodologies for different countries. However, there are not many studies taking into account economic growth, income distribution, tourism development and international trade comprehensively as considered in the current study. To the best of my knowledge, this study is the first to analyze the nexus using such a wide variable set with different model approaches. Therefore, this study aims to fill this gap in the literature studying on a developing country Turkey.

The results of this study show the long term positive impact of economic growth (GDP), income distribution (Gini) and international trade (TRD) on the quality of life (HDI) in Turkey. However, long term impact by tourism development (TOUR) on the quality of life could not be found for the case of Turkey. Although the literature mainly suggests the long term association between these variables for the sample of other countries, there are some possible explanations of why the linkage could not be found. According to the UNWTO statistics, Turkey ranks sixth in terms of tourist arrivals in the world with 51.2 million visitors in the year 2019. However, in terms of international tourism receipts, Turkey's ranking is 13th, which shows that the tourism income is not at the desired point; therefore, value added tourism services have to be planned. In the year 2019, Turkey had a revenue of \$29,8 billion from the tourism sector, which constitutes 4,6% of its total GDP (TÜRSAB, 2021). The statistics show that although Turkey has immense potential in the tourism industry, the percentage of tourism in the economy is not high; therefore the econometric studies conclude that there is no long-term relationship between tourism development and the quality of life in Turkey. Other variables international trade, income distribution and economic growth are all long-term drivers of quality of life in Turkey, and the results show the importance of these factors for the overall well-being of Turkish citizens.

In the light of this study, there are some recommendations for policy-makers. First, as the growing importance of international trade, economic growth and income distribution, government should carry on promoting exports by subsidizing important export sectors, sustain policies that could increase economic growth and try to follow social policies that could help decrease the income gap between their citizens. Given the big potential of the tourism industry, Turkey should focus on the high value-added concept tourism such as health tourism, congress tourism, sports tourism and gastronomy tourism. With the help of these value-added tourism services, international tourism receipts can increase, which will have long-term impacts on the life of quality for Turkish citizens.

This study evaluated the economic aspect of the well-being using some important variables that have an impact on economic well-being such as international trade and tourism development. Further research can focus on the determinants of the other aspects of well-being, for instance social well-being. Moreover, similar research can be conducted on different single countries or multiple group countries.

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