

# **Does the speed of transition impact tourism in post- communist countries?**

**Bachelor thesis**

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## **Abstract**

The topic of the bachelor thesis is "Does the speed of transition impact tourism in post-communist countries?" The goal of the thesis is to show the historical development of tourism industry in post-soviet countries, during the Soviet Union and after it until nowadays. In my case the focus is on the country called Georgia, because it was one of the most important touristic areas from the all USSR countries and it still has a big potential to develop further. For the end, with the help of different indicators, data and statistical researches, I will show the institutional changes in the country. The period during the USSR, later after the crash of it till 2003, and from 2003 post "Rose Revolution" period till nowadays. Impact on tourism development was mainly positive and lots of changes occurred that needs to be understood.

## **Keywords**

Economic transformation, tourism, Soviet Union, Georgia, Gradualism, "Shock Therapy", GDP per capita, domestic tourism, foreign tourism, "neighbor" tourism, SWOT analysis

## **Abstrakt**

Tématem bakalářské práce je: „Ovlivňuje rychlost transformace turismus v post-komunistických zemích?“ Cílem práce je ukázat historický vývoj cestovního ruchu v postkomunistických zemích, během období Sovětského svazu a poté až dodnes. V mém případě je důraz kladen na zemi zvanou Gruzie, protože to byla jedna z nejdůležitějších turistických oblastí ze všech zemí bývalého Sovětského svazu a stále má velký potenciál se dále rozvíjet. V závěru, za pomoci různých indikátorů, dat a statistických výzkumů, ukáži institucionální změny v zemi. Doba po SSSR, později po krachu to až do roku 2003, a od 2003 po období "růžové revoluci" až dodnes. Vliv na rozvoj cestovního ruchu byl většinou pozitivní a nastaly velké změny, kterým je potřeba rozumět.

## **Klíčová slova**

Ekonomická transformace, turismus, Sovětský svaz, Gruzie, gradualismus, „Šoková terapie“, HDP na obyvatele, domácí cestovní ruch, zahraniční cestovní ruch, „sousedský“ cestovní ruch, SWOT analýza





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# 1 Introduction

Tourism is one of the largest and dynamic sectors in economy. It is also important part of lots of developing and developed countries' foreign economic relations (Gogelia P. 3) as tourism is one of the most common ways of cultural and political contacts and exchanges. High growth rates and the accumulation of foreign exchange revenue opportunities in this field have a positive effect on the various sectors of the economy, which contributes to the overall development of the tourist destinations.

It is also obvious that great and an exceptional value, which tourism is gaining for peaceful coexistence of the people from all over the world. It contributes to the strengthening of good-neighborly policy, social-economic co-operation and dialogue between cultures (Gogelia P. 3-4).

One of the basic human rights, created the right of leisure and necessary demand on recreation assurance. From the second part of 20<sup>th</sup> century, people started to have enough time and money for traveling and going on holidays, therefore became the demand for tourism services. The growth of tourists shows tourism as one of the most important economic and social phenomenon (Meladze P. 3). The number of international tourist shows us the evolution from 25 million to 898 million during the years 1950-2007. The average annual growth is 7%, in addition to this the income from international tourism increased by 12% on average (Meladze P. 86).

It is important to distinguish the types of tourism and opportunities of tourism further development in different countries. It is because majority of the countries have different culture, language, historical background and level of tourism facilities, that makes the tourism product unique and demandable. In the thesis we have to be more oriented on post-soviet countries that experienced economic transformation period. The country of Georgia could be one of the best examples, because from all the countries of the USSR it has if not the longest, for sure the richest history and amazing tourism potential. The country has passed through many empires, kingdoms and conflicts has changed the geographical area, but still saved the cultural treasures, like language, hospitality, cuisine and various landscape created by Caucasus mountains overlooking the eastern Black sea coast. Basically, the geographical position and historical mixture of European and Asian cultures is one on the main reasons that is making the country so special. The country is also suitable for the topic, because it was economically transformed several times and lots of institutional changes were made, that eventually affected tourism development inside the country mostly positively and somehow negatively as well. We can divide those changes into three periods: 1. During the Soviet Union, 2. after the crash of USSR, 3. After the "Rose revolution" in 2003 when the government was under the President M. Saakashvili. That is why it is very hard to understand what kind of transformation was held in Georgia, was it a "Shock therapy" or just a gradual approach, about which we will talk later.

There are many books, web-blogs and other types of literature to go deep into the problem of tourism development during the transition and successfully after it. We provide a basic literal overview about the two types of transformations. But if we want to go more about the information and changes of republics of former USSR, in our case Geor-

gia, we can use the book by Russian Academy Of Sciences - Institute Of Economy "Socio-economic development of post-Soviet countries: results of two decades" and many more Georgian, Russian and English sources, that will be provided on further pages of the thesis.

## 2 Objectives and Methodology

### 2.1 Objectives

The bachelor thesis deals with the development of tourism in the post-communist countries during transformation period. Generally focused on the countries in Soviet Union e.g. Georgia and in Eastern Europe e.g. the Czech Republic as it was not a country inside the USSR, but was affected by the communist regime. It is not just general information about the development of tourism as it was during the USSR period and after it, but also takes into consideration all the factors that impacted it positively or negatively from the view of institutionalism, therefore mainly by institutional changes.

The main objective of the thesis is to analyze the tourism situation in post-Soviet countries, to gather the information and data about its development during the Soviet era continued till nowadays. Also to understand and analyze the factors and changes that occurred in the country's economy and how much did those changes affect tourism and its further development. Concentration should be done on the country in south Caucasus – Georgia, while it has been economically changed three times and it can be one of the best examples in the whole former Soviet Union, also because of having outstanding tourism potential and further opportunities to develop successfully. I believe that analyzing all the facts and mentioning main problems that prevents tourism from growing and developing further, will help to provide the general opinion about the status and importance of the tourism itself and to create promotion in order to push Georgian tourism to use its potential in an efficient way.

### 2.2 Methodology

The bachelor thesis consists of two main parts – literature overview and the practical part.

In the first part we define terms like economic transformation and how fast was it done, meaning “Shock therapy” and gradualist approaches. To explain and understand the main difference between those two in order to distinguish different post-communist countries from each other by the speed of transition.

In the practical part we will focus more about the particular countries and make a basic literature overview about the tourism historical background and its development during the Soviet Union and after it. We will also gather basic information about the economies of the countries and transformation changes, expressed in institutions. Several countries will be in consideration for further comparison. We will be able to compare two post-soviet countries with each other, for example Georgia and the Czech Republic, to understand what is the difference in transition and institutions, also why it is so, that Georgia having the longer historical background and much more attractive tourism surface and climate is far away from being as visited as is visited the Czech Republic every year.

Later we will even have a look at Travel & Tourism Competitiveness Reports and World economic forum Sub-indexes of the countries under our interest. With the help of those competitiveness indexes we will be able to compare post-communist countries with the countries that were not affected by economic transformation (e.g. The Netherlands) and see the differences in stability of tourism development. I chose the Netherlands as an example, because it is one of the most visited countries in West Europe, which was never affected with any economic transitions, unlike the post-soviet countries.

Finally we can make a SWOT analyzes for the tourism sector in Georgia to sort out its strengths and weaknesses, to figure out opportunities that could be done and threats that should be avoided.



## 3 Shock therapy vs. gradualism

### 3.1 Ways of economic transformation

Does the speed of transition really impact tourism in post-communist countries? This is an important question to answer, because for majority of post-soviet countries tourism has become one of the most important economic directions. Somehow it does affect, moreover not only tourism, but also other variety of economic aspects. As it is known, all the countries that were part of communist regime had really different economic rules in comparison to nowadays. Post-soviet countries used to have central planned economy, which basically meant that everything was ruled by government and was owned by it too. At that period factor market did not exist, so people never had any autonomic decisions, so the whole economy was ruled by a one central plan, so theoretically it would never develop further than it was before.

After the crash of the Soviet Union, naturally this type of economy also stopped functioning, so that all the countries that were in communism started to build new economic systems on their own. Now the question is how those countries developed and how fast the speed of transition was. Modern economists say that transformation can be divided into two types. Relatively slow and step-by-step transition is called Gradualist approach, while faster and not-planned transformation is known as a "Shock Therapy". The economists from all over the world are trying to understand which of those two types are leading to success and to economic growth. Many of them think that the gradualist approach is much more safe and positive than the Shock therapy. So that is what the theoretical dispute is about. But apart from that there is empirical problem, because there is not included in these definitions the proper timing of particular reforms and their usage. For example if the majority of the economists like Stiglitz think that Poland and Hungary are classified as gradualist reformers, yet some other economists can easily argue about that fact and say that they were part of "Shock Therapy" reform. Same is for Russia, Georgia and Czechoslovakia for example. Majority thinks that their development is connected to Shock Therapy and that's why those countries were less successful in the future. Still it is possible to argue with this fact, if you look at it from the view of Czech republic, because the general economic indicators, for example GDP of the country shows us quite different numbers during the years 1990-2002 and 1991-2002, the difference is just a year, but the changes in percent's are slightly different. During the years 1990-2002 Average annual growth of GDP per capita was only 0.65%, while if we look through the period of just one year later, 1991-2002 shows us 1.80% (Beaulier P. 13).

The most visible picture of what was said above, can be shown with the help of the special graph, using J curves (see figure 1 below).

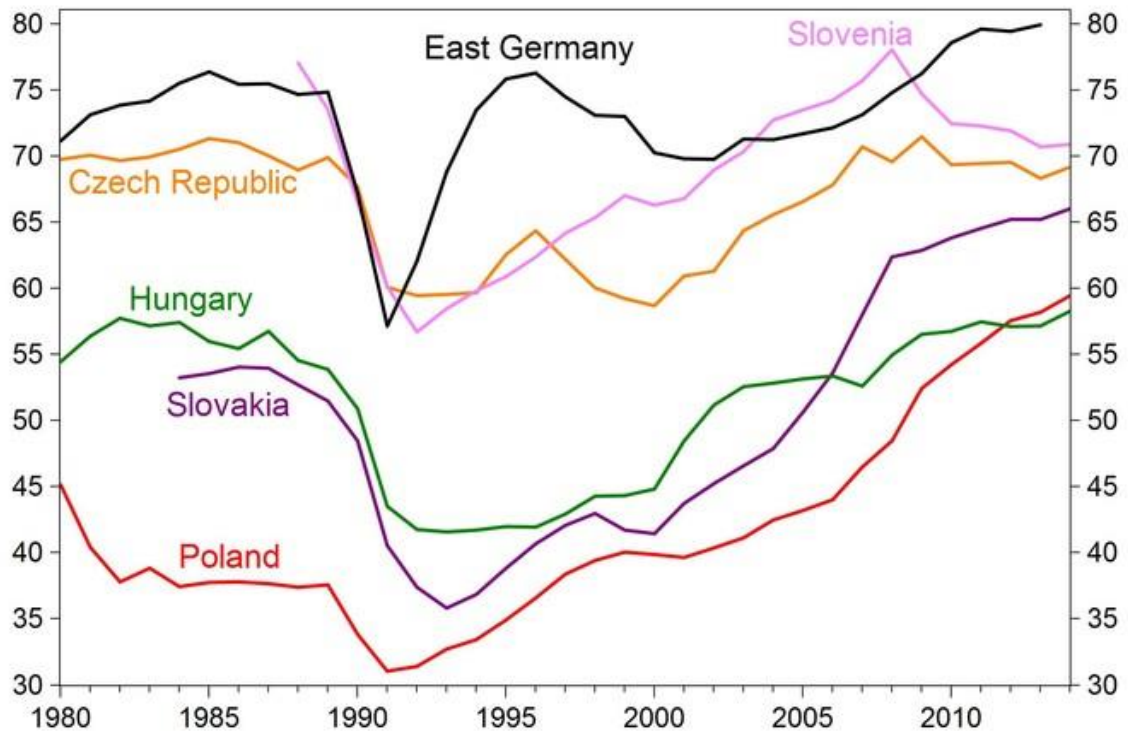


Fig. 1 GDP per capita at purchasing power parity (% of 10 advanced EU countries), 1980-2014  
 Source: <http://www.bruegel.org/nc/blog/detail/article/1528-the-convergence-dream-25-years-on/>

As you can see, a year 1991 is the shift to economic growth for majority of the post-soviet countries. One of the reasons can be that, since many negative value-added firms had been liquidated by 1991, the GDP per capita observed in 1991 is probably much closer to the actual post-communist per capita GDP. So, in fact Czech Republic didn't go so bad, considering the fact that its economic transformation was faster and closer to the Shock therapy rather than to gradualist approach.

Considering all the facts that are mentioned by Stiglitz, we can surely say that while using terms like Gradualism or Shock Therapy, it is definitely necessary to mention a period, at least a leap of time, during which the transformation was done. This will help us to find out relatively correct opinion about the form of transition (Beaulier P. 15-16).

Table 1 – 1991-2002 Average Annual Growth of GDP per capita

<b>Country</b>	<b>Average Annual Growth</b>
Albania	5.68%
Poland	4.62%
<b>Hungary</b>	<b>2.95%</b>
Estonia	1.83%
<b>Czech Republic</b>	<b>1.80%</b>
Romania	0.98%
Bulgaria	0.85%
Armenia	0.83%
Kazakhstan	0.55%
Belarus	0.22%
Latvia	-0.62%
Lithuania	-0.64%
Turkmenistan	-0.90%
Uzbekistan	-1.09%
Russia	-1.96%
Kyrgyzstan	-3.48%
Ukraine	-4.81%
<b>Georgia</b>	<b>-4.19%</b>
Moldova	-4.83%

Source: Rhetoric vs. Reality Revisited by Scott Beaulier (George Mason University)

From the table above you can see that the average annual growth of GDP per capita is almost by 1% higher in Hungary than in the Czech Republic. The question is what kinds of reasons caused reaching such a difference.

First of all, we should keep in mind the starting point of the Czech Republic. Important factor is that in 1989, approximately 98% of Czechoslovak economy was publicly owned. There was no freedom for a speech and decisions. The most part of the growth in economy was driven by military expenditures (Beaulier P. 16).

Like most of the east European countries, the Czech Republic's GDP also was decreased during the year 1990, but in general the Czech transitions showed us much better results in comparison to the official figures. For example the quality of good produced in Czechoslovakia was much higher, than the products that were produced during the communist period. The problem is that quality indicator is often misrepresented in the data, because production shifted from the inefficient and military, into the more efficient production. That's the reason why it can show the negative effect on GDP, but only in the beginning, because the leap from the state industry to the privately owned one needs longer run to show off the positive results. Apart from the said above, there is also an additional reason to think that the GDP drop in 1990 is misleading. In the 1980-s the state organizations were usually overestimated the figures of their production. According to Peter Boettke (2001 [1999]: 227), "it is difficult to 'read' production figures in a world of negative-value added firms." In many cases, "curtailing production...is actually a step toward increasing production and exchange efficiency." Shleifer and Treisman (2003) make a similar point

when they write: "In order to obtain bonuses [under communism], managers routinely inflated their production figures. With the end of central planning, the motive for such distortions disappeared; rather, managers now wished to under-report output in order to reduce their tax bill" (Beaulier P. 16-17).

As was mentioned earlier, in the year 1989 Czechoslovakia's public spending percentage of GDP was 98. By the year 2000 this figure fell to 20%. However, Slovakia's government spending declined to 21 percent of GDP in 2000 (Beaulier P. 17). The decline in government spending was extremely important figure because one of the explicit goals of the reform was to significantly decrease the role of the State in the economy. As Vladimir Dlouhy summed up the Czech transition:

"What the critics fail to understand is that our transition was first and foremost an experiment in destatization. Rapid GDP growth would be a nice unintended by product of these reforms, but we were most concerned with getting the State out of people's lives" (*Personal interview by Peter Boettke, Scott Beaulier, and Susan Anderson with Vladimir Dlouhy at his office in Prague, CZ on July 14, 2003*).

But why does the confusion exist towards the standard of comparison? Some political economists have discussed the rhetoric vs. reality reform processes (Rodrik 1999; Boettke 2001 [1995]). The most of the discussions about the reforms in transitions is moving between the relationships of citizens and rulers. Of course, citizens buy the rhetoric reform type, but they don't know if it is equal or at least partly equal to reality. Usually it is not, so that they are fooled by the rhetoric. As Peter Boettke (2001 [1995]: 157) puts it: "A major problem confronting the citizen, however, is that he/she does not know whether the regime is sincere or insincere".

If we look at Stiglitz's *Globalization and Its Discontents* in particular, we will notice that there are many discussions about the Shock Therapy approach reform and mainly the economists are being confused by the rhetoric of the reformers. From Stiglitz's point of view there was no real difference between Polish Koldko's gradualist rhetoric and the actual situation of reforms in Hungary, Poland and China. He mainly took into concern Poland's Gregorz Kolodko with his anti-shock therapy pronouncements.

Similarly, Stiglitz assumed the Czech Republic's Vaclav Klaus and Russian's Yegor Gaidar engage in Shock Therapy programs, even not looking at the actual reality of their reforms.

In the Czech Republic for example, Klaus's "shock" was considered to be government spending, which never really declined. In 1991 the Czech Republic's government spending was 23 percent of GDP and by 2002 it fell to only 21 percent. Interesting situation was with marginal and corporate tax rates, because their levels exceeded 30 percent throughout the transition period. So that, Klaus became also responsible to push through a controversial value-added tax (VAT) that placed a really heavy tax burden on tourists and employers in tourism industry (Beaulier P. 18-19).

Finally we can say that monetary policy in the Czech Republic was never as tight as in was in Poland or Estonia for example. Fundamentally, Klaus's "radical reform" in reality was nothing more than the continuation than the status quo.

Debates and arguments about the differences between Shock Therapy and Gradualism are usual nowadays, but sometimes even the famous economist can be mistaken, like it was Stiglitz during the Czech Republic and Russia comparison. The most truth deserving “indicators” are the citizens of the researched country, due to their questionable arguments and evidences. Finally we can say that before continuing the debates about these 2 reform approaches, it is absolutely necessary to mention the time dimension. Only after the qualitative dimension, we can develop a comprehensive definition of the shock therapy and gradualism approach. Stiglitz’s mistakes in his book *Globalization and its discontents* can never be repeated.

In addition, to focus more about the two approaches, it is useful to develop proxy. For example Sachs and Warner have developed one useful proxy, which was based on looking at the country’s trade openness. The development of useful and accurate proxies will help us to clarify the terms “Shock therapy” and “gradualism”. So, that rhetoric will not be confused as a reality reform anymore.

Since 1989 Central and Eastern Europe has been a subject to an economic transformation which is known as the sharp-shock economic reform type. Transformation is meant by creation of markets, privatization and also trade liberalization, including macroeconomic stabilization measures. Even though the neo-liberal sharp-shock transformation model was promoted by Western interests (Gowan 1995) and had wide circulation in Central Europe, also it was certainly influenced, still can not be viewed as a rational process of constructing economic institutions.

Stark (1992, p 117) argues that there should be three reasons for that: that capitalism in the West did not originate by blueprint; that blueprint models are abstracted from social institutions; and (1997, p 117) “the devastation wrought by communism and the quick demise of its party-states has not left and institutional vacuum... these societies will find the materials with which to build a new order in the ruins of the old”.

The relationship between the tourism and economic transformation can be said to be really symbiotic. On the one hand, change in tourism which has its own sector of production, services and consumption characteristics is influenced by the economic, social and political transformation in Central and Eastern Europe. On the other hand tourism contributes to the transformation, due to its openness to privatization and market liberalization.

AS well as economic transformation impacts tourism, also tourism influences economic transition a lot. We can prove it by looking at the net contributions, because tourism development impact national income and employment. It is difficult to realize the impacts clearly, as they are contingent. Contingencies like privatization, labor market and capital features of national economies are very important in the transition economies, because they have been remolded in the current process of transition.

The contribution of tourism to the net balance of payments surplus has been recognized for a long time by European governments, particularly in the late-industrializing Southern European economies in the post-war decades (Williams 1997). Even since the late 1970s, the economic potential of tourism has been recognized in more mature econ-

omies facing de-industrialization crises. Tourism earning can help to balance current account, to finance imports, consumers and capital goods. It is considered to be one problem about the exchange earnings of tourism, which is connected to the available statistical data that helped balance the net international deficit and finance critical imports of intermediate and capital goods. As it became known later, the growing role of international tourism informed the repositioning of tourism in state policies during the transition.

Employment in tourism industry is another key aspect of the economic impact of tourism. It is like that, because the data about the employment in tourism sector is usually more problematic than for example income. The reason is that it is difficult to understand what constitutes a job in tourism. To be more concrete let's take the most visible and popular areas in tourism-Hotels, restaurants and catering. It is believed that tourism jobs are low quality in terms of pay, security and skills, but this cannot be true for all the cases, because it also partly depends on the development level of the country and other industries that can be substitutable of the tourism sphere. It is also oversimplification given the range of jobs which tourism supports in public administration, manufacturing, the producer services, retailing and transport (Williams 1987). However, the contribution of tourism to employment in the transition economies is given additional weight by the soaring unemployment rates which have been inherent in the sharp shock neo-liberal economic reforms (Williams and Baláž 1998).

The overall role and the contribution of the tourism in the whole economy are leaded by the number of following reasons and features:

- First of all we have to mention the balance between the inflow and outflow of tourists and their expenditures. During the transition, "iron curtain" was destroyed so the way for tourism development was now open and flows of tourists significantly grew. Especially countries like Romania and Czechoslovakia became the center of attractiveness, because of being closed to international tourism earlier (Hall 1995). The most important changes in tourism economy attracted tourists not only from the Western European markets, but also from the Eastern block countries. The tourism attractiveness was linked to purposes like shopping, business and trading due to their lower prices and supply differences.
- The second feature is foreign direct investment (FDI) in tourism, which is relatively low in the most of Central European countries, but they are still strong in other sectors, such as air transport and travel agencies. Still FDI is believed and is expected to make a bigger contribution in the evolution of tourism in the future. Ownership is important because it conditions not just whether but how firms are inserted into international markets (Beattie 1991). However, foreign ownership remains relatively muted, and the issue of inter-firm linkages has probably been of greater relevance in the transformation (Grabher and Stark 1998). The key point is that many tourism establishments were round the large company structures that were mainly privatized or at least commercialized. All this influenced the contribution of tourism to national and regional economies.

- Finally, the contribution of tourism to the national economy is dependent on the regional structure of the industry which is like a mosaic of complexes providing different types of tourism services. The national economic performance of tourism can be divided into the regional performances. If Stark (1996, p 995) is correct in asserting that path dependency implies "...rebuilding organizations and institutions not on the ruins but with the ruins of communism", then these "ruins" are territorially situated and differentiated. The outcome of the national tourism performance is directly connected to the territorial complexes and their changing order. This is important because the changing territorial organization of tourism has contributed to the overall process of regional development during the transformation. The key question is if the net effects of tourism development encouraged regional convergence or divergence.

Tourism not only influences the economic transformation, but also it is linked to economic, political and social changes. There are three main dimensions of the transition that are important for tourism: Market-creating reforms with is basically sharp-shock economic strategy in the Central Europe; the re-internationalization of the economies; and privatization. These have fundamentally changes the macro-economic climate in tourism, due to the redistribution property rights and sector globalization.

- The sharp-shock economic reforms were based on a version of liberal capitalism with the four main parts: market liberalization, privatization, currency convertibility and trade liberalization. These combined with macro-economic stabilization measures, moreover limiting the money supply and budget control. The new economic model was slightly different, because it was based mainly on the theoretical ideas and practices of economic management in Western Europe. The model was implemented with domestic and international economic realities.
- A distinctive model of international tourism found its way within the Central Europe during the period of central planning socialism. The most flows were located to neighboring countries and the Black Sea resorts. This system was no longer available as the "Schengen" zone was created, so that visas and passports barriers were destroyed. After this the majority of the tourism inbound and outbound flows took a place in Western Europe. Tourism development in this period mainly depended on their ability to adjust to these major shifts in international markets and to adapt to the international movements.
- Privatization has also influenced and revolutionized the conditions for the production and provision of tourism services. Tourism has been a vanguard of privatization and shows a lot of advantages and disadvantages associated with changes in property rights, entrepreneurship and economic performance. In general the type of privatization program affects a lot on forms of property ownership, prices, capital structures and firm performance. The privatization programs are also characterized as a form of political capitalism (Staniszki 1991).

In conclusion, if tourism in transition can be understood as path-creating and path-dependent, then it is also correct to consider it in terms of the intersection of national, economic and social reforms together with globalization.

Post 1989 period is known as era of tourism evolution in terms of overall transformation, also this period is famous for important changes in global tourism. Central European tourism had been re-internationalized and huge shifts were done in global conditions and tourism consumption.

The most remarkable feature of the demand in tourism was probably post 1950s period, which was famous for the rapid growth of tourists' inflow. The most reliable indicators were number of international tourist, that was rapidly increasing from 25 million in 1950 to 69 million in 1960 and to 592 million already in 1996. The World Tourism Organization (WTO) estimates that the number of international tourists will grow to half billion in 2020. In EU it is valued that 55-60 per cents of population takes a holiday at least once a year, which continues approximately 4 overnight stays, 65 per cents have national destinations, while 22 per cent spend their holiday elsewhere in the EU and only 13 per cent are going outside of the EU (Commission of the European Communities 1993a, p 52).

One important element in this mosaic shifting tourism consumption is the nature of tourism itself. For example as it was earlier, in period of the late 20 century, tourism was mainly considered as a family 1-2 week holiday to the mountains, spa of some Black Sea resorts for example. But nowadays the situation has massively changed and tourism became something more than just a family vacation. There are many types of tourism in the modern world. Last years the interest is growing around cultural tourism, heritage tourism, rural tourism and even "**sex tourism**". The consumption of tourism and its activities is mainly dependent on the place differences and of the will of knowing, experiencing something new, rather than finding similarities as it is in mass tourism.

The urban tourism can be divided into two strands: cultural and business/conference tourisms. In Europe 48 per cent of the trips are estimate to be associated with business reasons, while only 27 per cent is for leisure and recreation (Grabler 1997). Both of the tourisms that are mentioned above are expanding every year and are becoming more and more popular for travelers, but nowadays the urban tourism have grown one more branch, which is called cultural tourism. It includes everything from the archeological remaining to the museums and historical places. Those kinds of tourism are associated with Europe's diverse heritage, and growth rate for such trips in the 1990s has been 15 per cent per annum (Economist Intelligence Unit 1993).

There were also expansions of various types of nature-based tourism, which actually was fuelled by environmentalism and gave a negative reaction to mass tourism, also encouraged social reconstruction of valued landscapes and cultures (Urry 1990). Central Europe has a potential to capitalize on the shift from standard mass tourism holidays to more individualized forms of it, e.g. culture and environment-based tourism. As we will see later information about the tourism in Prague and Tatra mountains, we will understand that in European tourism consumption there was a similar shift to capitalism.



For understanding the internationalization of tourism in Central Europe, we need to take into account also the globalization processes. The statistics of international destinations tells that between the years 1950 and 1996 the number of international tourists in Europe increased twenty-two fold, but the region's share of world tourism fell from a 71 per cent which was peak in 1975 to 59 per cent in 1996 (Williams and Baláž P. 9). It is worth to highlight that the erosion of the European share occurred faster during the years 1990-94 in comparison to the 1980s (Williams and Baláž P. 9). This difference in Central Europe occurred because of the two reasons: first is that globalization of markets became the potential importance for the non-European markets, second is that the declination of relative share of Euro points to the increasing pressures of global competition.

Among all the consumption-related skills, it is important to mention the changes in organization and production of tourism services. The most visible change in European tourism was the growth of major tour operators. Those tour operators had mainly international activities, while being mostly national. Only the largest ones from Germany and Great Britain penetrated to the North European market. Internationalization and concentration is also evident in the hotel sector where, Go and Pine (1995, p 133) argue, most large corporations are orientating "towards greater internationalization, cooperation and concentration" Within individual domestic markets, such trends are creating intense competition, forcing smaller companies become more specialized, in order to gain at least some comparative advantage. According to Go and Pine (1995, p 8) competitive advantage includes branding, the need for adequate resources to respond quickly to new or changing market conditions, organizational and managerial economies of scale, and the advantages available from global travel reservation systems which require large initial capital investments.

Transnationalization of tourism capital has always been strong in the business tourism sector for the hotels and in the exclusive tour sector for holiday tourism. This is also one on the reasons why the tourism investment interest grew fast in Central Europe. However, these concentration and internationalization tendencies should not be exaggerated. Instead, as Viceriat (1993) points out, independently owned hotels represent some 90 per cent of establishments within the EU, and an estimated 80 per cent of bed capacity. There are also polarization tendencies within the small and medium-sized tour company sector. It is obvious that many small hotels are facing incredibly difficult competition against bigger, more fashionable hotels. This is because the small and cheaper ones lack facilities like private bathrooms, bars, swimming pools etc. And in the modern world all these is becoming standard expectations. From my point of view the solution and finding the competitive advantage of the smaller establishments can be the minimum margin and high service in comparison to the price. Also some special combination of exotic restaurants or sport facilities would have popularized their name in a positive way. These changes present Central Europe with opportunities and challenges.

## 4 Practical part

### 4.1 Tourism development in the USSR in the second half of the 20th century

If we have a look at historical development of the Soviet, mainly Russian tourism market, we will see that the concept of “Freedom of travel” is relatively new. It was preceded by some reasons and changes, for example there were only some tourism operators who worked on certain clientele. Also, because of the 1920s’ Iron Curtain concept in USSR, the information about living in other countries was very limited and censored (Zhizhanova 2011, P. 2). In any case the life in western countries was featured like “contrasts” – meaning that luxury needs to be for the rich people, while work should be left to pheasants. However, abundance of commodity and freedom in behavior reached the Soviet Union, which aroused desire and interest of thousand Soviet citizens to go abroad.

For a really long time, tourism in the USSR was underestimated and was referred to non-profitable sectors. By the end of the first half of the 1960s, researchers proved that sphere of services might have a productive character. So, authors of the researchers referred to one of the famous Karl Marx statements saying that not only goods are important and available, but there exists also quantity of items that are known as services. Of course the most part of the Soviet tourism at that period was internal.

The international tourism in USSR started its developing only from the middle of 1950s, when the leader of Soviet Union was N. Khrushchev who basically started considering international tourism to be a main source of “hard currency”, as a way to “market the Soviet paradise”.

The Khrushchev’s reforms were known as Khrushchev’s Thaw, which caused some changes in the Soviet Union. After that, foreigners could come for a visit and local citizens were also allowed to meet foreigners, although only in groups under supervision.

It is important to mention the year 1956 for the history of the Soviet tourism development, because at this period was achieved the agreement between US and Soviet Union. The agreement was about developing and publicizing their countries to each other, so American magazine “America” became distributed in the Soviet countries and later its counterpart-USSR magazine was launched in the USA.

In the summer of the same year 1956, just a few months later after well-known Khrushchev’s speech that is considered to be secret, Moscow was set to be the host of the very first “Spartakiada” in the whole USSR. The event was very loud and became very popular quickly, like the typical soviet style. The capital of Russia hosted a large number of international teams and their groups of fans, who came from all the countries of the Soviet Union. Khrushchev actually used the event for his own goals and political advantages, to make people believe that the new leader was something else and had different opinions and politics in comparison to J.B. Stalin.

July 1957 in Moscow became famous with holding the 6<sup>th</sup> World Festival of Youth and Students, which attracted approximately 34.000 people from 130 countries that of

course came to the Soviet Union. It was the first so famous Youth and for that time really international festival held in the Soviet Union, opening the doors to the world.

For the soviet tourism development was also important Khrushchev's False Spring, which allowed the Soviet society to receive and experience some foreign films, books, art and music, which were impossible to even imagine earlier. Some of the most recognized and famous books like the ones from Ernest Hemingway. They were published in variety of copies and of course translated to satisfy the readers all over the USSR.

Therefore everything that is said above can be considered as a development of cultural and economic relations between different countries that also led to the expansion of international tourism communications.

Since 1950 the special tourism bureaus are starting functioning and becoming more and more successful each year, organizing trips for youth to different countries abroad. Also USSR starts receiving many foreign participants of festivals and sport activities, congresses and conferences.

#### **4.1.1 Main Soviet Organizations of the International Tourism Exchange**

In the tourism and international tourism system exchanges of the USSR, there were queue of organizations that were connected to tourism. For example: Organization of youth and workers, state structures and other public forms of tourism societies. I will try to tell shortly but in details about the most important ones:

##### General Directorate for the International Tourism under the Soviet of Ministers of the USSR (since 1983 – Central Tourist Committee of the Soviet Union) (Orlov P. 15):

The organization was basically responsible for the management of the state travel agency "Intourist" that was connected to all the foreign tourists who wanted to come to Soviet area and to those Soviet citizens who wanted to travel abroad. Absolutely All the hotels, recreation centers, transport, services and guides that were working with the foreign tourists, were under the control of "Intourist" (Soloviev P. 6). So, most of the businessmen, politicians, journalists and ordinary tourists were able to come to Soviet countries with special visas provided by "Intourist".

Moreover lack of a competition due to the central planned economy in the tourism market led to the monopoly of "Intourist". Soon it became a really powerful company, with the huge employment and having the chain of the best hotels among all the Soviet countries. "Intourist" has 80 offices in the Soviet Union and 32 offices in other countries and became a national house of tourism in the USSR (Zhizhanova P. 4).

##### Central Committee of the All-Union Leninist Communist League:

This committee together with the bureau of the International youth tourism "Sputnik" was an organization of trips around the country and abroad for youth between the ages 16 to 30 and for students. The bureau had 3 lines of activity: the international youth exchange program, travel of the Soviet youth around the USSR (since 1963) and organization of the holidays in the tourist places (Zhizhanova 2011, P. 4).

“Sputnik” was similar to “Intourist”, but had fewer opportunities due to the less quantity of transport, guides and tourist centers. During the Soviet era, “Sputnik” used to cooperate with lots of different youth organizations from all over the world. It could offer more than 100 routes for the foreign students and youth in general to travel inside the USSR. For example international scout camps were created for the youth from different countries to visit Caucasus countries and Crimea.

#### Central Council of tourism and excursions of the All-Union Central Council of Trade Unions:

The Council was known for trade unions in various enterprises and also in the ministries so that it played a huge role in the sphere of Soviet tourism.

Central Council of tourism and excursions was established in 1936 and had its own camps for employees of ministries and large enterprises (Zhizhanova 2011, P. 5). The function of this establishment was to organize tours and excursion for all the population groups around the USSR. It was also responsible for the international exchanges. In all cases the famous “Intourist” acted as an intermediate seller and sold its tourist vouchers through local tourist managements to people who wanted to enjoy international tours (Zhizhanova 2011, P. 5).

The Communist Party was the organization that also made international exchanges. Moreover it held the chain of high quality and fashionable hotels for privileged representatives of foreign countries.

The important institutes that also assisted the development of international tourism were: Soviet Peace Committee, the Committee of Soviet women, the Union of Soviet Societies for Friendship and Cultural Relations with Foreign Countries. All of them received tourists and offered different services (Zhizhanova 2011, P. 5).

The Academy of Sciences of the USSR also received a huge role in developing the Soviet tourism, due to the fact that this organization received many foreign scientists and engaged lots of long-term contacts with other Academies of similar purpose of Hungary, Bulgaria, GDR, Romania, KDPR, Czechoslovakia and Poland. So, naturally the Soviet scientists already started having possibilities to visit the socialist countries as tourists.

In the USSR there was an opinion about improving and developing national tourism will help to broaden the foreign tourism in the country. Anyway national tourism was considered as a preparation for communication with foreign visitors (Zhizhanova 2011, P. 6). For the citizens of USSR who travelled abroad the qualities like pride and devotion to their country were very important.

According to the All-Union Central Council of Trade Unions and The Central Committee of the All-Union Leninist Young Communist League, foreign tourism in the USSR had following lines of development:

- International tourist exchanges for youth and workers
- Development of Soviet tourism in foreign countries
- Collaboration with international organizations
- Financial and economic regulation of international tourism exchanges

- Selection of hotel and restaurant personnel and its trainings
- Development of tourism resource base
- Improvement of quality of service
- Using of new methods of management (Zhizhanova 2011, P. 6).

The achieved results in tourism of “Sputnik” and Central Council of tourism were quite impressive. During the years 1958-1986 “Sputnik” organized international tourist exchange for 6.3 million young Soviet and foreign tourists. Thereby approximately 3.7 (850 thousand tourists from capitalist and developing countries) million foreigners visited the USSR and 2.5 million Soviet youth went abroad (Zhizhanova 2011, P. 6).

#### **4.1.2 Features of the foreign tourism in the USSR**

The development of cultural-economic relations between different countries raised the percentage of travelers year by year.

Only 0.4% of the population of the USSR in the years 1960-1970 travelled outside of the Soviet Union. It is understandable due to the fact that foreign tourism limitation was one of the most important features of the Soviet area.

First of all it is important to mention that the whole foreign tourism was strongly controlled by KGB (Committee for State Security). There also were established number of services which provided selection of the special tourists who matched the Soviet ideology in perfection and they could travel abroad after. This system of choosing the “right” tourists had several levels:

The selection as the first level was the Local Council of trade union organizations, there pretenders were sending the applications and waited for the “testimonial-recommendation” about their activities and moral qualities. After that “testimonial-recommendation” was send to the Committee of the Communist party of the Soviet Union for further decisions (Zhizhanova 2011, P. 7). The last part of the process was basically a Commission, which was under the Local Committee of Communist Party. Finally if all the expectations became true and the person “had honor and dignity of a citizen of the USSR, display political vigilance and keep state secret” (Zhizhanova 2011, P. 8), this particular candidate could deliver all the necessary documentations to the foreign tourism Bureau-“Sputnik” department.

A special attention was given to people who were willing to visit capitalist countries and also Yugoslavia. For those tourist were necessary some special questionnaires to examine carefully the moral stability and behavior of the potential tourists. Also special rules were created for those tourists who were going to capitalist and developing countries.

Also it is worth mentioning the “key rules of behavior of the Soviet citizens, moving abroad” (Zhizhanova 2011, P. 8) that were created by the Government. Before travelling was necessary to speak with tourists due to the Local Council of trade union and according to the rules this Council had to explain “political aims of a trip, rules and standards of behavior in foreign countries” (Zhizhanova 2011, P. 8), also their traditions and specified mentality. Citizens could travel just with the international passport, the Soviet one was withdrawn by militia (name of the civilian police in the USSR). Travelling abroad was possible only without family.

The change of the currency was also somehow limited. People could exchange money to go abroad only that much, how it was allowed and it also depended on the country of visit. Import of the foreign currency to the USSR was strictly prohibited (Zhizhanova 2011, P. 8).

The most common destinations of Soviet citizens of travel mainly included the Socialist countries. Examples: Czechoslovakia, Poland, GDR, Romania, Hungary and Bulgaria.

In 1961 People's Republic of China and National Social Republic Albania were excluded from the Soviet tourist routes (Zhizhanova 2011, P. 9). In 1964 in USSR appeared tours to Mexico and Cuba. The developments of relationship between the USSR and Egypt from the second held of 1950 also opened some new routes for tourists.

The capitalist countries' choice for a trip was extremely limited for the Soviet tourists. Even if they were going to visit some of them, the tourist objectives usually included factories, plants agricultural enterprises, mainly those thing what was built with the help of Soviet Union. Even tours in the USA included visits to various hydroelectric power plants (Zhizhanova 2011, P. 9).

#### **4.1.3 Features of the domestic tourism in the USSR**

In this chapter you will see the main problematics of using tourism services in the USSR.

Due to the "Sputnik", for that time the main tourism agency in all Soviet Union saw that the main problem was the Geographical position and huge area of the USSR. Just imagine how far distance should tourists from France or United Kingdom travel to visit any of the Soviet countries. Also after if they wanted to continue "Domestic" tourism inside the USSR from one city to another it was also difficult to get because of the thousands of kilometers. So, considering all these facts it turned out that the main part of the coast for travelling were expenses on transportation.

In 1957 the first artificial Earth satellite was launched by the soviets, so naturally it became a reason of a big interest from the side of tourists and increasing the stream of them.

In 1967 the Government of the USSR finally established the Administration of Foreign tourism and also the Council of Foreign tourism that consisted of 17 ministries, committees and departments (Zhizhanova 2011, P. 9). These organizations had to coordinate different activities for the further organizations in order to prolong the development of foreign tourism in the USSR. In years 1960s, the special training centers were created for the hotel and restaurant personnel. In that time famous "Intourist" became the unique commercial organization in the whole foreign tourism.

"Intourist" did everything for promoting travels to the USSR. E.g. it ran a powerful promotional campaign which included booklets, posters, touristic films, advertisements on radio and television as in USSR, also in foreign countries. There were also number of disadvantages inside the Soviet Union, for example the lack of spread information and advertisements in the further regions of the USSR, also lower qualification of personnel its selection and trainings. Despite those facts USSR still remained an attractive place to visit.

More than 60% of visitors Of the USSR used to be socialist countries' representatives. Material-technical basis of tourism service for the year 1985 was already quite high. It included hundreds of hotels, camping and motels for nearly 55000 places (Zhizhanova P. 10).

At the end of the 1980s there were functioning more than 500 tourist routes in about 150 Soviet cities. In particular they were totally open for the foreign tourists. Worth mentioning that non-socialist country guests were always less than half from total tourists. For example in 1977 1,750,000 of them visited country, comparing to the 950,000 leaving the USSR on holidays to capitalist countries. For each Soviet visitor to non-socialist countries in 1977 more than 1.8 from these lands was guests of the USSR (Zhizhanova 2011, P. 10). In other words, for every non-socialist guest of the USSR only 0.54 Soviet citizens were allowed to visit non-socialist countries as tourists (Zhizhanova 2011, P. 10-11).

The biggest number of non-socialist tourists, who were visiting the Soviet Union, was citizens of Finland.

According to the non-official surveys, the main interest of approximately 60-70 % of all foreign tourists that were visiting the USSR was spinning around the culture and history of the countries that were part of the Soviet Union, especially south Caucasus. Business trips were not that famous due to the planning economy and monopoly of the ministries in the Soviet Union.

Besides the foreign tourists there were also a number of foreign students in the USSR. They could study in the Soviet Union from the year 1960, because at that time was founded The People's Friendship University. Its objective was to help nations of the Third World, which included mainly Africa, Asia and South America. During the Cold War students from those countries requires higher educations and professional trainings.

#### **4.1.4 Conclusions**

In conclusion, we can say that tourism in the USSR is very much connected to the tourism in the modern world. In the special scientific literature the development of tourism sphere which has started since the second half of the 20<sup>th</sup> century and is known as "tourist explosion" or "tourist revolution", some people also call it "tourist phenomenon of the 20<sup>th</sup> century" (Zhizhanova P. 12). The USSR played also a huge role in integration of the world tourism.

From the end of 1950s the economic relations between countries was incredibly extended together with their tourism relations. "Intourist" for that time has created lots of different organizations to keep contact with other tourist organizations and youth associations (Zhizhanova P. 12).

However, the Soviet tourism had its own features, such as lack of competition and the monopoly of "Intourist". Also it was famous for lots of limitations for the tourists going abroad and for incoming tourists. Despite all those factors which can be said to be more negative than positive, the measures of Soviet government made a huge influence on tourism development in total, inside the country.

The analysis of the tourist organizations in the USSR in the second part of 20<sup>th</sup> century is important not only to have an impression how the Soviet tourism started develop-

ing, but also to find out how the development continued after the transition to the modern world.

## **4.2 Development of tourism and its perspectives in former-Soviet countries**

In the previous chapter we spoke about the Soviet tourism development in the USSR as in total, because the Soviet Union was a kind of “empire”, with strict rules, traditions, ways of behavior, limitations and of course the central planned orientated. So, everything what was mentioned in the chapter above was connected to the period till 1991, when the Soviet Union crashed and majority of the countries which were part of it for years, became independent and had chance to run their own economy. Because of this fact we cannot speak about tourism and its post-communist development as shared for all the Soviet countries together. For being more aimed and detailed we can look through the tourism economies of several countries of former-Soviet Union, which have different geographical position, language and culture. After that we can compare evaluate the results, the differences and similarities. I would like to start with south Caucasus region and mention country named as Georgia. It has always been one of the most famous and attractive place for tourists to visit, not only with its wonderful nature, but also with the unique language, culture, traditions and long historical background.

### **4.2.1 Background of country’s tourism potential**

Georgia’s history with respect to tourism is kind of an alternating invitation. It is something exclusive, especially for the people from central and Western Europe. Geographically very important from the historical view, because the country is situated in South-eastern Europe astride the Old Silk Road, on the eastern shore of the Black Sea, so the country is accessible by air, land and also the sea. Marco Polo (1254-1324) is known as one of the earliest visitors of the country in 1271 (Marco Polo, 2009, and Yule, 1871). John Steinbeck visited Georgia in 1948, which was during the Cold War and received a traditional, warm welcome (Russian History, 2009, Steinbeck and Capa, 1989). Even earlier, in Greek mythology, Jason brought his Argonauts with the boat of Argo to the eastern shore of Black Sea to “Colchida”, the ancient part of west Georgia to take the Golden Fleece from the king Aeetes (The daughter of Aeetes, Medea, a Georgian princess and healer, gives her name to the science of “medicine”).

The climate of Georgia is Mediterranean. There are all 4 seasons and relatively mild winters. The main attractions for tourists are: Seaside, stunningly beautiful mountains of the Caucasus, two main ski areas, unique and delicious cuisine and of course a tradition that “a guest is a gift from God” (Riess, 2001, p. 43). However these features seem to be a natural base for the tourism and its further development. Unfortunately, lots of political and military factors have limited the access to visitors to the country many times.



#### 4.2.2 Soviet Tourism in Georgia

In all 15 countries inside the Soviet Union, tourism with its services and facilities was absolutely the same with some minor differences. Georgia was not an exception as well. Everything what was connected to tourism was led by three main organizations: 1. JSC "Intourist"; 2. Youth Tourism Organization - "Sputnik" and 3. "Republican councils of tourism and excursions" under the trade unions. There were differences in approaches and management. Relatively low was "Sputnik" Travel services and infrastructure, there was a lack of information and limited comments also (Soloviev P. 2-3). "Intourist's" own infrastructure, which was the most pronounced in the Soviet Union and was marked by specific ideology. This ideology was about mentioning the socialism and proving that it was better than the capitalism. At that time the biggest organization was the Trade Union tourism better known as mentioned above - "Tourism and excursions Republican Council". This institution also served millions of Soviet and foreign tourists (Orlov P. 5-6).

During the Soviet period, Georgia was one of the most prosperous Soviet republics. Even from the point of view of tourism development it was one of the most successful countries inside the whole USSR and the most popular country to visit in Caucasus region. In the 1988 the number of incoming tourists of Georgia showed 5 million (Pavliashvili N. 2003. P. 171), which was huge considering the fact that the population of the country was only 4.5 million and had 152 000 beds and 624 types of accommodation (Kvartskhelia Slide 13). The year 1988 can be safely considered to be the peak of tourism level in Georgia during the Soviet Period.

From the 1989, in Georgia there is a movement for the coming out from the Soviet Union, which is enhanced by sprawl of the Georgian-Abkhazian and Georgian-Ossetian conflicts. In response to the proposal on the separation of Abkhazia, expressed at 30-thousand gathering in the Abkhaz village of Lykhny, April 9, 1989 in Tbilisi was organized an open-ended meeting, which was violently dispersed by the troops of the Ministry of Interior and Ministry of Defense of USSR. Dispersal of the meeting led to human victims and the loss of the authority of the central Soviet government, which largely determined the withdrawal of Georgia from the Soviet Union. Along with the collapse of the Soviet Union political conflicts in Georgia have moved into a phase of an open armed conflict between Georgia and the autonomous regions (Abkhazia and South Ossetia), which announced the non-recognition of Georgia's independence and the desire to remain part of the Union. Subsequently, the autonomous republics formed the unrecognized states. In 2008, after the armed conflict in South Ossetia, their independence was recognized by Russia and Nicaragua and in 2009 by Venezuela and Nauru (Vordomsky and Kuzmina P. 214-215).

Conflicts, especially the ones that are taking the armed nature, are always dangerous not only for the innocent population, but also for the country's economy. In the example of Georgia, those two conflicts harmed economy a lot, especially the infrastructure, which is one of the most important factors for tourism development. In fact, in the autonomic republic of Abkhazia, tourism infrastructure was totally destroyed after the war. It was huge failure for the tourism economy, because earlier this region of the country was one of the most visited sea resort in the whole USSR. The same happened to the autonomic republic of South Ossetia, especially after the bombing in 7<sup>th</sup> of August, 2008.

These conflicts also negatively affected the incoming tourists from the neighbor countries. This was mainly caused by the factors of stability and safety. Military conflict in Abkhazia has brought the flow of tourists especially from Russia virtually to none.

### **4.2.3 Post-Soviet Tourism in Georgia**

When it goes to tourism development in Georgia, especially from the institutional perspective, it is important to mention a period after the USSR which is actually from 1991 to 2003 and after the “Rose Revolution” period which is basically from 2003 to nowadays. The period from the “Rose Revolution” is important because the Government was totally changed and lots of institutional changes and economic reforms appeared.

### **4.2.4 Economic transformation of Georgia before the Rose Revolution**

From the year 1990 the economy of Georgia suffered and decreased a lot during continues 5 years, which was partly fault of political and ethno-political conflicts. During the years 1990-1993 the GDP of the country was decreasing by around 28% per year and from the view of purchasing power parity it decreased from 4433 USD to 1437 USD per capita (World Bank). In the year 1995 comparing with the year 1990 the level of production well with almost 78%, which was actually 3 times more than the falling of production level in the USA during the “Great Depression”. Moreover the fall of level in countries of the eastern block continued for 4 years, while in former-Soviet countries it lasted for 7 years. As we can see, the period of decreasing was relatively short but the deepest. In addition, the economy has largely moved to the shadow sector.

Table 2 - Transition recession (fall) and the "Great Depression"

Countries	The duration of the fall in production (1990-1995)	The cumulative reduction in production (%)	Real GDP, 2000 (1990=100)
Central and Eastern block and Baltic countries	4	23	107
Post-Soviet Countries	7	51	63
Armenia	4	63	67
Azerbaijan	6	60	55
Belarus	6	35	88
<b>Georgia</b>	<b>5</b>	<b>78</b>	<b>29</b>
Kazakhstan	6	41	90
Kyrgyzstan	6	50	66
Moldova	7	63	35
Russia	7	40	64
Tajikistan	7	50	48
Ukraine	10	59	43
Uzbekistan	6	18	95

Source: Transition (2002), January-February. World Bank.

From all the post-soviet countries, Georgia was the last one, which started economic transformation. Since year 1995, country started to coming out from the crisis, because of the institutional changes. The peak of economic growth was year 1997, when the GDP growth tempo showed 10.7%. It was the biggest number before the "Rose Revolution". From the year 1998, because of the Russia's financial crisis, the economy of Georgia slightly dropped. GDP of Georgia in 1996 was 3,064.6 mil. USD, in 1999 2,814.1 mil. USD, in 2003 it was 3,990.8mil. USD (Geostat).

From this period began devastating inflation of the currency, in particular, the increasing importance of the dollar in Georgia, and then the growth of the shadow economy, its specific share (dollarization ratio) at the end of 2003 reached the highest mark - 86%. Georgia, in fact, formed double-currency Zone: national currency served the payments, small business and consumer transaction costs, and the dollar - a major business transactions and consumer spending, investment objectives (European Initiative P. 10).

In fact, the newly formed state failed to ensure sustainable public finances and extract payments. The share of the state budget in GDP was insignificant. It was 5% of GDP in 1995, after the period has increased, but did not exceed 12%. Until 2004, it was one of the lowest rates of the former Soviet Union. Thus, the State had a weak financial, economic and institutional capacities to ensure that any major change in their economic and social fields.

It is worth saying that a number of reforms appeared in the years 1994-1998 for economic stabilization and liberalization. Changes in the banking system, introduction of the national currency - Lari, started small and medium enterprises, trade liberalization has been implemented. It was economic stabilization and structural changes in the reform, whose aim was to stop hyperinflation, the economic balance of the market economy and creating institutional conditions. After these reforms quickly grew the national income, which is not only due to reforms but also because of the years 1996-1998 and 2003-2005 that were famous for Baku-Supsa and Baku-Ceyhan oil pipelines. Nevertheless, the level of development was not enough to solve the social problems from the view of the World Bank, the number of people whose daily income was less than US \$ 1.25 in 1997-2001 grew from 5.3% to 6.0%.

One of the biggest problems of the economy of Georgia was hyperinflation in the early 90s, the small state budget revenues and a financial crisis in 1998 (European Initiative P. 11).

Highest Inflation in Georgia dated as 1990-1995 amounted to 3310.6% and was known as hyperinflation. Resulting decreasing the quality of life everywhere, socially unequal distribution of income, unemployment was on its peak (World Economic Outlook Database). Inflation in Georgia was almost 3 times higher than the average level of inflation in all post-communist countries. During the years 1996-2000 inflation was 14.6% and was still interrupting economic growth. The introduction of the free currency led to a sharp devaluation and to increased prices of imported goods. At the same time, the lack of capital caused increased interest rates and delayed investments.

Important is to mention the financial crisis in 1998. The crisis burst in Russia in August 1998 and with the "Domino effect" it affected economy of not only Georgia, but also of other post-soviet and former-socialist countries (European Initiative P. 12). Exchange rate dropped significantly as a result of the crisis, prices have increased and the tempo of development decreased.

During this period, Russia was the biggest trade partner of Georgia, but because of the economic crisis the trade balance of Georgia significantly dropped and the prices of imported products grew quickly.

Russia's "financial shock" had a strong influence on Georgia, which was due to the failure of economic reforms and pessimistic expectations of economic subjects. Devaluation of the national currency led to a new wave of inflation, reduction in demand for the national currency, GDP decrease. It should be noted that unlike other countries, the banking crisis in Georgia did not start, but the economic situation did not improve as well and a period of **stagnation** developed.

The financial crisis revealed in the real sector, also currency suffered from the devaluation, which was enough to make the already weak economy totally dysfunctional.

Overall, the 90s, the economy has evolved differently. Since 1998, the foreign exchange crisis of continual structural reforms has stopped and economic growth has fallen. In Georgia started a "period of stagnation," which lasted almost till the "Rose Revolution"(2003). However, development of the country still flowed slowly, 3-3.5% on average. The socio-economic analysis of this period in Georgia demonstrates the "stagnation"

of transition period, in other words it shows the government's conservative inaction. In fact real changes were no longer applied (European Initiative P. 13).

Despite such development, the institutional changes are taking place in the country, which were controversial, but, overall, a liberal market economy took its path.

#### 4.2.5 Institutional changes

**Privatization**, which started in Georgia in 1992 and with all other targets, aim of it was to free enterprises and companies from the government that could not rule them effectively. Accordingly, the further development and functioning of enterprises needed operation of the additional capital, which the government did not have, but might have been taken in the form of a loan. At the initial stage of the small and medium enterprises became a subject to privatization. The strategic objects were defined by legislation, while the so-called non-strategic facilities subjects were governmentalized, which aimed the creation of a competitive market. Many enterprises had to stop functioning while dramatically increased the number of enterprises with overdue because of several reasons: they production did not have a market, venture capital was not enough, the authorities did not have sufficient experience in the market economy, the banking system could not meet the business needs, their interest rates were not accessible to business and so on. In 1999, over 16 thousand enterprises had debt of 338.4 million GEL to the country budget, which in that period was more than half on the total income of the country (European Initiative P. 14). In 1998, a law of "tax debt restructuring" was adopted, which further contributed to the postponement of the debts and thus, in fact, created the "dead" economy.

On the next stage, from the year 1997 the whole population was involved in privatization and larger enterprises began to privatize. At first it was made only because of the political aims (mainly with the consultation of USAID and other financial organizations), and the purpose was to attract the foreign investors, which was actually not that successful. In addition, when the Control Packages were being sold, the finances that were going to the budget never helped the investments of the companies, so that they were automatically facing financial problems and could not neither function nor develop further.

**The Trade Liberalization** in Georgia started in 1990 and step by step, but slowly was developing further to the liberal trade standards. During the years 1992-1995 the Gradual cancelation of import restrictions started, the quota system was canceled in 1995. Restrictions which were active in Soviet Era about some types of exporting goods were also decreasing.

Soon Georgia became a member of The World Trade Organization (WTO), which actually led trade to the liberalization. On October 6, 1999 WTO's General Council approved the report of the working group and signed a protocol on the accession of Georgia on the Marrakesh Agreement. Finally from the 14<sup>th</sup> of June, 2000 Georgia became a full member of the WTO (European Initiative P. 15).

Despite the liberalization of trade, the institutional changes in the economy have had no visible effect. Low-quality goods and high prices was the indicator of Georgian non-competitiveness, which interferes in the operation and welfare of the population led to an increased trade deficit. The deficit culminated in 1997 with the amount of 704 million

USD, which was actually 63.5% of the trade turnover in 1997 meaning 1,108 billion USD (Zaldastanishvili P. 3). It is true, then it reduced, but not from production development, but because of growth of exported black metal scrap. However, in Georgia was founded the suitable environment for developing the international trade.

**Investments**, which was the main barrier that prevented the growth of the economy, the low level of investments and the unfavorable investment environment, which, in turn, was caused by high levels of corruption, ethno-political conflicts creating unstable environment, the existence of the shadow economy and so on.

In the 1990s, foreign direct investments were negligible (accurate statistical data is not available) until a large international energy projects started in 1997. In 1997-98 the foreign investments of Georgia showed 6.9-7.3% of the GDP, which was connected to the building of Baku-Supsa oil pipeline, but afterwards these numbers greatly decreased to 2%. The indicator grew only in 2003 and became 8.4% of the GDP of the country (World Bank), which was mainly due to the construction of Baku-Ceyhan oil pipeline.

Unless we take into consideration the projects of building Caspian gas and oil pipelines, there were no more serious foreign capital investments in Georgia. There was a certain risk of investments, because all significant income was controlled by the clan groups, and if someone wanted to start the free market law activities, they were under the influence of criminals. Thus, the investment environment in Georgia was far not the best and safe. This situation could be overcome only with the fight against shadow economy and corruption, in which actually the country succeeded, but only after the "Rose revolution" in 2003.

#### **4.2.6 The economic and social development in Georgia after the "Rose Revolution"**

The "Rose Revolution" for Georgia meant not only the huge changes in government, but also changes in government, social and institutional programs. In fact after the revolution the orientation changed more to western, "American", earlier it was "Russian". The country was facing many social and economic problems, which inherited the country from the rule of President Eduard Shevardnadze. It is important to distinguish between the following problems in the country:

- Energetic crisis – especially in winter period, because of the lack of electricity people were in danger of physical survival
- Budget crisis – Shevardnadze's government had accumulated huge debts in the form of pensions and public sector salaries
- High level of unemployment and poverty

After the "Rose Revolution" radical changes have occurred in the socio-institutional and economic fields. In fact, Georgia has launched a new state-building process.

### **4.3 The new government's economic reforms**

The main task of the new government was to establish financial discipline, legal rules of economic recovery, which meant shadow, clan structures collapse, their main subjects of illegally seized property confiscation and redistribution in favor of the poorer social layers.

It was also implemented to improve the business environment, the change of legal framework, which mainly included the introduction of a liberal tax code, reducing or limiting the enforcement authorities.

The government began to implement the objectives of the government reorganization, which included the freedom of corruption, red tape reduction, the growth of responsibility of the government employees. For this purpose the constitution changed, was abolished the old presidential government services and developed the new structures.

#### **4.3.1 Privatization**

After the "Rose Revolution" began intensive process of privatization of state-owned property. One of the most important aims of the new government became the accelerated privatization. The privatization policy was based on the ideology of the economy, later on the co-ordination State Minister of Reforms Kakha Bendukidze's phrase "Everything is for sale, except for conscience". There were no restrictions on the type of privatization process even on "Strategic" facilities. Also, was not restricted to offshore companies and other state-owned companies for the transfer of ownership. During 2003-2010 there were 4 280 units privatized, which showed privatization revenues of 1.6 billion US dollars (European Initiative P. 44). Privatization was referred not only to the large enterprises but also smaller ones and land. Focus on the process of privatization, above all, was on the fiscal effect, i.e. on the accumulation of budget revenues through privatization.

#### **4.3.2 Foreign trade liberalization**

Due to the WTO commitments, reforms were carried out in Georgia, which aimed at the reorganization, the liberalization and simplification of trade regulation. These reforms became especially intensive after November, 2003 so that the institutional changes opened the borders of Georgian trade: Export-import procedures were simplified, tax rates and types were reduced, tariff adjustment became easier, trade relations diversification was implemented and regional free trade agreements were signed with major trading partners, an investment environment was improved, customs barriers to free competition were reduced, by simplification of property registration, licensing and permitting, labor regulation has changed, access to loans was improved as well. The reforms included the abolition of the tariff and non-tariff barriers in trade, the development of competitive market conditions and the business environment, the diversification of international trade, which should have led to economic growth.

Despite all the reforms, free trade showed us more clearly the low competitiveness of agriculture as well as industrial sectors in Georgian economy. At the same time, the trade itself was not able to create conditions for growth in competitiveness.

#### **4.4 Tourism development in post-Soviet Georgia**

Tourism in modern, post-Soviet Georgia is one of the fastest growing economic sectors. The total number of travelers in 2013 was 5,392,303, which actually is by 22% more than it was in 2012. For the year 2014 taking into consideration only first 3 months the number of incoming guests was 1,006,267. The growth of tourists in comparison to the previous year (935,358) is 8% (Finchanel). The missions of International Georgian Tourism Administration are:

- To Popularize Georgia as a touristic country on the international market.
- To motivate the development both domestic and foreign tourisms.
- To make Georgia more competitive country on tourism market.
- To create the safe image of the country together with a strong brand.

Tourism in Georgia has always been one of the most foreground and fast growing economic sector. In fact, its especially fast development and higher growth is connected to the “Rose Revolution” and later period. During Soviet period, the country was part of it, so because of the high barriers of travelling abroad, the sector could not develop freely and was fully dependent on the central planned economy. After the crash of communism, tourism began to develop further and faster, but still there were not acceptable conditions, due to the low economy and poor infrastructure. But, after 2003, a lot of institutional changes accomplished and one of the most important aspects turned out to be a renewal and rebuilding of infrastructure. This was expressed by particular focus of the budget funds on it and also by the government campaigns in order to attract investors in the tourism sector. Even more, Georgian government launched infrastructure projects to create even the less “traditional” tourism “brands” (e.g. Mestia as a ski resort, Anakalia, Signagi, different parts of Kakheti etc.). Mainly hotels and restaurants are connected to the tourism sector, in which in 2007 foreign direct investments were the highest with the amount of 242,076 thousand USD (12% of the total investments), in 2008-181,939.2 thousands of USD (12%), but during the years 2009-2011 it decreased about 7 times (see the table 3 below).



Table 3 – Foreign direct investments in the sector of hotels and restaurants

	2007	2008	2009	2010	2011	2012	2013	2014
FID in sector of hotels and restaurants (Thousands of USD)	242,075.9	181,939.2	37,542.3	171,21.8	22,705.6	17,652.3	-13,360	39,678.2
Hotels and restaurants in the share of FDI (%)	12	12	6	2	2	1.9	-1.4	3

Source: Geostat (<http://www.geostat.ge/>)

During the years 2003-2014 recently grew the number of the visitors in Georgia, from 313,442 to 5,515,559 persons (see figure 2)

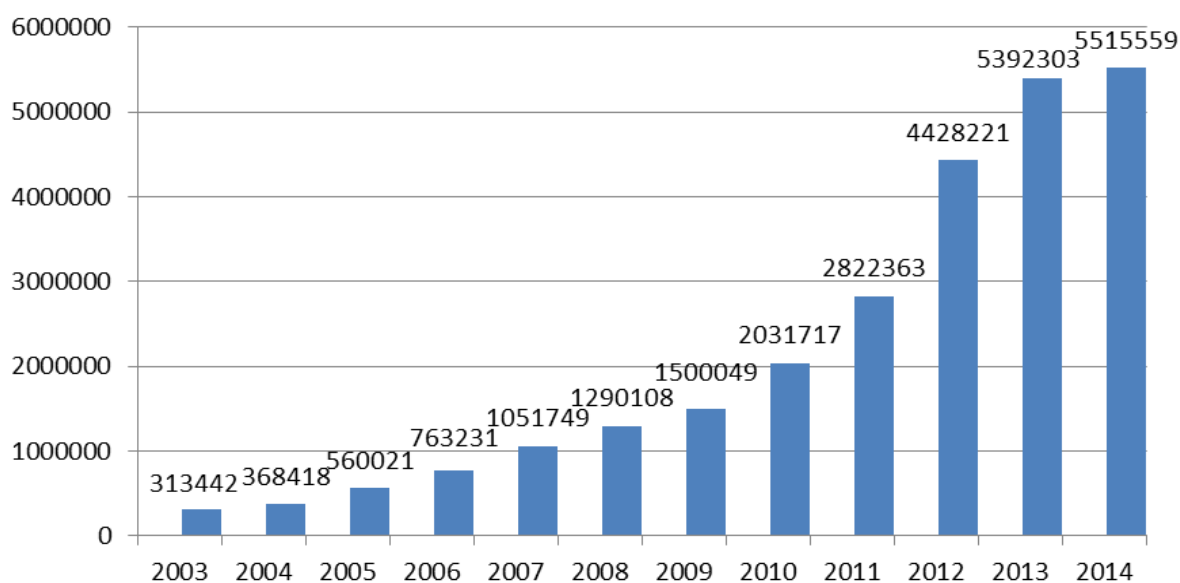


Fig. 2 International arrivals by years

Source: Georgian National Tourism Administration (<http://gnta.ge/statistics/>)

Despite Georgia's tourism incoming growth, less is changing in the geography of the incoming visitors. Most of them, about 85% are from the neighbor states - Armenia, Azerbaijan, Turkey and Russia (see figure 3).

It is very important to mention this graph, because 85% is really a lot, it means that if not the neighbor countries, tourism in Georgia would not have so important role in the total economy of the country.

The question is: why is it like that? What are the main factors and reasons that e.g. Russians, Armenians, Azerbaijanis etc. are coming so actively? There are several reasons that can explain this situation. First of all, all the neighbor countries that are shown in the Figure 3 except Turkey, had very similar problem of reducing tourism and travelling in total. Because of the financial crisis, population of these countries was willing to find the cheapest way to spend holidays. Natural neighborhood and accessibility played a huge role here that was expressed in cheapness of transportation. As for the catering and accommodation, they have always been much cheaper than in Europe. All this has led to a large arrival number of „neighbors“, in summer to the Black Sea coast resorts and in winter to the mountains - Gudauri and Bakuriani.

Also factor of visa played an important role. It is absolutely easy for the citizens of the mentioned countries to travel to Georgia with just having identification cards.

Institutional change, about the trade liberalization, also positively affected the „neighbor“ tourism, because of new trade areas and export-import of the production that triggered business tourism as well.

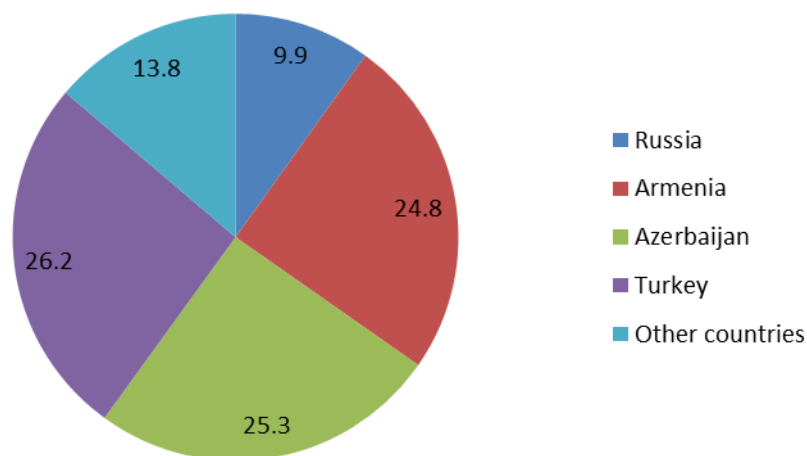


Fig. 3 Distribution of incoming tourists by countries of origin in Georgia in percentages  
Source: Georgian National Tourism Administration (<http://gnta.ge/statistics/>)

Georgian government sees Tourism as an important source of employment not only through the government programs but also in public statements. Ex-president of Georgia Mikheil Saakashvili said in one statement that, "Tourism is an opportunity to revive the most of the people in the regions of Georgia, where the unemployment depression is prevalent", however, correlation of the number growth of incoming tourists with the growth of employment did not seem to be that optimistic. This is clearly visible due to the relations of tourism and employment growth (see figure 4).

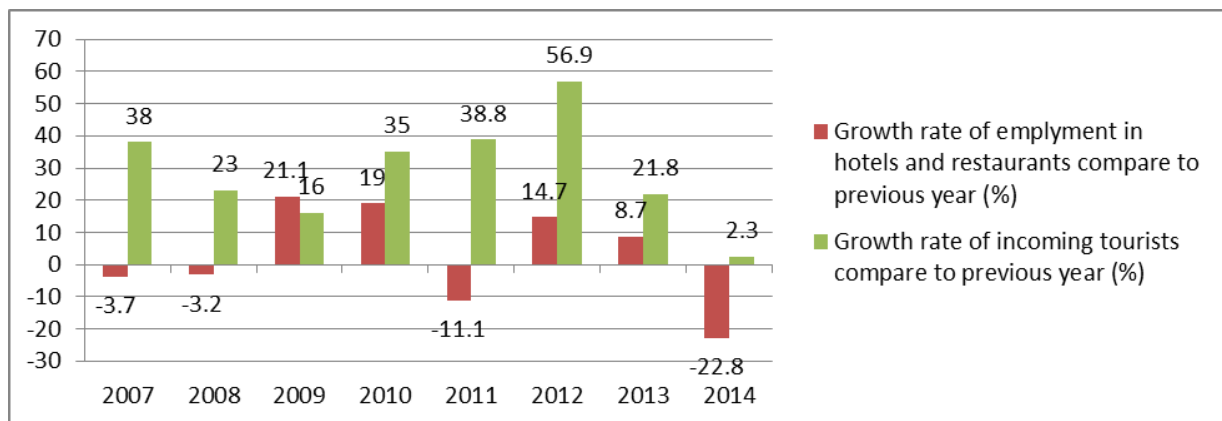


Fig. 4 Growth rate of employment and of incoming tourists  
Source: Georgian National Tourism Administration

From the figure above you can clearly see that the number of visitors is steadily increasing, while the number of employees varies from year to year and cannot result in a significant impact on employment. During the years 2005-2014 the quantity of visitors increased from 559 753 to 5 392 303 that means almost 10 times, but the employment in hotels and restaurants in the same years grew only 1.5 times approximately. Hotels and restaurants turnover was growing as well, e.g. between 2004 and 2013 it increased from 81.3 million GEL to 787.4 million GEL, however, was decreasing in relation to one visitor (see figure 5).

This graph is important to understand the type of tourism that is the most popular at the moment. The fact that hotels and restaurants turnover is decreasing per visitor, indicates that the biggest part of incoming tourists are crossing the border but are not staying in hotels per night. So it is a kind of daily tourism that explains that those tourists are returning home on the same day. The other least part of tourists is staying and is fixed in various hotels.

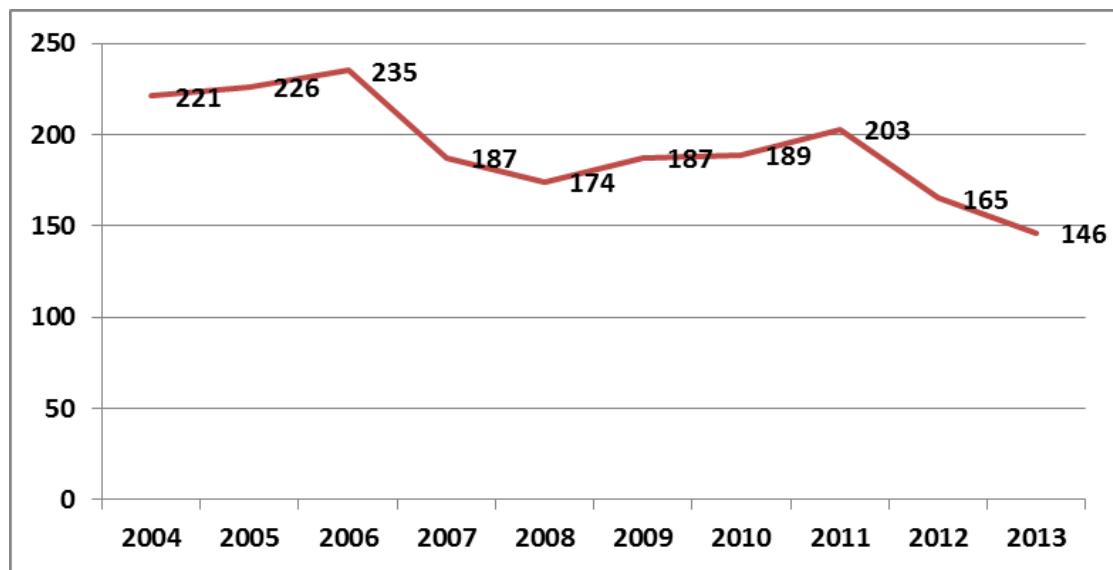


Fig. 5 Hotels and restaurants turnover rate per visitor in Georgia (GEL)  
Source: Georgian National Tourism Administration, Geostat

“Foreign visitor research at the frontier of 2010” was published by the Georgian National Tourism Administration, according to which, for 60% of the respondents, overnight stays are less than 5 days. 20% are staying between 6-10 days. Only 46% of the respondents were staying in hotels or similar, bigger and more expensive places. 9%-in hotels and family houses, 33%-with relatives or at friends’ free accommodations. Holiday and recreation was aim of travelling for only 32% of visitors. 28% had business trips and 25% wanted just to visit their relatives and friends. The total average cost is 1,589.55 USD per visitor and the average daily flow rate is 323.45 USD. This research gives an impression about the incoming tourism in Georgia. The majority of visitors in Georgia come from the surrounding countries e.g. Armenia, Azerbaijan, Turkey and Russia. The reason of this “neighbor” tourism is not only good trade and business relations, but also the purpose of visiting friends and relatives. Only 1/3 of the visitors from those countries had interest of recreation and relaxation. All of mentioned above mainly explains the fact why the impact of large-scale growth of tourism is less on service providers, in the fields of employment and other economic indicators.

It is important for the tourism sector international competitiveness as well. The World Economic Forum publishes the travel and tourism competitiveness reports. According to the report of 2013 the Georgia has 66<sup>th</sup> place with the score 4.10, while in 2011 it had 73<sup>rd</sup> place due to the same index.

Table 4 – Georgia according to sub-indexes and pillars of the Travel & Tourism competitiveness report 2013

Sub-indexes	Place among 139 countries	Sub-indexes' pillars	Place among 139 countries
T&T regulatory framework	30	Policy rules and regulations	40
		Environmental sustainability	74
		Safety and security	51
		Health and hygiene	37
		Prioritization of Travel & Tourism	17
Business environment and infrastructure	80	Air transport infrastructure	101
		Ground transport infrastructure	61
		Tourism infrastructure	82
		ICT infrastructure	75
		Price competitiveness in the T&T industry	52
T&T human, cultural, and natural resources	91	Human resources	40
		Affinity for Travel & Tourism	53
		Natural resources	119
		Cultural resources	84

Source: World Economic Forum, the Travel & Tourism Competitiveness Report 2013

As you can see, Travel and Tourism Competitiveness Index is complex and includes 3 sub-indexes, which itself includes 14 pillars within 75 indicators. Among the subindexes, Georgia's best score comes to T&T regulatory framework and the country has 30<sup>rd</sup> place out of 139. It should be noted that a significant portion of this sub-index's specific indicators match the indicators, that determines being on a high-level positions in Georgian economic freedom index. In the index of business environment and infrastructure, Georgia has 80<sup>th</sup> place. The country has also relatively lower positions in air transport infra-

structure (101<sup>st</sup> place) and in tourism infrastructure (82<sup>nd</sup> place). Cultural and natural resources are not the best as well (119<sup>th</sup> and 84<sup>th</sup> places). According to the human resources pillar, Georgia has 40<sup>th</sup> place, which mostly has been achieved due to the primary education (ranked 7<sup>th</sup>) and secondary education (ranked 79<sup>th</sup>) indicators. The quality of educational system is rather poor and is ranked as 113<sup>th</sup>, still it has some progress in comparison to the year 2011, when the same indicator had 119<sup>th</sup> place.

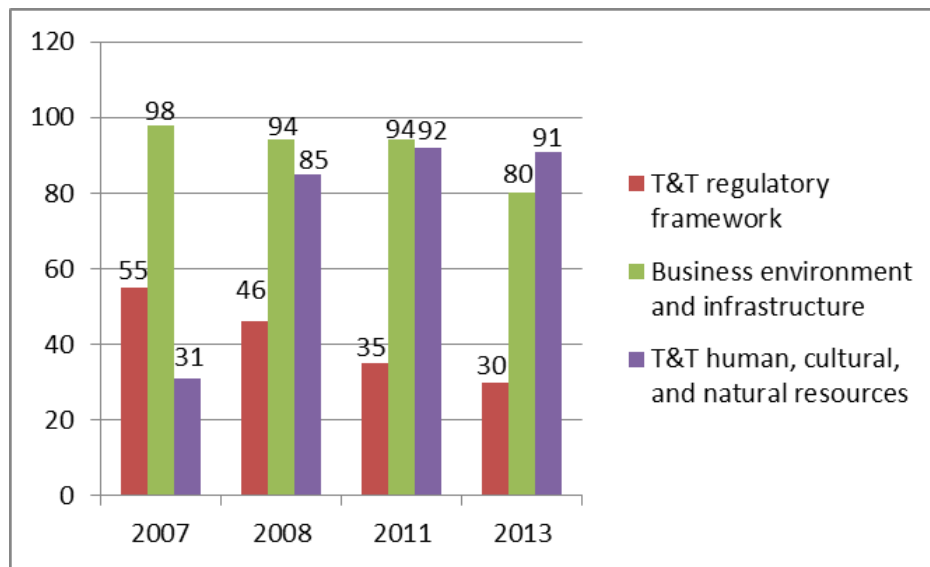


Fig. 6 Georgia T & T Competitiveness report Sub-indexes between years 2007-2013  
Source: World Economic Forum, the Travel & Tourism Competitiveness Reports 2007-2013

As we can see from above (figure 6), Georgia has never had an exceptional lean in the Sub-index of Business environment and infrastructure, but it was not changing dramatically during the last 6 years, it has only a little bit of forward success.

T & T regulatory framework index, which mainly includes rules, regulations and safety, is quite ahead in comparison to previous years and due to the latest sources, Georgia is ranked as 30.

The most interesting picture is about the index of human, cultural and natural resources, which dramatically decreased after the year 2007 from 31<sup>st</sup> place to 85<sup>th</sup>. This huge change was mainly caused by the Georgian-Russian conflict in 2008.

Let us have a look at the same Sub-index graphs during the same years but for different two countries for the comparison.

The Czech Republic and the Netherlands could be good examples, because first is also a country which experienced communist regime and transformation after it, while the second never had any of those.

If we look below to the figure 7, that shows as Sub-indexes of tourism and travel report of the Czech Republic, we can see that they are more stable than in Georgia. For example index of business and infrastructure is the same for all 6 years and is at 37<sup>th</sup> place from 139 countries. Index of regulatory framework made a big progress since 2007 and nowadays it is the only one which is similar to Georgian, but a bit ahead showing number 28. Index of human, cultural and natural resources is at 28<sup>th</sup> place as well, that was a bit better in 2007. Georgia is still by 63 places backward in the same index.

As for the Netherlands, picture is totally different from the both Georgia and the Czech Republic (see figure 8). None of the three Sub-indexes were away than 25<sup>th</sup> place, even more, all of them were changing stably and more gradually and did not deviate with more than 9 places. Only human and natural resources were changed in a positive way a bit more than other 2 indexes and nowadays country has stable 16:15:16 places of them.

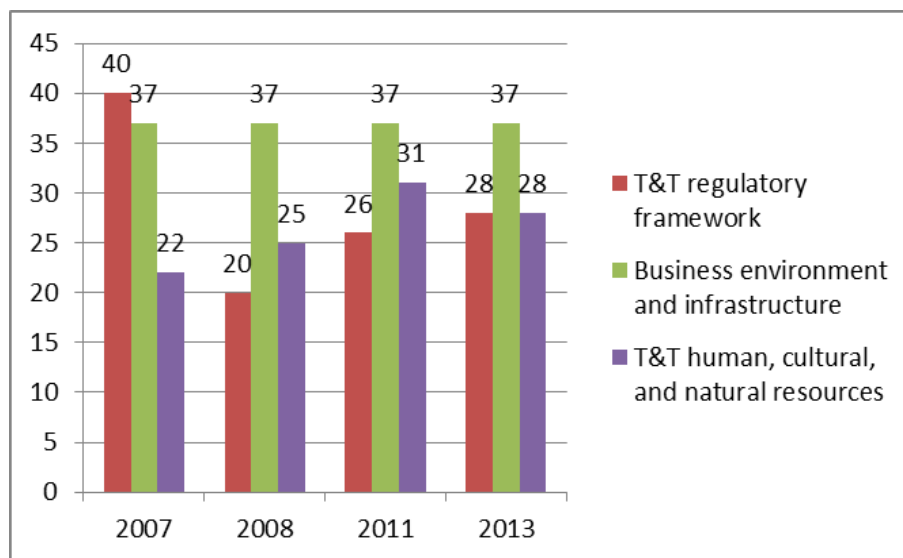


Fig. 7 Czech Republic T & T Competitiveness report Sub-indexes between years 2007-2013  
Source: World Economic Forum, the Travel & Tourism Competitiveness Reports 2007-2013

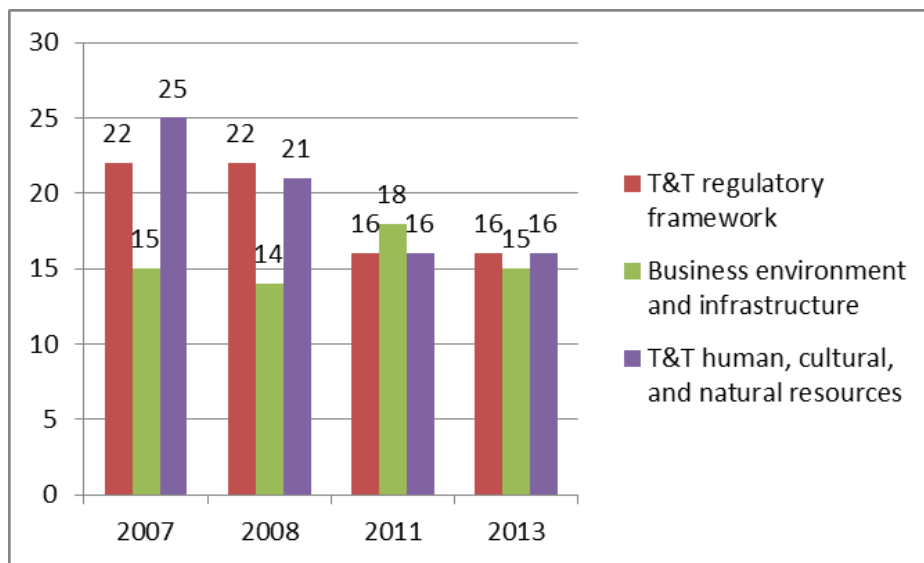


Fig. 8 Netherlands T & T Competitiveness report Sub-indexes between years 2007-2013  
Source: World Economic Forum, the Travel & Tourism Competitiveness Reports 2007-2013

#### 4.5 Positive and negative sides of tourism development in Georgia

There are various types of methods and analysis to understand the features of tourism development in the country, to build a general opinion about the positive and negative sides of it. We will choose relatively popular and easier method which is known as a SWOT analysis. With the help of it, we are able to distinguish not only internal and external factors, but also clearly differ favorable from unfavorable.



Table 5 – SWOT analysis – tourism development in Georgia

<b>Strengths</b>	<b>Weaknesses</b>
Cultural and historical heritage Cuisine Natural contrasts, Spa facilities Homeland of wine and first Europeans Mineralization of crime rate Simplification of public service system	Insufficient infrastructure Poor service staff skills
<b>Opportunities</b>	<b>Threats</b>
Increased interest of investors International recognition of successful reforms Cancellation of visa requirement for citizens of the Russian federation Potentially a major provider of visitors to Georgia Rapid growth of the national economy	Political developments in neighboring country from the North Competitors-countries offering similar cultural heritage and resorts

Source: GIGAURI, L. Tourism Development in Georgia: SWOT Analysis

#### 4.5.1 Internal environment

Among the most important **strengths** which Georgia has from the point of view of tourism are Natural resources.

Georgia is a country of natural contrasts, for example, in summer best example would be swimming at the Black Sea coast and then in a couple of hours driving to the Svaneti slopes skiing resorts. When it comes to natural attractions, we should mention country's protected areas, spa facilities and recreation zones with mineral springs.

In fact territory of Georgia is divided into 11 resort-recreational regions, each of them known with its unique cultural characteristics (Gigauri P. 414-416):

- **Abkhazian resort-recreational region**
- **Adjara Resort-recreational region**
- **Borjomi-Bakuriani resort-recreational region**
- **Kolkheti resort-recreational region**
- **Samtskhe-Javakheti resort-recreational region**
- **Svaneti resort-recreational region**
- **Racha-Lechkhumi resort-recreational region**
- **Southern Osetian resort-recreational region**
- **Eastern-Caucasus resort-recreational region**
- **Tbilisi resort-recreational region**
- **Kakheti resort-recreational region**

It is very important to mention the cultural heritage of the country as strength as well. In fact it is ancient and the history of Georgia starts quite early, from the age of hu-

mankind development. It is said that Europe started here, due to the fact that country's brand image stronger refers to 1 800 00 years old discovery of first trace of human skull discovery on Georgian territory Dmanisi (Gigauri P. 416).

Diverse materials that remain and have been discovered during archeological excavations on Georgian territory belong to Paleolithic, Neolithic, Bronze, Hellenistic and late Antique age. Those material remains that include ruins, remains of towns, palaces, tombs, ceramic artifacts also prove and confirm that Georgia had its own cultural traditions as well as that it maintained close ties with Greek-Roman world, Ancient Persia and West Asia.

Unfortunately, like every other countries, Georgia has also some touristic **weaknesses**.

In our case, it is mainly infrastructure, which has always been poor in Georgia, especially after the Soviet period, but after the war in 2008 it became even worse.

The infrastructure is not an only problem in tourism industry of Georgia. Unskilled workforce still remains a critical issue negatively affecting visitors' impression. Considering the fact that in Georgia guest is „sent from the God“, labor force of Georgian tourism faces some difficulties worrying in this field. For example the excessive pride of Georgian people makes unacceptable lots of services in tourism area. It sounds strange but the Georgian mentality usually ignores some of the lower paid occupations and employment. A lack of skills usually impact on tourism service staff, such as barmen, excursion guides, waiters, salespersons etc. Language barrier is another important weakness, which make communication difficult and sometimes impossible between the visitors and local community.

The Georgian government is trying to solve all this problems and make some innovations, for example by opening International Tourism School and vocational colleges, also computerizing villages with free internet.

#### **4.5.2 External environment**

There are lots of promising factors that may positively affect tourism development in the country. E.g. successful accomplishment of the reforms related to education, security, anticorruption, public service system and so on. International recognition of destroying corruption in Georgia helped to promote investment and business climate inside the country. Minimalizing of bureaucracy is also an important achievement. All these accomplishment raised an interest from the side of investors and Donald Trump can be a good example of it, who actually unveiled a „Trump Tower“ construction project in Batumi (Gigauri P. 418).

In February 2012, the former president of Georgia M. Saakashvili cancelled visa requirements for the Russian citizens in order to make it easier not only tourism ways, but also business investments from the Russians.

Enotherapy is another potential direction that can become very popular among tourists as Georgia has richest winemaking traditions (Gigauri P. 418). Since Georgia is one of the oldest Christian countries with rich architectural and art traditions reflecting the religion, it also opens potential of becoming a popular destination for pilgrims.

As we mentioned above, in August 2008 Georgia experienced military conflict with its Northern neighbor – Russian Federation. Since then it was very difficult situation not only between the two governments, but also between people. It was mainly caused by the factor of insecurity, also for the tourists from European Union.

The competition among the neighborhood countries can be considered as the most important **threat** for Georgian tourism and its development. Mainly the reason is similar history and culture. For example Armenia and Azerbaijan are considered as competitors in tourism industry of Georgia. Turkey also, but they have significantly bigger country and population, therefore bigger number of investments in tourism industry, that makes extremely difficult for Georgia to compete with.

## 4.6 Discussion

After the crash of USSR, especially during first five years, the economy of Georgia radically decreased. This was caused not only by economical, but also political reasons. Georgia fell apart from a lot of other post-soviet countries, considering its economic condition.

For the year 1995 with the help of international financial institutes, the country dealt with the hyperinflation and created the national currency. It was the great success, because after so many economic problems, this was a stable factor.

As we spoke in the far beginning of the theme, changing from the socialist economy to market one could be done by two main ways, so called “Shock Therapy” and gradual transformation. In case of Georgia it is very difficult to choose and prove that country's economic transformation was only one of those two ways, due to the whole post-communist transformation. Actually some of direction developed further faster-“shock therapy”, while others developed slower and gradual tactics quite delayed institutional and sector reforms. Even in the 1990s and afterwards, there were contradictions in the economic environment mostly between liberal market creation and its general social orientation.

Despite all the ant-factors, the economy of the country started to stabilize from the year 1995. There were already some growth tendencies. Unfortunately, transformation of key sectors was not effective (energy, social services, etc.). Institutional changes have also been implemented, which led to the growth of corruption and the inability of public agencies. It should be noted that in 1990 together with the foreign assistance, the agricultural sector, by contrast of other sectors, played a role in mitigating the most acute social conditions. This led to agricultural farmers' land privatization. The fragmentation of land into smaller pieces had softened the social problems, but on the other hand it prevented the investments in agricultural sector.

The current economic situation was until 2003. After the “Rose Revolution” in the same year, total changes appeared. Now, the new government had to face and deal with all the economic problems. They made some effective changes in the public administrative structures. Those were structural, personnel, organizational and technological improvements. Accordingly, in these structures disorganization was overcome, degree of organizational stability and effectiveness increased. Sharply reduced the scale of corruption in public administration bodies in the lower and middle levels, however, by interna-

tional estimates, the elite and the new forms of political corruption were formed. The reforms mainly positively affected on fiscal problems and criminality reduction. Despite the successful changes, decentralization of administrative agencies and citizens' life equality were not reached.

#### 4.7 Urban tourism and Tbilisi

According to the sources of "Investitions Bank Berlin" of the year 2010 „Kings of overnight stay“ were: London (48.7 million overnight stay) and Paris (35.8 million overnight stay). After were followed: Berlin (20.8), Rome (20.4), Madrid (15.2) and Prague (12.1 millions). Vienna is on the 7<sup>th</sup> place with 11.7 million. The fastest grow of overnight stays during the years 2005-2010 had Berlin (+7%), Stockholm (+5.7%) and Vienna (+4.3%) (Mertens P. 1-2).

Cities like Vienna, Berlin, Amsterdam and London proved that they had the best strategic position. Especially in those cities where was the highest growth rate of tourism, also lost of marketing events were achieved. Due to these advertisements they received successful results, with high yield and the best of long-term forecasts.

London and Paris are also the leaders in Europe by having better air connections to the world meaning relatively cheap and easy flights for tourists.

After such a review would be appropriate to ask: Where is a place for Tbilisi? What data has a capital of Georgia? Naturally, the world's largest tourist centers cannot be compared to Tbilisi, so we have chosen similar-sized capitals for comparison: Prague, Minsk and Yerevan (See tab. 6).

Table 6 – Tourism potential comparison

Capital	Population	Types of accommodation	Number of beds	Airport Capacity
Prague	1,241,664	450	90.000	12.630.557 (2008)
Minsk	1,702,061	27	5.400	2.182.177 (2013)
Yerevan	1,080,487	46	3.223	1.691.715 (2013)
<b>Tbilisi</b>	<b>1,044,993</b>	<b>126</b>	<b>5.200</b>	<b>1.219.000 (2012)</b>

Source: Eurostat (<http://ec.europa.eu/eurostat>)

It is true, that the most important factor for tourism development is infrastructure. It is impossible to receive millions of tourists by having limited number of hotels and beds. If airports cannot receive proper number of tourists, then Georgia will not be able even to think about having more tourists. As we see in the table 6, Prague that was a socialist capital before, managed to increase the capacity of Vaclav Havel airport to almost 13 million that is approximately 10 times more than national airport of Tbilisi. The difference between the numbers of beds is even more – 17 times. All these facts and comparisons slightly show that Georgia still have not moved so far from the countries of the CIS.

## 5 Conclusion

Development of tourism in Georgia is considered to be a very important factor in country's economy, due to the fact that Georgia has a great tourism potential and using it in a right way is one of the first tasks of Georgian government. According to the researches and analysis that are shown in thesis, we have reached to the following conclusions:

1. In the conditions of the centrally planned economy Soviet-Georgia that was part of the USSR, became the center of medical tourism and an important travel destination.
2. 80-90s of the last century, approximately 5 million tourists were fixated. Actually it was the peak in the Soviet tourism of Georgia.
3. The tourism of the Soviet era had a social character and the tourism market was not based on free supply-demand system. Travel vouchers were delivered by the trade unions and did not cover the requirements of tourists.
4. The Russian-Georgian conflict damaged tourism inside the country a lot, the whole tourism infrastructure and material base was occupied by the refugee population from the conflict regions (Abkhazia and Tskhinvali).
5. During the transformation period, very important and large systematic changes were made. Due to the privatization and trade liberalization institutional changes, occurred the free supply-demand market system.
6. The year 2003 is known for the "Rose revolution" in Georgia. This fact is important not only because of enhancing the institutional changes that were made after the economic transition about privatization and trade, but also for eliminating corruption and changing the political direction from Russian to more American and western-European. Consequently, peoples from the USA and Western Europe received more information about Georgia, mainly as an interesting tourist country, therefore increasing the number of American and European tourists.
7. During the last five years from 2010 to 2015 the number of tourists reached the same 5 million, which was said to be highest during the Soviet period. But, this is far not the maximum of country's tourism potential capability. It is important for Georgian tourism wise planning and the strategic plan which will be based on the tourism opportunities.
8. Nowadays the National Tourism Administration is working on National Tourism Strategy 2025 and Action Plan for 5 years. The civil society is also involved in the current discussion giving a hope for the development of tourism in the right direction (Mamatsashvili).

This thesis was written in cooperation with the representatives of the GNTA – Georgian National Tourism Administration (Mrs. Rusudan Mamatsashvili - First Deputy Head at GNTA) and my work is an attempt to realize the development of tourism in Georgia during the transformation period, as well as to contribute and promote the country by spreading the objective information.

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