

**Czech University of Life Sciences Prague**

**Faculty Economics and Management**

**Department of Economics**



**Bachelor Thesis**

**Tourist Industry in Chosen State**

**Babayeva Yekaterina**

**© 2016 CULS Prague**

## BACHELOR THESIS ASSIGNMENT

Yekaterina Babayeva

Economics and Management

Thesis title

**Turist Industry in Chosen State**

---

### Objectives of thesis

The main objective of this bachelor thesis is to analyse, explore and forecast incoming tourism development in Sochi, Russian Federation with regard to its previous development and changes as a result of winter Olympic games in 2014.

### Methodology

Bachelor thesis includes several research methods. Literary and methodology research will be conducted in order to write theoretical part of the thesis. It contains description of what is tourism, what are the main pillars of incoming tourism. Theoretical background is a part of the second chapter.

The third chapter includes analysis of history incoming tourism in Sochi. It is a health resort on the Black sea, on the South of Russian Federation. It is a city of endless sport facilities and activities, and it is interesting to know if those facilities arise tourist interest.

The last part involves description and analyses tourism in Sochi before and after Olympic events. This city is known as the hosting city of winter Olympic games in 2014, and thus tourist interest to this city has risen. The main interest concerns the changes in incoming tourism in Sochi before and after the Olympic games. It also includes forecasts on how Sochi will be developing in the nearest future.

One of the main and most valuable research methods in a questionnaire addressed to citizens of Sochi. It is interesting to know their inside opinion about Olympic games arrangements, incoming tourism and further development.

## **The proposed extent of the thesis**

40 – 60 pages

## **Keywords**

Tourism, Sochi, Winter Tourist Season, Summer Tourist Season, Olympic Games

---

## **Recommended information sources**

1. Chris Cooper (2008), *Tourism: Principles and Practice*, Pearson Education, 704, ISBN: 9781408200094
2. Stephen Page, Joanne Connell (2006), *Tourism: A Modern Synthesis*, Cengage Learning EMEA, 546, ISBN-13: 978-1844801985
3. Colin Michael Hall (2005), *Tourism: Rethinking the Social Science of Mobility*, Pearson Education, 448, ISBN: 9780582327894.
4. Dimitrios Buhalis, Simon Darcy (2010), *Accessible Tourism: Concepts and Issues*, Channel View Publications, 336, ISBN: 978-1845412081

---

## **Expected date of thesis defence**

2015/16 SS – FEM

## **The Bachelor Thesis Supervisor**

Ing. Tomáš Maier, Ph.D.

## **Supervising department**

Department of Economics

Electronic approval: 18. 11. 2015

**prof. Ing. Miroslav Svatoš, CSc.**

Head of department

Electronic approval: 18. 11. 2015

**Ing. Martin Pelikán, Ph.D.**

Dean

Prague on 10. 03. 2016

### **Declaration**

I declare that I have worked on my bachelor thesis titled „Tourist Industry in Chosen State“ by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break copyrights of any third person.

In Prague on 16.3.2016

---

Babayeva Yekaterina

## **Acknowledgement**

I would like to thank Ing. Tomáš Maier, Ph.D. for his advice and support during my work on this thesis.

# Cestovní ruch ve vybraném státě

---

## Tourist Industry in Chosen State

### Summary

The thesis investigates the development of the tourism sector in the Russian Federation's major resort city – Sochi. The author investigates the key theoretical aspects related to the tourism and hospitality sector, analyzes the effects which the organization of Olympic Games has for host countries in economic and social terms, and regards in detail the development of the tourist industry in Sochi. The evaluation of the expenses made by the Russian authorities for hosting the 2014 Winter Olympics in Sochi and the analysis of the first financial results after the Olympic Games allow drawing conclusions with regard to the city's prospects for becoming a major tourist destination on the international scale. Based on the analysis of Sochi's tourist industry's strategic advantages and drawbacks and of the current geopolitical situation in the Russian Federation, the author develops forecasts with regard to further development of tourism in Sochi.

### Souhrn

Tato práce zkoumá rozvoj odvětví cestovního ruchu v Ruské federaci v turistickém městě Soči. Autor zkoumá klíčové teoretické aspekty týkající oblasti cestovního ruchu a pohostinství. Analyzuje účinky, které má organizace olympijských her pro hostitelské země v hospodářské a sociální oblasti. Jde o detailní rozvoj cestovního ruchu v Soči. Vyhodnocení výdajů ze strany ruských úřadů pro hostování Zimních olympijských her 2014 v Soči a analýza prvních finančních výsledků po olympijských hrách umožňují vyvodit závěry s ohledem na městské vyhlídky a stav významné turistické destinaci v mezinárodním měřítku. Autor vyvíjí prognózy s ohledem na další rozvoj cestovního ruchu v Soči na základě analýzy strategických výhod a nevýhod turistického průmyslu a současné geopolitické situace v Ruské federaci.

**Keywords:** hospitality, Russia, Sochi, tourism, transport infrastructure, Winter Olympics.

**Klíčová slova:** pohostinství, Rusko, Soči, cestovní ruch, dopravní infrastruktura, Zimní Olympijské Hry.

## Contents

1	Introduction.....	8
1.1	Objectives .....	10
1.2	Methodology .....	10
2	Theoretical basis of tourism.....	12
2.1	Defining tourism, tourist and health resort .....	12
2.2	Tourism from economic and social point of view .....	14
2.2.1	Tourism from the economic point of view .....	14
2.2.2	Tourism from the social point of view.....	18
2.3	Impacts of tourism on state's / city's infrastructure.....	19
3.	The history of tourism in Russia (Sochi) .....	23
3.1	Sochi as the main health resort centre during socialism in the Soviet Union.....	23
3.2	Sochi's statistics as a tourist destination.....	25
3.3	Tourism in Sochi in the last 20 years.....	27
3.4	Tourist infrastructure in Sochi .....	34
4	Impact of the 2014 Winter Olympics on the tourist infrastructure in Sochi and forecasts .....	39
4.1	SWOT analysis .....	39
4.2	VAR analysis .....	42
4.3	Forecasting.....	44
5	Conclusion .....	51
	Bibliography .....	53
	List of figures.....	56
	List of tables.....	56

# 1 Introduction

Tourism is the core business and economic activities of some countries or cities. Tourism is definitely a phenomenon, which involves different areas: marketing, cultural and historical background, leisure and business infrastructure and proper personal environment. It is probably the most complex economic sphere.

I have decided to dedicate my thesis and research to incoming tourism in Sochi – a health resort and Olympic city 2014 in Russian Federation. The reason is clear and challenging – there are many negotiation and disputes in Russian community and particularly among Sochi inhabitants about expediency and advisability of arranging the Olympic games in this small town – and I want to understand if there are rather positive or negative perspectives for tourism in Sochi.

The main objective of this bachelor thesis is to analyse, explore and forecast incoming tourism development in Sochi, Russian Federation with regard to its previous development and changes as a result of winter Olympic Games in 2014.

Bachelor thesis includes several research methods. Literary and methodology research will be conducted in order to write theoretical part of the thesis. It contains description of what is tourism, what are the main pillars of incoming tourism. Theoretical background is a part of the second chapter.

The third chapter includes analysis of history incoming tourism in Sochi. It is a health resort on the Black sea, on the South of Russian Federation. It is a city of endless sport facilities and activities, and it is interesting to know if those facilities arise tourist interest.

The last part involves description and analyses tourism in Sochi before and after Olympic events. This city is known as the hosting city of winter Olympic Games in 2014, and thus tourist interest to this city has risen. The main interest concerns the changes in incoming tourism in Sochi before and after the Olympic Games. It also includes forecasts on how Sochi will be developing in the nearest future.



One of the main and most valuable research methods in a questionnaire addressed to citizens of Sochi. It is interesting to know their inside opinion about Olympic Games arrangements, incoming tourism and further development.

In order to investigate tourism in general, and Sochi as a particular case of a popular tourist destination, it is first of all needed to analyze the main theoretical aspects of tourism, which is a complex field of economic and social relations within given communities. Theoretical aspects of tourism are varied, as the concept itself is complex, and therefore require thorough analysis of scientific literature in order to form a comprehensive image of this economic and social phenomenon.

This thesis will present my main theoretical and empirical findings with regard to tourism in Sochi. I will pay particular attention to the definition of tourism, and different classifications of tourism which can be found in specialized literature. Also, I will analyze the core concepts connected with tourism.

Next, I will investigate the main levers using which tourism influences economic and social relations within countries and on the international level. In addition to purely theoretical information, I will also provide basic statistical data demonstrating the impact of tourism on economic development of particular states and the global economy in general. This is important for the purpose of understanding the real scope of tourist activities.

I will equally consider the impact of tourism on infrastructure of cities and states. This is particularly important for the purpose of analyzing development of Sochi as a tourist center, as tourist activities and infrastructural development are inseparably interconnected in all cases.

The main goals of the practical part of the research will be to evaluate the dynamics of tourist inflows in Sochi; to evaluate the structure of tourists visiting the city and the main attractions they find there; to assess how the hosting of the 2014 Winter Olympics affected the development of tourism in Sochi; and to forecast what effects this could further bring to the city and region in the near future taking into account the current tendencies.

## **1.1 Objectives**

The main aim of this bachelor thesis is to analyse, explore and forecast incoming tourism development in Sochi, Russian Federation with regard to its previous development and changes as a result of winter Olympic Games in 2014.

The goals of the thesis are to investigate the key theoretical aspects related to tourism; to evaluate the key economic and social effects which the development of the tourism and hospitality infrastructure has for states; to track the role of Winter Olympics in the development of the host cities' and countries' economy through the evaluation of their historical financial results; to analyze in detail the economic effects of the 2014 Sochi Winter Olympics, namely in the context of the expenses made by the government and the investors for hosting the Olympic Games and the expected outcome of the aforesaid investment; to track the first financial results of the 2014 Sochi Winter Olympics available as of today; to develop forecasts for the subsequent development of Sochi's tourism and hospitality infrastructure taking into account the current situation with the tourism and transport infrastructure in the city and region after the 2014 Winter Olympics; and to draw appropriate conclusions in accordance with the aim of the research.

## **1.2 Methodology**

In order to maximize the added value of this thesis paper, a number of methodological tools will be applied throughout the course of the research. Thus, literature review will be applied with the aim of investigating the key theoretical aspects related to tourism, the hospitality industry, and the factors which main different travel destinations attractive to tourists. Retrospective analysis will be applied in order to track what effects the previous Winter Olympics had on their host cities and countries, namely in the context of their tourist attractiveness and financial performance achieved. Statistical analysis will be used for the purpose of revealing the dynamics and trends in the development of Sochi's tourist and transport infrastructure, namely before and after the 2014 Winter Olympics, and for evaluating the financial effects which the Olympic Games had for the city and region. Variable (regression) analysis will be applied with the aim of investigating the correlation between the number of tourist arrivals in the Krasnodar Region and the gross regional

product generated by the region as its aggregate economic output. Also, SWOT analysis will be used as a research method for investigating the current and future opportunities for Sochi's development as a major domestic and international tourism center in the Russian Federation. Finally, deductive thinking will be used for compiling the findings of my research, tracking the most important findings and tying them together when drawing the ultimate conclusions.

The section of this thesis dedicated to VAR analysis and the investigation of the factors contributing to Sochi's economic development through the greater inflow of tourists will be based on the analysis of incoming tourists and the amount of GRP generated by the Krasnodar Krai. GRP, or gross domestic product, stands for the market value of all goods, services and works manufactured, rendered or executed within a particular region over a particular period of time. The GRP indicator is similar to the GDP indicator, however, in contrast to the latter, it deals with particular regions, and not with entire countries.<sup>1</sup> In the context of this research, the Krasnodar Krai's GRP will be used as a dependent variable for the VAR analysis, and the number of tourists will serve as an independent variable (which will allow tracking the interdependence between the number of tourists visiting the region and its GRP).

Vector autoregression, commonly referred to as VAR analysis, is an economic model destined to evaluate the interdependence between two or more variables (at least one of which is dependent and one independent). The VAR model builds up a linear function reflecting the aforesaid interdependence over a period of time. The evaluation of the regression parameters allows drawing conclusions with regard to the level of interdependence between the variables taken as the basis for the analysis, and allows stating how much the dependent variable's value is preconditioned by the changes in the independent variable's value.<sup>2</sup>

---

<sup>1</sup>Lavrov, Makushkin (2001), *The Fiscal Structure of the Russian Federation: Financial Flows Between the Center and the Regions*, p. 32

<sup>2</sup>Tsangarides (2010), *Monetary Policy Transmission in Mauritius Using a VAR Analysis*, p. 54

## 2 Theoretical basis of tourism

### 2.1 Defining tourism, tourist and health resort

Tourism is a complex sphere of relations both on the national and international levels covering a variety of fields of human interaction: social, economic, political, etc. In general, tourism can be defined as travel of a limited duration for recreational, business, leisure or similar purposes.<sup>3</sup>

People practicing tourism are called tourists. According to the World Tourism Organization, a tourist is a person visiting a place different from his usual place of living for no more than one year, for business, leisure or recreational purposes.<sup>4</sup>

There are different classifications of tourism used by different scientists or groups of researchers, depending on the underlying object analyzed. Thus, based on the World Tourism Organization's definition of tourism, it can be divided into the following types:

- business tourism: this type of tourism involves individuals traveling within their country or abroad, but still continuing working and being paid for this work. Anyways, in the course of business tourism, individuals involved leave their usual workplace and home in order to travel. Business tourism can also be divided into the following subtypes:
  - a) traditional business traveling: this includes meetings (either bilateral, or multilateral) with business partners, which are arranged at different locations;
  - b) incentive trips: this subtype is used in order to motivate the employees to work more efficiently, with the ultimate goal to grant higher benefits for the company;
  - c) conference and exhibition traveling: this subtype includes travels for the purpose of visiting business conferences or other similar events;<sup>5</sup>
- recreational tourism: this type of tourism assumes traveling for the purpose of restoring moral or physical capacities of individuals. Here, tourists mostly visit recreational establishments such as health resorts for the

---

<sup>3</sup> Cooper (2008), *Tourism: Principles and Practice*, p. 13

<sup>4</sup> Page, Connell (2006), *Tourism: A Modern Synthesis*, p. 9

<sup>5</sup> Hall (2005), *Tourism: Rethinking the Social Science of Mobility*, pp. 39-41

purpose of getting rest from their everyday life. A health resort is a specialized establishment for tourists, usually providing such services as balneotherapy, body treatments, physiotherapy, massages, nutrition counseling, ionithermie, fitness procedures, etc.<sup>6</sup> Also, an important part of recreational tourism is constituted by medical tourism, which stands for individuals' travels for the purpose of obtaining medical treatment in locations different from their ordinary place of living. Thus, most often, medical tourism includes voyages made by people from less developed regions or countries to more developed regions or countries, where there are more powerful medical centers, with up-to-date equipment and treatment methods;<sup>7</sup>

- leisure tourism: this type of tourism stands for all types of traveling for the purpose of leisure, and includes both summer and winter vacations tourism, and all other kinds of voyages different from those included in the first two categories described above.<sup>8</sup>

According to the classification used by the UN, tourism can be divided into the following types:

- domestic tourism: residents of a country travel only within this given country;
- inbound tourism: non-residents travel within this given country;
- outbound tourism: residents travel in another country.<sup>9</sup>

Also, tourism can be divided into many types depending on the object of interest attracting voyagers:

- heritage tourism: this branch of tourism includes voyages made for the purpose of visiting places representing the cultural heritage and historical past of peoples, their cultural identity;
- cultural tourism: this current of tourism includes traveling made in order to become better acquainted with cultures of different local communities, namely through visiting certain local festivals, cultural events, etc.;
- geotourism: here, the core object of interest is natural sightseeing;

---

<sup>6</sup> Reisman (2010), *Health Tourism: Social Welfare Through International Trade*, p. 55

<sup>7</sup> Hall (2012), *Medical Tourism: The Ethics, Regulation, and Marketing of Health Mobility*, p. 20

<sup>8</sup> Buhalis, Darcy (2010), *Accessible Tourism: Concepts and Issues*, p. 32

<sup>9</sup> Holloway, Taylor (2006), *The Business of Tourism*, p. 75

- culinary tourism: this category includes voyages made to experience the food habits of a particular community, region or country;
- extreme tourism: here, people are mostly interested in visiting places, where some extreme activities can be practiced. The main destinations visited are mountains, canyons, caves, deserts, etc.;
- nautical tourism: this type of tourism combines sailing and boating, especially using leased vessels;
- religious tourism: pilgrimage to destinations of a high importance for religious people, such as Jerusalem, Mecca, etc;
- war tourism: travels to zones of hostilities (where war actions are currently held);
- agritourism: this kind of tourism includes visits of farms or ranches for the purpose of getting rest from city life, and assimilating with the quiet rural lifestyle;
- sports tourism: visits of considerable sports events such as football World Cups, Olympics, etc.<sup>10</sup>

Thus, as we can see, the concept of tourism covers a wide range of fields of human activities. In the next section of my thesis, I would like to analyze more in detail the economic and social importance of tourism.

## **2.2 Tourism from economic and social point of view**

### **2.2.1 Tourism from the economic point of view**

Tourism is an important sector of economic activities for most countries. For some of them, tourism is a vital source of incomes, thus a major source of living. Tourism brings considerable receipts to local economies under the form of payments for goods and services effected by tourists in order to satisfy their certain needs. Overall, tourism accounts for almost 30% of the world's trade of services, which figure explains the importance of this field for the entire global economy.<sup>11</sup>

---

<sup>10</sup> Timothy, Boyd (2003), *Heritage Tourism*, pp. 41-46

<sup>11</sup> Dwyer, Forsyth (2010), *Tourism Economics and Policy*, p. 26

The economic importance of tourism can to a large extent be explained by the fact that companies representing many economic branches benefit from tourists coming to a country. For instance, the following industries get significant incomes from tourist visits:

- tourist companies: those companies which organize travels, arrange programs for visits and excursions, etc., and those establishments which host guests: resorts, hotels, etc., i.e. the tourist industry itself;
- transports: tourists use airlines, buses, taxis, trains and other types of transport for their voyages, spending considerable funds on them;
- restaurants and other companies of the food industry: those establishments are frequented by tourists who usually do not have an opportunity to cook on their own on a trip;
- entertainment industry: many tourists tend to visit casinos, shopping malls, festivals, concerts, movies or other similar events as part of their leisure;
- local fancywork: tourists buy souvenirs to bring back to their home countries, etc.<sup>12</sup>

Thus, as we can see, tourists spend substantial amounts of funds for their rest, and the recipient countries get significant replenishments for their economies. For such recipient countries, there are several essential factors predefining their popularity in order to be a popular tourist destination:

- climate conditions: usually, states having access to sea or ocean are popular among tourists, as well as states with mountains for adepts of active rest and extreme sports;
- availability of historical and cultural heritage: for people interested in cultural activities, this is a core factor, and therefore, they rather pay attention to sightseeing than to climate conditions;
- level of safety: tourists usually tend to visit relatively safe destinations, avoiding visiting hot spots or other similar dangerous areas;
- ecological cleanness: tourists, especially those from developed countries, prefer visiting ecologically clean locations;

---

<sup>12</sup> Briassoulis, van der Straaten (2000), *Tourism and the Environment: Regional, Economic, Cultural and Policy Issues*, pp. 74-75

- level of infrastructure: this includes provision with hotel facilities, food service, hot water supply, etc., i.e. conveniences required by tourists for their rest to be full-fledged and pleasant.<sup>13</sup>

In order to illustrate the importance of tourism from the economic perspective, I would like to present some statistical data provided by the World Tourism Organization.

**Table 1: Number of international tourist arrivals in 2012, by country**

<b>Rank</b>	<b>Country</b>	<b>International tourist arrivals (2012)</b>	<b>Change (2011 to 2012), %</b>
1	France	83.0 million	+1.8
2	United States	67.0 million	+6.8
3	China	57.7 million	+0.3
4	Spain	57.7 million	+2.7
5	Italy	46.4 million	+0.5
6	Turkey	35.7 million	+3.0
7	Germany	30.4 million	+7.3
8	United Kingdom	29.3 million	-0.1
9	Russia	25.7 million	+13.4
10	Malaysia	25.0 million	+1.3

Source: Materials of the World Tourism Organization official web-site: <http://www2.unwto.org/>

As we can see from table 1 above, France is the top recipient country in terms of international tourist activities. In 2012, it was visited by 83 million people from around the globe. An important detail to note is that, among the top 10 international tourist destinations, only the UK had a slight decrease in the number of tourists in 2012 as compared with 2011, while all the other countries experienced growth, which is a principal trend in tourist activities: they always tend to grow in aggregate.

---

<sup>13</sup> Mak (2004), *Tourism and the Economy: Understanding the Economics of Tourism*, pp. 111-112



**Table 2: International tourism receipts in 2012, by country**

<b>Rank</b>	<b>Country</b>	<b>International tourism receipts (2012)</b>	<b>Change (2011 to 2012), %</b>
1	United States	\$126.2 billion	+9.2
2	Spain	\$55.9 billion	-6.6
3	France	\$53.7 billion	-1.5
4	China	\$50.0 billion	+3.2
-	Macau, China	\$43.7 billion	+13.7
5	Italy	\$41.2 billion	-4.2
6	Germany	\$38.1 billion	-1.9
7	United Kingdom	\$36.4 billion	+3.7
-	Hong Kong, China	\$32.1 billion	+16.0
8	Australia	\$31.5 billion	+0.2
9	Thailand	\$30.0 billion	+9.6
10	Turkey	\$25.6 billion	+2.4

Source: Materials of the World Tourism Organization official web-site: <http://www2.unwto.org/>

Table 2 demonstrates the distribution of receipts from international tourism among the top 10 countries. As we can see, those top 10 states differ from the ones with the largest number of international tourist arrivals. This can be explained by the fact that tourists tend to spend different amounts of funds for their leisure, and some countries such as the US can get larger benefits even from a smaller number of tourists. Thus, in 2012, the total receipts from international tourism obtained by the US amounted to over 126 billion US dollars, while the biggest growth was demonstrated by Hong Kong: +16%.

**Table 3: International tourism expenditures in 2012, by country**

<b>Rank</b>	<b>Country</b>	<b>International tourism expenditures (2012)</b>	<b>Change (2011 to 2012), %</b>
1	China	\$102.0 billion	+28.9
2	Germany	\$83.8 billion	-2.5
3	United States	\$83.5 billion	+6.4
4	United Kingdom	\$52.3 billion	+2.5
5	Russia	\$42.8 billion	+23.2
6	France	\$37.2 billion	-15.7
7	Canada	\$35.1 billion	+5.2
8	Japan	\$27.9 billion	+2.6
9	Australia	\$27.6 billion	+3.3
10	Italy	\$26.4 billion	-8.1

Source: Materials of the World Tourism Organization official web-site: <http://www2.unwto.org/>

As we can see from Table 3, in terms of international tourism expenditures, China was an absolute leader in 2012, followed by Germany and the United States.

Although tourism is very important from the economic points of view, its social impact for countries is also crucial.

### **2.2.2 Tourism from the social point of view**

The social impact of tourism is closely interconnected with its economic aspect. Thus, one of the main social advantages brought by tourism is creation of new workplaces. Thanks to the economic benefits of tourism, the economy of a recipient country has wider opportunities of growth in many spheres. Boost in economic development always requires larger workforce to be used for the purpose of satisfying tourists' needs. Thus, new jobs are created, and those vacancies are mostly filled using the local population's human resources. This allows lowering the level of unemployment, and granting higher tax proceeds to the state budget.<sup>14</sup>

Another important benefit of tourism from the social point of view is the social interaction it promotes. Either at the national or at the international level, tourism grants higher interaction between different local, regional or national communities and their individual representatives. Thanks to this, exchange of cultural experiences and values is carried out, knowledge is shared, and people become aware of each other's culture, thus expanding their mindset. This is important for a nation in order not to be enclosed in the global community, and actively participate in the ongoing interaction processes in all fields.<sup>15</sup>

As it has already been stated earlier, tourism gives a significant impetus to the overall economic development. In order to attract tourists, a country needs to provide all the conditions required for the purpose of satisfying tourists' needs to the largest extent possible. Therefore, new facilities and infrastructure objects need to be created. This includes construction of new buildings or even resort villages, with connection of electricity, cold and hot water supply, gas supply, sewerage, construction of road connections, soft landscaping, cleaning of water sources, etc. All those improvements made can later be used by the local population. Thus, by pursuing the aim of satisfying

---

<sup>14</sup> McCabe, Minnaert, Diekmann (2011), *Social Tourism in Europe: Theory and Practice*, pp. 158-160

<sup>15</sup> Burns, Novelli (2006), *Tourism and Social Identities*, p. 93

tourists' needs, those measures undertaken also promote the well-being of people, and the overall social welfare of states.<sup>16</sup>

The impact of tourism on social welfare through development of infrastructure is crucial for any state, and in the next section of my thesis, I will consider more in detail the role of tourism for developing state and city infrastructure.

### **2.3 Impacts of tourism on state's / city's infrastructure**

The term "infrastructure" in general stands for a complex of basic organizational and physical structures, objects and systems required to ensure an entity's, community's, city's or state's functioning. Based on this definition, all infrastructural objects can be divided into two major categories: hard and soft infrastructure. Hard infrastructure includes physical networks, while soft infrastructure includes all institutions aiming to ensure implementation of economic, social and other standards within a community.<sup>17</sup>

Hard infrastructure is generally divided into the following complexes and systems: transport, energy, water management and communications infrastructure, while soft infrastructure consists of governance, economic, social, and cultural, sports and recreational infrastructure. All the abovementioned types of infrastructure require comprehensive development in order to fulfill their ultimate goals of ensuring a high level of social welfare. Obviously, developed states have a more developed infrastructure due to a number of reasons: historical way of development, amounts of funds available, prospects for future application, etc. The role of tourism in development of infrastructure can't be underestimated, as the industry of tourism is tightly interconnected not only with the economy, but also with the social sector. It is important to understand the impact of tourism on both soft and hard infrastructure in order to better comprehend the overall influence of tourism as a branch of economic activities.<sup>18</sup>

If we analyze soft infrastructure and its connection with tourism, it should be said that there is a mutual relationship between the two fields. Tourism plays an important role in defining the vectors of soft infrastructure development, and imposes

---

<sup>16</sup> McCabe, Minnaert, Diekmann (2011), *Social Tourism in Europe: Theory and Practice*, pp. 63-67

<sup>17</sup> Leigh, Webster, Ivanov (2012), *Future Tourism: Political, Social and Economic Challenges*, p. 118

<sup>18</sup> Wall, Mathieson (2006), *Tourism: Change, Impacts, and Opportunities*, pp. 88-93

certain conditions of its functioning to be taken into account by the competent bodies. At the same time, systems and objects of soft infrastructure predefine the regulatory and practical framework for tourist activities. Both processes are essential and inseparable. Their impact isn't limited to just tourism, but covers the entire sector of economic relations.<sup>19</sup>

In terms of governance infrastructure, the impact of tourism on law enforcement and legislative bodies should be analyzed. On the one hand, legislative bodies adopt laws and other regulations aimed at governing the field of tourism, which are mandatory to follow within a community, city or state. Law enforcement agencies exercise control over compliance with such legislative acts, which is inherently their main function. Therefore, tourism is a thoroughly regulated sphere, which requires particular attention of state agencies. On the other hand, development of tourism creates new conditions to be taken into consideration by legislative bodies when preparing new regulations or amending the ones existing. For example, development of tourism promotes free cross-border movement of people. If a state considers the benefits brought by tourism to exceed possible losses, it will be likely to abolish the visa regime with other respective countries. This would require changes to the current legislation in force, which in its turn requires specific actions to be undertaken by legislative bodies. In such case, law enforcement agencies also find themselves in new conditions, to which they have to adapt. This ensures improvement of their functioning through permanent improvement of skills.<sup>20</sup> Emergency services such as ambulances, firefighters or the police also need to significantly improve their actions, and often require increase in the number of staff, as increase in the inflow of tourists means increased number of the population, and thus increased number of emergency cases. Therefore, tourism promotes development of those services at the level of both states and cities or local communities.<sup>21</sup>

Within economic infrastructure, financial institutions are most tightly connected with development of tourism. Thus, banks', payment systems' and exchange points' activities significantly depend on tourists, especially when speaking of international tourism. Tourists coming from abroad need to exchange their currencies for local ones,

---

<sup>19</sup> Page, Connell (2006), *Tourism: A Modern Synthesis*, pp. 411-413

<sup>20</sup> Raina, Agarwal (2004), *The Essence of Tourism Development: Dynamics, Philosophy, and Strategies*, pp. 337-340

<sup>21</sup> Dwyer, Forsyth (2008), *International Handbook on the Economics of Tourism*, pp. 144-145

for which purpose they use the services of financial institutions. This provides the latter with additional funds, thus giving a greater impetus for their development.<sup>22</sup>

In terms of social infrastructure, educational institutions form their educational programs taking into consideration the actual trends in the sphere of tourism. Thus, as of today, there are many different higher education institutions around the globe specialized in tourism and the accompanying activities. Moreover, even non-specialized universities most often have faculties or programs dedicated to tourism, as this industry is closely interconnected with all the other economic sectors.<sup>23</sup>

The cultural, sports and recreational infrastructure is probably most strongly influenced by tourism, as all museums, theaters, festivals, cultural and other similar events are mostly visited by tourists wishing to become better acquainted with the local customs and traditions.<sup>24</sup>

Hard infrastructure is not less tightly connected with tourism. For instance, transport infrastructure is very much dependent on development of tourism. Here, there is a bilateral connection: states with developed transport infrastructure have greater possibilities for developing tourism, and states wishing to develop tourism need first of all to improve their transport infrastructure. Tourists require well-developed infrastructure available for car, railway, airway and water transport. Car roads and railways are the basic kinds of transport infrastructure required for developing domestic tourism. At the same time, international tourism also requires development of airlines, construction of airports and the related structures and vehicles. Bicycle paths and pedestrian walkways in particular cities are also more likely to be developed, if such particular cities receive significant numbers of tourists.<sup>25</sup>

Energy infrastructure of states and cities also strongly depends on tourism. Thus, communities where tourism is actively developed have enhanced electric grids. Electrification of cities is an essential precondition for development of tourism, as provision with electrical power allows satisfying the main needs of tourists. Furthermore, gasification of cities is also important, and is widely run in regions with increased tourist attention.<sup>26</sup>

---

<sup>22</sup> Cooper (2008), *Tourism: Principles and Practice*, p. 557

<sup>23</sup> Sharma, Bansal (2009), *Tourism Infrastructure Development: A Sustainable Approach*, pp. 306-307

<sup>24</sup> Goeldner, Brent Ritchie (2009), *Tourism: Principles, Practices, Philosophies*, p. 92

<sup>25</sup> Michael Hall (2005), *Tourism: Rethinking the Social Science of Mobility*, pp. 274-276

<sup>26</sup> Holloway, Taylor (2006), *The Business of Tourism*, pp. 61-62

Similarly to energy infrastructure, water supply systems are more actively developed in regions with developed tourism. Drinking water supply is much better organized in developed tourist destinations. In developing countries, tourist objects more often have hot water supply systems.<sup>27</sup>

Communications infrastructure is probably most strongly influenced by tourism. Postal service, telephone and mobile phone networks are better developed in regions where tourism is better developed. Cable television and the Internet are also wider represented in such regions. This is objectively predefined by the needs of tourists to be satisfied. On the other hand, development of those communications networks is necessary in order to promote particular places among tourists.<sup>28</sup>

Thus, as we can see, tourism is core in developing infrastructure of states and cities. Communities interested in promoting themselves as objects of tourist interest need to develop their infrastructure. This allows increasing tourist awareness, and ensuring positive feedback from visitors.

Having analyzed the main theoretical aspects of tourism, in the next section of my thesis, I would like to consider more in detail Sochi as the hosting city for the 2014 Winter Olympics.

---

<sup>27</sup> Reisman (2010), *Health Tourism: Social Welfare Through International Trade*, p. 154

<sup>28</sup> McCabe, Minnaert, Diekmann (2011), *Social Tourism in Europe: Theory and Practice*, p. 130

### 3. The history of tourism in Russia (Sochi)

#### 3.1 Sochi as the main health resort centre during socialism in the Soviet Union

Sochi became a major health resort of Russia even prior to the Soviet Union era. This vector of the city's development was to a large extent predefined by development of transport networks in the region in the late XIX century. Thus, a transcoastal road was constructed from Novorossiysk to Sochi, and all roads within the city itself were united into a highway back during that time. On the eve of the Great October Socialist Revolution, railways were constructed connecting the city of Sochi with the rest of Russia through Tuapse. Other infrastructure objects were created in the city during this period as well.<sup>29</sup>

Thereafter, Sochi continued developing as a major health resort in the Russian Empire already in the early 1900's. The Matsesta springs became one of the top attractions for tourists due to the bath springs. The creation of tourist facilities around the springs promoted the inflows of wealthy people from across Russia. In 1909, the first resort called "Kavkazskaya Riviera" was opened in Sochi. This date is commonly believed to be the start of the rapid boost of Sochi's growth as a tourist destination.<sup>30</sup>

In 1911, the Matsesta Sulphur Springs Joint-Stock Company was established. The company opened an up-to-date balneological resort in Sochi based on the available facilities, and used the opportunities of the local nature for promoting the inflows of tourists. Due to the constant growth in terms of both the area covered with buildings and the populations permanently inhabiting the area of Sochi, in 1917, it officially obtained the status of a city.<sup>31</sup>

However, as the Russian Empire collapsed with the Communist revolution, the development of Sochi stopped. All companies running their activities in the city's tourist sector were nationalized by the Soviet authorities. Moreover, the Russian-Georgian

---

<sup>29</sup>Voroshilov (2006), *Istoriya bytkov: ocherkipoistorii i etnografii Bolshogo Sochi s drevnejshix vremen do serediny XIX veka*, pp. 183-185

<sup>30</sup>Sharafutdinov (2000), *Kurortno – turisticeskij kompleks Sochi: razvitie v usloviyahrynka*, pp. 45-47

<sup>31</sup>Antonyuk (2003), *Sochi: stranicy proshlogoinastoyashego : illjustrirovannyjsbornikstatej*, pp. 104-109

military conflict which occurred due to the Soviet military forces' invasion in Georgia prevented any further opportunity for developing Sochi as a tourist destination.<sup>32</sup>

Thus, in my opinion, it can be stated that the preconditions for Sochi's development as a tourist destination were formed back in the times of the Russian Empire, but thereafter, due to the negative geopolitical events, the city was unable to establish itself as a major tourist center, and moreover, its tourist capacities were largely destroyed.

However the Soviet authorities started developing the city as soon as they finally established their power in the region. The first crucial step was to eradicate malaria which persisted in the region due to the vast number of swamps. For this purpose, swamps started being dried, and many Eucalyptus trees were planted in order to intensify this process. The Soviet authorities also largely focused on the creation of sufficient medical infrastructure in the city, as they understood the economic prospects which Sochi was able to grant thanks to the tourist sector..<sup>33</sup>

In 1924, the Caucasian State Nature Biosphere Reserve was opened near Sochi. This favored preservation of the local environment, which was crucial for the subsequent development of the tourist industry in the region. In this epoch, the number of sanatoria started rapidly increasing. Overall, several dozens of various sanatoria, health resort centers, and other similar facilities emerged in the city by the mid-1930's making Sochi a much attractive destination for tourists from all over the Soviet Union.<sup>34</sup>

Thus, the resort infrastructure of Sochi rapidly expanded during this period, which favored attraction of tourists from across the Soviet Union. By 1940, the city of Sochi contained 60 sanatoria and was already a popular resort among the Soviet population. The development of Sochi as a tourist infrastructure was also directly promoted by the supreme authorities of the Soviet Union which believed the city to be one of the best tourist destinations in the state.<sup>35</sup>

However, World War II, which struck the Union in 1941 and ended in 1945, destroyed the resort infrastructure of Sochi in full. For the period of war, the city became a major medical center of the Union, hosting wounded and injured soldiers in large quantities in its medical treatment facilities.<sup>36</sup>

---

<sup>32</sup>Kruglyakova, Burzgin (2009), *Sochi. Olimpijskaya Riviera Rossii*, pp. 126-128

<sup>33</sup>Voronkov(2008), *Sochi I sochincy: vospominaniya o budushem*, p. 72

<sup>34</sup>Sharafutdinov (2000), *Kurortno – turisticeskij kompleks Sochi: razvitie v usloviyahrynka*, p. 113

<sup>35</sup>Kruglyakova, Burzgin (2009), *Sochi. Olimpijskaya Riviera Rossi*, pp. 216-217

<sup>36</sup>Antonyuk(2003), *Sochi: stranicyproshlogoinastoyashego : illjustrirovannyjsbornikstatej*, pp. 130-132



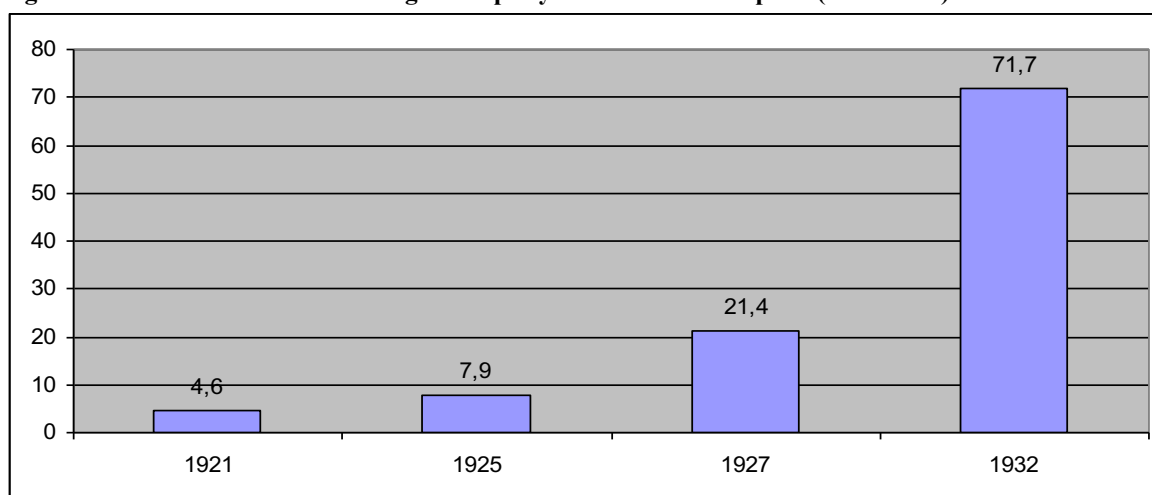
I believe that World War II was an essential factor which denied all the previous achievements of the Soviet authorities in Sochi in terms of the creation of the tourist infrastructure, and thus made Sochi unpopular as a tourist resort for the years to come (as shown below). Also, I am persuaded that in addition to the destruction of the tourist infrastructure in Sochi, World War II also significantly impaired the purchasing power of the Soviet population, which was another major cause of Sochi's decline as a tourist center.

In the 1950's, when the negative effects of World War II were finally overcome by the local and national authorities, new tourist and transport infrastructure objects started emerging in Sochi. The city's resorts were full of visitors all the time, regardless of the season. This situation persisted in the next decades, and moreover, foreign tourists started actively visiting Sochi.

### 3.2 Sochi's statistics as a tourist destination

During the epoch of Perestroika, tourism reached its peak in Sochi. The number of tourists was very high, and new objects were constantly created for hosting all visitors coming to the city as both domestic and foreign tourists. In 1989, the city officially submitted its application for hosting the 2002 Winter Olympics.<sup>37</sup>

**Figure 1: Number of tourists visiting Sochi per year in the Soviet epoch (1921-1932)**

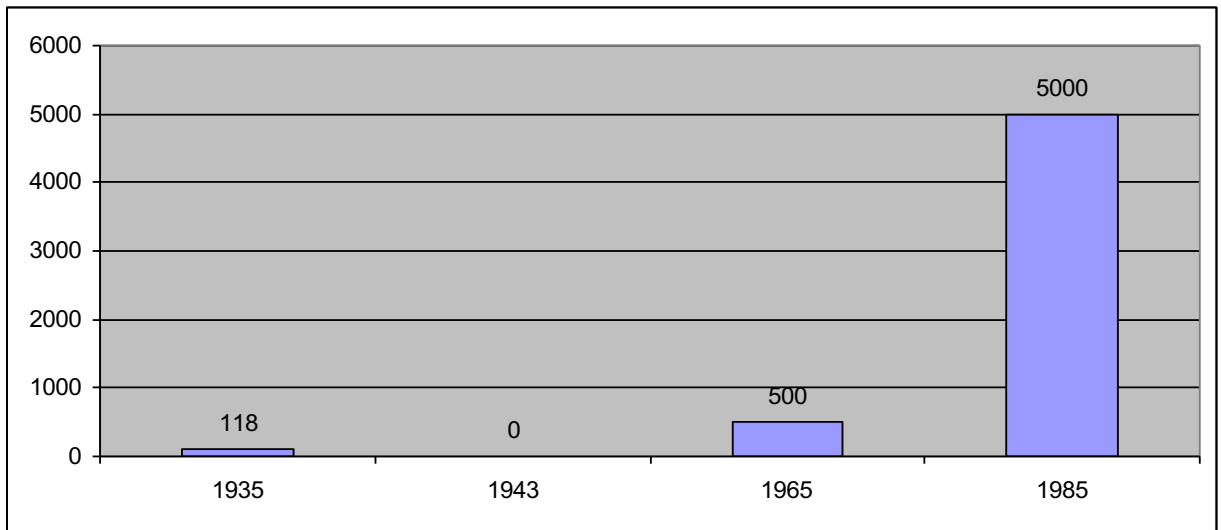


Source: Materials of the Sochi City Administration official web-site: <http://www.sochiadm.ru/>

<sup>37</sup>Voronkov(2008), *Sochi I sochincy: vospominaniya o budushem*, pp. 274-279

As can be seen from Figure 1 above, the total number of tourists in Sochi was growing during the pre-war Soviet epoch. Thus, in the period from 1921 to 1935, this figure grew from 4.6 thousand persons to 71.7 thousand, i.e. by over 15.5 times, which testifies the fact that Sochi was becoming a major tourist destination in Russia already back during those years.

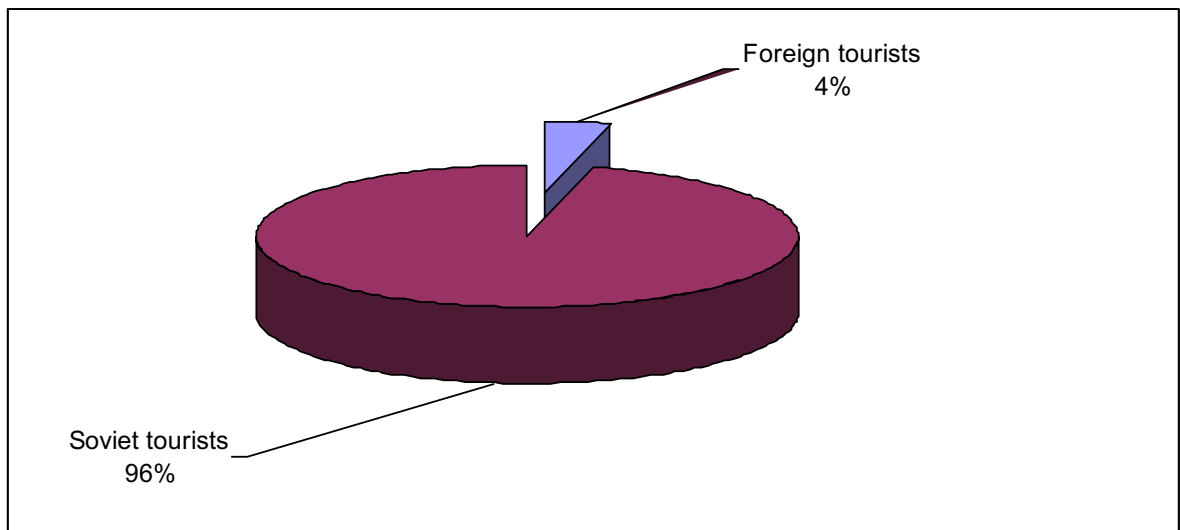
**Figure 2: Number of tourists visiting Sochi per year in the Soviet epoch (1935-1985)**



Source: Materials of the Sochi City Administration official web-site: <http://www.sochiadm.ru/>

As we can see from 3.2, the number of tourists visiting Sochi during the Soviet epoch was constantly gradually rising, except for the years of World War II. From 1965 to 1985, the number of tourists increased tenfold, from 500,000 to 5,000,000 per year, which testified Sochi's immense popularity as a resort center.

**Figure 3: Structure of tourists visiting Sochi per year, as of 1985**



Source: Materials of the Sochi City Administration official web-site: <http://www.sochiadm.ru/>

Figure 3 demonstrates the structure of tourists that visited the city of Sochi in 1985. As we can see, 96% of them (i.e. approximately 4,800,000 persons) were domestic tourists from the republics of the Soviet Union, while 4% (approximately 200,000 persons) were foreign tourists coming from abroad.

With the collapse of the Soviet Union in 1991, the conditions for development of the tourism sphere in Sochi changed drastically. In the next section of my thesis, I would like to analyze development of tourism in Sochi in the epoch of Russia's independence.

### **3.3 Tourism in Sochi in the last 20 years**

The tourism sector in Sochi changed much after the collapse of the Soviet Union in 1991. As the old system of centralized planning and management was abolished and substituted by the new free-market mechanisms, large-scale privatization occurred, and many tourism and hospitality infrastructure facilities in Sochi were purchased by private investors. The new system failed to give immediate positive economic results due to the negative geopolitical conditions, namely due to the hostilities in Georgia's border region of Abkhazia, and also due to the economic recession which existed in the Russian Federation. Neither foreign tourists, nor local visitors fulfilled the tourist capacities of Sochi. Furthermore, after the collapse of the Soviet Union, Russian borders became opened, and the local people having enough funds for their vacancies preferred visiting foreign states

for their holidays and leisure, which further aggravated the negative tendencies with tourism in Russia, and namely in Sochi.<sup>38</sup>

Those negative phenomena persisted up to the end of the 1990's when the Russian regulations governing the tourism and hospitality sectors were amended. Namely, the new laws promoted the activities of small and medium enterprises, and led to the development of the Russian middle class. Smaller companies intensified the tourist activities in the region of Sochi, and contributed to the rapidly growing level of services provided by the city to both foreign and local tourists. Even though this didn't lead to the immediate and ultimate improvement of the tourist infrastructure in Sochi, it created preconditions for the city to boost its growth as a major up-to-date tourist center.<sup>39</sup>

**Table 4: Number of tourist arrivals in Sochi in the 1990's**

Year	Number of arrivals	Annual rate of growth, %
1992	1,034,002	-
1993	706,617	- 31.7
1994	729,441	+ 3.23
1995	743,727	1.96
1996	580,679	- 21.92
1997	920,000	+ 58.44
1998	1,000,040	+ 8.7

**Source: Sochi: Galina Romanova, Larisa Romanova (1999), *Sochi: Supply and Demand - Marketing and product development - pricing, distribution and promotion - regional tourism management and development***

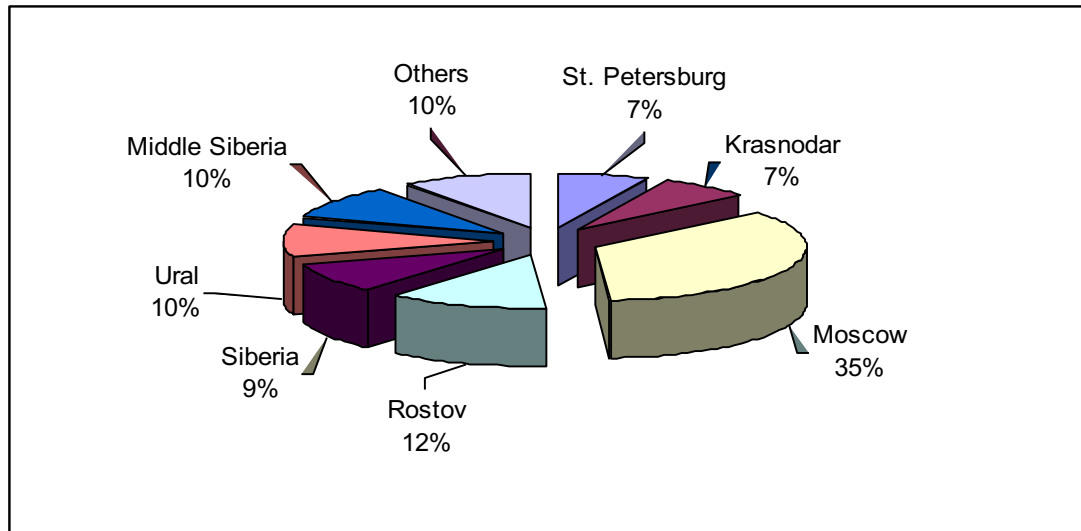
As we can see from Table 4, in contrast to a year average of 5 million tourists, in the 1990's, this figure remained at a considerably low level, fluctuating from 580,000 to slightly more than 1,000,000 tourists per year. The situation only started significantly

<sup>38</sup>Antonyuk(2003), *Sochi: stranicy proshlogo i nastoyashego : illjustrirovannyj sbornik statej*, pp. 199-202

<sup>39</sup>Voronkov(2008), *Sochi I sochincy: vospominaniya o budushe*, pp. 178-179

improving in the late 1990's. Moreover, interest from foreign tourists also sharply fell, and the number of Russian tourists visiting the resort city reached over 98% in this period.

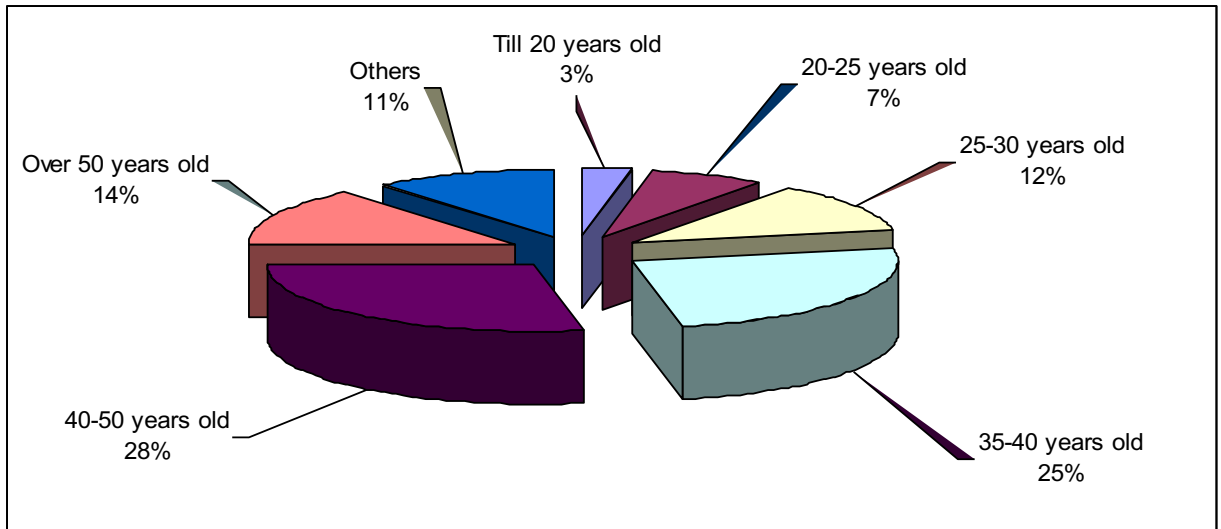
**Figure 4: Regional segmentation of tourist arrivals in Sochi in the 1990's**



**Source: Sochi: Galina Romanova, Larisa Romanova (1999), *Sochi: Supply and Demand - Marketing and product development - pricing, distribution and promotion - regional tourism management and development***

Figure 4 above demonstrates the regional structure of tourist arrivals in Sochi in the 1990's. As we can see, the largest share in this period belonged to Moscow, which accounted for over 1/3 of the aggregate number of tourist visits. This can be explained by the fact that the average purchasing power and level of wealth were the highest in the capital of Russia.

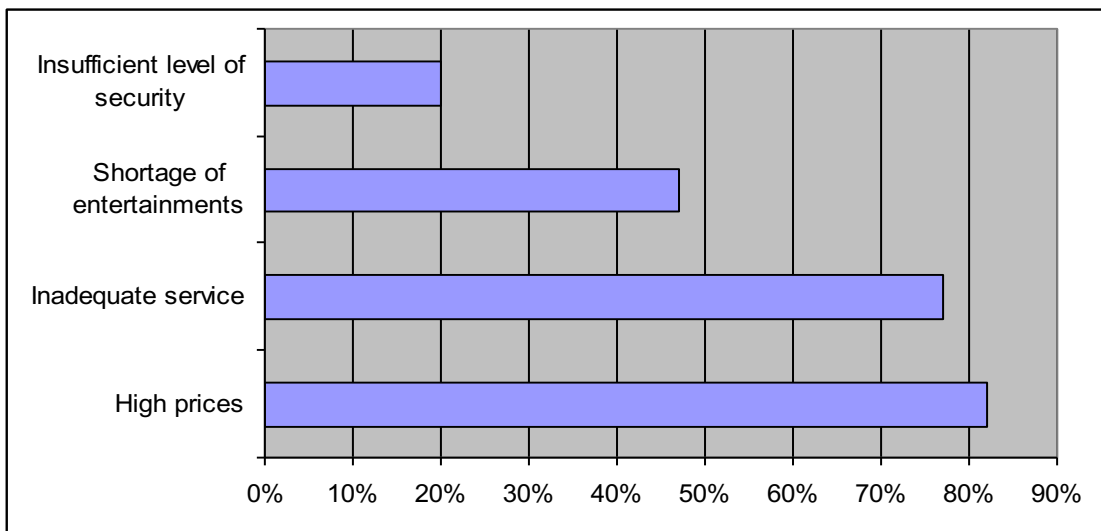
**Figure 5: Age segmentation of tourist arrivals in the 1990's**



**Source: Sochi: Galina Romanova, Larisa Romanova (1999), Sochi:Supply and Demand - Marketing and product development - pricing, distribution and promotion - regional tourism management and development**

Figure 5 above depicts the age structure of tourist visits in Sochi in the 1990's. As we can see, in that period, people aged 35-50 accounted for over a half of all tourists visiting Sochi. This can be explained by the fact that this group of people has the greatest income as compared to other groups of the Russian population.

**Figure 6: Negative feedback from people regarding their rest in Sochi, according to a research among 6,000 people held in 1999**

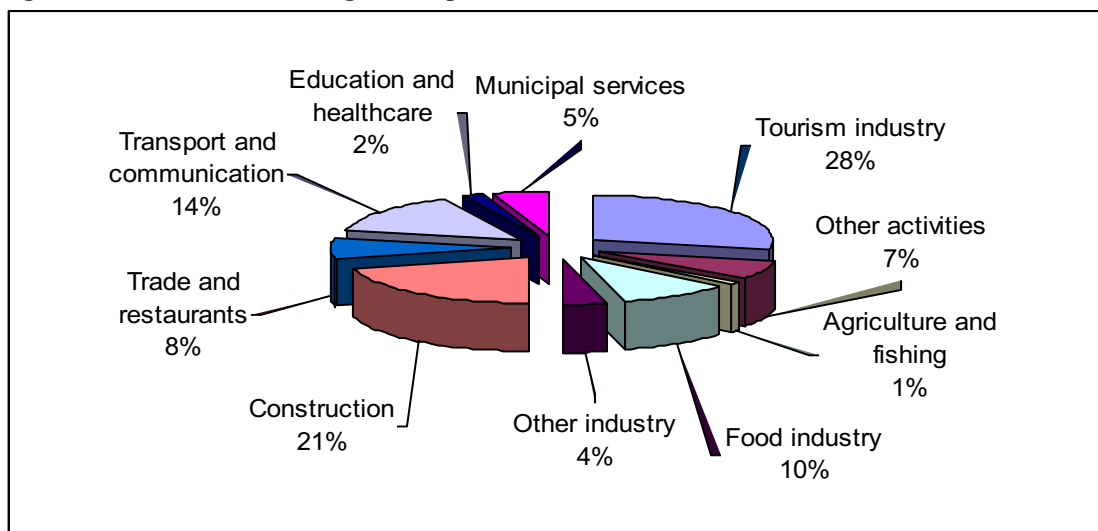


**Source: Sochi: Galina Romanova, Larisa Romanova (1999), Sochi:Supply and Demand - Marketing and product development - pricing, distribution and promotion - regional tourism management and development**

However, despite certain obvious improvements in the tourist industry in Sochi in the late 1990's, and a slight growth in the number of tourist arrivals per year, the city's tourist infrastructure still had many drawbacks, which prevented effective development of tourism and attraction of new tourists. As shown on Figure 6 above, over 80% of people in Russia considered their rest in Sochi too expensive, while 77% of the respondents believed that the level of service was inadequate. Over 40% said that there were not enough entertainments. In the subsequent years, Sochi's development as a resort city was aimed toward eliminating those disadvantages.

A positive role in boosting Sochi's resorts' development was the 1998 default in the financial sector of Russia. Due to the devaluation of the national currency, more people could afford visiting Sochi and passing their vacations or holidays there. Thus, the city obtained an impetus for its subsequent development as a resort center. Thus, already in 2000, the number of tourist arrivals surpassed 1,800,000, which was 80% more than in 1998.<sup>40</sup>

**Figure 7: Structure of Sochi's gross output in 1999**

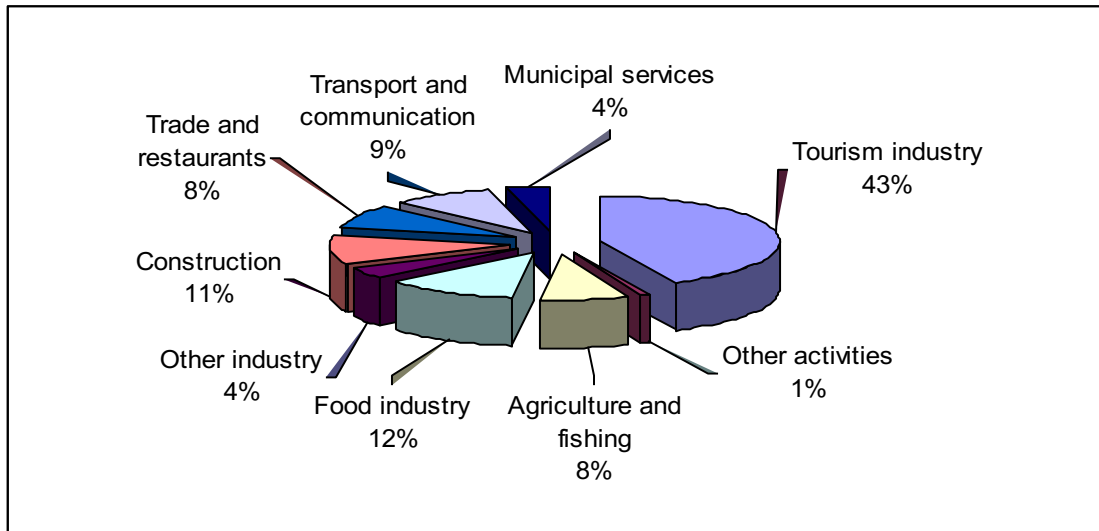


Source: Stephen L.J.Smith, Andrei A.Tatarinov, PavelS.Trehleb (2000), *Measuring the regional tourism product in an economy in transition: the russian experience*

As can be seen from Figure 7 above, in 1999, Sochi's gross economic output was mainly driven by the field of tourism (28% of the total gross regional product), while other important industries contributing to the region's output were constituted by construction (21%), transport and communication (14%), food industry (10%), etc.

<sup>40</sup>Voronkov(2008), *Sochi I sochincy: vospominaniya o budushem*, pp.269

**Figure 8: Structure of Sochi's gross output in 1989**



Source: Stephen L.J.Smith, Andrei A.Tatarinov, PavelS.Trehleb (2000), *Measuring the regional tourism product in an economy in transition: the russian experience*

At the same time, it is worth mentioning that, due to the increased importance of Sochi as a tourist center, other sectors of the city's economy actively developed in the late 1990's. As we can see from Figures 7 and 8, the structure of Sochi's gross output changed considerably in the period from 1989 to 1999. Thus, the share of tourism fell by 15 percentage points, while the share of construction, transport and education significantly grew.

According to the official statistics provided by Russia's competent authorities, in the period from 2000 to 2009, the number of tourist arrivals in Sochi grew by approximately 10% each year, which was to a large extent favored by opening of many new tourist resorts and hotels in the city, increase in the overall level of customer services, and other measures undertaken by both governmental agencies and private businessmen.<sup>41</sup>

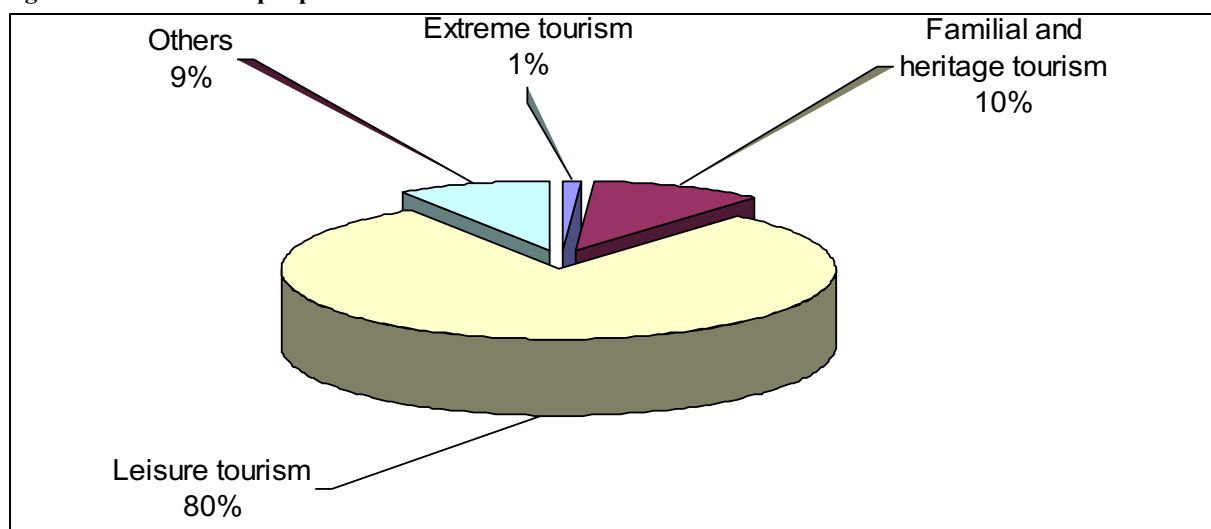
In 2007, Sochi was officially named the hosting city for the 2014 Winter Olympics, which was very important for the overall image of the city, and for development of the tourism industry in it. In 2010, the number of tourists coming to Sochi for leisure purposes increased by 7%. As of this year, the city of Sochi had 227 different sanatoria and resorts, with a total capacity of 50,000 places, which increased to 70,000 places in the summer period.

<sup>41</sup>Romashkin (2013). *Statistika zapisyvaet v turistovdazhestroitelejSochi*, p. 46



In 2011 and 2012, the total number of tourist arrivals to Sochi reached 4,500,000 visitors, which significantly exceeded the same figures for the previous years, and almost reached the peak level experienced during the Perestroika era.<sup>42</sup>

**Figure 9: Structure of purposes of tourist visits to Sochi in 2013**



Source: Romashkin (March 14, 2013), *Statistika zapisyvaet v turisty dazhe stroitelej Sochi*

As can be seen from Figure 9 above, in 2013, the estimate structure of tourist visits to Sochi demonstrated that 80% of people came to Sochi in search for leisure, namely visiting Sochi's beach resorts. 10% sought passing their vacations with families in sightseeing, while only 1% of people were interested in extreme sports. Thus, leisure tourism ensures the largest number of visitors for the city.

As for 2013, there are still no data available with regard to the overall number of visitors, but the official forecasts were favorable and predicted further increase in tourists' interest in the city.<sup>43</sup>

Forecasts for the year 2014 are quite different. According to state experts, the number of tourist arrivals will be likely to increase to at least 5 million people thanks to the 2014 Winter Olympics, which undoubtedly raise interest in the city as a resort center.<sup>44</sup> However, research agencies have serious doubts as for this. According to tourism specialists, a total number of tourist arrivals of 4.4 million people can be predicted.

<sup>42</sup>Materialsoftravel.ru *Chisloturistov v Sochi ostaetsjanaodnomurovne*. [online]. [cit. 2015-11-24]. Available from: <http://www.travel.ru>

<sup>43</sup>Materials of the Sochi City Administration official web-site. *Home page*. [online]. [cit. 2015-11-24]. Available from: <http://www.sochiadm.ru/>

<sup>44</sup>Materials of the Sochi City Administration official web-site. *Home page*. [online]. [cit. 2015-11-24]. Available from: <http://www.sochiadm.ru/>

On the one hand, forecasts are indeed positive due to the organization of the 2014 Winter Olympics, but on the other hand, they are considerably deteriorated due to the overall bad economic situation in Russia and recession in the economy, which is likely to result in a lower number of Russian tourists visiting Sochi's resorts.<sup>45</sup>

In the next section of my thesis, I will investigate the actual status of the tourist infrastructure systems functioning in Sochi.

### **3.4 Tourist infrastructure in Sochi**

As it has already been previously mentioned in this thesis, the infrastructure of Sochi started actively being formed in the times of the Soviet Union, when the Sochi International Airport, railway station, and a number of highways joining Sochi with the rest of Russia were constructed. The hotel and resort infrastructure also gradually improved, especially in the late 1990's-2000's. In this section, I would like to pay particular attention to the actual condition of Sochi's tourist infrastructure, especially taking into account the changes implemented in connection with the necessity to host the 2014 Winter Olympics.

Starting from 2010, the infrastructure of Sochi started actively being modernized for the purpose of preparing the city to the 2014 Winter Olympics. 214 billion Russian rubles were allocated for those purposes, among which 114 were provided by private investors, while the rest were given from the state budget. 40,000 new hotel places were constructed before 2014, located both at the seashore and in the mountains.<sup>46</sup> Also, four new ski resorts were opened, with a total capacity of 45,000 tourists per season, and a total length of ski trails of 150 km. For the purpose of satisfying the needs of business tourists, "Adler-Arena" was improved for organization of exhibition and congresses. Furthermore, several five-star hotels also opened their own congress centers for the same purposes, for instance, Radisson Blue Resort & Congress Centre.<sup>47</sup>

Prior to the Winter Olympics, most hotels of Sochi underwent the procedure of classification for the level of service provided.

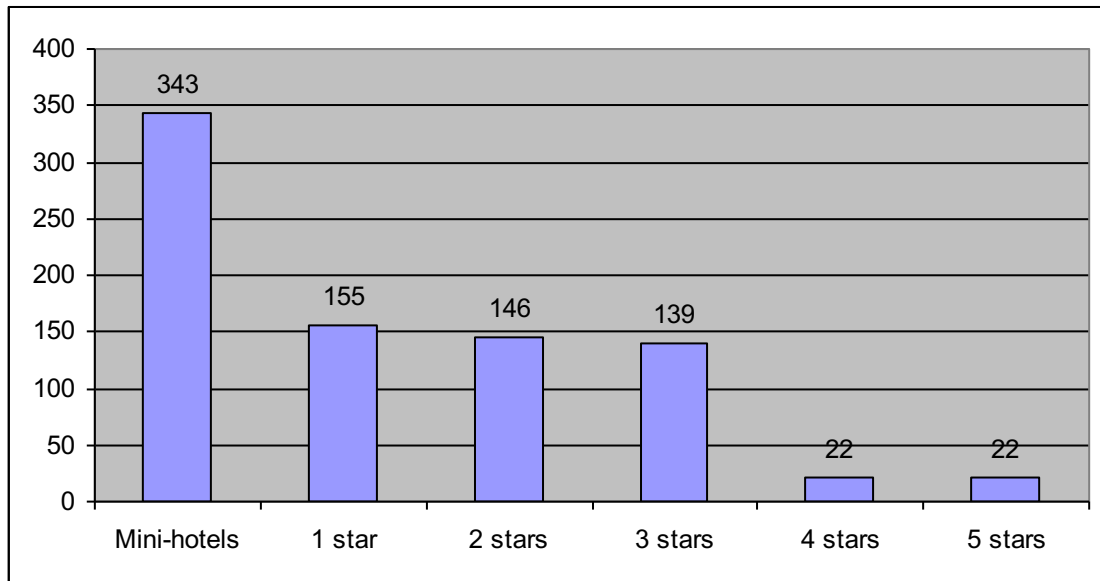
---

<sup>45</sup>Kolyazina (2014). *Progrnozy turisticheskoy otrasli na 2014 god*, p. 34

<sup>46</sup>MaterialsofNovostroy-Sochiweb-site (2014), *Infrastruktura Sochi: gostinici, apartametni, nuresticheskie kompleksi*. [online]. [cit. 2015-11-24]. Available from: <http://www.novostroy-sochi.ru>

<sup>47</sup>Dubolev (2013). *Sochi budushego: posleOlimpiadyzhizntolkonachinaetsja*, p. 12

**Figure 10: Hotel infrastructure in Sochi, as of 2013**



**Source: Materials of Novostroy-Sochi web-site (2014), *Infrastruktura Sochi: gostinicy, apartamenty I turistichekieskompleksy***

As we can see from Figure 10, over 800 hotels were functioning in the city of Sochi in 2013. Most of them were mini-hotels for a small number of guests, mostly for families. The number of one-, two- and three-star hotels was almost the same, while there were only 22 four-star and 22 luxurious five-star hotels in the city. Such a structure of hotels is predefined by the obvious conditions of the market, and is primarily intended for local Russian visitors, who cannot afford spending significant amounts of funds, and prefer sparing on hotels for the purpose of spending more on their rest and entertainments.

However, on the eve of the 2014 Winter Olympics, many major world hotel brands opened their establishments in Sochi. Namely, those were: Kempinski, Rezidor, Hilton, Hyatt, Marriott, Accor, Heliopark, and others. This can be explained by the fact that, during the Winter Olympics, Sochi will undoubtedly receive many guests from abroad, including official delegations of other countries, which prefer staying at high-class hotels. Moreover, according to the expectations of experts in the tourist sphere, the number of foreign visitors should increase thanks to the Olympics, and therefore demand for more expensive hotels will be likely to increase in Sochi in the subsequent periods.<sup>48</sup>

Also, the transport infrastructure of Sochi has lately undergone major improvements. Thus, in 2013, for the purpose of ensuring comfortable access to all sports

<sup>48</sup>Dubolev (2013). *Sochi budushego: posleOlimpiadyzhizntolkonachinaetsja*, p. 13

venues in Sochi during the 2014 Winter Olympics, the following transport infrastructure objects were constructed:

- joint (car and railway) road Adler – Alpica-Service, with a length of 48 km, with simultaneous movement of trains in two directions, and a two-lane highway;
- Adler-Sochi Airport railway line, with a length of over 2.7 km;
- railway section along the seashore to Tuapse;
- second railway line on the section Sochi-Adler-Veseloye, with special protection against seawater erosion;
- second railway section Sochi – Olympic Park, with a length of 3 km, two railway bridges and railway tunnels, 800m- and 1km-long, respectively;
- M-27 Dzhubaga-Sochi federal motorway sections, with 4 road interchanges, and a total length of 8 km;
- road interchange at the place of the Adler Ring;
- four-lane “DublerKurortnogoprospekta” motorway, with a length of 16.2 km;
- car bridge over the river of Mzymta;
- 4 car interchanges in Sochi

Also, new seaport terminals were opened in Dagomys and Matsesta, while most old terminals were repaired and improved in the city of Sochi. This was made for the purpose of promoting the role of sea transport in the field of tourism.<sup>49</sup>

Overall, according to the estimates of the mayor of Sochi, Anatoli Pakhomov, after the termination of the 2014 Winter Olympics, the city of Sochi will have over 400 new infrastructure objects, of which 140 will be owned by the city’s municipality, while the rest will be controlled by private investors. As of today, 360 km of new roads have been built, 148 km of the road network have been repaired, 700 km of cabling and 438 transformer stations have been substituted. All this plays an important role not only for organization of

---

<sup>49</sup>Materials of Privet Sochi web-site. *Stroitelstvomorskixterminalov v Sochi prodolzhaetsja*. [online]. [cit. 2015-12-02]. Available from: <http://www.privetsochi.ru>

the Winter Olympics, but also for the subsequent development of Sochi as a major resort centre of Russia.<sup>50</sup>

In Sochi there has been developed network of motorways and railways connecting the main centers of the region. The main Spectator Transport system hubs are located in the major centers of the Coastal and Mountain Clusters: Sochi, Matsesta, Khosta, Kudepsta, Adler, Airport and Olympic Park, as well as in Esto-Sadok, Krasnaya Polyana, and Rosa Khutor. Cable cars function in the Mountain Cluster and connect the following sports venues: “Laura” Cross-country Ski & Biathlon Center, “Rosa Khutor” Extreme Park and Alpine Center, “RusSki Gorki” Jumping Center and “Sanki” Sliding Center.<sup>51</sup>

According to the Vice-Premier Minister of Russia Olga Golodets, the medical infrastructure of Sochi has also recently been significantly improved. Four new medical treatment facilities have been created for servicing the needs of tourists. A blood transfusion center and a perinatal center are planned to be opened in 2014.<sup>52</sup>

Thus, overall, it can be said, that the tourist infrastructure of Sochi is well developed, and the 2014 Winter Olympics have played a great role in further improving the city’s infrastructure for the purpose of tourist service.

---

<sup>50</sup>Varaksina (2013). *Infrastrukturakurorta Sochi*, p. 18

<sup>51</sup>Materials of the 2014 Sochi Winter Olympics official web-site. *Home page*. [online]. [cit. 2015-12-02]. Available from: <http://www.sochi2014.com/>

<sup>52</sup>MaterialsofMail.ru web-site. *Golodec: medicinskaya infrastruktura Sochi gotova k napyvu turistov*. [online]. [cit. 2015-12-02]. Available from: <https://mail.ru>

**Figure 11: USD to RUR exchange rate dynamics in 2014-2015**



**Source: Materials of XE.com official website (2015)**

As can be seen from Figure 11 above, the exchange rate of the Russian ruble significantly dropped from the beginning of 2014. Thus, in January 2014, the cost of 1 USD made up 33.28, while already in January 2016, it amounted to 76.84 RUR. This means that the Russian ruble's value against the US dollar decreased by approximately 231% during this time period. This figure is important to take into account when investigating how the Russian Federation's liabilities to its investors changed.

As the total ultimate amount of funds raised by the Russian government for financing the 2014 Sochi Winter Olympics made up USD 51.1 billion, at the current level of interest rates amounting to 8.5%, the servicing of Russia's debt requires as much as USD 4.4 billion of Sochi's net profits per year, which means 2.31 times more in the ruble equivalent as compared to this amount's actual value two years ago, and which is equal to approximately USD 10,500 per year in the calculation per capita of Sochi's population.<sup>53</sup>

Having analyzed the main aspects of tourism development in the city of Sochi, in the next chapter of my thesis, I would like to evaluate the overall impact of the Olympic Games 2014 on the tourism in Sochi.

---

<sup>53</sup>M. Müller (2015), *After Sochi 2014: costs and impacts of Russia's Olympic Games*, p. 15

## 4 Impact of the 2014 Winter Olympics on the tourist infrastructure in Sochi and forecasts

### 4.1 SWOT analysis

Table 5: SWOT analysis of Sochi as a tourist destination after the 2014 Winter Olympics

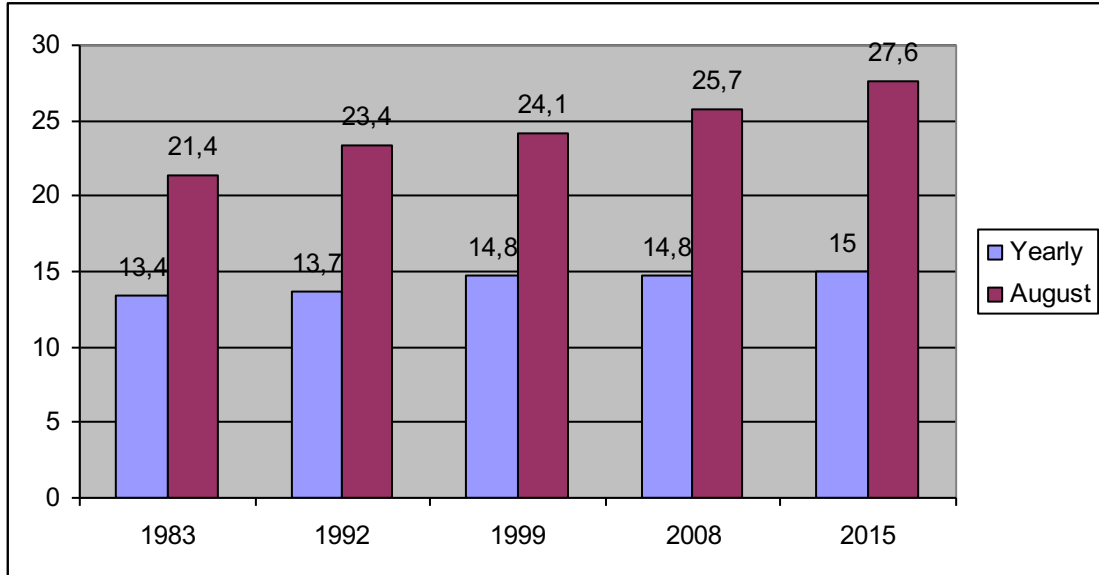
<p><b>Strengths</b></p> <ol style="list-style-type: none"> <li>1. Favorable climate conditions</li> <li>2. Suitability for different types of tourism</li> <li>3. Sochi is a popular resort in Russia and the CIS, with its established reputation as a major tourist destination</li> <li>4. Great number of hotel and leisure facilities built for hosting the 2014 Winter Olympics are now available for effectively servicing tourists coming from both other Russian cities and from abroad</li> <li>5. Significantly improved transport infrastructure, namely road and railway junctions created for hosting the 2014 Winter Olympics</li> </ol>	<p><b>Weaknesses</b></p> <ol style="list-style-type: none"> <li>1. Low quality of a great number of hospitality infrastructure objects</li> <li>2. Lack of effective connection between winter sports facilities</li> <li>3. Lack of improvement due to the stoppage of funding after the 2014 Winter Olympics</li> <li>4. Drastic decrease in the inflow of foreign tourists after 2014</li> </ol>
<p><b>Opportunities</b></p> <ol style="list-style-type: none"> <li>1. Russian population's rising interest in the local tourist destinations due to the growing price of rest abroad as a result of the negative exchange rate fluctuations</li> <li>2. Ability to attract tourists during every season through the development of the infrastructure created for the 2014 Winter Olympics</li> </ol>	<p><b>Threats</b></p> <ol style="list-style-type: none"> <li>1. Decrease in the average amount of the Russian population's income</li> <li>2. Outflow of foreign investors due to the sanctions implemented against the Russian economy by Western countries</li> <li>3. Decreased inflows of foreign tourists due to the rising tensions in the relations between Russia and the West</li> <li>4. Risk of loss of the existing tourism and hospitality facilities due to the lack of their sufficient occupancy rates</li> </ol>

Source: own creation

Thus, as can be seen from the findings of the SWOT analysis above, Sochi has both strategic advantages for becoming a major tourist destination on the international scale and some important drawbacks which might hinder the city to implement its prospects in the tourism and hospitality sector in full. Based on the above information, I would like to

present my own vision of Sochi's subsequent development as a major Russian tourist center.

**Figure 12: Average yearly and August air temperature in Sochi in 1983-2015, in °C**



Source: Weather Online (2016)

First of all, I believe that Sochi has all natural preconditions for becoming a top tourist destination. Thus, as can be seen from Figure 13 above, the average yearly temperature in Sochi has been steadily rising in recent years. Namely, it is worth noting in particular that the average monthly temperature in the city in August rose from 21.4 °C in 1983 to 27.6 °C in 2015, i.e. by 6.2 °C or almost 29%. This means that the resort's air temperature became even warmer in the summer, which is a favorable factor for attracting tourists from Russia and abroad. At the same time, thanks to the 2014 Winter Olympics, the city has favorable preconditions for attracting tourists passionate for winter sports and leisure. As a result, Sochi might ensure the year-round great occupancy of its tourism and hospitality facilities, which is the city's major competitive advantage in the tourism sector.

Moreover, I am persuaded that the tourist and transport infrastructure created in Sochi for hosting the 2014 Winter Olympics (although many of those infrastructure objects and facilities require significant improvement as described earlier in this thesis), creates great opportunities for the city to further develop its tourism sector.

However, when providing my own forecasts with regard to Sochi's possible development as a major tourist center in Russia in Europe in the future, unfortunately, I believe that the great opportunities and strategic advantages of the city cannot be



effectively implemented as of today, and therefore the existing prospects cannot be achieved by Sochi in reality. I would like to justify my opinion below.

The above affirmation is based on the current geopolitical situation in Russia and the world as described previously in this research. Despite the favorable climatic, natural and historical preconditions for the development of the tourism sector in Sochi, the recent dynamics and trends of Russia's relations with the Western states, and the downfall of the Russian economy make it hard for the region to develop and to overcome the existing difficulties.

Based on the evaluation of the current situation and its specific conditions, I believe that no major improvement in the Russia-West relations should be expected in the near future, and therefore Russia will be likely to stay under the Western sanctions. This drastically limits Sochi's prospects in the context of the opportunity to attract foreign tourists. Taking into account the fact that the Olympics are first of all aimed to increase the host country's attractiveness for foreigners, and the proceeds to cover the expenses for the Olympics should come from the subsequent tourist inflows as shown earlier in this paper, this narrows down the city's opportunity not only to return the great investment made, but also to get funds for maintaining and further developing its infrastructure. Moreover, the devaluation of the Russian currency against the background of the dropping prices for oil devalues respectively Sochi's income from tourism, which only further worsens the prospects available.

Therefore, in my opinion, as of today, the threats and weaknesses of Russia's foreign policy and geopolitical activities limit the opportunities of Sochi's development as a major national and international tourist destination, and negate the achievements of the 2014 Winter Olympics in terms of the popularization of the Russian Federation's image among the foreigners. I believe that Sochi could only implement its tourism potential in full, only if major changes occurred in Russia's geopolitical activities, and if the country restored its good relations with the Western counterparties. In the long run, this should create preconditions for attracting foreign tourists to Sochi, and for stabilizing the Russian national economy. Such economic stabilization would in its turn contribute to the growing purchasing power of the Russian population, and thus should bring to the growing flows of domestic tourists as well. In those conditions, the strategic advantages of Sochi could be

used in the most efficient manner, and the city could benefit from all the infrastructure objects created for the 2014 Winter Olympic.

## 4.2 VAR analysis

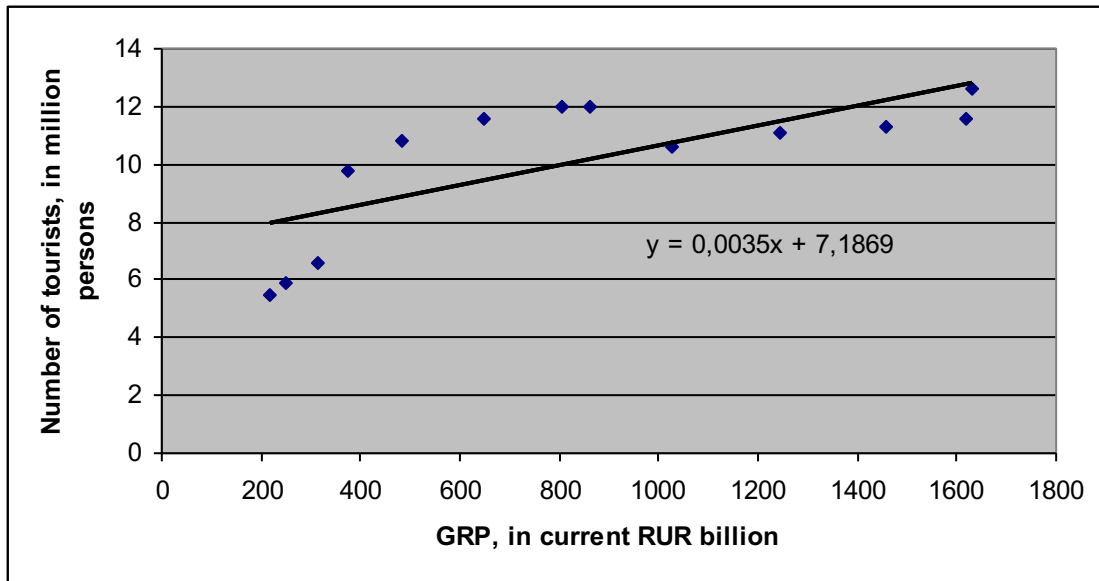
In order to track the correlation between the number of tourists coming to the Krasnodar Region and the economic output generated by the region, it is worth running a VAR analysis within which the independent variable will be the total number of incoming tourists, and the dependent variable will be the Krasnodar Region's gross regional product, i.e. aggregate economic output. The source data for the VAR analysis are given in Table 4.1 below.

**Table 6: Total number of tourists in the Krasnodar Region, in million persons, and the Krasnodar Region's GRP, in current RUR billion, in 2003-2014**

	Number of tourists, in million persons	GRP, in current RUR billion
2002	5.5	217.73
2003	5.9	248.57
2004	6.6	313.62
2005	9.8	372.93
2006	10.8	483.95
2007	11.6	648.21
2008	12	803.83
2009	12	861.6
2010	10.6	1,028.3
2011	11.1	1,244.65
2012	11.3	1,459.49
2013	11.6	1,617.88
2014	12.6	1,629.21

Source: Materials of the Sochi City Administration official web-site: <http://www.sochiadm.ru/>

**Figure 13: Regression chart: number of tourists in the Krasnodar Region and the region's GRP**



Source: own calculations

- Correlation 0.732
- P-value (X variable) 0.0045
- R-square 0.536
- Y-intercept 7.187
- Slope 0.0035
- Function y  $0.0035x + 7.1869$

As can be seen from the results of the VAR analysis above, the value of correlation between the independent variable (number of tourist arrivals in the Krasnodar Region) and the dependent variable (total gross regional product generated by the Krasnodar Region) is quite high, and amounts to 73.2%, which means that the aggregate economic output of the region is indeed to a large extent predefined by its ability to attract tourists. This is further confirmed by the fact that the P-value of the independent variable is over tenfold smaller than 5%, and by the fact that the R-square value makes up over 50%.

Therefore, overall, the regression analysis indeed proves that there is an important interconnection between Sochi's attractiveness as a tourist center and the total economic output generated by the region. Taking into account this fact, it is now worth investigating the possible future trends in the city's development as a major tourist destination in the Russian Federation and on the international scale.

### 4.3 Forecasting

When investigating the impact of the 2014 Winter Olympics on the Russian economy and the tourist infrastructure on the scale of the state, and locally on the scale of Sochi, it should be understood that the Russian economy has significantly shrunk since the time when the Olympics were held, which means that many of the potential positive effects of the Olympics-related activities were negated.

Due to the crisis in the Russian economy which started after the country's annexation of Crimea from Ukraine and the sanctions which ensued on the part of Western countries, part of the investors rejected further funding of the tourist infrastructure in Sochi constructed for hosting the 2014 Winter Olympics. In the conditions of economic recession, most of such projects were closed due to the lack of funds on the part of either local investors or the Russian government.<sup>54</sup> As stated by Müller (2015), "*Against this background, the administration in Sochi and actors from the tourism business have asked the Russian Government for further funds to transform the facilities from their current orientation toward Olympic requirements for normal operation.*" However, the Russian government officially rejected any further subsidies, and the Russian President justified that it would be impossible to re-allocate funds from any other regions in order to ensure the maintenance of Sochi's Olympic objects.<sup>55</sup>

Nevertheless, it should be noted here that the current economic situation with Russia's economy isn't dependent on the results of the organization of the Sochi Olympics, and therefore it is worth evaluating their effects based on other criteria. Thus, it should be noted that the 2014 Sochi Winter Olympics contributed to a major improvement in the city's and region's tourism and transport infrastructure. Namely, for the Winter Olympics, Sochi in the long run obtained 54 transport objects, including 370 km of highways, 200 km of railways, new railways stations, seaport and airport infrastructure objects. Due to the weakening purchasing power of the Russian population against the background of the events described above, many people refuse going abroad for their leaves, and prefer the cheaper Russian resorts, including Sochi. Thus, as the Russian Railways state, over 217 thousand people used the Sochi-Adler railway for passing their New Year vacancies in

---

<sup>54</sup> The Insider. *Olimpiyskiy krest. Kak sochi prodolzhaet platit za Olimpiadu*. [online]. [cit. 2015-12-02]. Available from: <http://theins.ru>

<sup>55</sup> Müller (2015), *After Sochi 2014: costs and impacts of Russia's Olympic Games*, p. 20

2015, which figure was 15% higher as compared to the same period in the previous year. Also, during this period, the Sochi airport serviced 205.21 thousand passengers, which was 21% more than in the previous year, even though this increase was mostly due to the growing internal passenger turnover, and not to foreigners coming to Russia. Namely, the number of passengers coming to Sochi from Moscow during this time grew as much as twice.<sup>56</sup>

As for the hotels of Sochi, it is worth noting that their aggregate occupancy rate during the 2014 Winter Olympics nearly touched 100%, and subsequently dropped to 87% by the summer 2014.<sup>57</sup> Moreover, in 2015, the average occupancy rate of Sochi's hotels made up only 52%, with the maximum figure of 65% achieved in August. Also, it should be noted that such occupancy rate was ensured to the largest extent thanks to the inflow of Russian tourists, while the expectations regarding foreigners' growing interest in Sochi as a resort city failed to be true. Furthermore, the quality of the hotel services drastically dropped after the 2014 Winter Olympics. Chinese investors who wanted to finance the activities of hotel chains in Sochi in 2015 refused to provide such investments due to the lack of sufficient requirements for satisfying the needs of tourists coming from China.<sup>58</sup>

Another major drawback of Sochi's tourist infrastructure is the fact that despite the improved quality of tourist objects and the creation of a number of up-to-date tourist and infrastructure facilities for hosting the 2014 Winter Olympics, the Russian Federation didn't make any sufficient steps for promoting the interest on the part of foreign tourists in visiting Sochi as the town of their choice for vacancies (in addition to the negative effects of sanctions described above). Namely, there are two major issues in this context. As Müller (2015) points out, on the one hand "*the visa process makes it cumbersome to book a holiday,*" and on the other hand, "*it is time-consuming to get to Sochi from anywhere outside Russia, because almost all flights require a transfer in Moscow.*" As a result, this brings harm to Russia's tourist attractiveness for foreigners, and therefore makes the use of the assets created for hosting the 2014 Sochi Winter Olympics much limited, which obviously generates negative financial effects for the region and for the country in general,

---

<sup>56</sup>RIA Novosti.*Olimpiada v Sochi : ekonomicheskij vzglyad god spustya*. [online]. [cit. 2015-12-02]. Available from: <http://ria.ru>

<sup>57</sup>RIA Novosti.*Olimpiada v Sochi : ekonomicheskij vzglyad god spustya*. [online]. [cit. 2015-12-02]. Available from: <http://ria.ru>

<sup>58</sup>Otdih na Kubani, *Infrastruktura Sochi ne gotova k priyomu turistov iz Kitaya*. [online]. [cit. 2015-12-02]. Available from: <http://otdih.nakubani.ru>

particularly taking into consideration the great amount of funds invested in organizing the Olympics.<sup>59</sup>

Moreover, this negative tendency is further aggravated by the quality of the tourist infrastructure. As has been revealed after the end of the 2014 Sochi Olympics, not only the hospitality infrastructure of Sochi is significantly inferior in terms of quality to the results initially planned, but also the sports objects created (which are currently used for both professional athletes and tourists) suffer badly from major drawbacks in their operation. Namely, the ski facility Roza Khutor has a total length of ski lines amounting to 77 km, the rest of the ski infrastructure objects stated above are able to accept tourists only for 1 to 2 days of skiing in the regime of full occupancy, otherwise the ski lines become unsuitable for use. There have been initiatives on the part of the facilities' owners to link the resorts together for better management on the one hand, and for greater ability to accept tourists on the other hand, but as of 2015, they were unable to find the investment amounting to USD 25 million (i.e. less than 0.05% of the total amount of funds invested in the creation of the infrastructure objects for hosting the 2014 Sochi Winter Olympics), which testifies the negative tendencies with the development of the tourist infrastructure in Sochi after the end of the Winter Olympic Games.<sup>60</sup>

The forecasts regarding the development of Sochi as a major Russian and international tourist destination in the near future are quite controversial. Thus, according to the municipal authorities of Sochi, the city's profits from tourism in 2016 are expected to grow significantly, and to make up as much as RUR 30 billion. According to Sochi's mayor Anatoliy Pakhomov, there are no problems or issues with Sochi's transport, hospitality and sports infrastructure, and the city's objects are ready to provide the visitors from both Russia and abroad with the highest level of services in all respects. As Pakhomov further argues, a point which requires much attention as of today is the improvement of Sochi's level of security. This is particularly important taking into consideration the growing concerns over the terrorist threat on the global scale. According to Sochi's mayor, the municipal authorities have enough resources to effectively address that issue for further improving the level of the visitors' comfort.<sup>61</sup>

---

<sup>59</sup>Müller (2015), *After Sochi 2014: costs and impacts of Russia's Olympic Games*, p. 21

<sup>60</sup>Müller (2015), *After Sochi 2014: costs and impacts of Russia's Olympic Games*, p. 22

<sup>61</sup>Maks Portal Sochi. *Pakhomov: po prognozam turizm Sochi prineset 30 mlrd rubley*. [online]. [cit. 2015-12-02]. Available from: <http://maks-portal.ru>

Another negative tendency in terms of the forecasts for Sochi's further development as a tourist destination is the expected growth of prices for real estate, transport and utilities in Sochi in 2016.<sup>62</sup> Such changes in prices will undoubtedly cause major effects for the city's tourist attractiveness, as tourists will have to pay more for staying in Sochi.

The above factor is particularly important taking into account the overall negative forecasts for the Russian economy in 2016, namely the dropping values of GDP and economic growth, which will cause the population's lower purchasing power. In addition to the lack of any sufficient number of foreign tourists coming to Sochi for their vacancies, the city might lose a great part of the local Russian visitors due to the aforesaid negative tendencies.<sup>63</sup>

All in all, according to experts, the condition of the tourist infrastructure in Sochi after the end of the 2014 Sochi Winter Olympics is quite weak, and this creates a situation in which great risks exist that tourists from both abroad and from Russia would prefer cheaper options for their rest abroad, in the first turn countries such as Bulgaria or Montenegro where the level of tourist service is higher as compared to the one provided in Sochi and in Russia in general.<sup>64</sup>

In order to ensure the prosperity of Sochi as a tourist destination and to return the investment made for hosting the 2014 Winter Olympics, the city's municipal authorities and the national authorities of the Russian Federation should implement effective steps aimed at improving the situation with the tourist infrastructure and creating preconditions for maintaining it at a steadily high level in the long-term perspective.

As for the regression analysis model used in the previous chapter of the thesis, a conclusion can be drawn that there is a great interconnection between the GRP value of the Krasnodar Region and the number of tourists coming to it. Therefore, when predicting further development of the region, it can be stated that it will be interconnected to a great extent with the development of the Krasnodar Region's tourist sector. The current trends in it allow stating that the subsequent positive dynamics in the region's GDP should

---

<sup>62</sup> RG.ru. *V Sochi podorozhayet proyezd v elektrichkakh*. [online]. [cit. 2015-12-02]. Available from: <http://rg.ru>

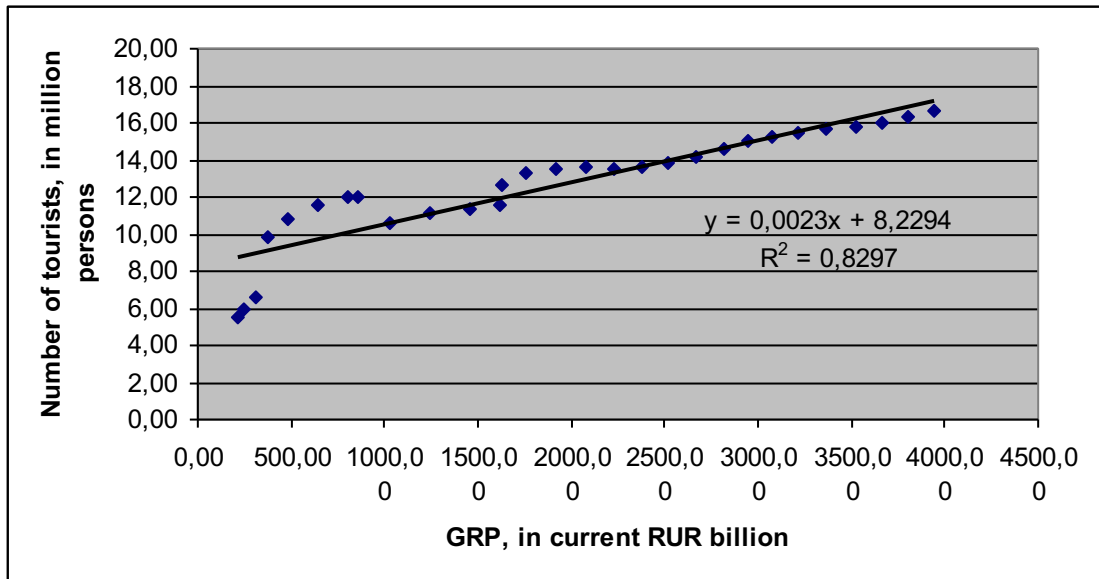
<sup>63</sup>Trading Economics (2015). *Russia: Economic Outlook for 2016-2020*. . [online]. [cit. 2015-12-02]. Available from: <http://ru.tradingeconomics.com>

<sup>64</sup>Müller (2015), *After Sochi 2014: costs and impacts of Russia's Olympic Games*, p. 25

contribute to the greater inflows of tourists, and therefore the existing tendencies can be evaluated as largely positive for the subsequent growth dynamics.

Based on the formula given in Figure, the following numeric forecasts can be done with regard to the anticipated dynamics of the Krasnodar Region's GDP as the independent variable and the number of tourists coming to the region as the dependent variable.

**Figure 12: Forecast: number of tourists in the Krasnodar Region and the region's GRP**



Source: own calculations

As can be seen from Figure 14 above, the numeric forecasts with regard to the dynamics of the Krasnodar Region's GRP and number of tourists in the perspective to 2016 correlate with the forecasts described earlier based on the findings of this thesis. Thus, the current trendline testifies that both the region's GRP and the number of tourists coming to it are expected to grow in the near future with slight year-by-year growth variations.



**Table 7: Forecast: number of tourists in the Krasnodar Region and the region's GRP**

	<b>GRP, in current RUR billion</b>	<b>Number of tourists, in million persons</b>
2002	217.73	5.50
2003	248.57	5.90
2004	313.62	6.60
2005	372.93	9.80
2006	483.95	10.80
2007	648.21	11.60
2008	803.83	12.00
2009	861.60	12.00
2010	1,028.30	10.60
2011	1,244.65	11.10
2012	1,459.49	11.30
2013	1,617.88	11.60
2014	1,629.21	12.60
2015	1,756.77	13.29
2016	1,918.81	13.54
2017	2,077.43	13.61
2018	2,233.14	13.50
2019	2,380.32	13.62
2020	2,522.59	13.83
2021	2,667.28	14.15
2022	2,814.34	14.55
2023	2,946.08	15.03
2024	3,075.31	15.25
2025	3,212.14	15.47
2026	3,361.98	15.65
2027	3,520.98	15.80
2028	3,664.00	16.01
2029	3,802.80	16.29
2030	3,942.11	16.60

**Source: own calculations**

Table 7 provides the numeric values of the above forecast based on regression analysis. Thus, based on the current tracks, the estimated value of the Krasnodar Region and the number of tourists visiting it are expected to be steadily growing by 2030. If those trends are preserved, by 2030, the region's GRP should be expected to make up RUR

3,942.11 billion (+142% as compared to 2014), and the number of tourists should be expected to make up 16.6 million persons (+31.7% as compared to 2014).

Thus, it can be stated that the forecasted GRP growth is greater than the triggered number of tourists dynamics.

The above trends are positive for the Krasnodar Region, and therefore its authorities should aim to preserve and further improve them through effective economic activities, namely in the tourist sector.

## **5 Conclusion**

The organization of Olympic Games is a costly process which requires the host country to invest significant amounts of own resources and to raise borrowed funding from third-party investors. However, the economic and social prospects opened to host countries through the organization of Olympics are potentially much greater as compared to the costs incurred.

First of all, it should be understood that The organization of Olympics means the popularization of the host country's image abroad. The tourists visiting such state with the aim of watching the Olympics tend to spend significant amounts of funds for their leisure. However, most importantly, their acquaintance with the host country's population and culture and the subsequent spreading of information of them among friends or relatives abroad, which increases the opportunity for greater tourist inflows to the host country in the future years.

The city of Sochi in the Russian Federation has been formed traditionally as a major tourist center in the country and in the region, and as of today, it still remains the greatest resort in the CIS community.

The organization of the 2014 Winter Olympics in Sochi took much funds from the Russian authorities. The state was forced to raise additional investment from private investors domiciled in both Russia and abroad. As a result, the Sochi Winter Olympics broke the cost record for any Olympic Games. However, the authorities of Russia expected to return the funds invested in the development of the tourism and transport infrastructure in the years to come.

The transport infrastructure of Sochi indeed benefited much from the 2014 Winter Olympics, as new paved roadways and railways were built in the city and in the region, new airport and seaport facilities emerged, and so on. At the same time, a great number of hotels, restaurants, sports facilities were constructed for hosting the Olympics. During the Olympic Games, the inflow of tourists in the city indeed grew significantly, and the occupancy rate of all facilities was very high. However, thereafter the situation worsened.

After the 2014 Russian invasion in Ukraine and the implementation of sanctions against the Russian Federation by Western states, the number of foreign tourists coming to Sochi significantly dropped. Due to the decreasing purchasing power of the Russian

population, this was partially compensated by the growing number of domestic tourists. However, most importantly, foreign investors mostly withdrew from the region and the country, and the government has no funds to finance the continued maintenance and improvement of the existing tourism facilities in Sochi. As a result, as of today, the occupancy rate of the local hotel has dropped, and many facilities built for hosting the 2014 Winter Olympics currently require additional funding.

The prospects for Sochi's development as a major national and international tourist resort remain quite doubtful. Despite the positive factors such as the favorable geographic location or climate conditions, Sochi is much limited in terms of its development as a tourist center due to Russia's growing tensions in the relations with the Western counterparties. The findings of this research testify that the prospects for Sochi are not bright, but they will mostly rely upon how effectively Russia is able to remove the sanctions implemented against it by improving the relations with the Western states, and upon how the country will be able to restore the confidence of foreign investors. In case that the aforesaid actions are implemented effectively, Sochi will have all preconditions for becoming a major European tourist city.

## Bibliography

1. AITCHISON Cara and Nicola E. MACLEOD and Stephen J. SHAW. (2000).*Leisure and Tourism Landscapes: Social and Cultural Geographies*, Psychology Press, 201.
2. BRIASSOULIS, Helen and Jan van der STRAATEN. (2000).*Tourism and the Environment: Regional, Economic, Cultural and Policy Issues*, Springer, 380.
3. BUHALIS, Dimitrios and Simon DARCY. (2010).*Accessible Tourism: Concepts and Issues*, Channel View Publications, 336.
4. BURNS, Peter M. and Marina NOVELLI.(2006).*Tourism and Social Identities*, Routledge, 216.
5. COOPER, Chris. (2008). *Tourism: Principles and Practice*, Pearson Education, 704.
6. DALLEN, J. Timothy and Stephen W. BOYD. (2003).*Heritage Tourism*, Pearson Education, 327.
7. DWYER Larry and Peter FORSYTH.(2010).*Tourism Economics and Policy*, Channel View Publications, 711.
8. DWYER, Larry and P. FORSYTH. (2008).*International Handbook on the Economics of Tourism*, Edward Elgar Publishing, 520.
9. GOELDNER, Charles R. and J. R. Brent RITCHIE (2009), *Tourism: Principles, Practices, Philosophies*, John Wiley & Sons, 648.
10. HALL, C. Michael. (2012). *Medical Tourism: The Ethics, Regulation, and Marketing of Health Mobility*, Routledge, 240.
11. HALL, Colin Michael.(2005).*Tourism: Rethinking the Social Science of Mobility*, Pearson Education, 448.
12. HOLLOWAY, J. Christopher and Neil TAYLOR. (2006).*The Business of Tourism*, Pearson Education, 716.
13. KANDARI, O. P. and Ashish CHANDRA. (2004).*Tourism, Biodiversity and Sustainable Development: Assessing tourism : impacts in Asia and Pacific*, Gyan Publishing House, 407.
14. LAVROV, Alexandr and Alexei MAKUSHKIN. (2001).*The Fiscal Structure of the Russian Federation: Financial Flows Between the Center and the Regions*, M.E. Sharpe, 269.

15. LEIGH James and Craig WEBSTER and Stanislav IVANOV. (2012). *Future Tourism: Political, Social and Economic Challenges*, Routledge, 204.
16. MAK, James. (2004). *Tourism and the Economy: Understanding the Economics of Tourism*, University of Hawaii Press, 267.
17. MCCABE, Scott and Lynn MINNAERT and Anya DIEKMANN. (2011). *Social Tourism in Europe: Theory and Practice*, Channel View Publications, 201.
18. PAGE Stephen and Joanne CONNELL. (2006). *Tourism: A Modern Synthesis*, Cengage Learning EMEA, 546.
19. RAINA, A. and S. K. AGARWAL. (2004). *The Essence of Tourism Development: Dynamics, Philosophy, and Strategies*, Sarup & Sons, 416.
20. REISMAN, David A. (2010). *Health Tourism: Social Welfare Through International Trade*, Edward Elgar Publishing, 204.
21. SHARMA, Manoj and S.P. BANSAL. (2009). *Tourism Infrastructure Development: A Sustainable Approach*, Kanishka Publishers, 411.
22. TSANGARIDES, Charalambos G. (2010). *Monetary Policy Transmission in Mauritius Using a VAR Analysis*, International Monetary Fund, 33.
23. WALL, Geoffrey and Alister MATHIESON. (2006). *Tourism: Change, Impacts, and Opportunities*, Pearson Education, 412.

### **Internet sources**

24. 2014 Sochi Winter Olympics official web-site. *Home page*. [online]. [cit. 2015-12-02]. Available from: <http://www.sochi2014.com/>
25. Mail.ru web-site. *Golodec: medicinskaya infrastruktura Sochi gotova k naplyvu turistov*. [online]. [cit. 2015-12-02]. Available from: <https://mail.ru>
26. Maks Portal Sochi. *Pakhomov: po prognozam turizm Sochi prineset 30 mlrd rubley*. [online]. [cit. 2015-12-02]. Available from: [https://d28wbuch0jlv7v.cloudfront.net/images/infografik/normal/chartoftheday\\_1866\\_The\\_original\\_and\\_actual\\_estimated\\_costs\\_of\\_2014\\_Winter\\_Olympic\\_venues\\_n.jpg](https://d28wbuch0jlv7v.cloudfront.net/images/infografik/normal/chartoftheday_1866_The_original_and_actual_estimated_costs_of_2014_Winter_Olympic_venues_n.jpg)
27. MÜLLER, M. (2015). *After Sochi 2014: costs and impacts of Russia's Olympic Games*, University of Zurich. [online]. [cit. 2015-10-31]. Available from: <http://poseidon01.ssrn.com/delivery.php?ID=164026089095087071069097066066116>

- 106103071022042063039098083030018007026098098082104027098125022121046  
105080105008101098104017010025046089088009015013121094091007127077010  
044119006084100026124126018080015005112125093015069088075087005122075  
020093099091&EXT=pdf
28. Novostroy-Sochi web-site (2014), *Infrastruktura Sochi: gostinici, apartametni, nuresticheskie kompleksi*. [online]. [cit. 2015-11-24]. Available from: <http://www.novostroy-sochi.ru>
  29. Otdih na Kubani, *Infrastruktura Sochi ne gotova k priyomu turistov iz Kitaya*. [online]. [cit. 2015-12-02]. Available from: <http://otdih.nakubani.ru/sochi/2015-10-19-infrastruktura-sochi-ne-gotova-k-priemu-turistov-iz-kitaya/>
  30. Privet Sochi web-site. *Stroitelstvomorskixterminalov v Sochi prodolzhaetsja*. [online]. [cit. 2015-12-02]. Available from: <http://www.privetsochi.ru>
  31. RG.ru. *V Sochi podorozhayet proyezd v elektrichkakh*. [online]. [cit. 2015-12-02]. Available from: <http://www.rg.ru/2015/12/23/reg-ufo/bilet-anons.html>
  32. RIA Novosti. *Olimpiada v Sochi : ekonomicheskij vzglyad god spustya*. [online]. [cit. 2015-12-02]. Available from: <http://ria.ru/economy/20150206/1046363586.html>
  33. Sochi City Administration official web-site. *Home page*. [online]. [cit. 2015-11-24]. Available from: <http://www.sochiadm.ru/>
  34. The Insider. *Olimpiyskiy krest. Kak sochi prodolzhaet platit za Olimpiadu*. [online]. [cit. 2015-12-02]. Available from: <http://theins.ru/obshhestvo/2984>
  35. Trading Economics (2015). *Russia: Economic Outlook for 2016-2020*. . [online]. [cit. 2015-12-02]. Available from: <http://www.tradingeconomics.com/russia/forecast>
  36. Travel.ru *Chisloturistov v Sochi ostaetsjanaodnomurovne*. [online]. [cit. 2015-11-24]. Available from: <http://www.travel.ru>
  37. Weather Online. *Sochi*. [online]. [cit. 2015-10-31]. Available from: <http://www.weatheronline.co.uk/weather/maps/city?FMM=1&FY=2007&LMM=1&LYY=2008&WMO=37171&CONT=euro&REGION=0006&LAND=RS&ART=TEM&R=160&NOREGION=1&LEVEL=162&LANG=en&MOD=tab>
  38. World Tourism Organization official website. *Home page*. [online]. [cit. 2015-10-31]. Available from: <http://www2.unwto.org/>
  39. XE.com. *USD to RUR exchange rate dynamics*. [online]. [cit. 2015-10-31]. Available from: <http://www.xe.com/currencycharts/?from=USD&to=RUB&view=2Y>

## List of figures

Figure 1: Number of tourists visiting Sochi per year in the Soviet epoch (1921-1932) .....	25
Figure 2: Number of tourists visiting Sochi per year in the Soviet epoch (1935-1985).....	26
Figure 3: Structure of tourists visiting Sochi per year, as of 1985 .....	27
Figure 4: Regional segmentation of tourist arrivals in Sochi in the 1990's.....	29
Figure 5: Age segmentation of tourist arrivals in the 1990's .....	30
Figure 6: Negative feedback from people regarding their rest in Sochi, according to a research among 6,000 people held in 1999.....	30
Figure 7: Structure of Sochi's gross output in 1999 .....	31
Figure 8: Structure of Sochi's gross output in 1989 .....	32
Figure 9: Structure of purposes of tourist visits to Sochi in 2013 .....	33
Figure 10: Hotel infrastructure in Sochi, as of 2013.....	35
Figure 11: USD to RUR exchange rate dynamics in 2014-2015.....	38
Figure 12: Average yearly and August air temperature in Sochi in 1983-2015, in °C .....	40
Figure 13: Regression chart: number of tourists in the Krasnodar Region and the region's GRP.....	43
Figure 14: Forecast: number of tourists in the Krasnodar Region and the region's GRP...	48

## List of tables

Table 1: Number of international tourist arrivals in 2012, by country .....	16
Table 2: International tourism receipts in 2012, by country .....	17
Table 3: International tourism expenditures in 2012, by country.....	17
Table 4: Number of tourist arrivals in Sochi in the 1990's .....	28
Table 5: SWOT analysis of Sochi as a tourist destination after the 2014 Winter Olympics.....	39
Table 6: Total number of tourists in the Krasnodar Region, in million persons, and the Krasnodar Region's GRP, in current RUR billion, in 2003-2014.....	42
Table 7: Forecast: number of tourists in the Krasnodar Region and the region's GRP.....	49