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## "Everything's Bubbling, But We Don't Know What the Ingredients Are" —Casino Politics and Policy in the Periphery

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### Abstract

With the global spread of commercial gambling, the casino industry is fast establishing itself in many of the world's peripheries —economically and politically marginal locations, simultaneously remote from, but dependent on metropolitan centres of finance and decision-making. Using the case of northern Cyprus, this paper examines the political and economic context of decisions by such peripheries to embark on casino tourism as a

development strategy and explores some of the problems faced in attempting to regulate and control the sector. The paper suggests that it is the condition of dependency, rather than simple resource constraints, which is the major obstacle to establishing an adequate policy and regulatory framework.

**Keywords:** casino tourism, dependency, periphery, policy, politics, northern Cyprus

## Introduction

The title of this paper is taken from a comment made to me by the Turkish Cypriot manager of a casino in northern Cyprus during fieldwork in 1999. What was bubbling was northern Cyprus's casino sector, 20 casinos having recently opened, with another 20 applications pending in a territory with an area of 3,355 sq. kilometres (1,295 sq. miles) with a permanent population of about 250,000. His comment reflected double perplexity: firstly, that of a casino manager operating in a climate of enormous uncertainty; secondly, the concern of a Turkish Cypriot concerned at the effects he observed of the casino industry on his home. From both a professional and a personal point of view, he confessed to grave doubts about the sustainability of the sector.

In this paper I want to try to describe this bubbling mixture and identify its ingredients. I shall argue that the problems and dilemmas faced by northern Cyprus, as it seeks to come to grips with its new industry, are representative of the problems faced by peripheral regions in general when they engage in casino tourism development. And for a number of reasons, it is precisely in such peripheral regions that much of the casino development of the past decade has been concentrated. On the one hand, locating casinos in physically peripheral regions effectively isolates gambling activity, rationing the gambling opportunities for the residents of metropolitan centres and shifting many of the associated problems and costs elsewhere (Stansfield, 1996; Felsenstein & Freeman, 1998).

On the other hand, the economic marginality of many peripheral areas may make them eager to cash in on the growing demand for casino gambling. In doing so, they can turn their location into a comparative advantage, whether they are an urban economy in need of regeneration in the aftermath of industrial and economic restructuring (Goodman, 1995;

Deitrick, et al., 1999); an emerging former Soviet-bloc state seeking the means to kick-start post-communist economic activity (McMillen, 1996a; Thompson, 1998); or a small, offshore island with limited development options. Northern Cyprus, in the eastern Mediterranean, is one such island.

## Northern Cyprus

The Turkish Republic of Northern Cyprus (TRNC) could be considered perhaps the quintessential peripheral location. Recognised politically and diplomatically only by Turkey, this northern third of the island of Cyprus has been literally cut off from the rest of the world since its partition in 1974, following an attempted coup engineered by the military junta in Athens and subsequent military intervention by Turkey. Boycotts put in place by the United Nations ensure that all post and telecommunications to northern Cyprus must be routed through Turkey, and there are no direct international flights to the north.

These problems of accessibility and negative image render the north artificially remote from the mass tourism markets of northern Europe, the mainstay of the Greek Cypriot tourism industry in the south. They make them triply dependent on mainland Turkey, which is their gateway to the rest of the world, the main source of aid and investment in the north, and also, the main tourist market (Scott, 2000a). The primary attractions of northern Cyprus for Turkish tourists are sun, sea, sand, shopping, and the opportunity for casino gambling.

## The Development of the Casino Sector in Northern Cyprus and Turkey

Research in northern Cyprus's casino sector was undertaken as part of a wider project looking at diversity and sustainability in tourism development. The author, an anthropologist at the Business School of the University of North London, worked in collaboration with Turkish Cypriot colleagues at Eastern Mediterranean University, Famagusta, Cyprus. Using a combination of survey, interview and participant observation methods, our research explored the relationship between northern Cyprus's conventional tourism product and the casino tourism sector (Scott and Asikoglu,

forthcoming), and the impact of casinos on traditional gambling (Scott, 2000b).

At the commencement of fieldwork in spring 1999, 20 casinos were operating in northern Cyprus. All were attached to, or located within, hotels, holiday villages or other tourist accommodation, and eight were in town centre locations, the majority of these in the main tourist resort town of Kyrenia (Girne). By far the largest is the Emperyal Casino, with 22 gaming tables and 377 slot machines. This compares with an average of 10 tables and 70 slot machines per casino, although the smallest has only seven tables and 18 machines (Ministry of Tourism, 1998). The main games played are American and French roulette, Las Vegas craps, Black Jack, poker, chemin-de-fer, punto banco, baccarat and keno. However, a number of other games are also permitted on casino premises, including chug-a-lug, wheel of fortune, rummy, backgammon, and betting on horse and dog races and football matches. Casino opening hours are subject to government regulation, and operation is currently permitted from early afternoon to early morning, with seasonal adjustment from winter to summer. Alcoholic drinks are available free of charge, and may be consumed at the gaming tables. At the time of writing, citizens of northern Cyprus and students, regardless of nationality, are not permitted to gamble on casino premises (nor, technically, in any other location).

The scale of the current level of casino activity has caused enormous local controversy, yet casinos themselves are nothing new in northern Cyprus. A law permitting the licensing of premises for betting and gambling was first passed in 1975, to encourage tourism investment and diversify the north's fledgling tourism product in the aftermath of the island's partition. Casino operators were required to meet tourist bed/night targets as a condition of their licence, but this requirement was soon dropped when it became clear that none of the casinos had been able to meet their targets, and that all would face heavy penalties (Yesilada, 1994). In the face of the low level of demand, would-be operators who had received permission to open casinos bided their time. By 1991, only four small premises were in operation, although permission had been granted for 10 casinos to open.

Throughout the 1990s, however, the licensing and opening of casinos gathered pace. The development of the Israeli "casino junket" market began to ensure a steady stream of weekend gamblers, but posed enormous logistical problems in the absence of direct flights to and from Israel. Turkey presented a much more accessible and potentially much larger market.

Although casino gambling was legalised in Turkey in 1983 —again with the aim of stimulating investment in tourism and attracting overseas tourists — Turkish citizens were initially barred from the live game areas of casinos. High rollers were obliged either to play the slot machines —where some individuals would lose as much as US \$2,000 to 3,000 on a daily basis (Kent-Lemon, 1988:409) —or to visit casinos outside Turkey, with northern Cyprus a convenient location only one hour by air from Istanbul or Ankara.

By 1995, a further eight casinos had been licensed in northern Cyprus, but with the liberalisation of gaming laws in Turkey, allowing Turkish nationals access to the gaming tables, the Cypriot casinos again found themselves struggling to survive. However, by 1997 the tide of public opinion in Turkey was turning against the casinos, fuelled by an apparent increase in widespread problem gambling (Duvarci, et al., 1998) as well as stories linking casinos with organised crime and corrupt politicians. The electoral success of the Islamic Welfare Party, who opposed gambling on religious and moral grounds, hastened their demise, so that by autumn 1997, Turkey's 78 casinos had been closed down.

For the biggest casino operators, however, the closure represented only a temporary hiatus. As early as March 1997 *Sabah* newspaper reported on plans to shift casino operations to locations outside Turkey —to Poland, the Czech Republic, Russia, Slovenia, Azerbaijan and France. Furthermore, six operators announced their intention to move to northern Cyprus (*Sabah*, 1997). By 1998, the Turkish Cypriot Ministry of Tourism had granted a further six casino licences, bringing the total to 24, but many more were waiting in the wings, eager to capitalise on the Turkish market for casino gambling where it had become an essential leisure activity. By the spring of 1999, a further 20 entrepreneurs were lobbying hard for casino licences. If all were successful, the total number of casinos in northern Cyprus would reach well over 40, a situation that raised a number of dilemmas for the new minister of tourism.

## Policy Dilemmas

While on the one hand, giving the go-ahead to all of the casino applications might have provided a pragmatic short-term solution to many of the problems besetting northern Cyprus's tourism industry, the wholesale licensing of casinos holds threats and uncertainties for the long term.

Partisans of gambling tourism and casino expansion argued that the casinos had raised the demand for hotel accommodation and would potentially increase the demand for other tourism services, such as travel agencies, restaurants, car hire, entertainment, etc. Even some of the smaller hotels that did not have a casino claimed they had improved their chronically low occupancy rates by accommodating the overspill from the larger casino hotels. Furthermore, the casinos themselves would provide a source of local employment. Indeed, to promote this objective, legislation passed in the mid-1990s required that the proportion of foreign nationals employed in any casino should not exceed 30 per cent. Taxes and licence fees levied on casinos, it was argued, could provide a lucrative source of income for the government. Finally, from 1994 onwards, casino licences were granted only to hotel premises with a minimum four-star rating and 200 to 250 beds. After 1996, this was raised to five-star premises with a minimum of 500 beds, with the intention that casino investors should improve the level and quality of hotel stock in the north.

In addition to fears that the casinos would lead to increased crime and rates of problem gambling (the anecdotal evidence for which is so far unverified by definitive research; c.f. Scott, 2000b), critics of the casinos identified a number of negative impacts on existing tourism and its future prospects. These criticisms had two major themes: firstly, that the benefits of casino tourism were exaggerated and unevenly distributed; and secondly, that casino tourism was distorting the north's tourism product and introducing a dangerous element of dependency on the casinos.

## Who benefits?

There is no doubt that large flows of money have accompanied the establishment of casinos in northern Cyprus. The casino investors and operators own association estimates their annual contribution to the local economy to be in the region of US \$65,000,000 (*Kibris*, 20/6/99). But it is far from clear who is benefiting from these flows, and it seems likely that the gains to the public purse are extremely modest. Certainly, the issuing of casino licences is proving less lucrative for the government (which grants two-year licences for an annual fee of between \$80,000 and \$100,000 US) than it is for the licence-holders who then illegally sell their (supposedly non-transferrable) licence to third parties for much larger amounts; according to one casino manager, amounts up to \$2,000,000 US.

Hotel owners renting out casino premises are also reported to be charging an average rent of \$100,000 US a year, although during fieldwork, amounts of up to \$35,000 US *per month* were also mentioned. In the eyes of many,

this speculation in casino licences and rents functions as a secret subsidy to hoteliers, which has ensured their economic survival and enabled them to refurbish and maintain their properties in the absence of either established tourism or adequate financial assistance from the cash-strapped government. Yet it has also reinforced the casino sector's status as a largely hidden and secretive industry, and weakened central government's grip on development and their capacity to exercise effective controls.

The lack of effective government control is reflected in their inability, so far, to enforce local employment quotas. Despite the legal requirement that a minimum of 70% of the casino personnel should be local, research carried out by the Ministry of Tourism in 1998 indicated that this requirement was honoured more in the breach than in the letter. Thirteen out of 18 casinos surveyed employed fewer than 50% local staff, and four employed fewer than 20%. Only two either met or exceeded the 70% target (Ministry of Tourism, 1998). The majority of the staff are from either Turkey or Eastern Europe.

Far from boosting business for local shops, bars and restaurants, many of them claim to be suffering as a result of the casinos. Restaurateurs complain that the casino tourists seldom venture out to sample the local restaurants. What is worse, they also claim that their local business (i.e. their Cypriot clientele) is influenced by the free food, drink and entertainment offered in the casinos. This particularly hits alcohol sales, where local restaurants derive most of their profits. Although no official statistics have been gathered, anecdotal evidence from the restaurateurs' association suggests that restaurant closures have increased with the upswing in casino activity.

## **Relationship to tourism**

Despite the fact that rents and illegal income from selling off licences provide a 'hidden subsidy' to hotels in northern Cyprus, this income benefits only a small proportion of the hotels trying to make a living from tourism. Only four- and five-star hotels are allowed to have casinos, yet 85% of the membership of the hoteliers' association is made up of one- and two-star hotel owners. Small-scale hoteliers complain that their traditional market is being squeezed out by the priority given to casino tourism. The president of the hoteliers' association claims that tour operators have stopped actively promoting northern Cyprus as a "family market," thereby changing its tourist profile. Travel agents point out that casino tourism is exacerbating the transportation bottlenecks to which the north is subject by monopolising

scarce aircraft seats at the expense of other tourists. There is also evidence that the local tourist supply chain is being distorted by the trend for casinos to deal directly with tour operators in Turkey and elsewhere, thereby cutting out local travel agents. This practice is technically illegal, but appears to be increasingly rarely policed.

## A Policy Stand-Off?

The casino sector in northern Cyprus is characterised by uncertainty and lack of clarity, at least a partial consequence of the stop-and-go, contingent nature of casino tourism in northern Cyprus and its extreme dependency on developments in Turkey. The government has been criticised for being too reactive and ad hoc in relation to the casino sector. But some casino operators go further and accuse politicians of deliberately prolonging the state of uncertainty surrounding the casinos and exploiting the polarisation of public opinion for political capital. In a public statement in June 1999, the head of the Association of Casino Investors and Operators claimed: "The government does not accept us as a sector, they have classified us in the same category as gambling houses, whore houses and seedy coffee shops. Their goal is to shut us down" (*Cyprus Today*, 19/6/99, p. 2). According to this view, the government's failure so far to establish a gaming control board is symptomatic of its unwillingness to seriously engage the casino sector.

The pressures on the government to grant new licences have become so great, however, that it is finally being forced to take a position, which is proving to be no easy matter. Personal interests flourished in the previous laissez-faire climate and casino operators are now unwilling to bow to stricter regulation by government. The publication in June 1999 of a draft bill amending the Gambling Establishments, Casinos and Gambling Prevention Law provoked a strong reaction from casino operators. The bill proposed tightened restrictions on entry into casinos and an entry fee of \$10 US. The bill also provided for more vigorous action against "illegal gambling" (i.e. by citizens of northern Cyprus and students), with increased fines and up to two years' imprisonment for individuals, and even stiffer penalties (fines, three years' imprisonment and possible closure) for casino management who permit illegal gambling on their premises. The Association of Casino Investors and Operators, which had been moribund up to this point, responded with a full-page public announcement in *Kibris* newspaper (20/6/99) denouncing the proposals, and threatened to close



down all of the casinos over the summer season "so it is understood how much this sector affects tourism and the economy" (*Cyprus Today*, 19/6/99: p. 2). The amendments were watered down, and the threatened closures did not occur.

## Conclusion

Eadington (1995) has pointed out that places eager for the economic benefits of casino tourism development often overlook the associated costs of establishing and maintaining an adequate policy and regulatory framework. Resource constraints alone, however, do not fully explain the experience of northern Cyprus. As McMillen (1996b) points out, to approach casino tourism development solely from the angle of costs, benefits and technical management solutions ignores the radical transformations in social, cultural and economic relations into which casino tourism destinations are thrust, and in which the state, out of necessity, plays a central part as the source of legitimation, legislation and public policy. The history of northern Cyprus's involvement with casino tourism provides a telling illustration of McMillen's further observation, that governments are "constrained and complex forums for competing ideas, rather than the autonomous and single-minded organisations assumed from a paradigm of economics and public choice" (1996b: 31).

What is most striking in the northern Cyprus case are not the financial barriers to achieving regulatory efficiency, but the state's inability to reconcile conflicting internal and external political and ideological pressures (exacerbated by its symbiotic relationship with Turkey and dependence on developments there); its failure to send out clear signals to the competing interest groups and the general public and its unwillingness to engage the casino sector seriously, from a position of strength. The example of northern Cyprus suggests that the obstacles to economic development which characterise peripheral regions, and which are rooted in conditions of dependency, vulnerability and uncertainty, are likely to be intensified rather than alleviated by the relationship with the footloose, global casino industry.

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