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**A COMPARATIVE RESEARCH ON SOUTH CAUCASUS
COUNTRIES' TOURISM PERFORMANCES AND
COMPETITIVENESS FACTORS**

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***Abstract:** In this study, relations between tourism and travel competitiveness factors and tourism performance conditions in the South Caucasus Region are examined. By this way, the direction and the effects of competitiveness factors on tourism performance is determined. According to the findings, Azerbaijan was found to be doing better than Georgia and Armenia, although all three countries have similar indexes. The results also postulate that South Caucasus Countries have not been business oriented states yet. On the other hand, when Overall Index is concerned, HCNR (Human Cultural Natural Resources Index) is found to be the most contributive one to overall competitiveness.*

***Keywords:** South Caucasus Countries, Tourism Performance, Competitiveness.*

1. Introduction

Despite of having rich resources, South Caucasus countries comprise of Azerbaijan, Georgia and Armenia, so-called Central Caucasus or Transcaucasia, are at the infancy level in terms of tourism development (Ismailov and Papava, 2008; Iskandaryan, 2000; Britannica, 2017; Czerewacz-Filipowicz and Konopelko, 2016). Conflicts and wars among the countries and ethnic groups designed this region as a troubled and unstable zone. In addition to these circumstances, efforts among the region countries to develop a regional cooperation to reduce insecurity and uncertainty have been fairly low and unsuccessful.

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This image of the region also impacts foreign investments and tourism growth. Globalization and regionalization are effective approaches in economic and socio-politic aspects to stimulate economic cooperation and integration which affect tourism development. Ohmae (1995, p. 80) describes “region states’ as the new ‘natural economic zones’, which may be areas within countries or extend beyond national borders, requiring central governments to ‘embrace their new role as regional catalysts’. This approach is commonly described as regionalism in the literature (Henderson, 2001, p. 79). Economic complementarity, geographical proximity, a favorable climate for investment, adequate infrastructure and global access are identified as the main success factors in the regionalization.

Tourism industry is known for its economic effects such as contributing to GDP, supporting jobs, increasing investment and reducing the poverty especially in developing countries. Tourism is also known as safety and security sensitive industry. Therefore tourism can be used as a proper tool to reduce economic and political problems in the Caucasus Countries. In our study, we used the data from World Economic Forum Competitive Index and tourism statistics such as tourist numbers and tourism receipts of South Caucasus Countries in order to determine the relations between competitiveness and tourism performance. Determining tourism positions of the countries by comparing them based on their competitiveness scores and tourism performances is the main aim of our study. Furthermore, finding out the sub-indexes that contribute to overall competitiveness is another target of the study.

2. Literature Review

Caucasia has played a significant role as a link between Europe and Asia and became an important route for the diffusion of the civilizations coming from the Middle Eastern lands moving to the North over the centuries. In addition to its rich biodiversity, the region has been a home place of ethnic and cultural diversity since early times (Britannica, 2017). Borders of Caucasus are the Kuma–Manych depression on the North, the Caspian Sea on the East, the border of Georgia–Armenia–Azerbaijan with Turkey–Iran on the South, and the Black Sea and Sea of Azov on the West.

The region is subdivided into northern (comprises of the Russian part except Black Sea coastline and in northern Georgia and northeastern Azerbaijan) and southern part also known as Transcaucasia, included Armenia, almost all of Georgia and Azerbaijan and the Black Sea Coastline of the Russian Federation (Coene, 2009, p. 3). Yet, in some literature Caucasus region is divided three region as North (Armenia, Azerbaijan and Georgia), Central (Armenia, Azerbaijan and Georgia) and South (some northern provinces of Iran and Turkey) (Ismailov and Papava, 2008, p. 283). Three Caucasus countries, namely Azerbaijan, Armenia and Georgia, were part of the former Soviet Union and now is a region in the transition period. Unlike the other Post Soviet Union regions, such as Baltics or Central Asia, Caucasus is known as unstable and more heterogeneous in terms of legal and political status. Especially South Caucasus is still not integrated by means of socioeconomic, political and legal conditions. Conflicts between Russia-Georgia and Armenia-Azerbaijan are the main reasons for being unstable, yet insecure by means of business environment. Insecure and isolated region circumstances are not only a big

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concern in the globalizing world, but also a big obstacle for regional economic development, peace and prosperity (Ismailov and Papava, 2008).

Map 1: Map of South Caucasus Region (Transcaucasia)



Source: Google Maps

After the disintegration of former Soviet Union Armenia, Azerbaijan and Georgia gained their independence in 1991. In the transition period, all three countries developed cooperations with the regional and global institution and organizations such as Commonwealth of Independent States (CIS), Black Sea Economic Co-operation (BSEC), World Trade Organization (Azerbaijan holds an observer status), United Nations World Tourism Organization (UNWTO), and European Union (EU). These efforts help region countries to integrate to the world market (Freinkman, et al, 2004; Ismailov and Papava, 2008; World Trade Organization, 2016; World Tourism Organization, 2017).

Table 1. Information on South Caucasus Countries (Transcaucasia)

Countries	Geographical area km ²	Population (000) 2016	GDP Per Capita (US\$) 2014
Georgia	69,700	3,980*	4,097
Azerbaijan	86,600	9,868**	7,808
Armenia	29,743	3,026	3,622

* Including Abkhazia and South Ossetia.

**Including Nagorno-Karabakh

Source: UN Data, 2017; ***UN Data Tourism, 2017.

The intensive development of technologies, logistics, automobiles has led to the fact that the information transfer and movement of financial flows became almost instantaneous, and transportation of the loads became cheap and fast. In this regard not only the innovations and education, but also the correlations between the enterprises has become the most important factors of the achievement and holding of the superiority over the

competitors, that provides the conditions for the creation of the network structures, which are the clusters.

2.1. South Caucasus Countries and Tourism

After gaining its independence, Armenia's tourism industry has developed (see Table 2 and 3 below) significantly. Although it is a land-locked country with limited natural resources, environmental degradation, weak institutional, administrative and regulatory mechanisms, the country tries to improve its tourism performance (UNESCO, 2008; USAID, 2008). Main tourism authority of Armenian tourism is Department of Tourism, serves as part of the Ministry of Economic Development and Investment. Direct contribution of Travel and tourism was 3.8% of total GDP and total contribution was 13.7% of GDP in 2015. Travel and Tourism directly supported 40,000 jobs (3.3% of total employment and total contribution was 12.2% of total employment (147,000 jobs). Travel and tourism investment was 4.8% of total investment in 2015. The major tourist markets of the country are Russia (34.9%), Georgia (28.1%), Iran (7.8%) and some Western countries such as USA, France and Germany. Diaspora tourism, visiting friends and relatives and business and leisure are the main motives to visit Armenia. The country ranked 89th out of 141 countries in the global travel and tourism competitiveness index. In the UNESCO World Heritage List country has three cultural sites.

The country developed a long term project to increase tourism revenues and placed tourism industry as a prior sector for its economic benefits. Unstable region, conflict with Azerbaijan, insufficient natural and cultural resources, lack of infrastructure and qualified human resources, competitive products and services and environmental sustainability are the main issues to focus on to increase tourism competitiveness of the country (USAID, 2008; WTTC Armenia 2016; WEF, 2015; UNESCO, 2017).

Table 2. International Tourists Arrivals of South Caucasus Countries (Transcaucasia) for the Selected Years

International Tourists Arrivals (000)							
Country	2014	2013	2012	2011	2010	2000	1995
Georgia	5.516	5.392	4.428	2.822	2.032	387	85
Azerbaijan	2.298	2.509	2.484	2.239	1.963	681	93
Armenia	1.204	1.084	963	758	684	45	12

Source: UNData, 2017

Georgia is a small country with a strategic geographic location at the crossroads between Europe and Asia. After gaining its independence, despite the conflicts with Russian Federation and some other ethnic groups in the region, Georgia has improved its tourism performance successfully. Since then, Georgia has made remarkable achievement as a planned economic system and a modern market economy and has been one of the fastest growing destinations in the world. Between 2009 and 2013 total visits to the country increased by more than 300 percent and Georgia ranked 71th out of 141 countries in the global travel and tourism competitiveness index. The inclusion of the Georgia in the European Neighborhood Policy (ENP) provided significant development relations with European Union. Georgian National Tourism Administration (GNTA) is the main authority

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of the tourism industry, works under the Ministry of Economy and Sustainable Development. It aims a sustainable tourism development and increase awareness of Georgia as a unique tourist destination on the international market. Georgia has developed a long term tourism development strategy with collaboration of national and international stakeholders. Georgia Tourism Strategy 2015-2025 is a ten year vision and strategic plan that aimed to accelerate the development of economy and prosperity of the country through tourism. It approaches to increase of partnership between public and private sector, maximizing tourist satisfaction, diversifying market and products, increasing profitability of tourism industry in a sustainable way and maximizing opportunities for job creation in the country. Almost 60% of visitors come from the neighboring countries, such as Armenia, Azerbaijan, Ukraine and Russia and some European Union (EU) countries. The country has three cultural sites in the UNESCO World Heritage List. Direct contribution of travel and tourism was 7.1% of total GDP and total contribution was 23.5% of GDP in 2015. Travel and tourism industry directly contributed 100,500 jobs (5.8% of total employment) and total contribution was 20.1% of total employment (347,000 jobs). 3.4% of total investment was travel and tourism investments in 2015. Insufficient natural resources and air transport infrastructure and unstable political environment in the region are seen the main weaknesses of the tourism industry (European Union, 2017; Georgian National Tourism Administration, 2017; WorldBank, 2017; UNESCO, 2017; Georgia, 2012; WTTC Georgia, 2016)

Table 3. International Tourism Receipts of South Caucasus Countries for the Selected Years

Country	International Tourism Receipts (US\$ Mn.)						
	2014	2013	2012	2011	2010	2000	1995
Azerbaijan	2.713	2.618	2.634	1.500	792	68	87
Georgia	1.972	1.916	1.565	1.069	737	107	-
Armenia	994	905	853	762	694	52	14

Source: UNData, 2017

Azerbaijan is located on the South-Eastern part of the region and is the biggest one among the three Southern Caucasus countries. During the transition period, government realized the importance of tourism and has made significant improvements in the area so that tourist arrivals and receipts have been growing steadily (see Table 2-3). “*Azerbaijan has been a territory of conquest throughout its history and this created an incredible mélange of populations, religions, cultures, languages and traditions*” (Ricapito, 2015, 41). One of the main concerns in the country and in the region is the ongoing conflict with Armenia for the control over the Nagorno-Karabakh Region since last two decades. Azerbaijan has rich hydrocarbons reserves and this sector generates more or less 44% of the total GDP. Tourism is a key sector with its undercover potential to diversify the economy and significantly contribute to the GDP. Azerbaijan declared the year 2011 as the year of tourism. Despite the great potential of the country, tourism is still under development and need more focus to create competitive tourism business environment through implementing convenient projects. Azerbaijan has unique geographical, geopolitical and climatic conditions but the majority of tourism products are still behind the world standards and the country ranked 84th out of 141 countries in the global travel and tourism competitiveness index. The direct contribution of travel and tourism was 2.8% of total GDP and total

contribution was 10.5 % of GDP in 2015. Travel and tourism directly supported 118,500 jobs (2.6% of total employment) and the total contribution was 9.5% of total employment (438,000 jobs). Travel & Tourism investment was 2.9% of total investment.

Azerbaijan is still not a well-known destination for Western tourism markets. Main markets comprise of Russia, Georgia, Iran, and Turkey in terms of inbound tourist arrivals. Business and leisure tourism are the main reasons for arrivals. Lack of standardization of tourist products and service facilities, common corruption, undeveloped public and private institutions, lack of public and private sector cooperation and international openness, insufficient natural resources, environmental sustainability are the main issues to work immediately to develop tourism industry. Besides these, unqualified human resources and insufficient promotion implementations are the key obstacles for Azerbaijan tourism and economy authorities, in order to develop more valuable and competitive tourism product for the global tourism markets. In addition, marketing applications is still far from reaching its full potential to transform Azerbaijan tourism resources to a valuable products (Ricapito, 2015; Bayramov, et al, 2011; Ministry of Culture and Tourism of Azerbaijan, 2017; Euromonitor, 2009; WEF, 2015; WTTC Azerbaijan, 2016).

3. Method and Research

Three Caucasian countries of Armenia, Azerbaijan and Georgia are analyzed based on three indexes called Regulatory Framework, Business Environment and Infrastructure and Human Cultural Natural Resources abbreviated as RF, BEI and HCNR respectively. Those three indexes and the Overall Index composed of those previously mentioned have been calculated by World Economic Forum biannually since 2009 and also were disseminated in 2007 and 2008. Each index composes of some attributes, for example, RF index consisting of attributes which are called Policy Rules and Regulations, Environmental Sustainability, Safety and Security, Health and Hygiene and Prioritization of Travel and Tourism. In order to avoid lengthy explanations, we brief them in Table 1 below. Using the three indexes and the Overall index of three countries by conducting Multi-Dimensional Scaling (MDS) method, which is a multivariate statistical method in order to display positions of three countries on a two dimensional graph, helps us understand whether they have improved their positions or not.

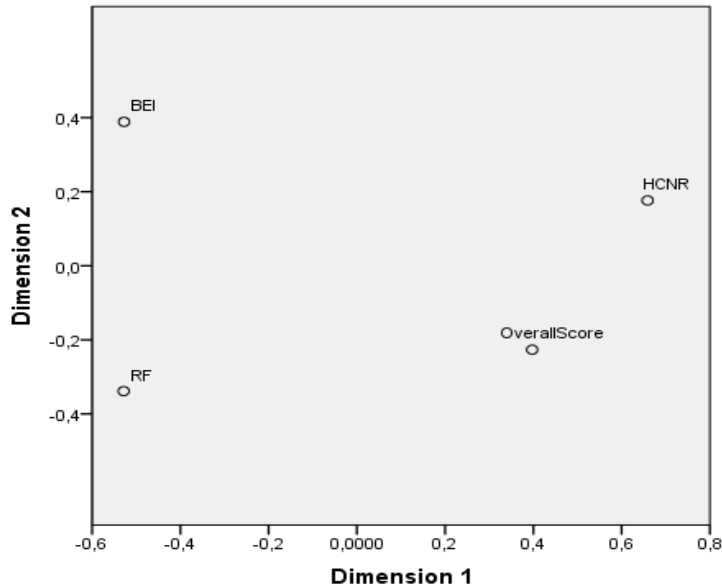
Table 4. Three Competitiveness Indexes and Their Attributes

Regulatory Framework (RF)	Business Environment and Infrastructure (BEI)	Human Cultural Natural Resources (HCNR)
Policy Rules and regulations	Air transport Infrastructure	Human Resources
Environmental Sustainability	Ground Transport Infrastructure	Affinity for Travel and Tourism
Safety and Security	Tourism Infrastructure	Cultural resources
Health and Hygiene	ICT Infrastructure	Natural Resources
Prioritization of Travel and Tourism	Price competitiveness in the Tourism and travel	

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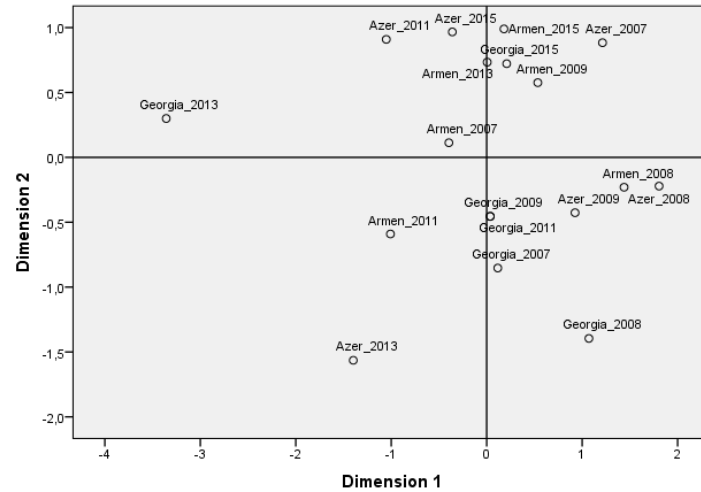
The first graph generated by MDS shows the positions of the three indexes and the Overall index which denotes that which index or indexes are related to which one. It is clear that BEI (Business Environment and Infrastructure) and HCNR (Human Cultural Natural Resources) are the two main pillars for those countries which are located at the furthest side of the two dimensions. While BEI is located at the top of Dimension 2, HCNR is situated at Dimension 1. The Stress Value, which denotes the loss of information after shrinking high dimension data into two dimensional graph, is $0.0038 < 0.05$, which tells that the loss of information after shrinkage of dimension is insignificant. In other words, the result is statistically significant. On the other hand, RF (Regulatory Framework) with same dimension where BEI is located shows that it is certainly related to BEI. The more contributive index to Overall Score is HCNR since its location is closer than are both BEI and RF.

Figure 1. The Comparison of Three Indexes and Overall Index



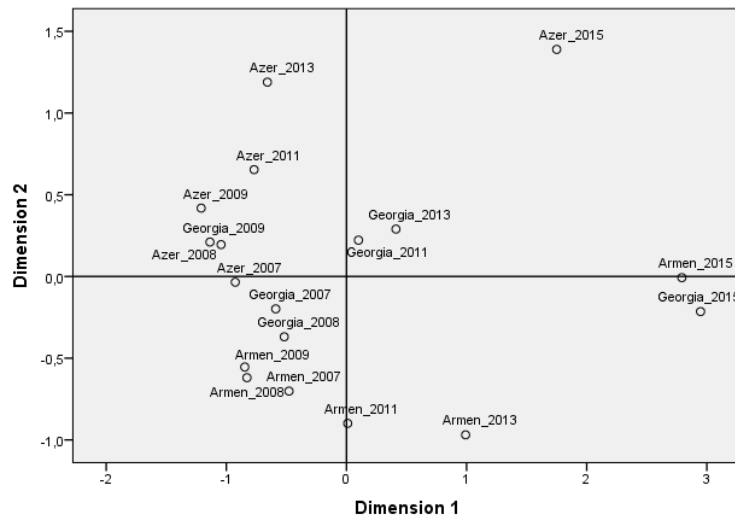
When RF index is concern, three countries are displayed by MDS. Its graph is denoted in Figure 2. It is clear that when time passes, their relative positions for them have improved with respect to RF index. Previous years such as 2007 through 2011 had been relatively poorer years for Azerbaijan and Georgia except Armenia since Armenia had done well in 2007 and 2009. Armenia performed worse between 2009 and 2011. Then 2013 and 2015 witnessed advancement for all countries. The Stress Values is $0.045 < 0.05$.

Figure 2. The Positions of Three Countries with Respect to Regulatory Framework Index



When BEI is concern, three countries are displayed by MDS. Its graph is denoted in Figure 3. It is clear that both Armenia and Georgia had performed worse when compared to Azerbaijan between 2007 and 2011 including 2013 for Armenia. However, both countries have been performing better since 2013 and performed well in 2015. Azerbaijan’s position between 2007 and 2015 is relatively better than Armenia and Georgia since its oil and gas revenues probably helped.

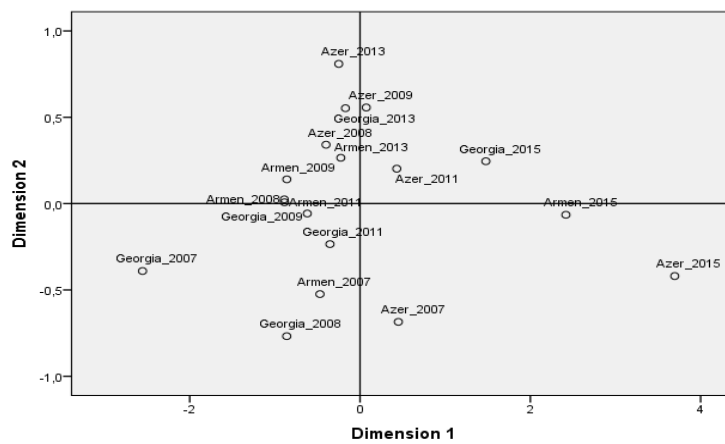
Figure 3. The Positions of Three Countries with respect to Business Environment and Infrastructure Index



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When HCNR index is concern, three countries are displayed by MDS. Its graph is denoted in Figure 4. Just 2015 witnessed better performances for all countries when compared with the performances of those countries between 2007 and 2013. What it tells that all three countries have been underperforming with respect to HCNR index. Only country that slightly differentiate itself is Azerbaijan. It had started to perform better with 2011.

Figure 4. The Positions of Three Countries with Respect to Human Cultural Natural Resources Index



4. Conclusion

When three countries of Armenia, Azerbaijan and Georgia are investigated based on three indexes that are expected to measure the performances through the years 2007 and 2015, Azerbaijan had performed better than Armenia and Georgia with respect three indexes. The only reason could be its oil and gas revenues that give boost to its economy. However, both Armenia and Georgia approached Azerbaijan based on all three indexes in 2015.

As a result, all three countries have similar characteristics based on three indexes except Azerbaijan exporting large amount of oil and gas generating huge amount of foreign exchange. However, Both Armenia and Georgia approach Azerbaijan based on three indexes which mean that they relatively improved their business and regulatory framework. On the other hand, HCNR (Human Cultural Natural Resources Index) is the most contributive one when Overall Index is concern. It can be concluded that they have not been business oriented states yet.

Development of public and private sector, the level of relation among the countries in the region, the effect of instability, sustainable cooperation amongst countries and institutions, and developing more competitive destinations are some of the vital issues for regional tourism development.

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KOMPARATIVNO ISTRAŽIVANJE PERFORMANSI TURIZMA ZEMALJA JUŽNOG KAVKAZA I FAKTORI KONKURENTNOSTI

Apstrakt: U ovoj studiji ispitani su odnosi između turizma i faktora konkurentnosti putovanja i uslova turizma u regionu Južnog Kavkaza. Ovim se određuje smer i efekti faktora konkurentnosti na performanse turizma. Prema rezultatima, utvrđeno je da je Azerbejdžan bio u boljoj poziciji od Gruzije i Jermenije, iako sve tri zemlje imaju slične indekse. Rezultati takođe pokazuju da zemlje Južnog Kavkaza još nisu poslovno orijentisane države. S druge strane, kada se radi o ukupnom indeksu, pokazuje se da HCNR (Human Cultural Natural Resources Index) najviše doprinosi ukupnoj konkurentnosti.

Ključne reči: zemlje Južnog Kavkaza, performanse turizma, konkurentnost.