

Five Million Tourists in Georgia by 2015 – a Myth or a Nightmarish Reality?

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Anybody traveling on the Georgian countryside will be astonished by the pace of development. Mestia, the capital of Svaneti, resembles one big construction site. The new concrete road from Zugdidi promises to shorten the travel time to 2 hours. A whole network of ski lifts is currently being planned, carrying a promise of turning Svaneti, a long isolated region of Georgia, into the Switzerland of the Caucasus.

[Mestia](#) and Svaneti are representative of a broader effort by the Georgian government, assisted by international financial institutions, to develop the Georgian tourism sector. This has mainly involved infrastructure projects and tax breaks to encourage private investment in the tourism industry. A very partial list of touristic destinations that have received or are receiving a major facelift includes Old Tbilisi, Mtskheta, Signagi, Kutaisi, Gudauri, Mestia, Batumi, Kobuleti and Anaklia.

Tourism is one of Georgia's main exporting sectors and earns hard currency and helps to reduce the current account deficit. As a labor intensive industry, it helps to create a lot of formal and informal jobs (particularly in the periphery where they are most needed). The growth in tourism also spurs business development in many related sectors of the economy – agriculture, transportation services, arts and crafts to name just a few.

Georgia is not the only country in the world riding on the wave of tourism expansion. Tourism is currently the fastest growing sector in the global economy, particularly important for developing countries. According to UNWTO tourism barometer, the flow of foreign tourists into developing countries increased by 4.5% in 2011 compared to the

previous year. The rate of increase stands at 9% for Central and Eastern European countries.

For Georgia, however, the growth of tourism has been truly spectacular. According to the Georgian Border Security statistics, the number of foreigners visiting Georgia during the first 10 months in 2011 increased by 42% compared to the same period last year. While not reflecting the actual number of tourists (as opposed to foreigners working in Georgia and buyers of re-exported cars), these data illustrate a steep upward trend. Even under most conservative assumptions, the total number of border crossings by foreigners will reach about 2.6 million by the end of 2011, which is 28% above the 2010 level.

Since 2004, incoming tourism has expanded at an impressive average rate of 32% per year, nearly doubling every three years. A simple (simplistic) extrapolation suggests that in four more years, by 2015, Georgia may be receiving more than 5million tourists a year. Is this a realistic estimate? Would it be a blessing or a curse?

Table 1: The number of foreign citizens entering Georgia (1000 people)

Number of visitors (year-on-year changes)	2003	2004	2005	2006	2007	2008	2009	2010	2011 10 months
Total	313.4 (5%)	368.3 (18%)	560.0 (52%)	983.1 (78%)	1,051.8 (7%)	1,290.1 (23%)	1,500.0 (16%)	2,032.6 (36%)	2,320.4 (42%)
CIS	174.0 (-1%)	218.5 (26%)	366.1 (67%)	634.4 (73%)	655.7 (3%)	764.5 (20%)	950.3 (21%)	1,286.3 (35%)	1,474.2 (44%)
Western Europe and North America	21.7 (15%)	26.4 (22%)	34.5 (31%)	50.7 (47%)	45.9 (-9%)	46.0 (0%)	50.4 (9%)	59.0 (17%)	66.0 (26%)
Rest of the world	117.8 (14%)	123.3 (5%)	159.5 (29%)	298.1 (87%)	350.1 (17%)	459.6 (31%)	498.9 (9%)	687.2 (38%)	780.3 (40%)

Source: Georgian National Tourism Agency (<http://www.gnta.ge>). Percentages in brackets show year-on-year changes. The first 10 months in 2011 are compared to the same period in 2010.

What the border crossings statistics conceal is that Georgia remains a very expensive destination, especially during the short high season. According to Travel and Tourism Competitiveness Index for 2011, Georgia is ranked 73rd among 139 countries, the same ranking as in 2009. In particular, Georgia ranked 82nd on information and communication technologies, 105th on air transportation infrastructure and 94th on general infrastructure. Overall, Georgia does better than its South Caucasus neighbors Armenia (100th) and Azerbaijan (87th) but worse than Russia (53rd) and Turkey (50th).

At present, tourists are willing to pay a significant premium to satisfy their curiosity for this Eastern outpost of Western civilization. Despite high prices and mediocre quality of services, Georgia has so far been able to maintain its attraction as an island of democracy; exotic, underexplored and yet secure location with good food and wine. However, as the country enters a period of two closely watched elections in 2012 and 2013, what will be at stake, among other things, is Georgia's status as a destination of choice for investors, donors, and tourists. As far as mass tourism is concerned, a setback in the global public relations battle could bring into play the "value for money" factor, making further expansion in the sector more tightly related to infrastructure and service improvements.

A slower growth in tourism may be a blessing in disguise. From the purely economic point of

view one has to consider the impact of tourism on long-term economic growth. Unfortunately, tourism – like many other labor intensive service industries – has little potential for substantial *productivity* growth: it takes about the same amount of labor to cook one khachapuri today as it did in the 19th century. As wages are typically tied to productivity this means that tourism has little potential for long-term income growth. Wages in tourism may eventually increase – a phenomenon known to economists as “Baumol’s cost disease” – when other sectors improve their productivity and start competing for workers with the tourism industry.

Thus, the Georgian government should be advised to worry, not about the sheer number of tourists, but rather the amount of money the tourists spend in the country. According to this view, Georgia should strive to increase the share of relatively wealthy tourists from Western Europe and North America. These tourists account for a meager 3.6% of total border crossings by foreigners in the first 10 months of 2011. A closely related goal should be to smooth the sharp seasonal fluctuations currently plaguing the industry. High season tourism (mainly from the CIS) at “peak load” prices has been growing so far, but there is ultimately a limit to how many tourists Batumi, Kobuleti and Anaklia can absorb in July and August. After all, there are cheaper and better mass-tourism alternatives on the Turkish side of the border. Conversely, increasing offseason tourism would help attract additional investment in human and physical capital and raise the quality of services to a level appropriate for high-end tourism.

Along with the economic pitfalls outlined above, the danger associated with becoming just another “Disneyland” of mass tourism is in losing the very reason why people would want to come to Georgia, as well as losing a part of the national identity. The magnificence of Georgian landscapes is in the wild, untamed nature of their beauty. It is also one of the very few places in Europe where one can still

witness and appreciate the tenacity and courage of people who do not merely survive, but “live with” the land, with the nature that is both generous and unforgiving.

Of course, we almost always accept as inevitable the sacrifice of “tradition” for “progress”. Most of the time, it is difficult to tell whether the changes we are going through are for the better or for the worse. In particular, it may depend on what people perceive to be the “core” of their identity. Our feeling is that Georgians as a people have been formed to a great extent by the freedom, the wilderness, and the power of their mountains. Any successful and smart approach to developing the tourism industry would take into consideration these important cultural aspects as well.

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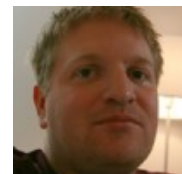
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