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11-13-2013

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## Recommended Citation

Fatehi, K., & Doral, M. (2013, November). How to Increase Tourism in the Republic of Georgia?. In 8th Silk Road International Conference "Development of Tourism in Black and Caspian Seas Regions".

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## **How to Increase Tourism in the Republic of Georgia?**

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Submitted to:  
The 8th Silk Road International Conference  
Development of Tourism in Black and Caspian Seas Regions

Tbilisi-Batumi, Republic of Georgia

May 24, 2013 – May 26, 2013

# **How to Increase Tourism in the Republic of Georgia?**

**Kamal Fatehi and Murat Doral**

## **Introduction**

The Georgian economy is based on open trade and capitalistic growth model centered on free flow of goods and services and capital. This free market environment is complemented by a democratic political system which renders the status of Georgia as a modern “market-democracy” in the global economic and political order. Georgia is one of a handful of countries which was able to transition successfully from a centrally planned economy into a market based system and from one party communism into a multi-party democracy through the well-known “rose revolution.” Georgia, like other emerging economies, has the long-term goal of raising the standards of living of its citizens as rapidly as possible and in a sustainable fashion. Especially given the size of its economy, this can be achieved if Georgia focuses on its core competencies and can carve a niche for itself through specialization in tourism. This paper presentation suggests that there are ways that Georgia could further expand its already vibrant tourism industry by deploying specialized private and public sector resources. In so doing and in addition to tourism, Georgia can jump start a number of related industries which would benefit from such endeavor. If successful, this strategy has the potential of delivering higher long-term growth and lowering the natural rate of unemployment while increasing incomes for the citizens of Georgia.

## A Look at Georgia's Economy

According to the United Nations World Tourism Organization (UNWTO), Georgia's GDP in 2011 was US\$ 24.5 billion, and given its population of 4.48 million, its per capita GDP was US\$ 5,465 (See Table 1). For many economic strategists and policy-makers around the world, the challenge is to deliver sustainable and high rates of economic growth in an increasingly competitive global market place. For an emerging market like Georgia, this issue becomes even more curious because moving the Georgian economy toward its "secular-potential growth trend" while benefiting from the "catch-up effect" requires smart design in policy making, through which attracting capital from domestic and especially foreign private sources as well as mobilizing limited public sector resources must be the primary goal.

Table 1

| 2011               | GDP (million \$) | Population (million) | GDP/Capita  |
|--------------------|------------------|----------------------|-------------|
| Armenia            | \$17,948.45      | 3 100                | \$5,789.38  |
| Azerbaijan         | \$92,295.06      | 9 168                | \$10,067.09 |
| Georgia            | \$24,516.35      | 4 486                | \$5,465.08  |
| Iran               | \$841,673.28     | 74 799               | \$11,252.53 |
| Russian Federation | \$3,015,434.12   | 141 930              | \$21,245.92 |
| Turkey             | \$1,259,982.33   | 73 640               | \$17,110.12 |

Source: UNWTO - <http://media.unwto.org/en/press-release/2012-05-07/international-tourism-receipts-surpass-us-1-trillion-2011>

Modern macroeconomic growth theory defines a country's potential growth rate as the sum of the growth rates of its labor force and labor productivity. For Georgia, 0-1% labor force growth and 5-6% productivity growth will deliver a potential GDP growth of 5-7% without accelerating inflation and will double Georgia's GDP in 10 to 14 years. According to the World Bank data, Georgia's record of 6.67% GDP growth on average between 2003 and 2011 has been consistent with this proposition (World Bank Group Data Bank, 2013).

Given this backdrop and with the exception of hydropower, Georgia lacks significant strategic and natural resources and can use its tourism potential as the “tail wind” in riding on its “potential GDP growth” path. However, this is easier said than done because this strategy requires labor and capital markets flexibilities and a lot of fine tuning in terms policy. The current World Economic Forum Global Competitiveness Index ranks Georgia as the 77<sup>th</sup> most competitive economy (out 144 countries), 11 places up from 2001-12 rankings, but lacks in terms of “efficiency enhancers” (i.e. higher education and training, goods market efficiency, labor market efficiency etc.) and “innovation and sophistication” ” (i.e. Business sophistication, and innovative practices etc.) (WEF Global Competitiveness Index, 2012-13). With this assessment in hand, one of the challenges for Georgia is the ageing of its population and declining population in recent years. This will be an impediment against the government’s attempt to expand the economy by focusing on the tourism industry since tourism is a service and labor-intensive. Given this quantity constraint, the government of Georgia has to allocate resources to education to improve the quality of its labor force.

All in all, Georgia can do better by reducing the size of the government sector in its economy, creating an even friendlier market environment which would be conducive for higher investment activity in tourism as well as related sectors. In addition, Georgia has a large merchandise trade deficit which needs to be financed through net capital inflows (See Table 2). However, net capital inflows can be in the form short-term foreign portfolio investments (i.e. “hot money”) or long-term foreign direct investments (i.e. manufacturing or services). For an economy like Georgia, which lacks tradable cash crops or strategic cash commodities and which

has to deal with persistent and large trade deficits, it is crucial to attract net capital inflows, specifically long-term foreign direct investments. Through government incentives (i.e. lower marginal tax rates, free repatriation of profits, and other incentives), these long-term capital inflows can be channeled into investment projects in the tourism industry.

Table 2

| 2011               | Net Exports (NX) | NX/GDP  | $((X+M)/2)/GDP$ |
|--------------------|------------------|---------|-----------------|
| Armenia            | (\$3,121.96)     | -17.39% | 20.59%          |
| Azerbaijan         | \$21,320.60      | 23.10%  | 28.67%          |
| Georgia            | (\$4,153.76)     | -16.94% | 25.22%          |
| Iran               | \$58,583.38      | 6.96%   | 13.05%          |
| Russian Federation | \$163,645.42     | 5.43%   | 16.36%          |
| Turkey             | (\$86,889.81)    | -6.90%  | 17.21%          |

Source: UNWTO - <http://media.unwto.org/en/press-release/2012-05-07/international-tourism-receipts-surpass-us-1-trillion-2011>

This policy mix can be augmented by well-defined private property rights which would bring greater economic stability to Georgia, would free-up resources and raise the standards of living quicker. In so doing, the government of Georgia can focus most of its attention to the building of the physical and human capital and infrastructure, and other efficiency enhancing and innovation promoting areas.

### Georgia's Tourism Industry

In the Caucasus region, Georgia is a well-known tourism destination and attracts a large number of tourists from many countries. Tourism industry is important for Georgia because it makes up 6.5% of its GDP. Given the high rate of unemployment and an ageing of the population, tourism is and can be an important employment generator. According to the data

compiled by the Georgia National Tourism Administration, the number of international travellers that visited Georgia reached 4.4 million in 2012, which represents a significant increase of 55.8% over 2011 (The Georgian National Tourism Administration Statistics Portal, 2012). This is a much faster growth than the rest of the global tourism industry which grew by only 4.6% in term of the number of tourists for the same period (UNWTO, 2012). In addition, according to UNWTO, in 2011 tourism receipts reached US\$ 1,030 billion globally, up from US\$ 928 billion in 2010, and thus the global average per capita tourism spending was about US\$ 1,100 (UNWTO, 2012). This is more than three times larger than what Georgia generates on average from each tourist. In 2012, 4.4 million tourists visited Georgia and spent US\$ 1.4 billion. On the bright side, Georgia's tourism receipts grew by 42.33% in 2010-11 and by 50.37% in 2012-11, a remarkable growth compare to the rest of the global tourism industry (The Georgian National Tourism Administration Statistics Portal, 2012).

Another interesting aspect of Georgia's tourism industry is that most of the tourists visiting Georgia come from four neighboring countries such as Turkey, Azerbaijan, Russia, and Armenia (See Table 3). In 2012, 3.8 million tourists (out of a total of 4.4 million tourists) or 88% of all tourists that visited Georgia in 2012 came from these countries. Clearly, some diversification may be helpful and is probably necessary in order to reduce dependency and revenue fluctuations. This would require a concerted effort on the part of the government promoting Georgia as a destination spot in the EU, Middle East, and possibly East Asia and North America.

Table 3

| Country             | 2005           | 2006           | 2007             | 2008             | 2009             | 2010             | 2011             | 2012             |
|---------------------|----------------|----------------|------------------|------------------|------------------|------------------|------------------|------------------|
| <b>Total</b>        | <b>559,753</b> | <b>763,231</b> | <b>1,051,749</b> | <b>1,290,108</b> | <b>1,500,049</b> | <b>2,031,717</b> | <b>2,822,363</b> | <b>4,389,256</b> |
| Turkey              | 109,796        | 146,696        | 248,028          | 351,410          | 384,482          | 535,593          | 738,085          | 1,530,616        |
| Azerbaijan          | 153,467        | 198,062        | 281,629          | 344,936          | 418,992          | 497,969          | 714,418          | 929,244          |
| Russia              | 90,176         | 88,538         | 91,361           | 114,459          | 127,937          | 170,584          | 278,458          | 508,513          |
| Armenia             | 100,508        | 180,550        | 243,133          | 281,463          | 351,049          | 547,510          | 699,382          | 899,476          |
| <b>Sum of Top 4</b> | <b>453,947</b> | <b>613,846</b> | <b>864,151</b>   | <b>1,092,268</b> | <b>1,282,460</b> | <b>1,751,656</b> | <b>2,430,343</b> | <b>3,867,849</b> |

Source: Republic of Georgia Tourism Administration - Retrieved on 04/14/13 from <http://gnta.ge/stats/portal/>

Increasing the average tourism spending per capita and diversification of Georgia's tourism markets necessitates policy coordination and the choice of the right policy mix. For example, Georgia can mobilize its private and public resources to raise the efficiency and value-added of its tourism industry by emphasizing service-quality and offering alternatives. To achieve this, the synergistic forces of health, hospitality, leisure, and as well as education can be tapped and through up- and cross-selling Georgia's tourism revenues can be increased. Synergy occurs when a combination of two forces is stronger than the independent values of both forces put together. For example, today's medicine relies on a cocktail of various medicines to treat ulcer, or fight against AIDS disease, or in today's modern business environment complimentary abilities of various divisions or departments are and can be used in dealing with issues to achieve higher profitability. In the case of tourism in Georgia, a number of programs could be combined. The impetus for expanding tourism in Georgia can begin with public sector investments in major infrastructure projects such as building and expanding airports and air travel, highways, fiber optic network as well as educating its labor force to facilitate economic expansion. Modern physical infrastructure is very critical for the tourism industry, as is for all other industries. Especially, given the fact that most of foreign travellers come to Georgia by



land (88%) but only a much smaller fraction by air (10%), building of modern airports and improving the existing airports must be driven by government policies and funding (See Table 4). Of course, just building infrastructure will not be enough. Georgia will also need a well-educated labor force who would be able to run it efficiently and effectively. Thus, the government of Georgia has to allocate enough resources to education, especially in the tourism sector. This would allow Georgia to diversify its tourism markets by making itself easily accessible by air and provide quality service through its educated labor force. Furthermore, the government's direct involvement in major public projects would not only allocate the necessary resources into these areas but would also create a favorable investment environment from which other industries could benefit.

Table 4

| Type         | 2005           | 2006           | 2007             | 2008             | 2009             | 2010             | 2011             | 2012             |
|--------------|----------------|----------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Air          | 130,556        | 138,409        | 160,969          | 192,145          | 199,212          | 245,106          | 335,846          | 427,974          |
| Land         | 421,649        | 567,088        | 818,357          | 1,020,880        | 1,207,786        | 1,677,342        | 2,380,976        | 3,838,859        |
| Railway      | 7,548          | 12,248         | 31,412           | 29,113           | 38,874           | 53,142           | 55,277           | 63,484           |
| Sea          | 0              | 45,486         | 41,011           | 47,970           | 54,177           | 56,127           | 50,264           | 58,939           |
| <b>Total</b> | <b>561,758</b> | <b>765,237</b> | <b>1,053,756</b> | <b>1,292,116</b> | <b>1,502,058</b> | <b>2,033,727</b> | <b>2,824,374</b> | <b>4,391,268</b> |

Source: Republic of Georgia Tourism Administration - Retrieved on 04/14/13 from <http://gnta.ge/stats/portal>

On the other hand, specialized private capital can be applied to the construction of hotels and amusement parks. In addition, the synergy of public and private resources could be used in establishing Georgia as medical tourism destination. Medical tourism is the newest way of combining health and medical industry with hospitality and amusement businesses to build a foundation from which a number of related business and services could spring up. This requires a greater sophistication and know-how which can be imported and attracted by providing

incentives to private capital, domestic as well as global. Given their global exposure and inter-connectivity with the rest of the global economy, Turkey, Azerbaijan, and Russia which send a lot of tourists to Georgia can also export capital and technical know-how.

## **Conclusion**

In expanding its tourism industry, Georgia can rely on its already existing natural assets. Its favorable location at the shores of the Black Sea, moderate climate, friendly and hospitable people, and market based economic system coupled with its burgeoning democracy makes Georgia attractive not only as a tourist destination but also as a destination for global capital.

Through the mobilization of synergistic forces, it is quite feasible for Georgia to diversify its tourism base and markets and raise its revenues by;

1. Targeting niche markets
2. Market segmentation and product differentiation
3. Up-selling and cross-selling
4. Developing alternatives by exploiting untapped areas such as medical tourism, golf tourism, culinary and wine tourism etc.

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