El impacto del Brexit en el sector turístico Balear

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Summary

In this project we are going to analyze different factors related to Brexit. We are going to see how this possible separation of United Kingdom from the European Union is going to affect the economy and how could destabilize the country’s politics and stability. Migration policies are going to be analyzed and also the measures that will be taken regarding this aspect. We are going to see which are the most affected economic sectors by Brexit and some of the standards that will have to change. Also the relation between United Kingdom and Spain will be studied, especially in tourism terms, and how they could affect the economy in Spain. We are going to deepen in the Balearic tourist market, since it is one of the most powerful in the country. Finally, it is put on common how Brexit affects the United Kingdom in the economy, and how this affects the inhabitants in monetary terms, with the decrease of tourist flows in the Balearic Islands, going through a study of the tourist’ profile and a market study of the tourist destination.
Introduction

This topic was chosen because of its current interest, it is an issue that is the order of the day and that has a lot of impact because it is unprecedented. Brexit directly affects all countries with which Great Britain may have a relationship, and that is why in Spain it is important to be informed and to know the repercussions that may fall on the country.

This project is an exposition of possible scenarios that may occur after the final choice of the agreement to which the parties involved can reach.
Contextualization and object of project

In this paper we intend to develop a research process of a current topic such as Brexit. The focus of the issue resides mainly in the United Kingdom although it has direct and indirect repercussions in the other countries. In this case, we study those referring to the European Union, deepening in Spain and emphasizing in the Balearic Islands. The important factor is tourism, but to get there we need to investigate the economic sources that are affected and find the connection with the tourism sector. The information collected comes from writings and articles completed by governmental organizations and experts who studied the subject, who have reached conclusions and define the effects in which the separation process will derive.
Methodology used

The typology of work is informative. It is a monograph of a specific subject such as Brexit. Here we will find synthesized information about a specific point that was previously distributed in several sources. The work has been carried out based on the search and collection of information in articles and detailed reports of the economic sector, academic projects, web pages of reliable sources such as those of the United Kingdom and Spanish governments and official databases.
Project results

1. What is Brexit and its context

Brexit is the abbreviation of the words Britain and exit, and is the term used to describe the departure of the United Kingdom from the European Union.

That term was born between 2015 and 2016 when the Conservative Prime Minister, David Cameron, in response to pressure from his own party, promised that if he won the elections of last 2015, he would hold a referendum through which the future permanence of Great Britain in the European Union would be questioned.

In the vote that took place on June 23, 2016, 48.1% of the British voted in favor of staying in the block, and 51.8% voted in favor of leaving the EU. The side that is in favor of permanence argues that being a member of the EU allows United Kingdom to sell goods and services easily to other countries, and benefit from a single market of 500 million people. The other side defends the departure of the EU to regain control of borders, reduce immigration and return to being a sovereign country.

In that referendum, the inhabitants of the United Kingdom, made up of British, Irish and other 53 nationalities residing in the country and in Gibraltar were able to vote. Britons living abroad who have registered to vote in the last 15 years could also vote.

In addition to immigration and border control, the third issue is the economy. Those in favor of leaving, argue that once released from European Union regulations, the United Kingdom could negotiate its own agreements in terms that favor it. Those who want to stay believe that separating would suppose a shock in the economic system and slow growth. Finally we find the subject of sovereignty. Leaving the European Union is the only way to regain control, some say, while the other side ensures that the European Union would continue to influence much in the United Kingdom, even if the country comes out, and that it would also be worse, inasmuch as it would lose the ability to influence the rules that affect them.

Initially, is difficult to know what would suppose in case exit is accepted, since it is an unprecedented issue in the European Union: Since its creation, no country has left it. If the option to stay wins, the United Kingdom still continue to be part of the block, but some new conditions accorded between David Cameron and the European Union will start to be applied.

Different dates for the departure of the European Union have been established, the term has been extended several times at the request of the British Government and the acceptance of the 27 European Union members. Moreover, the court of justice of the European Union determined that United Kingdom can definitely cancel its exit at any time of the process, so it could be the case that the egress never occurs.
Brexit movement caused a political earthquake in the United Kingdom, factor that forced David Cameron’s resignation. Until today, the country has been trying to make an agreement about the Brexit. Theresa May became the new prime minister and meanwhile she has been trying to renegotiate the terms of the separation.

On November 25, 2018, the first agreement between London and Brussels was reached, with Theresa May’s intention to put it to a vote in the British parliament on December 11. At the last moment, the Prime Minister retreated when it became evident that she did not have the necessary majority to approve the agreement, fact that made her promise that she would get a better agreement. The agreement was finally rejected by a majority in Parliament in a vote held on January 15.

This agreement, among other things, establishes a translation period that will end on December 31, 2020 with the objective of giving the parties the time to adjust and negotiate the terms of their new relationship. Until then, the relationship remains the same as it currently exists. In addition, the agreement determines how much money Great Britain has to pay to the European Union for the commitments acquired as a member of the block, about 39,000 million pounds. On the other hand, it is established that the parties undertake to uphold the rights of British citizens who currently live and work in other European Union countries and for citizens who live and work in the United Kingdom. At any rate, a political point is to avoid the installation of a physical border between the Republic of Ireland and Northern Ireland. ("Qué es el Brexit y otras preguntas básicas para entender la salida de Reino Unido de la Unión Europea". 2019, March).

The first economic consequences of Brexit were the drop on the value of the pound, the stock exchange and the price of oil. The separation of the European Union would suppose a restriction of the commercial and financial relations as much for Great Britain as for the rest of countries that conform the European Union. It is anticipated that these restrictions will last from 2 to 7 years until their recovery.

Nowadays, 44% of exports from Great Britain go to the European Union, which in turn provides 53% of its imports. Depending on the agreement that is finally reached, United Kingdom would have some power in decision making. If the adopted position is the same than the one that Norway has currently, United Kingdom would have agreements in some sectors but would not vote nor participate in decision-making. In this way, London should respect the free movement of European workers in its territory, factor to which the supporters of Brexit are opposed.

It could also be given the option of the English exit of the European institutions but remaining effectively in the single market. In this case, United Kingdom would depend on bilateral agreements with emerging countries, in which the European Union would have priority over the country, which would be less competitive. Many companies would decide to move to other points in the Eurozone.
In this point we start seeing the effects on other countries. Inasmuch as the British GDP would decrease between a 1.5% and a 9.5%, its annual contribution to Brussels will fall on other countries, as Spain, which will have to contribute 906 million euros as compensation.

2. Possible scenarios

Depending on the different trade arrangements, we can talk about three differentiated scenarios.
First one is “EEA” type. Is characterized by the amount of costs of moving related to custom processes.
Second one is “Average FTA” type, with further border-related costs possible, alongside potential loss of access to parts of digital, financial services and other markets, cross-cutting losses due to restrictions on mobility and commercial association.
Last scenario is “WTO” type. It has additional barriers to trade in financial and other services sectors. As Ebell and Warren (2016) say, “The WTO scenario assumes the loosest links with the EU: there would be no free trade with the EU in either goods or services”.

Regarding the migratory flows, the “EEA” assumes similar policies to current, with a continued labour mobility. The “FTA”, as part of the deal, adopts a lower minimum income for EEA migration relative to non-EEA migration. Labour mobility is “Flexible”. “WTO” scenario exposes that both EEA and non-EEA migrants will have to assume a relatively demanding income threshold, due that it would be difficult to maintain separate systems from the rest of the world. The mobility labour is “Strict”. (“EU Exit Analysis Cross Whitehall Briefing”, January 2018).

Regarding the impact on the EU member states, changes in United Kingdom and European Union trading relationship would imply economic consequences. It can be summarized in the lower market access and higher costs of trade for UK and EU in both directions. The impact scale will depend on the size, composition and importance of the current trading relationship between each country and the UK. (“EU Exist Analysis Cross Whitehall Briefing”, January 2018).

3. Migration policies.

Depending on the scenarios above, different migration policies can be applied. These measures, if accepted, will be applied in a bidirectional way: From United Kingdom to European Union and vice versa.
On the case of the “EEA” type, the immigration policy won’t be similar as the current one. There wouldn’t be a reason for offering free access to the UK labour market for workers, skilled or otherwise, while imposing thigh restrictions on even highly skilled workers with a job offer or scarce skills, depending on the place of origin.
On the other hand, (Portes, 2016) if it is concluded that immigration is a determining factor to apply the restrictive system, the post-Brexit government will receive a strong political pressure to deliver reductions in terms of immigration.
As some authors like Jayakymar, Armstrong and Portes and Barret studied, the most repeated indicators in almost all studies made about Brexit are trades, exchange rates, immigration and uncertainty index. Is known that, whatever the established scenario after Brexit is, it will have a negative impact in the relationships with the other countries. Nowadays, United Kingdom is not anymore included in the existing trade agreements in the European Union. The immediate consequences that have affected the demand of importations from the European Union to the United Kingdom have been the depreciation of the pound and a customers’ lack of confidence.

Talking about the bilateral agreements after Brexit, as said above, each agreement will be different depending on each specific country, such as Spain, where there is a significant bilateral migration flow (Sumption, M. 2017). The immigration policy could be more restrictive, with possible negative consequences (Portes, 2016) in order to attract high skilled workers, but that could damage the distinguished image of London as an attractive city for migrants.

4. **Situation for ingoing and outgoing visitors. Movements between United Kingdom and Spain**

According to the information on the official website of the British Government, until today, every person going to the United Kingdom used to need different documents depending on the length of the stay, origin country and other factors. In case that a Spanish person wants to visit the country for a few days, a valid passport or identity card will be checked at its arrival at the airport or frontier. That document has to be valid during all the stay. Otherwise, people coming from a country outside the European Economic Area will need a visa as well. There are different visas depending on factors such as if the visitor is visiting some relatives living in the United Kingdom, or the reason of the travel, If this visitor is a tourist, that is, is not looking for a job or studies, will have to apply for a Standard Visa. This is one of the only visas adapted for tourists. The visitor can stay up to six months, and it has a cost of £95. This visa allows to study up to 30 days, but it hasn’t to be the main reason of the visit. In the same way, there are other specific visas for studies, specific tours, marriages and so on, with a length up to 12 months and different prices.

After Brexit, requirements will depend on if United Kingdom leaves the European Union with or without a deal. With a deal, the situation will be as the current one, almost till 2021. Without a deal, it will continue to be as just mentioned by now, but the Government is proposing to end the free movement of people, coming from the European Union or not, but it has to be still approved by the Parliament. Once approved, the maximum period to stay will be three months.

According to information extracted from the Spanish Government sources, until February 28, 2020, passengers on board with destiny United Kingdom, according to provisions of article 78 and 89.1.5 of Law 20/2003 “will be considered shipped to an airport in the European Economic Area for the purpose of setting amounts for public services for passenger departure and
service of stewardship assistance ("catering") and its updates”. It is going to continue like this until that date, in order to adjust the effects of the change. After said day, the measures applied will depend on the reached agreement (“Real Decreto-ley 5/2019” n.d).

If the United Kingdom leaves the European Union without a deal, there will be changes from 2020. The first one is that is established that British citizens traveling to Spain (and other countries inside the European Union) after December 31, 2019; will need to renew their passports. Also the passport may be valid at least six months after the arriving date to Spain. Without a deal, British citizens will need a visa in case they want to stay in Spain more than 90 days. At the border control, tourists will have to show a return or onward ticket and show that they have enough money for their stay, apart from an Identity Document. Also, there will be separate lanes depending on the place of origin (“Visit Europe after Brexit”, n.d.).

A topic to be highlighted is the one referring to health tourism. In this aspect, some rules will be applied the twenty-one months after the withdrawal, unless an international, bilateral or multilateral instrument is adopted beforehand. The first rule exposes that people with right of healthcare in the United Kingdom or Gibraltar in charge of the corresponding British entities, will receive Spanish healthcare assistance, with the same terms and with subjection to the same conditions established before the Brexit date, as long as United Kingdom provides healthcare assistance to Spanish people, in the same terms and conditions; and reimburses Spain the expenses derived by the health care provided to British people (including Gibraltarians) in the Spanish National Healthcare System. In cases of temporary stay and programmed treatments, patients will need to provide an supporting document of the health coverage in charge of the British corresponding entities. Said document will be accepted by all the health centres comprising the National Healthcare System. Whatever agreement will be adopted after Brexit, the competence in the management of the procedures foreseen will continue to correspond to the “Instituto Nacional de la Seguridad Social” or the “Instituto Social de la Marina”, according to Real Decreto-ley 5/2019, n.d.

5. Brexit consequences in Spain

Spain will be the eighth most affected economy, given that our commercial relations with Great Britain are valued at 55 billion euros. On the one hand, these effects would be manifested in the sense that in the United Kingdom there are more than 300 companies with Spanish capital, from different sectors. Turning to the field of tourism, and returning to the factor of the depreciation of the pound, this would be very affected since the flows of British tourists in Spain are very abundant now, but could prefer to travel to cheaper destinations. In addition, about 300,000 Britons have their permanent residence in Spain. All of them will be affected by the depreciation of the pound, so they will spend less or return to their country. Besides, it would have to review the access of the British to social services, which would reduce their interest in Spain. (Otero, Luis. 04/01/2017).
Is true that, even that the activation of Brexit is still unknown, we can’t set aside the numbers. British tourism leaves in Spain more than 14.000 millions of euros every year. With the United Kingdom outside the European Union, possibly the British tourist will need some kind of Visa in order to travel to the member countries, and vice versa.

According to what Turespaña says: “The decrease in the price will move not so much to the amount of arrivals but to the duration of the travels and the expenses that will make the british tourists in their holidays in Spain”. In the medium term, the consequences could be hardened and could affect flight connections and facility of access (passport control and visas) (La información, 03/11/2017).

In a study made by De Vries and Hoffman (2016), a survey that showed the position of Spanish citizens about the Brexit, the 64% of them declared to be against the exit. That makes Spain the most anti-Brexit country, that’s why is worried about the future and about the possible derivative effects of the separation.

It is known that between Spain and United Kingdom there’s a good relationship. There’s a bilateral constant flow of people: British people looking for the climate and the quality of life in Spain, and Spanish looking for job and education in the United Kingdom. Apart from this flow of people, there’s as well a flow of trade in goods and services. As said before in this paper, there are a lot of foreign investments of companies from both countries in the other one. That’s why a WTO scenario would involve high costs to the companies.

Talking about migration, in the specific case of Spain, Eurostat estimates that “around 306.000 citizens born in the United Kingdom have the Spanish residence”, but if we count also those who live in Spain in some period of the year, the amount arrives to a million, according to a study made by the “Instituto de Investigación de Políticas Públicas”.

On the other hand, regarding Spanish citizens living in the United Kingdom, according to INE (Instituto Nacional de Estadística) the number range around 139.236, even if probably the real number is quite higher.

Since the value of the pound will decrease, the number of British people investing in households will decrease, even many of the owners will choose to sell their properties because maybe they will not be able to afford the expenses that a second residence imply.

Not only permanent or temporary British population will decrease, but also the tourists. Travel agencies and tour operators are anxious. As Carlos Garrido (UNAV) says, “Brexit will have direct implications in our sector, both in airlines, accommodations and, of course, in travel agencies. That’s why there’s a willingness to know the real limitations of the application of the measure and the consequences that could have in our business”.

Travel agencies predicted a difficult year due to Brexit among other things, and that’s why it is believed that Spain won’t arrive to the amount of tourists of previous years. Another influential factor is the rise of other competitive markets in the Mediterranean, such as Egypt, Tunisia or Turkey.

The economy in Spain is threatened because the input of the tourism to the GDP is very important as we will see.
Tourism contribution to Spanish economy – 2017:

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
<th>Percentage of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution to the GDP (millions of euros)</td>
<td>137.020</td>
<td>11.7%</td>
</tr>
<tr>
<td>Contribution to total employment (millions of job positions)</td>
<td>2.60</td>
<td>12.8%</td>
</tr>
</tbody>
</table>

(Table 1. INE, 18/12/2018)

If the tourism as an economic power is affected, this fact will have bad repercussions on the economy. Besides, as A. Maqueda (2019) says, “regarding employment, Spanish working market would decrease a 0.77%, i.e. around 150,000 job positions in a five years period”.

6. The case of the Balearic Islands

In accordance with Hosteltur (Impactur, 2019) in the Balearic Islands the contribution of the tourism sector to GDP is around 45%. Looking at these numbers we realize the importance of this sector in the Islands. As we can see, we have a high amount of British tourists especially in the high season.

Monthly data of British tourists in the Balearics:
Monthly data of British tourist spending (millions of euros) in the Balearic:

As we see in the graphs above, both the quantity of British tourists and the expenses they make in the Balearic is very high. That’s why we emphasize the importance of the sector in the Islands. Therefore, if British tourism decreases, it may cause a shortage of the resources and a lack of incomes.

The Balearics are a prime destination, not only because of the weather and the tourist offer available, but because is well connected by air with the United Kingdom. The airport in Mallorca (Son Sant Joan) has direct connections with twenty six British airports, Ibiza’s airport with twenty four, and Menorca with nineteen.

6.1 British tourist profile

According to Spain-Holiday.com, British tourists stand out among the 18 million of tourists visiting Spain during last years. That’s because 34 of the 151 tourists visiting Spain every minute are British. They are as well those who spend more on their holidays (20.8% of the total), being food and drink their more common expense.

But, how is the British tourist? What is his profile?
Reasons for British tourists to visit the Balearics:

Fuente: Institut d’Estadística de les Illes Balears (IBESTAT) a partir de datos de FRONTUR. España (CC BY 3.0) (Graph 3. IBESTAT, 2019)

About tourists in the Balearic, first thing we can appreciate is that during the last two years the visitors coming for reasons of business or other reasons were insignificant comparing to those who came for recess. Besides, due to the increase of the flow on the high season, we could affirm that one of the main reasons of the travel is the weather. In the Balearic, there’s a sun and beach tourism mainly.

In accordance with Balearic Government sources, the average British tourist in the Balearic is a woman, between 25 and 44 years old, and comes to the islands for leisure. Around the 70% of tourists stay in hotels, especially 3* hotels. They normally choose to come with a package tour (“Indicadores de demanda turística – Islas Baleares”, 2019)

7. Most affected sectors by Brexit

As we know, Brexit will have hard consequences especially in the economy. The reports reveal that more than three-quarters of the impact of Brexit will fall on mostly five sectors. The hardest hit sectors will be financial services, automotive, agriculture, food and drink, chemicals and plastics, says the study published in 2018 by consultancy Oliver Wyman and the law firm Clifford Chance. Same study affirms that big exporters are preparing themselves to potential changes to trading arrangements, smaller companies positioned in lower levels of the supply chains are worst prepared (“Brexit to hit 5 sectors hardest, research shows”, n.d.).

- Brexit and financial services
The debate so far is refers to one question: Will banks and financial institutions stay in London? It is thought that, as London has been the dominant city during decades in this ambit, the European Union is not going to risk to move all the entities and build up its own capital market due to all that this entails. Not need to say that this sector is vitally important to the United Kingdom’s economy. It supposes more than two million jobs, and besides United Kingdom is the larger tax payer. Talking about exports, financial services are on the top. Translated to numbers, on 2017 exported £26 billion.

- Brexit and the automotive industry

This sector supposes the 13 per cent of Britain’s exports. Two factors are threatening this ambit: The slump in diesel sales and Brexit. Considering these threats, one of the main fears is to stay behind in the supply chain regarding the European Union. Jaguar Land Rover CEO, Ralf Speth (2018) warned “a hard Brexit could cost JLR £1.2 billion per year in tariffs and force the business out of the UK”, and later added “tens of thousands of jobs in the automotive industry are at risk if there is a cliff-edge break with the EU”.

- Brexit and agriculture

After Brexit or after any other transition phase, farmers will be working outside of the European Union’s Common Agricultural Policy (CAP). One of the things that it means, is that the United Kingdom will need to create and establish a new own policy regarding this area. The actual one provides nearly £4 billion of support to farmers each year, so the Government should offer same or better conditions in order to not to harm the agrarian sector. Another issue has to be treated as well: the one regarding animal, welfare, food safety and pesticides. The Chartered Institute of Environmental Health forecasted that with no regulation in this area, if no agreement is reached after Brexit, and some measures are taken, public health, food safety, consumer protection, animal welfare and environmental sustainability can be negatively affected. Finally, regarding this aspect, the National Farmers Union warned that the period waiting for the European Union to accept the United Kingdom as a food supplier will be catastrophic if an agreement is not reached. Some of the consequences that this will bring are the implement of tariffs on exports and the supply of food will be worst: cheap food and poor quality, what would be a danger to public health.

- Brexit and the chemicals and plastics industry

Many people may not know that chemicals and plastics industry is the second biggest manufacturing industry in the United Kingdom, and not only that, also is the second largest exporter to the European Union. Leaving the European Union customs union will suppose a big problem regarding the possible tariffs. The European Chemical Industry Council (Cefic) and London-based Chemical Industries Association have raised
concerns about the UK’s possible disengagement from the European Chemicals Agency. It is known by the chemical bodies that Brexit can mean the establishment of a new different agency, and this will signify a long period to achieve the cost of that. The industry will prefer an easy and permitted access to international skills on a flexible basis. Regarding plastics, is an industry placed on the top ten bests with regards to exports. It turns over £25.5 billion but it depends on the European Union since almost the 70% of the plastic trade is with the European Union. Moreover, around the 10% of the workforce of this sector in the United Kingdom are from the European Union. That’s why a hard Brexit would impact this sector and would carry considerable cost implications (“Which Sectors Will Struggle Most Post-Brexit and Why?”, November, 2018).

- Brexit and food and drink industry

To begin with, we have to understand that food and drink industries are quite big, and that’s because it involves three differentiated areas: Manufacturing and production industry, retail and catering and hospitality. Just in the manufacturing there are more than 400,000 employees, and in all food-related industries is more than 3.5 million. Regarding contributions to the economy, processed food and drink GVA (gross added value) amounts to almost £30.000 millions each year, and counting also catering and retails, it amounts to £100.000 millions. Knowing this information is not difficult to imagine the potential Brexit impact. According to experts, about a 60% of the exports from the United Kingdom head to the European Union. If the United Kingdom after Brexit is forced to trade with the European Union under WTO rules, additional tariffs will have to be added to these exports. This is going to cause that the fact of selling or exporting to the continent for the United Kingdom will be considerably harder. A big amount of business would be threatened, and there will be a heavy impact on revenue and livelihoods (Virtual College, November 2018).

8. The impact of Brexit in the Balearic tourism sector

As we have observed, although Brexit has not yet been produced and we don’t still have information about a clear and real relationship between Brexit and the tourism industry, we can reach some conclusions that could help us to understand and give us a clue about how will affect the separation to said industry.

Observing data about how Brexit is going to affect the different industries, we can clearly see that a separation will have negative economic consequences in practically in all scopes. That’s why if the job offer decreases, the customs make more difficult the trades, and prices increase due to the decrease of the access to raw materials, in their homes the families will notice those consequences especially in their incomes. Many sectors are going to be so affected that they will have to dispense with many workers, which will cause that the purchasing power will be lower and therefore they could have less options to travel and make tourism.
Conclusions

In accordance with the found data, it can be affirmed that Brexit is going to be a movement that will negatively affect to the tourism and other aspects in the lives of the United Kingdom citizens. Families will be affected either because a lot of job positions are going to be eliminated, or because prices are going to change and the purchasing power will decrease. If we add these measures derived from the economy, to others as for example the devaluation of the pound against the euro, the implementation of migration policies and measures such as border controls both for arrivals or departures of the country and so on, citizens of the United Kingdom do not more than encounter difficulties facing the future.

On the other hand, leaving aside the Brexit, other factors such as that have arisen emergent destinies in the Mediterranean area for example Egypt, Turkey or Tunisia, which suppose a strong competence for the Balearic Islands, also that the islands are currently a mature destination, that offer the sun and beach traditional tourism, and in this sense adding that people every time is looking for different and more exotic destination, all those are list of negative aspects that can cause the reduction of tourist demand in the islands.

As we have seen, the British tourist is the tourist par excellence in the Balearic Islands and the one who spends more money in the destination. Joining factors such as the bad streak through which United Kingdom can pass in this transition period, and the external factors that we just mentioned regarding the Balearic Islands, we can affirm that the effects in the Balearic (in case that everything ends in the anticipated way) will be devastating for the economy, because the flow of tourists will be lower, therefore the hotel occupancy rate will decrease, in the same way that incomes will do. All this factors can entail an economic recession through which the could pass, where the job offer would decrease and a large amount of workers (especially the high season workers) would remain unemployed. All this could provoke a deficit in the economy, there would be less money in circulation and standard of living of the Balearic citizens would get worse.
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